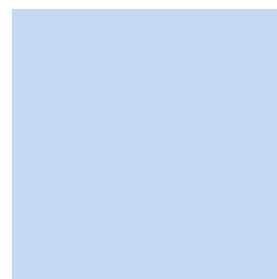
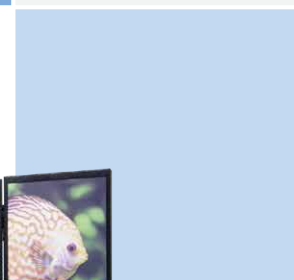
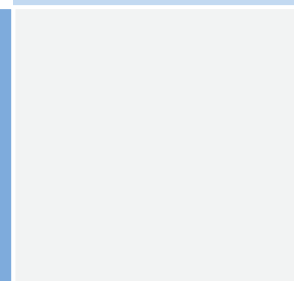
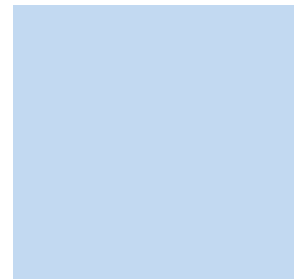
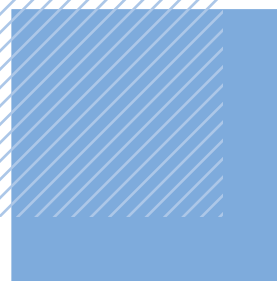
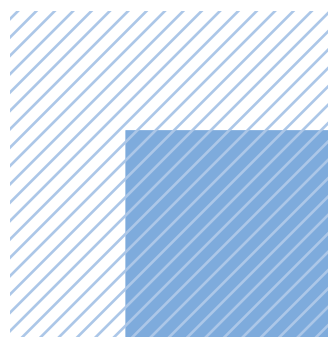
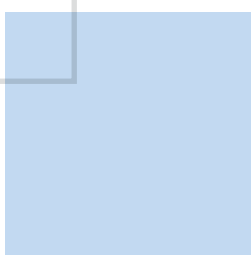
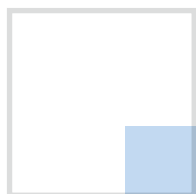




E INK HOLDINGS INC.
2018 Annual Report



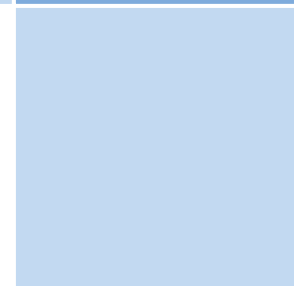
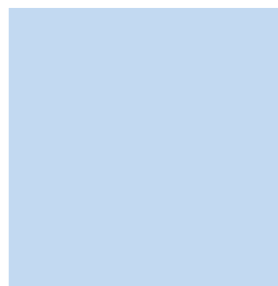
Notice to Readers

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.

Taiwan Stock Exchange Market Observation Post System : <http://mops.twse.com.tw>

EIH annual report is available at : www.eink.com

Printed on April 20, 2019



CONTENTS

Contents

- 002 ■ Letter to Shareholders
- 004 ■ Company Profile
- 006 ■ Corporate Governance Report
- 042 ■ Capital Overview
- 050 ■ Operational Highlights
- 064 ■ Financial Information
- 071 ■ Review of Financial Conditions, Operating Results, and Risk Management
- 078 ■ Special Disclosure
- 088 ■ Consolidated Financial Statements
- 175 ■ Financial Statements

■ SPOKESPERSON

Lloyd Chen, Chief Financial Officer
Tel: 886 3 5643200
lloyd.chen@eink.com

■ DEPUTY SPOKESPERSON

Patrick Chang, Director of Financial Division
Tel: 886 3 5643200
patrick.yip.chang@eink.com

■ HEADQUARTERS, BRANCHES AND PLANT

E INK HOLDINGS INC.
No. 3, Li-Hsin Road One, HsinChu Science
Park, HsinChu, Taiwan 300, R.O.C.
Tel: 886 3 5643200

■ STOCK TRANSFER AGENT

The company's common stock is listed on the Taiwan's
OTC/TPEX Securities Market. (Ticker: 8069)
Common Share Transfer Agent & Registrar: SinoPac
Securities
3F, 17 Po Ai Rd., Taipei, Taiwan, R.O.C.
Tel: 886 2 2381-6288
<http://www.sinotrade.com.tw>

■ AUDITORS

Deloitte & Touche
20F, Taipei Nan Shan Plaza, No. 100, Songren Rd., Xinyi
Dist., Taipei 11073, Taiwan
Tel: 886 2 2725-9988
<http://www.deloitte.com.tw>

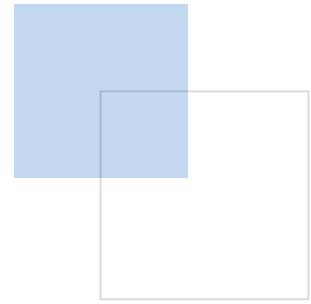
■ NAME OF INTERNATIONAL PUBLIC SECURITIES EXCHANGES AND HOW TO GET INFORMATION ABOUT SECURITIES TRADED THERE

Trading house: Luxembourg Stock Exchange
Inquiry method: Bloomberg
Website <http://www.bourse.lu/>

■ CORPORATE WEBSITE

<http://www.eink.com>

1 Letter to Shareholders



Dear Shareholders,

2018 Business Report

In 2018, US-China trade tensions and fluctuations in the international financial markets led to increased uncertainty in the once stable global economy. E Ink's business growth was therefore less than expected, with a consolidated revenue of 14.2 Billion NTD and gross profit of 5.9 Billion NTD in 2018. Despite the slide in our company's annual revenues compared to 2017, gross margin remained steady at 41.7% in 2018. Net profit was 2.61 Billion NTD and earnings per share (EPS) was 2.32 NTD.

The Company's core business-ePaper did not achieve expected growth target in 2018. The main reason for this was that the eReader business did not perform as well as expected. The eNote business grew year-on-year due to growth in smart education and hand-writing digital learning , and we expect that eNote business will continues to develop positively.

The Electronic Shelf Label (ESL) business applied in new retail market has proved popular with retailers. It is therefore not only growing at a steady pace in the US and European markets, but also rapidly gaining popularity in China market, where it is being quickly adopted by large supermarket chains. As for the Signage business, sustainable smart city polices are being actively implemented around the world. E Ink has continued to work with the eco-system partners to develop the ePaper display application in smart transportation segment. Smart bus stop signs with ePaper display deliver a strong growth momentum with deployment in major global area, including in Europe, America, Japan, Shanghai and Taipei.

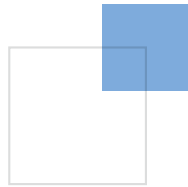
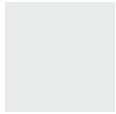
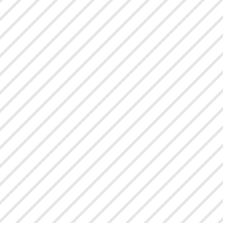
In terms of new technological developments, the ACeP (Advanced Color ePaper) technology has become even mature now. E Ink is continuing to optimize its cost structure in preparation for stable mass production. ACeP will be targeted at the commercial signage market. ACeP has won the "Outstanding Technology Award" at the "Gold Panel Awards 2018".

After years of realizing the sustainable development in the economic, environment and society aspects, E Ink won a trio of top awards at the "11th Taiwan Corporate Sustainability Awards (TCSA)" including the "Comprehensive Performance - Top 50" award, the "Corporate Sustainability Report Gold Award" and "Best Performance in a Specific Category - Social Inclusion Award". The awards recognized our efforts in the "application of core product values to expand contributions to society and environmental sustainability."

2019 Business Focus

According to the IoT Devices Market Tracker issued by the international research firm IHS Markit, there will be 22.9 billion IoT devices around the world by 2030. With the support of local governments and tech companies around the world, the development of IoT and smart city applications will create business opportunities with tremendous growth potential. Ultra-low power consumption, wireless Internet, wireless power transmission, and sunlight readable display are the key features to realize the development of smart city IoT devices. E Ink will leverage the benefits of ePaper technology, including low-power consumption and excellent outdoor readability to work with partners from supply chain and vertical markets to co-create an ePaper ecosystem and promote ePaper applications as the ideal IoT devices in smart cities.

Business development: E Ink will continue to focus on two main business areas, Consumer Electronics (CE) and Internet of Things (IoT). The eReader market is now maturing and the trend is towards a large display size of eReader display. Emerging markets will also be targeted for the development of related businesses. The global push towards an eye-friendly learning environment means that eNote will offer advantages such as the ability to store and record learning path and non-backlit display that prevent eye fatigue. The Company will leverage the local government policies and resources to take advantage of the massive business opportunities in the education market. For the IoT business, ESL application in smart retail segment is continuing to grow at a steady pace. Besides, the deployment of ePaper signage in retail premises as well as ePaper applications in the logistics sector are continuously promoted.



In addition to the smart bus stop signs with ePaper display, the application is now been rolled out to a number of cities after a long-term development.

Technology development: There is a strong demand for battery-free and connectivity solution in retail and logistics sectors. E Ink will continue to invest in Energy Harvesting technology for ePaper to support the development of broader applications. At the same time, R&D and production optimization means yields for flexible ePaper have continued to reach new levels.

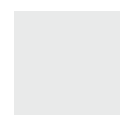
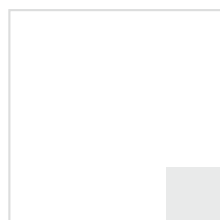
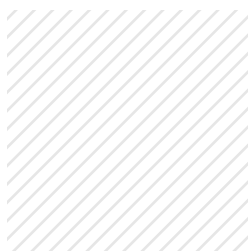
Business management: E Ink will continue to optimize our supply chain management and cost control. Production efficiency will be improved through automation to meet customer demands and improve customer satisfaction on delivery services

Future Prospects

E Ink will continue to leverage the advantage of "ePaper: the ideal display technology for reading, writing and IoT applications" to refine our ePaper technology and manufacturing. We will consolidate the leadership in the electronics industry and realize steady growth by continuing to work with our eco-system partners on the development of new smart ePaper applications. The company's goal is to become a benchmark for sustainable development and contribute to a future that is sustainable, smart and "paper" free.

Best regards,

Chairman Frank Ko
President Johnson Lee



2 Company Profile

Date of Incorporation June 16, 1992

Company History Established in June 16, 1992

- 2000 September Capacity reached 18,000 substrate per month.
- 2000 October Public listing approved by Securities & Futures Institute ((2000)Tai-Cai-Zheng (I) Letter No. 86989).
- 2001 September Capacity expanded to 36,000 substrate per month.
- 2001 October Obtained ISO 9001 certification
- 2002 April Permission granted by MOEA Investment Commission to establish Transcend Optronics (Yangzhou) Co., Ltd. as an indirect investment in China through an investment business in a third region.
- 2002 July Received QS-9000 (quality), ISO 14001 (environment) and OHSAS 1800 (safety and health) certifications
- 2003 February Officially listed as an Emerging Stock with Taipei Exchange on February 14.
- 2003 October Applied for OTC trading with Taipei Exchange.
- 2004 January Approved OTC trading with Taipei Exchange.
- 2004 March Officially listed on the Taipei Exchange on March 30.
- 2004 November Permission granted by MOEA Investment Commission to establish Rich Optronics (Yangzhou) Co., Ltd. as an indirect investment in China through an investment business in a third region.
- 2004 May Contract signed for cooperating with the Philips N.V. ePaper display business.
- 2006 May Equity reduced by 296,000 shares after first buyback of treasury stocks.
- 2007 October U.S. subsidiary established for building U.S. sales network.
- 2007 May Technology and patent licensing agreement signed with Company A.
- 2007 November MOU signed to acquire Korean panel manufacture BOE Hydis Technology Co., Ltd.
- 2008 July Hydis Technologies Co., Ltd. shares were formally purchased on July 4.
- 2009 June Signed contract with E Ink, an U.S. ePaper manufacture, and its shareholders' representative to acquire 100% of its company shares.
- 2009 September Signed the revised acquisition and share-swap contracts with E Ink, an U.S. Paper manufacture, and its shareholders' representative. 100% share of E Ink was acquired on December 23 of the same year.
- 2009 December Hydis subsidiary signed bond purchasing contract, collateral contract, investment contract, and cross-licensing contract with LG Display.
- 2010 May Permission granted by MOEA Investment Commission to establish Transyang Electronics (Yangzhou) Co., Ltd. as an indirect investment in China through an investment business in a third region.
- 2010 June Company name changed to E Ink Holdings Inc.
- 2010 November New E Ink Pearl™ monochrome ePaper display won "Best of What's New 2010" award from Popular Science (PopSci).
- 2010 December Won award for printed electronics at 4th IDTechEx in the U.S.
- 2011 January Permission granted by MOEA Investment Commission to establish Transmart Electronics (Yangzhou) Co., Ltd. as an indirect investment in China through an investment business in a third region.
- 2011 March Resolution passed by the Board of Directors to make a second buy back of treasury stock and transfer them to employees as part of the company's overall talent retention plan.
- 2011 May E Ink Triton™ color ePaper display won "Gold Display Component of the Year" at the 2011 Display of the Year Awards (DYA) presented by the Society for Information Display (SID).
- 2011 May Yuen-Yu Investment Co., Ltd. transferred business units that it manages but does not have direct ownership over to the newly established Kai-Yu Investment Co., Ltd.. The move was intended to boost returns on investment through better delegation on investment management.
- 2011 July Resolution passed by the Board of Directors to purchase TWD 1.5 billion in domestic unsecured convertible company bonds issued by Chunghwa Picture Tubes, Ltd. as a private offering to establish a strategic alliance between the two companies.
- 2011 October E Ink Triton™ color ePaper display won "Innovation of the Year Award" for 2011 from the Wall Street Journal.
- 2011 November E Ink Pearl™ ePaper display wins won "Innovation of the Year" presented by the U.K. Institute of Engineering and Technology (IET).



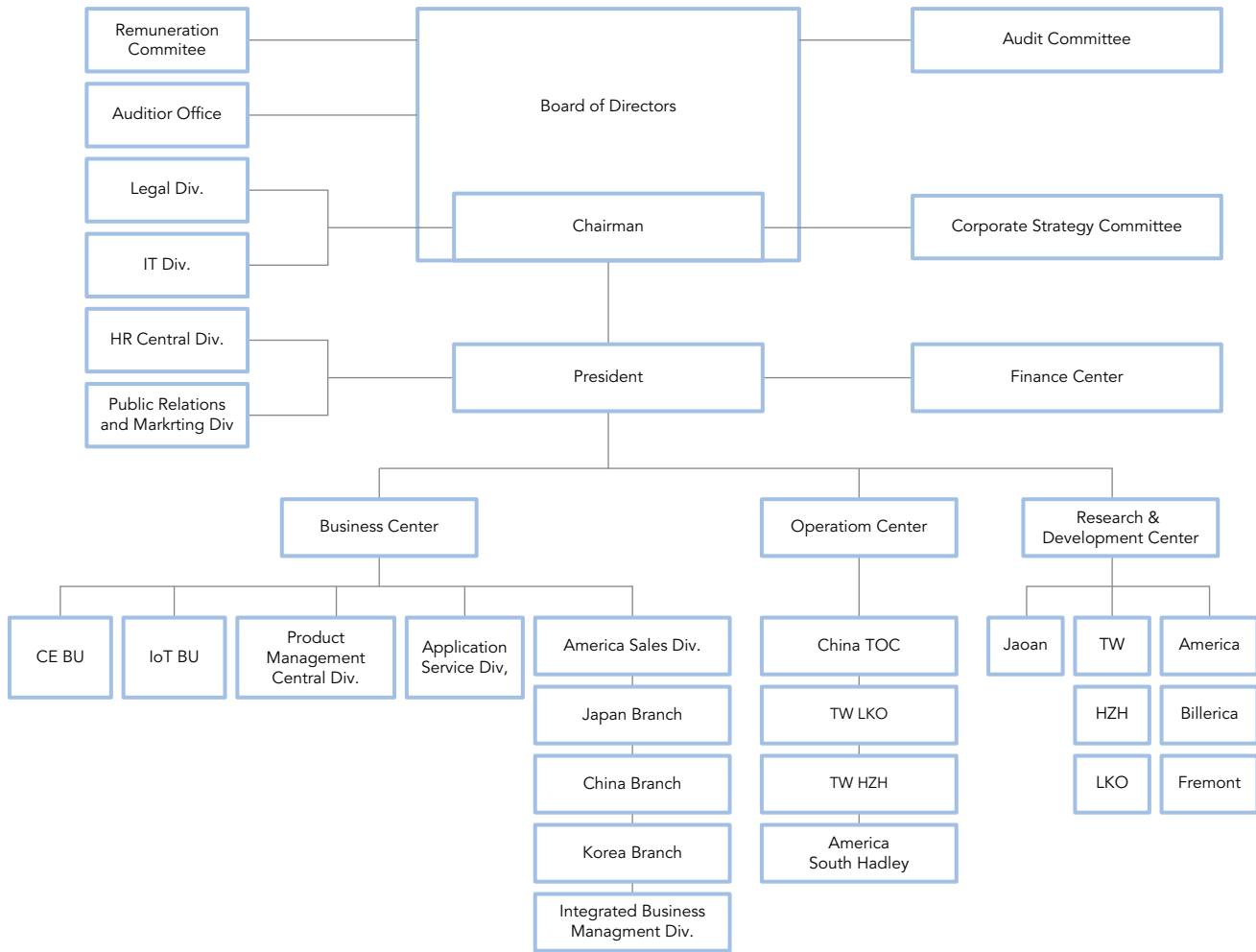
| | | |
|------|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2011 | November | E Ink's next-generation high-efficiency ePaper display recognized at "15th Outstanding Photonics Product Awards" presented by PIDA. |
| 100年 | November | High contrast E Ink Pearl™ ePaper display received "Outstanding Component Award" at the "11th Gold Panel Awards" presented by the MOEA Industrial Development Bureau. |
| 2012 | June | E Ink and the company's Korean subsidiary Hydix Technologies Co., Ltd. signed patent cross-licensing agreement with Company B. |
| 2012 | June | High contrast E Ink Pearl™ ePaper display received "Outstanding Component Award" at the "11th Gold Panel Awards" presented by the MOEA Industrial Development Bureau. |
| 2012 | July | E Ink and the company's Korean subsidiary Hydix Technologies Co., Ltd. signed patent cross-licensing agreement with Company B. |
| 2012 | October | E Ink and the company's Korean subsidiary Hydix Technologies Co., Ltd. signed patent cross-licensing agreement with Company C. |
| 2012 | November | Acquired shares in SiPix Technology, Inc. to incorporate its Microcup® technologies and patented into the E Ink ePaper patent portfolio. |
| 2012 | December | E Ink and the company's Korean subsidiary Hydix Technologies Co., Ltd. signed patent cross-licensing agreement with Company D. |
| 2013 | January | Resolution passed by the Board of Directors to purchase the Linkou site and equipment of SiPix Technology, Inc. subsidiary in order to consolidate the production operations of E Ink Group in Taiwan and improve asset returns. |
| 2013 | June | E Ink Triton™ full-effect color ePaper display recognized at "16th Outstanding Photonics Product Awards" presented by PIDA. |
| 2013 | November | Korean subsidiary Hydix Technologies Co., Ltd. signed patent cross-licensing agreement with Company E. |
| 2014 | April | Korean subsidiary Hydix Technologies Co., Ltd. signed patent cross-licensing agreement with Company F. |
| 2014 | June | E Ink Spectra™ tri-color ePaper display recognized at "17th Outstanding Photonics Product Awards" presented by PIDA. |
| 2014 | December | Presented with "SEMI Standards Contribution Award" by SEMI Taiwan. |
| 2015 | August | Wirelessly powered ePaper display won the "Outstanding Technology Award" at the "14th Gold Panel Awards" presented by Taiwan Display Union Association (TDUA). |
| 2015 | December | Korean subsidiary Hydix Technologies Co., Ltd. sign patent cross-licensing agreement with Company G. |
| 2016 | June | Resolution passed by the Board of Directors to make a third buy back of treasury stock and transfer them to employees as part of the company's overall talent retention plan. |
| 2016 | July | Subsidiary Yuen-Yu Investment Co., Ltd. acquired Kai-Yu Investment Co., Ltd. to consolidate company resources and streamline the company structure. |
| 2016 | September | Korean subsidiary Hydix Technologies Co., Ltd. signed patent cross-licensing agreement with Company H. |
| 2016 | November | E Ink signed MOU on strategic cooperation with Company I. |
| 2017 | February | 32" color ePaper displays presented with Gold Award at the "Taiwan Excellence Awards" by the MOEA. |
| 2017 | April | E Ink established a joint venture with SONY Semiconductor on ePaper display business. |
| 2017 | September | 6.1" non-geometric flexible wearable ePaper display won the "Outstanding Product Award" at the "2017 Gold Panel Awards" presented by Taiwan Display Union Association (TDUA). |
| 2017 | November | E Ink's "2016 Corporate Social Responsibility Report" was recognized at the "2017 Taiwan Corporate Sustainability Awards" held by Taiwan Academy of Corporate Sustainability with a gold award in the IT & IC manufacturing industry category. |
| 2018 | May | E Ink formed strategic partnership with SES-imagotag, a French company |
| 2018 | August | Advanced Color ePaper (ACeP) won the "Outstanding Technology Award" at the "2018 Gold Panel Awards" presented by Taiwan Display Union Association (TDUA). |
| 2018 | November | E Ink's "2017 Corporate Social Responsibility" was recognized with three awards at the 2018 11th Annual Taiwan Corporate Sustainability Awards held by Taiwan Academy of Corporate Sustainability: "Top 50 Corporate Sustainability Award", "Corporate Sustainability Report Awards - Gold Award" and "Social Inclusion Award." |

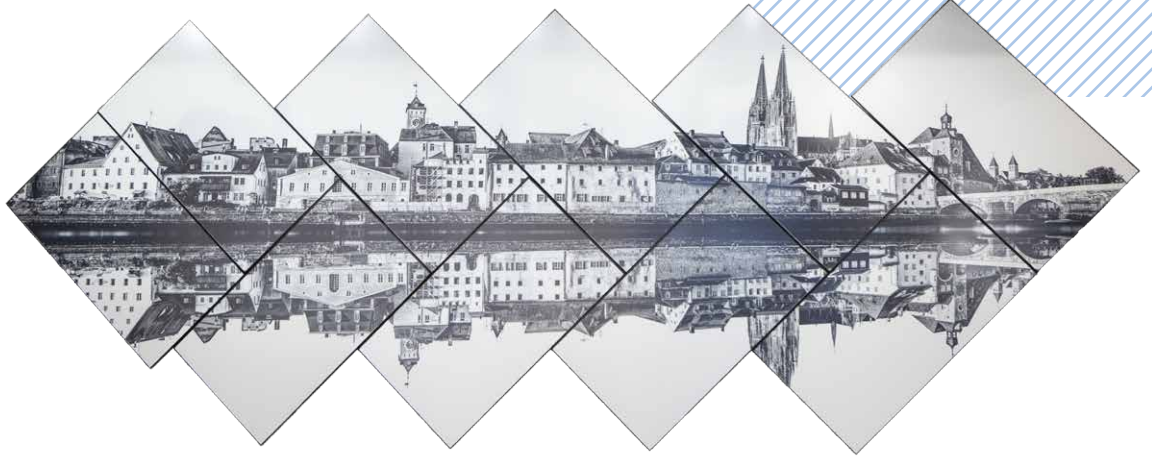
3 Corporate Governance Report

3.1 Organization

3.1.1 Organizational Chart

Mar 31, 2019





3.1.2 Major Corporate Functions

- **Office of the Chairman (includes Auditor Office, Legal Division, Information Technology Division)**

Planning of company business strategy and objectives, planning and execution of internal controls, general legal affairs, planning and management of document controls, IT planning, and introduction of new information technologies.

- **Office of the President (includes Research & Development Center, Operation Center, Sales Center, Finance Center, Public Relations & Marketing Division, Human Resources Central Division, Industrial Safety Department, and Environmental Protection Department)**

Responsible for leading the four main company centers and subsidiaries. Provide coordination and direction to realize the company's objectives and strategy. Lead the overall business development, decide and implement policies and evaluations, develop operating rules, and supervise investment subsidiaries. Building of the company's external image and liaising with the media, overall planning and execution of international exhibitions, product promotion activities and other public relations matters, planning and execution of HR and public affairs, planning and execution of industrial safety and environmental protection projects.

- **Research & Development Center**

Responsible for the research and development of innovative technologies and products related to e-paper as well as their introduction into mass production. This includes the development of new e-paper types, patent portfolio and planning, preliminary panel design, research and development of production technologies, construction of new platforms and module production technologies, as well as the introduction of critical materials, parts and components. Provide a reference design of terminal application products to customers, develop e-paper system products and assist the customer with rapid design and mass production.

- **Operation Center**

Overall planning and execution for purchasing products' raw materials, equipment and construction; planning of raw material requirements, bounded and logistics management; assurance of material/product quality and reliability; management and execution of production plans; responsible for planning and execution of product process analysis and production management during the production process.

- **Finance Center**

Planning and execution of financial, accounting and business management.

- **Sales Center (includes CE BU, IoT BU, Application Service Division, Product Management Central Division, Integrated Business Management Division)**

In charge of global business management and strategic direction, oversees product planning and strategic direction of PMs worldwide, lead FAEs in providing customers with an efficient design-in timetable, shorten customer development times, formulate product road maps, achieve the company's sales goals, planning and building of eco-systems for new company products and markets.

3.2 Directors, Supervisors and Management Team

3.2.1 Directors and Supervisors

| Title | Nationality /Country of Origin | Name | Gender | Date Elected | Term (Years) | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience (Education) | Other Position | Executives, Directors or Supervisors who are spouses or within two degrees of kinship | | |
|----------|--------------------------------|--------------------------------------------------------|--------|--------------|--------------|--------------------|---------------------------|-------|----------------------|-------|-----------------------------|-------|-------------------------------------|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------|------------|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Director | ROC | Aidatek Electronics Inc | N/A | 2017/6/20 | 3 | 2014/6/18 | 100,000 | 0.01% | 100,000 | 0.01% | 0 | 0.00% | 0 | 0.00% | N/A | None | None | None | None |
| | ROC | Frank Ko, Representative of Aidatek Electronics Inc. | M | 2017/6/20 | 3 | 2014/6/18 | 0 | 0.00% | 300,000 | 0.03% | 15,000 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> • AU Optronics Corporation Technology and Strategy Development Office Vice President • National Chiao Tung University Department of Photonics Institute of EO Engineering PhD degree | <ul style="list-style-type: none"> • Chairman, E Ink Holdings Inc. • Chairman or Director , Affiliated Parties of EIH | None | None | None |
| | ROC | Johnson Lee, Representative of Aidatek Electronics Inc | M | 2017/6/20 | 3 | 2008/6/13 | 133,040 | 0.01% | 473,040 | 0.04% | 9,500,000 | 0.83% | 0 | 0.00% | <ul style="list-style-type: none"> • Tufts University Department of Economics &Electrical Engineering double major bachelor degree | <ul style="list-style-type: none"> • President, E Ink Holdings Inc. • Chairman or Director , Affiliated Parties of EIH • Chairman, Zhengqi Investment Co., Ltd. • Supervisor,Netronix, Inc. • Director,Shin Lung Natural Gas Co. • Director,Foongtone technology • Director,BoardTek Electronics Corp • Director,Yilong Gas Co., Ltd. | Director | S.C. Ho | Son in law |
| | ROC | S.C. Ho, Representative of Aidatek Electronics Inc. | M | 2017/6/20 | 3 | 2002/6/20 | 80,434,300 | 7.05% | 80,434,300 | 7.05% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> • Master of Mechanical Engineering,University of Wisconsin - Madison | <ul style="list-style-type: none"> • Director, E Ink Holdings Inc. • Director, YFY Inc. • Director, E Ink Corporation • Director, YFY Jupiter (BVI) Inc. • Director, San Ying Enterprise Co., Ltd. • Director, Taiwan Global Biofund Co., Ltd. • Director, Hsinex International Corp. • Director, Shin-Yi Enterprise Co., Ltd. • Chariman, Shin-Yi Investment Co., Ltd. • Director, Shin-Yi Recreation Co., Ltd. • Director, YFY Biotech Management Company • Executive Director, China Investment and Development Co., Ltd. • Director, China Color Printing Co., Ltd. | Director | Felix Ho | Father |
| | | | | | | | | | | | | | | | | Director | Johnson Lee | Father in law | |

| Title | Nationality /Country of Origin | Name | Gender | Date Elected | Term (Years) | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience (Education) | Other Position | Executives, Directors or Supervisors who are spouses or within two degrees of kinship | | | | | |
|----------|--------------------------------|-----------------------------------------------------|--------|--------------|--------------|--------------------|---------------------------|-------|----------------------|-------|-----------------------------|-------|-------------------------------------|-------|-------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|----------|----------|----------|-------------|---------------|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation | | | |
| Director | ROC | S.C. Ho, Representative of Aidatek Electronics Inc. | M | 2017/6/20 | 3 | 2002/6/20 | 80,434,300 | 7.05% | 80,434,300 | 7.05% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> • Master of Mechanical Engineering, University of Wisconsin - Madison | <ul style="list-style-type: none"> • Director, Cupid Infotech Co., Ltd. • Director, TaiGen Biotechnology Co., Ltd. • Director, TaiGen Biopharmaceuti-cals Holdings Ltd. • Director, Taitung Enterprise Co. • Director, Yong-An Leasing Co., Ltd. • Chairman, Yuen Shin Yi Enterprise Co., Ltd. • Director, YF Chemical Co., Ltd. • Director, EFFION Enertech Co., Ltd. • Chairman, Yuen Foong Paper Co., Ltd. • Director, Yuen Foong International (Samoa) Ltd. • Director, Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd. • Director, YFY Biotechnology Co., Ltd. • Director, YFY Paradigm Investment Co., Ltd. • Director, YFY Venture Capital Investment Co., Ltd. • Director, Yuen Foong Yu Consumer Products Investment Ltd • Director, Yuen Foong Yu Consumer Products Co., Ltd. • Director, YFY Japan Co., Ltd. • Director, SinoCell Technologies Co., Ltd. • Director, Ru Yi Enterprise Co., Ltd. • Director, Xing Yuan Investment Co., Ltd. • Director, Shen's Art Print Co., Ltd. • Chairman, Fu Hwa Enterprise Co., Ltd. • Director, Lotus Ecoscings & Engineering Co., Ltd. • Director, HuaDong Industrial Co., Ltd. • Director, Artone Investment (H.K.) Ltd. Director, Artone Specialties Co., Ltd. • Director, Synmax Biochemical Co., Ltd. • Supervisor, Pioneer Chemical Co., Ltd. • Executive Shareholder, Ho Jei Lai Kosan Unlimited Company | Director | Felix Ho | Father | Director | Johnson Lee | Father in law |

| Title | Nationality /Country of Origin | Name | Gender | Date Elected | Term (Years) | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience (Education) | Other Position | Executives, Directors or Supervisors who are spouses or within two degrees of kinship | | |
|----------|--------------------------------|------------------------------------------------------|--------|--------------|--------------|--------------------|---------------------------|-------|----------------------|-------|-----------------------------|-------|-------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|----------|----------|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Director | ROC | S.C. Ho, Representative of Aidatek Electronics Inc. | M | 2017/6/20 | 3 | 2002/6/20 | 80,434,300 | 7.05% | 80,434,300 | 7.05% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> • Master of Mechanical Engineering, University of Wisconsin - Madison | <ul style="list-style-type: none"> • Director, Shin-Yi Holding Inc. • Director, Taiwan Research-based Biopharmaceutical Manufacturers Association • Chairman, Pre-school Education Magazine of Hsin yi Foundation • Chairman, Foundation of Fire Fighting Development • Chairman, Shang Shan Human Culture Foundation • Director, Liver Disease Prevention & Treatment Research Foundation • Director, Hsin Yi Foundation • Director, The Eisenhower Fellows Association in the Republic of China • Executive Director, Yuan T. Lee Foundation Science Education for All • Executive Director, Chinese International Economic Cooperation Association | Director | Felix Ho | Father |
| | ROC | Felix Ho, Representative of Aidatek Electronics Inc. | M | 2017/6/20 | 3 | 2002/6/20 | 10,095,435 | 0.89% | 10,095,435 | 0.89% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> • Master of Financial Management, Massachusetts Institute of Technology, Sloan College | <ul style="list-style-type: none"> • Director, E Ink Holdings Inc. • Chairman, YFY Inc. • Director, SinoPac Holdings Co., Ltd. • Director, YFY Packaging Inc. • Chairman, Yuen Foong Yu Consumer Products Co., Ltd. • Chairman, YFY Holding Management Co., Ltd. • Chairman, Yuen Foong Co., Ltd. • Director, Yuen Foong Paper Co., Ltd. • Chairman, Yuen Foong Shop Co., Ltd. • Chairman, Ever Growing Agriculture Bio-tech Co., Ltd. • Director, Shin-Yi Enterprise Co., Ltd. • Director, Fu Hwa Enterprise Co., Ltd. • Director, Artone Investment (H.K.) Ltd. • Director, eCrowd Media Inc. • Director, Livebricks Inc. • Director, Chen Yu Co., Ltd. • Director, YFY RFID Co., Ltd. • Director, Chung Hwa Pulp Corp. • Chairman, E Ink Corporation | Director | S.C. Ho | Son |

| Title | Nationality /Country of Origin | Name | Gender | Date Elected | Term (Years) | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience (Education) | Other Position | Executives, Directors or Supervisors who are spouses or within two degrees of kinship | | |
|----------|--------------------------------|------------------------------------------------------|--------|--------------|--------------|--------------------|---------------------------|--------|----------------------|--------|-----------------------------|-------|-------------------------------------|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------|----------|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Director | ROC | Felix Ho, Representative of Aidatek Electronics Inc. | M | 2017/6/20 | 3 | 2002/6/20 | 10,095,435 | 0.89% | 10,095,435 | 0.89% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> • Master of Financial Management, Massachusetts Institute of Technology, Sloan College | <ul style="list-style-type: none"> • Chairman, Willpower Industries Limited • Chairman, YFY Jupiter(BVI)Inc. • Chairman, Yuen Foong Yu Paper Enterprise (Vietnam) Company Limited • Chairman, Arizon RFID Technology (Yangzhou) Co., Ltd. • Chairman, YFY Packaging (Yangzhou) Investment Co., Ltd. • Chairman, YFY Investment Co., Ltd. • Chairman, YFY Cayman Co., Ltd. • Director, Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd. • Director, Jupiter Prestige Group Holding Limited • Director, Yuen Foong International (Samoa) Ltd. • Director, Yuen Foong Yu Consumer Products Investment Ltd. • Director, Eihoyo Shoji Co., Ltd. • Director, YFY Mauritius Corp. • Director, The Eisenhower Fellows Association in the Republic of China • Chairman, Association of Corporate Patent Executives • Chairman, Taiwan Paper Industry Association. • Director, Epoch Foundation • Director, Monte Jade Taiwan Science & Tech Association | Director | S.C. Ho | Son |
| Director | ROC | YFY Inc. | N/A | 2017/6/20 | 3 | 2002/6/20 | 133,472,904 | 11.70% | 133,472,904 | 11.70% | 0 | 0.00% | 0 | 0.00% | N/A | None | None | None | None |
| | ROC | CC Tsai, Representative of YFY Inc. | F | 2017/6/20 | 3 | 2008/6/13 | 15,788 | 0.00% | 168,788 | 0.02% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> • National Chiao Tung University Department of Photonics Institute of EO Engineering Professor • Quanta Display Inc. Senior Vice President • University of Chicago Department of Physics PhD degree | <ul style="list-style-type: none"> • Auditor Office Vice President, E Ink Holdings Inc. • Independent director,Radiant Innovation Inc. • Director , Affiliated Parties of EIH | None | None | None |
| | ROC | FY Gan, Representative of YFY Inc. | M | 2017/6/20 | 3 | 2017/6/20 | 0 | 0.00% | 557,000 | 0.05% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> • AU Optronics Corporation Associate Vice President • McGill University Department of Electrical Engineering PhD degree | <ul style="list-style-type: none"> • Business Center Executive Vice President, E Ink Holdings Inc. • Director or President , Affiliated Parties of EIH | None | None | None |

| Title | Nationality /Country of Origin | Name | Gender | Date Elected | Term (Years) | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience (Education) | Other Position | Executives, Directors or Supervisors who are spouses or within two degrees of kinship | | |
|----------------------|--------------------------------|----------------|--------|--------------|--------------|--------------------|---------------------------|-------|----------------------|-------|-----------------------------|-------|-------------------------------------|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|------|----------|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Independent director | ROC | Ten-Chung Chen | M | 2017/6/20 | 3 | 2005/6/16 | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> • General Manager of Advantech, USA/Advantech Co., Ltd. Director or Supervisor • Master of Business Administration, Indiana University, USA | • Independent director,YFY Inc. | None | None | None |
| Independent director | ROC | Chao-Tung Wen | M | 2017/6/20 | 3 | 2014/6/18 | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> • Professor and Director,NCCU Graduate Institute of Technology,Innovation&Intellectual Property Management • EMBA CEO and Director of Innovation and Creativity Center • Ph.D. in Urban and Environmental Studies, Rensselaer Polytechnic Institute | <ul style="list-style-type: none"> • Independent director,Pharmadax Inc. • Independent director,TSTI • Chariman,Eastern International Ad. | None | None | None |

3.2.2 Major shareholders of the institutional shareholders

2019/04/20

| Name of Institutional Shareholders | Major Shareholders | % |
|------------------------------------|---------------------------------------------------------|----------------------------------|
| YFY Inc. | S.C. Ho | 10.16% |
| | Shin-Yi Foundation | 5.66% |
| | Shin-Yi Enterprise Co., Ltd. | 4.69% |
| | Cheng Ting Ho | 2.80% |
| | YFY Inc. Labor Retirement Reserve Supervisory Committee | 2.79% |
| | Mei Yu Ho | 2.67% |
| | NEW TALENT LIMITED | 2.28% |
| | Felix Ho | 2.14% |
| | Rong Ting Ho | 2.08% |
| | Min Ting Ho | 2.07% |
| | Aidatek Electronics, Inc. | Hsinex International Corporation |
| S.C. Ho | | 41.27% |
| Felix Ho | | 7.46% |
| Johnson Lee | | 3.58% |
| Pao Yu Hsieh | | 0.30% |

Major shareholders of the Company's major institutional shareholders

2019/04/20

| Name of Institutional Shareholders | Major Shareholders | % |
|------------------------------------|-------------------------------------------|------------------------|
| Shin-Yi Enterprise Co., Ltd. | S.C. Ho | 27.84% |
| | Jucheng Investment & Management Co., Ltd. | 12.50% |
| | BRILLIANT PRIDE LIMITED | 12.50% |
| | Gao Da Global Ltd. | 12.50% |
| | Mei Yu Ho | 12.50% |
| | Guan Yu Investment Co., Ltd. | 5.91% |
| | Tasi Hui Shin Ho | 2.48% |
| | Richard Ho | 2.18% |
| | Jin Jie Investment Ltd. | 1.52% |
| | Hoss Educational Foundation | 1.48% |
| | Hoss Cultural Foundation | 1.48% |
| | NEW TALENT LIMITED | Modern Victory Limited |
| Hsinex International Corporation | S.C. Ho | 53.13% |
| | Yi Chia Ho | 24.48% |
| | Felix Ho | 22.28% |
| | Chen Yu Co., Ltd. | 0.11% |

3.2.3 Management Team

| Title | Nationality/ Country of Origin | Name | Gender | Date Elected | Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience (Education) | Other Position | Managers who are Spouses or Within Two Degrees of Kinship | | |
|------------------------------------------|-----------------------------------|-------------|--------|--------------|--------------|-------|-----------------------------|-------|-------------------------------------|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|------|----------|
| | | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Chairman | R.O.C | Frank Ko | Man | 2013/12/2 | 300,000 | 0.03% | 15,000 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> AU Optronics Corporation Technology and Strategy Development Office Vice President National Chiao Tung University Department of Photonics Institute of EO Engineering PhD degree | Chairman or Director , Affiliated Parties of EIH | None | None | None |
| Executive Assistant | R.O.C | James Hong | Man | 2010/3/15 | 17,896 | 0.00% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> Proview Electronics (Taiwan) Co., Ltd. Associate Vice President National Central University Department of Electrical Engineering master degree | None | None | None | None |
| President | R.O.C | Johnson Lee | Man | 2008/3/1 | 473,040 | 0.04% | 9,500,000 | 0.83% | 0 | 0.00% | <ul style="list-style-type: none"> Tufts University Department of Economics &Electrical Engineering double major bachelor degree | <ul style="list-style-type: none"> Chairman or Director , Affiliated Parties of EIH Chairman, Zhengqi Investment Co., Ltd. Supervisor,Netronix, Inc. Director,Shin Lung Natural Gas Co. Director,Foongtone technology Director,BoardTek Electronics Corp Director,Yilong Gas Co., Ltd. | None | None | None |
| Chief Finance Officer | R.O.C | Lloyd Chen | Man | 2018/4/23 | 6,950 | 0.00% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> Top Victory Electronics (Taiwan) Co., Ltd. Financial Control-Oversea Tax Assitant Vice President E Ink Holdings Finance Center Associate Vice President Tianyu Technology & GDS China CFO Lite-On Technology Corporation Senior Specialist Luxury Watcher Co., Ltd. Manager Deloitte Touche Tohmatsu Limited In-Charge The City University of New York Institute of Finance master degree | T CFO, Affiliated Parties of EIH | None | None | None |
| Business Center Executive Vice President | R.O.C | FY Gan | Man | 2011/3/1 | 557,000 | 0.05% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> AU Optronics Corporation Associate Vice President McGill University Department of Electrical Engineering PhD degree | President, Affiliated Parties of EIH | None | None | None |
| Chief Technology Officer | R.O.C | CC Tsai | Woman | 2010/7/3 | 168,788 | 0.02% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> National Chiao Tung University Department of Photonics Institute of EO Engineering Professor Quanta Display Inc. Senior Vice President/ University of Chicago Department of Physics PhD degree | <ul style="list-style-type: none"> Auditor Office Vice President, E Ink Holdings Inc. Independent director,Radiant Innovation Inc. Director , Affiliated Parties of EIH | None | None | None |

| Title | Nationality/ Country of Origin | Name | Gender | Date Elected | Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience (Education) | Other Position | Managers who are Spouses or Within Two Degrees of Kinship | | |
|---------------------------------------------------------------------------------------|--------------------------------------|-----------------------|--------|-----------------|--------------|-------|--------------------------------|-------|-------------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|------|----------|
| | | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Auditor Office Vice President | R.O.C | Mico Yu | Woman | 2012/2/6 | 0 | 0.00% | 0 | 0.00% | | 0.00% | <ul style="list-style-type: none"> High Tech Computer Corporation Senior Assistant Manager University of Birmingham Department of Business Administration & International Economic Management double major master degree | None | None | None | None |
| Operation Center Executive Vice President | R.O.C | Luke Chen | Man | 2010/10/1 | 272,000 | 0.02% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> Ningbo Chihsin Optoelectronics Corporation Executive Vice President/ Topsun Optronics, Inc. Executive Vice President/ Quanta Display Inc. LCM Engineering Office Director/New Mexico State University Department of Electrical Engineering & Industrial Engineering double major master degree | <ul style="list-style-type: none"> Director,Affiliated Parties of EIH Director,UltraChip | None | None | None |
| New Process Development Div. Vice President | R.O.C | YS Chang | Man | 1996/2/1 | 185,414 | 0.02% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> Industrial Technology Research Institute Electronic and Optoelectronic System Research Laboratories National Chiao Tung University Department of Photonics Institute of EO Engineering master degree | <ul style="list-style-type: none"> Vice president of finance , Arizon RFID Technology (Yangzhou) Co., Ltd. | None | None | None |
| Panel Technology Platform Development Div. Associate Vice President | British Subject | Ian Douglas French | Man | 2012/3/1 | 10,000 | 0.00% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> Philips Research Principal Senior Scientist University of Dundee Department Of Semiconductor Materials Science And Engineering master degree | None | None | None | None |
| Application Service Div. Associate Vice President | R.O.C | Jeff Chang | Man | 2011/6/7 | 10,000 | 0.00% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> AU Optronics Corporation Director Picvue Electronics, Ltd Associate Vice President National Taiwan University of Science and Technology Department of Electronics Engineering master degree National Chiao Tung University EMBA | None | None | None | None |
| FPL MFG Central Div. Associate Vice President | R.O.C | Mano Lo | Man | 2013/12/9 | 158,000 | 0.01% | 16,000 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> Optimax Technology Corporation Executive Vice President PlexBio Co.,Ltd. President AT&T Corporation Senior Manager National Cheng Kung University Department of Engineering Science bachelor degree National Chiao Tung University Department of Technology Management, master degree | <ul style="list-style-type: none"> Director or Supervisor,Affiliated Parties of EIH | None | None | None |

| Title | Nationality/ Country of Origin | Name | Gender | Date Elected | Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience (Education) | Other Position | Managers who are Spouses or Within Two Degrees of Kinship | | |
|----------------------------------------------------------------------|--------------------------------------|-------------------|--------|-----------------|--------------|-------|--------------------------------|-------|-------------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|--------------------------------------------------------------|------|----------|
| | | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Product Development Div. I Associate Vice President | R.O.C | Tung Liang Lin | Man | 1995/5/25 | 4,983 | 0.00% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> Industrial Technology Research Institute Electronic and Optoelectronic System Research Laboratories National Chiao Tung University Department of Electrical Engineering, master degree | None | None | None | None |
| Product Development Div. III Associate Vice President | R.O.C | Eric Lo | Man | 2017/7/17 | 55,000 | 0.01% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> AU Optronics Corporation Director Tamkang University Department of Physics | None | None | None | None |
| IoT BU Associate Vice President | R.O.C | Max Chen | Man | 2013/2/1 | 210,000 | 0.02% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> AU Optronics Corporation Factory Director National Cheng Kung University Institute of Chemistry, master degree | <ul style="list-style-type: none"> Director or President, Affiliated Parties of EIH | None | None | None |
| System Design Central Div. Associate Vice President | R.O.C | JM Hung | Man | 2018/9/6 | 274,000 | 0.02% | 0 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> AU Optronics Corporation Manager National Chiao Tung University Institute of Electrical and Control Engineering master degree | None | None | None | None |
| Product Management Central Div. Associate Vice President | R.O.C | Jim Chang | Man | 2018/9/6 | 164,000 | 0.01% | 6,000 | 0.00% | 0 | 0.00% | <ul style="list-style-type: none"> AU Optronics Corporation Marketing Director National Tsing Hua University Institute of Nuclear Science master degree | None | None | None | None |
| Finance Center Accounting Director | R.O.C | James Huang | Man | 2013/12/3 | 10,000 | 0.00% | 0 | 0.00% | 0 | 0.00% | Taiwan Semiconductor Manufacturing Co., Ltd Principal Administrator/National Taiwan University Department of Accounting bachelor degree/National Chung Cheng University Department of Accounting master degree | None | None | None | None |

3.2.4 Professional qualifications and independence analysis of directors and supervisors

(1) Remuneration of Directors

2018/12/31

| Name | Criteria | 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 Concurrently Serving as an Independent Director |
|---------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|---|---------------------------------------|---|---|---|---|---|---|---|----|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | 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 | | |
| Frank Ko, Representative of Aidatek Electronics Inc. | | | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | 0 | |
| Johnson Lee, Representative of Aidatek Electronics Inc. | | | ✓ | | | | ✓ | | ✓ | ✓ | | ✓ | | 0 | |
| S.C. Ho, Representative of Aidatek Electronics Inc. | | | ✓ | | ✓ | | | | | | ✓ | | ✓ | 0 | |
| Felix Ho, Representative of Aidatek Electronics Inc. | | | ✓ | | | | ✓ | | | ✓ | | | ✓ | 0 | |
| CC Tsai, Representative of YFY Inc. | | | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | 1 | |
| FY Gan, Representative of YFY Inc. | | | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | 0 | |
| Director Ten-Chung Chen | | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 | |
| Director Chao-Tung Wen | ✓ | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 2 | |

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.

3.2.5 Remuneration of Directors, Supervisors, President, and Vice President

(1) Remuneration of Directors

Unit: NT\$ thousands

| Title/Name | Remuneration | | | | | | | | Ratio of Total Remuneration (A+B+C+D) to Net Income (%) | | Relevant Remuneration Received by Directors Who are Also Employees | | | | | | | | | | Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%) | | Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary | | | |
|-------------------------------------------------------------------------|-----------------------|--------------------------------------------------------|-------------------|----------------------------------------------------|-------------------------|----------------------------------------------------|----------------|----------------------------------------------------|---------------------------------------------------------|----------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------|-------------------|----------------------------------------------------|-----------------------------------|----------------------------------------------------|-------------|-------|----------------------------------------|----------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------------------------------------------------|------------------------------------|----------------------------------------------------|------|
| | Base Compensation (A) | | Severance Pay (B) | | Bonus to Directors (C.) | | Allowances (D) | | | | Salary, Bonuses, and Allowances (E) | | Severance Pay (F) | | Profit Sharing-Employee Bonus (G) | | | | Exercisable Employee Stock Options (H) | | | | | New Restricted Employee Shares (I) | | |
| | The company | All companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statement | | The company | Companies in the consolidated financial statements | |
| | | | | | | | | | | | | | | | | | Cash | Stock | | | | | | | | Cash |
| The representative of Aidatek Electronics, Inc.: Chairman/ Frank Ko | | | | | | | | | | | | | | | | | | | | | | | | | | |
| The representative of Aidatek Electronics, Inc.: President/ Johnson Lee | | | | | | | | | | | | | | | | | | | | | | | | | | |
| The representative of Aidatek Electronics, Inc.: director/ S.C. Ho | 0 | 0 | 0 | 0 | 12,238 | 12,238 | 1,035 | 1,035 | 0.51% | 0.51% | 70,409 | 432 | 432 | 358 | 358 | - | 358 | - | 0 | 0 | 0 | 0 | 3.23% | 3.23% | 2,384 | |
| The representative of Aidatek Electronics, Inc.: director/ Felix Ho | | | | | | | | | | | | | | | | | | | | | | | | | | |
| The representative of YFY Inc: Chief Technology Officer/ CC Tsai | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Title/Name | Remuneration | | | | | | | | Ratio of Total Remuneration (A+B+C+D) to Net Income (%) | | Relevant Remuneration Received by Directors Who are Also Employees | | | | | | | | | | Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%) | | Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary | | | |
|-----------------------------------------------------------------|-----------------------|--------------------------------------------------------|-------------------|----------------------------------------------------|-------------------------|----------------------------------------------------|----------------|----------------------------------------------------|---------------------------------------------------------|----------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------|-------------------|----------------------------------------------------|-----------------------------------|-------|----------------------------------------|-------|------------------------------------|----------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------------------------------------------------|-------------|----------------------------------------------------|--|
| | Base Compensation (A) | | Severance Pay (B) | | Bonus to Directors (C.) | | Allowances (D) | | | | Salary, Bonuses, and Allowances (E) | | Severance Pay (F) | | Profit Sharing-Employee Bonus (G) | | Exercisable Employee Stock Options (H) | | New Restricted Employee Shares (I) | | | | | | | |
| | The company | All companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | Cash | Stock | Cash | Stock | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statement | | The company | Companies in the consolidated financial statements | |
| The representative of YFY Inc: Executive Vice President/ FY Gan | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Independent director/ Ten-Chung Chen | 0 | 0 | 0 | 0 | 12,238 | 12,238 | 1,035 | 1,035 | 0.51% | 0.51% | 70,409 | 70,409 | 432 | 432 | 358 | - | 358 | - | 0 | 0 | 0 | 0 | 3.23% | 3.23% | 2,384 | |
| Independent director/ Bing-Sheng Wu | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Independent director/ Chao-Tung Wen | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Range of Remuneration | Name of Directors | | | |
|---------------------------------|----------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------|----------------------------------------------------|
| | Total of (A+B+C+D) | | Total of (A+B+C+D+E+F+G) | |
| | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements |
| Under NT\$ 2,000,000 | Johnson Lee 、S.C. Ho 、Felix Ho 、CC Tsai 、FY Gan 、Bing-Sheng Wu | Johnson Lee 、S.C. Ho 、Felix Ho 、CC Tsai 、FY Gan 、Bing-Sheng Wu | S.C. Ho 、Felix Ho 、Bing-Sheng Wu | S.C. Ho 、Felix Ho 、Bing-Sheng Wu |
| NT\$2,000,001 ~ NT\$5,000,000 | Frank Ko 、Ten-Chung Chen 、Chao-Tung Wen 、YFY Inc | Frank Ko 、Ten-Chung Chen 、Chao-Tung Wen 、YFY Inc | Ten-Chung Chen 、Chao-Tung Wen 、YFY Inc | Ten-Chung Chen 、Chao-Tung Wen 、YFY Inc |
| NT\$5,000,001 ~ NT\$10,000,000 | Aidatek Electronics, Inc. | Aidatek Electronics, Inc. | Aidatek Electronics, Inc. | Aidatek Electronics, Inc. |
| NT\$10,000,001 ~ NT\$15,000,000 | | | CC Tsai | CC Tsai |

| Range of Remuneration | Name of Directors | | | |
|----------------------------------|--------------------|----------------------------------------------------|-------------------------------|----------------------------------------------------|
| | Total of (A+B+C+D) | | Total of (A+B+C+D+E+F+G) | |
| | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements |
| NT\$15,000,001 ~ NT\$30,000,000 | | | Frank Ko 、Johnson Lee 、FY Gan | Frank Ko 、Johnson Lee 、FY Gan |
| NT\$30,000,001 ~ NT\$50,000,000 | | | | |
| NT\$50,000,001 ~ NT\$100,000,000 | | | | |
| Over NT\$100,000,000 | | | | |
| Total | 11 | 11 | 11 | 11 |

(2) Remuneration of the President and Vice President

Unit: NT\$ thousands

| 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 (%) | | Exercisable Employee Stock Options | | New Restricted Employee Shares | | Compensation paid to the President and Vice President from an Invested Company Other Than the Company's Subsidiary | |
|----------------------------------------|-------------|----------------------------------------------------|-------------------|----------------------------------------------------|----------------------------|----------------------------------------------------|-----------------------------------|-------|----------------------------------------------------|-------|---------------------------------------------------------|----------------------------------------------------|------------------------------------|----------------------------------------------------|--------------------------------|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|--|
| | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | | Companies in the consolidated financial statements | | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | | |
| | | | | | | | Cash | Stock | Cash | Stock | | | | | | | | |
| Chairman/ Frank Ko | | | | | | | | | | | | | | | | | | |
| President/ Johnson Lee | | | | | | | | | | | | | | | | | | |
| Chief Technology Officer/ CC Tsai | | | | | | | | | | | | | | | | | | |
| Executive Vice President/ FY Gan | | | | | | | | | | | | | | | | | | |
| Executive Vice President/ Luke Chen | 49,496 | 49,496 | 756 | 756 | 51,483 | 51,483 | 732 | - | 732 | - | 3.92% | 3.92% | 0 | 0 | 0 | 0 | 2,384 | |
| Chief Finance Officer/ Lloyd Chen | | | | | | | | | | | | | | | | | | |
| Vice President/ Mico Yu | | | | | | | | | | | | | | | | | | |
| Vice President/ YS Chang | | | | | | | | | | | | | | | | | | |
| Executive Assistant/ James Hong | | | | | | | | | | | | | | | | | | |

| Range of Remuneration | Name of Supervisors | |
|----------------------------------|---------------------------------|----------------------------------------------------|
| | The company | Companies in the consolidated financial statements |
| Under NT\$ 2,000,000 | | |
| NT\$2,000,001 ~ NT\$5,000,000 | Mico Yu \ James Hong | Mico Yu \ James Hong |
| NT\$5,000,001 ~ NT\$10,000,000 | YS Chang \ Lloyd Chen | YS Chang \ Lloyd Chen |
| NT\$10,000,001 ~ NT\$15,000,000 | CC Tsai \ Luke Chen | CC Tsai \ Luke Chen |
| NT\$15,000,001 ~ NT\$30,000,000 | Frank Ko \ Johnson Lee \ FY Gan | Frank Ko \ Johnson Lee \ FY Gan |
| NT\$30,000,001 ~ NT\$50,000,000 | | |
| NT\$50,000,001 ~ NT\$100,000,000 | | |
| Over NT\$100,000,000 | | |
| Total | 9 | 9 |

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

- (1) The analysis of the remunerations to the Directors, Supervisors, President, and Vice Presidents from the Company and all companies included in the consolidated financial statements in proportion to the net income presented in the separate financial statements in the last 2 years:

| Targets of payment | The proportion of total amount of payment to net income | | | |
|--------------------------------|---------------------------------------------------------|-----------------------------------------------------|-------------|-----------------------------------------------------|
| | 2017 | | 2018 | |
| | The Company | All companies included in the financial state-ments | The Company | All companies included in the financial state-ments |
| Directors | 3.98% | 3.98% | 3.23% | 3.23% |
| President and Vice Pres-idents | 4.34% | 4.34% | 3.92% | 3.92% |

- (2) The policy, standard, and components of the remuneration of the Company, the association between the procedure for determination of the remuneration, and operation performance and the risk in the future:

If the Company has earnings, appropriate 1%-10% as remuneration to employees, and no more than 1% as remuneration to Directors. If there is an accumulated deficit, appropriate for covering the loss first.

Remuneration to the Directors shall be made in cash. Remuneration to employees may be made in cash or stock. The employees of subsidiaries meeting specific condition are entitled to the remuneration. Such condition shall be determined by the Board under authorization. The ratio of remuneration to the Directors, the ratio of remunerations to employees and method of payment shall be determined by the Board in a session with the presence of at least two-thirds of the Directors and a simple majority of the Directors in session, and report to the Shareholders Meeting.

Remunerations to employees and the Directors shall be calculated on the basis of the earnings of the current year (the balance of earnings before taxation and before the deduction of remunerations to employees and Directors) net of accumulated deficit.

The remuneration to the President and the Vice Presidents of the Company covers salary, bonus, employee bonus, and incentives for keeping good people. The Remuneration Committee will consider the position held, the scope of authority and responsibility, and the contribution to the business objective of the Company with reference to the operation performance of the year, the risk in the future, and the industry level of the same position, and present to the Board for final approval.

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors

A total of 5 (A) meetings of the Board of Directors were held in the previous period. The attendance of director and supervisor were as follows:

| Title | Name | Attendance in Person (B) | By Proxy | Attendance Rate (%) (B / A) | Remarks |
|----------------------|---------------------------------------------------------|--------------------------|----------|-------------------------------|----------------------------|
| Director | Frank Ko, Representative of Aidatek Electronics Inc. | 5 | 0 | 100% | |
| Director | Johnson Lee, Representative of Aidatek Electronics Inc. | 5 | 0 | 100% | |
| Director | S.C. Ho, Representative of Ai-datek Electronics Inc. | 4 | 0 | 80% | |
| Director | Felix Ho, Representative of Aidatek Electronics Inc. | 5 | 0 | 100% | |
| Director | CC Tsai, Representative of YFY Inc. | 5 | 0 | 100% | |
| Director | FY Gan, Representative of YFY Inc. | 5 | 0 | 0% | |
| Independent director | Ten-Chung Chen | 4 | 1 | 100% | |
| Independent director | Biing-Seng Wu | 3 | 0 | 100% | Resignation on Aug.15 2018 |
| Independent director | Chao-Tung Wen | 5 | 0 | 100% | |

Other mentionable items:

1. If there are circumstances referred to in Article 14-3 of the Securities and Exchange Act and resolutions of the directors' meetings objected to by independent directors or subject to qualified opinion and recorded or declared in writing, the dates of the meetings, sessions, contents of motion, all independent directors' opinions and the company's response should be specified:

| Item | Date | Major resolutions | Independent Directors' opinions | The company's response |
|---------------|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------------|
| Board meeting | 27, Mar, 2018 | <ol style="list-style-type: none"> 1. Report of the 2017 business report and financial statements. 2. Report of the 2017 & 2018 Jan to Feb Financial Derivatives transaction. 3. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of February 28, 2018. 4. Report on the implementation of the audit plan for the period from October to December 2017 5. Report on the Audit report for internal control assessment from CPA (Certified Public Accountants) from January 1, 2016 to June 30, 2017 6. Approval of the 2017 business report and financial statements 7. Approval of the 2017 「Internal Control System Statement」 8. Approval of financing loan amount between the company and various banks 9. Approval of the application of the company as a subsidiary and bank financing loan amount | None | None |
| Board meeting | 8, May, 2018 | <ol style="list-style-type: none"> 1. Report assesses the independence and competence of the appointment of a visa accountant. 2. Report of the 2018Q1 business report and financial statements. 3. Report of the 2018 Jan to Mar Financial Derivatives transaction. 4. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of March 31, 2018. 5. Report on the strategic cooperation investment case of Yong yu Investment Co., Ltd., a subsidiary of the Company. 6. Report on the implementation of the audit plan for the period from Jan to Mar 2018. 7. Approval of handling the third case of repurchasing shares 8. Approval of Amendment to the section of the Company's "Funding and Endorsement Guarantee Procedures" 9. Approval of 2018 annual visa accountant service fee case | None | None |
| Board meeting | 14, Aug, 2018 | <ol style="list-style-type: none"> 1. Report of the 2018 Q1&Q2 business report and financial statements. 2. Report of the 2018 Apr to Jun Financial Derivatives transaction. 3. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of June 30, 2018. 4. Approval of internal control audit by CPA and issue follow-up. 5. Approval of financing loan amount between the company and various banks 6. Approval of the application of the company as a subsidiary and bank financing loan amount | None | None |

| Title | Name | Attendance in Person (B) | By Proxy | Attendance Rate (%) (B / A) | Remarks |
|---------------|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------------------------------|------------------------|
| Item | Date | Major resolutions | | Independent Directors' opinions | The company's response |
| Board meeting | 27, Mar, 2018 | 1. Report of the 2017 business report and financial statements. 2. Report of the 2017 & 2018 Jan to Feb Financial Derivatives transaction. 3. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of February 28, 2018. 4. Report on the implementation of the audit plan for the period from October to December 2017 5. Report on the Audit report for internal control assessment from CPA (Certified Public Accountants) from January 1, 2016 to June 30, 2017 6. Approval of the 2017 business report and financial statements 7. Approval of the 2017 「Internal Control System Statement」 8. Approval of financing loan amount between the company and various banks 9. Approval of the application of the company as a subsidiary and bank financing loan amount | | None | None |
| Board meeting | 8, May, 2018 | 1. Report assesses the independence and competence of the appointment of a visa accountant. 2. Report of the 2018Q1 business report and financial statements. 3. Report of the 2018 Jan to Mar Financial Derivatives transaction. 4. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of March 31, 2018. 5. Report on the strategic cooperation investment case of Yong yu Investment Co., Ltd., a subsidiary of the Company. 6. Report on the implementation of the audit plan for the period from Jan to Mar 2018. 7. Approval of handling the third case of repurchasing shares 8. Approval of Amendment to the section of the Company's "Funding and Endorsement Guarantee Procedures" 9. Approval of 2018 annual visa accountant service fee case | | None | None |
| Board meeting | 14, Aug, 2018 | 1. Report of the 2018 Q1&Q2 business report and financial statements. 2. Report of the 2018 Apr to Jun Financial Derivatives transaction. 3. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of June 30, 2018. 4. Approval of internal control audit by CPA and issue follow-up. 5. Approval of financing loan amount between the company and various banks 6. Approval of the application of the company as a subsidiary and bank financing loan amount | | None | None |
| Board meeting | 12, Nov, 2018 | 1. Report of the 2018 Q1 to Q3 business report and financial statements. 2. Report of the 2018 Jul to Sep Financial Derivatives transaction. 3. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of September 30, 2018. 4. Report on the implementation of the audit plan for the period from Jul to Sep 2018. 5. Approval of the 2019 implementation of the audit plan. 6. Approval of financing loan amount between the company and various banks 7. Approval of the application of the company as a subsidiary and bank financing loan amount 8. Approval of the Appointment of the successor to the third salary and compensation committee of the Company and its compensation proposal. | | None | None |
| Board meeting | 26, Dec, 2018 | 1. Approval of financing loan amount between the company and various banks | | None | None |
| Board meeting | 20, Mar, 2019 | 1. Report of the 2018 business report and financial statements. 2. Report of the 2018 & 2019 Jan to Feb Financial Derivatives transaction. 3. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of Jan 31, 2019. 4. Report on the implementation of the audit plan for the period from October to December 2018. 5. Approval of the 2018 business report and financial statements 6. Approval of the 2018 「Internal Control System Statement」 7. Approval of financing loan amount between the company and various banks. 8. Approval of financing loan amount between the company and various banks 9. Approval of the corporate charter amendment 10. Approval of the Applied Corporation Management of Assets amendment 11. Approval of the Dismissal of directors' non-competition restrictions 12. Approval of the Dismissal of General Managers' non-competition restrictions | | None | None |

2. If there are directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified:

| Date | Meeting | Contents of motion | Directors' names | Voting |
|---------------|---------------------------------|-------------------------------------------------------------|----------------------------------------------|--------|
| 27, Mar, 2018 | The 10th session of the 6nd BOD | Application for assistance in litigation cases | S.C. Ho | Assent |
| 8, May, 2018 | The 10th session of the 7nd BOD | 2018 above Associate Vice President salary adjustment | Johnson Lee CC Tsai FY Gan | Assent |
| 8, May, 2018 | The 10th session of the 7nd BOD | The third time to buy back the share transfer employee case | Frank Ko Johnson Lee CC Tsai FY Gan | Assent |

| Date | Meeting | Contents of motion | Directors' names | Voting |
|---------------|----------------------------------|------------------------------------------------------------------------------------|----------------------------------------------|--------|
| 14, Aug, 2018 | The 10th session of the 8nd BOD | The third phase of the third phase of buying back the share transfer employee case | Frank Ko Johnson Lee CC Tsai FY Gan | Assent |
| 20, Mar, 2019 | The 10th session of the 11nd BOD | The Dismissal of directors' non-competition restrictions. | Johnson Lee FY Gan | Assent |
| 20, Mar, 2019 | The 10th session of the 11nd BOD | The Dismissal of General Managers' non-competition restrictions | Johnson Lee | Assent |

3. Measures taken to strengthen the functionality of the board:

The Board of Directors has established an Audit Committee and a Remuneration Committee to assist the board in carrying out its various duties.

3.3.2 Audit Committee

A. Audit Committee

A total of 4 (A) Audit Committee meetings 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 | Ten-Chung Chen | 4 | 0 | 100% | Convener |
| Independent director | Biing-Seng Wu | 3 | 0 | 100% | Resignation on Sep.21 2018 |
| Independent director | Chao-Tung Wen | 4 | 0 | 100% | |

Additional information:

1. If any of the following applies to the operation of the Auditing Committee, specify the date of the meeting and the session of the Board, the content of the motion, the resolutions of the Auditing Committee, and the response of the Company to the opinions of the Auditing Committee.

(I) The particulars exhibited in Article 14-5 of the Securities and Exchange Act.

| Date | Major resolutions | Independent Directors' opinions | The company's response |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------------|
| 22-Mar-18 | <ol style="list-style-type: none"> 1. Report of the 2017 business report and financial statements. 2. Report of the 2017 & 2018 Jan to Feb Financial Derivatives transaction. 3. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of February 28, 2018. 4. Report on the implementation of the audit plan for the period from October to December 2017. 5. Approval of the 2017 business report and financial statements. 6. Approval of the 2017 "Internal Control System Statement". 7. Report on the Audit report for internal control assessment from CPA (Certified Public Accountants) from January 1, 2016 to June 30, 2017. | None | None |
| 7-May-18 | <ol style="list-style-type: none"> 1. Report of the 2018Q1 business report and financial statements. 2. Report of the 2018 Jan to Mar Financial Derivatives transaction. 3. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of March 31, 2018. 4. Report on the implementation of the audit plan for the period from Jan to Mar 2018. 5. Report assesses the independence and competence of the appointment of a visa accountant. 6. Approval of 2018 annual visa accountant service fee case. 7.Approval of Amendment to the section of the Company's "Funding and Endorsement Guarantee Procedures" | None | None |
| 7-Aug-18 | <ol style="list-style-type: none"> 1. Report of Amendment to the section of the Company's "Funding and Endorsement Guarantee Procedures" 2. Report of the 2018 Apr to Jun Financial Derivatives transaction. 3. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of June 30, 2018. 4. Report on the implementation of the audit plan for the period from April to June 2018. 5. Approval of Amendment to the section of the Company's "Funding and Endorsement Guarantee Procedures". 6. Approval of internal control audit by CPA and issue follow-up. | None | None |
| 8-Nov-18 | <ol style="list-style-type: none"> 1. Report of the 2018 Q1 to Q3 business report and financial statements. 2. Report of the 2018 July to Sep Financial Derivatives transaction. 3. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of Sep 30, 2018. 4. Report on the implementation of the audit plan for the period from Jul to Sep 2018. 5. Proposed appointment of the company's chief financial officer and spokesperson. 6. Approval of the 2019 implementation of the audit plan. | None | None |

| Title | Name | Attendance in Person (B) | By Proxy | Attendance Rate (%) (B/A) | Remarks |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|--------------------------|----------|---------------------------|---------|
| <p>(II) In addition to the aforementioned issues, any other motions not passed by the Audit Committee but passed by the Board at the consent of more than two-thirds of the Directors: Not applicable.</p> <p>2. The recusal of Independent Directors from motions involving the interest of the Independent Directors, the names of the Independent Directors concerned, the content of the motions, the reason for recusal for the avoidance of conflict of interest, and the participation in voting: Not applicable.</p> <p>3. The communication between the Independent Directors and the Chief Internal Auditor and the CPAs (including the financial position and state of business operation in materiality, the means of communication, and the result):</p> <p>(I) The Audit Committee convenes regularly and will invite certified public accountants, Chief Internal Auditor, and related officers to attend the meeting.</p> <p>(II) The internal auditors conduct audits in accordance with the Annual Audit Plan and report to the Audit Committee on the audit findings. The Audit Committee evaluates the internal control system, the internal auditors, and the pursuit of internal audits regularly.</p> <p>(III) The Audit Committee exchanges opinions with the certified public accountants retained by the Company on the review or audits of the quarterly financial statements and related legal matters, and evaluate the independence of the certified public accountants on the selection, the audit and non-audit services rendered by the certified public accountants.</p> | | | | | |

3.3.3 The pursuit of corporate governance and the variation with the Corporate Governance Best Practice Principles for TWSE/TPEX-listed Companies, and the reason:

| Items for evaluation | The pursuit | | | Variation from the Corporate Governance Best Practice Principles for TWSE/TPEX-listed Companies and the reason |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
| | Yes | No | Summary | |
| 1. Has the Company instituted and disclosed corporate best practice principles in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX-listed Companies? | ✓ | | <ul style="list-style-type: none"> The Company has not yet instituted corporate governance best practice principles, but has installed effective framework of corporate governance and protected the rights of the shareholders Fulfilled with the spirit of corporate governance. The Company has instituted related systems and regulations in conformity to the spirit of corporate government and has properly implemented these systems and regulations. | <ul style="list-style-type: none"> Fulfilled |
| 2. The structure of shareholding and rights of the shareholders of the Company | ✓ | | <ul style="list-style-type: none"> The Company has appointed a spokesman, acting spokesman, and designated legal affairs staff who respond to the suggestions, queries, disputes, and legal actions of the shareholders in accordance with the operation procedure. | <ul style="list-style-type: none"> Fulfilled |
| (I) Has the Company established internal operation procedures for responding to the suggestions, queries, disputes and legal actions of the shareholders, and follow the procedures? | ✓ | | <ul style="list-style-type: none"> Inquiry with the share registration and investor service agent at any time for proper information. | <ul style="list-style-type: none"> Fulfilled |
| (II) Has the Company kept the list of the dominant shareholders that exercise de facto control of the Company and the parties that exercise ultimate control of these dominant shareholders under control? | | ✓ | <ul style="list-style-type: none"> Inquiry with the share registration and investor service agent at any time for proper information. | <ul style="list-style-type: none"> Fulfilled |
| (III) Has the Company established and exercised risk control and firewall mechanisms with its affiliates? | | ✓ | <ul style="list-style-type: none"> The Company has instituted related rules and regulations governing the operation, business and financial transactions between the Company and the affiliates. | <ul style="list-style-type: none"> Fulfilled |
| (IV) Has the Company instituted internal rules and regulations to prohibit insiders of the Company from using information undisclosed in the market for the trading of securities? | ✓ | | <ul style="list-style-type: none"> The Company has instituted the "Procedure for the Prevention of Insider Trade" to prohibit insiders of the Company using information not disclosed in market for the trading of securities. | <ul style="list-style-type: none"> Fulfilled |

| Items for evaluation | The pursuit | | | Variation from the Corporate Governance Best Practice Principles for TWSE/TPEX-listed Companies and the reason | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|----------------------|-----|----|----|-----------------------------------------------------------------------------------------|---|--|----|-------------------------------------------------|---|--|----|------------------------------------------|---|--|----|-------------------------------------------------------------------------|---|--|----|----------------------------------------------------------------------------------------------------------------------------------------------------------|---|--|----|------------------------------------------------|---|--|----|----------------------------------------------------------------------|---|--|----|---------------------------------------------------|---|--|----|-------------------------------------------------------------------------|---|--|-----|----------------------------------------------------------------------------------------------------|---|--|-----|---------------------------------------------------------------------------------------------|---|--|-----|---------------------------------------------------------------------------------|---|--|-----|--------------------------------------------------------------------------------------------------------------|---|--|-----|------------------------------------------------|---|--|-----|---------------------------------------------------------------------------------|---|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Yes | No | Summary | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>3. The organization and function of the Board</p> <p>(I) Has the Board mapped out related policies on the basis of the diversity of its members and pursued these policies properly?</p> <p>(II) Further to the establishment of the Remuneration Committee and the Auditing Committee as required by law, has the Company voluntarily established related functional committees?</p> <p>(III) Has the Company established related rules and regulations and the methods for the evaluation of the performance of the Board and has conducted routine performance evaluation every year?</p> <p>(IV) Has the Company conducted routine evaluation of the independence of the certified public accountants who conducted the external audits and certification?</p> | <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> | | <ul style="list-style-type: none"> The members of the Board are experts from different professional backgrounds, of both sexes, and in different areas of specializations. This composition makes the structure of the Board perfect. The Company has established the Remuneration Committee and the Audit Committee as required by law for the time being. The Company has not yet instituted the regulations or other methods governing the evaluation of Board performance, but all members of the Board perform their duties under the principle supreme governance. The Company reviews the independence of the certified public accountants being retained annually and will report the findings to the session of the Audit Committee scheduled to be held on May 3, 2019 and to the session of the Board scheduled to be held on May 8, 2019 for a second review and final approval. The Accounting Department has assessed the state of independence of Ya-Ling Weng and Chih-Ming Shao, CPAs from Deloitte Taiwan in accordance with the standard of independence of the Company. The result indicated that both CPAs are eligible for acting as the external independent auditors for the Company in financial audit and certification and for issuing related declaration. <p>Note:Criteria for the Assessment of the Independence of CPAs</p> <table border="1"> <thead> <tr> <th>Item</th> <th>Items for evaluation</th> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>No replacement has occurred over the last 7 years until the last time of certification.</td> <td>✓</td> <td></td> </tr> <tr> <td>2.</td> <td>No significant financial interest with clients.</td> <td>✓</td> <td></td> </tr> <tr> <td>3.</td> <td>Avoid unjustified relation with clients.</td> <td>✓</td> <td></td> </tr> <tr> <td>4.</td> <td>CPAs shall ensure their assistants to be honest, fair, and independent.</td> <td>✓</td> <td></td> </tr> <tr> <td>5.</td> <td>No audit and certification of the financial statements of the institutions that the CPAs have been working with 2 years prior to the present profession.</td> <td>✓</td> <td></td> </tr> <tr> <td>6.</td> <td>No third party may act in the name of the CPA.</td> <td>✓</td> <td></td> </tr> <tr> <td>7.</td> <td>No holding of the stocks issued by the Company and its subsidiaries.</td> <td>✓</td> <td></td> </tr> <tr> <td>8.</td> <td>No financing with the Company and its affiliates.</td> <td>✓</td> <td></td> </tr> <tr> <td>9.</td> <td>Joint investment or sharing profits with the Company or its affiliates.</td> <td>✓</td> <td></td> </tr> <tr> <td>10.</td> <td>No engagement in the routine work for regular salary payment with the Company or its subsidiaries.</td> <td>✓</td> <td></td> </tr> <tr> <td>11.</td> <td>No involvement with the job functions of the Company and its affiliates in decision-making.</td> <td>✓</td> <td></td> </tr> <tr> <td>12.</td> <td>No engagement in any other business that may damage the status of independence.</td> <td>✓</td> <td></td> </tr> <tr> <td>13.</td> <td>Not a spouse or kindred within the 2nd tier under the Civil Code to any management personnel of the Company.</td> <td>✓</td> <td></td> </tr> <tr> <td>14.</td> <td>No acceptance of commission from any business.</td> <td>✓</td> <td></td> </tr> <tr> <td>15.</td> <td>No penalty on violation of the principle of independence has ever been imposed.</td> <td>✓</td> <td></td> </tr> </tbody> </table> | Item | Items for evaluation | Yes | No | 1. | No replacement has occurred over the last 7 years until the last time of certification. | ✓ | | 2. | No significant financial interest with clients. | ✓ | | 3. | Avoid unjustified relation with clients. | ✓ | | 4. | CPAs shall ensure their assistants to be honest, fair, and independent. | ✓ | | 5. | No audit and certification of the financial statements of the institutions that the CPAs have been working with 2 years prior to the present profession. | ✓ | | 6. | No third party may act in the name of the CPA. | ✓ | | 7. | No holding of the stocks issued by the Company and its subsidiaries. | ✓ | | 8. | No financing with the Company and its affiliates. | ✓ | | 9. | Joint investment or sharing profits with the Company or its affiliates. | ✓ | | 10. | No engagement in the routine work for regular salary payment with the Company or its subsidiaries. | ✓ | | 11. | No involvement with the job functions of the Company and its affiliates in decision-making. | ✓ | | 12. | No engagement in any other business that may damage the status of independence. | ✓ | | 13. | Not a spouse or kindred within the 2nd tier under the Civil Code to any management personnel of the Company. | ✓ | | 14. | No acceptance of commission from any business. | ✓ | | 15. | No penalty on violation of the principle of independence has ever been imposed. | ✓ | | <ul style="list-style-type: none"> Fulfilled In the future, more functional committees will be established under law. Same as the summary Fulfilled |
| Item | Items for evaluation | Yes | No | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1. | No replacement has occurred over the last 7 years until the last time of certification. | ✓ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. | No significant financial interest with clients. | ✓ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3. | Avoid unjustified relation with clients. | ✓ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4. | CPAs shall ensure their assistants to be honest, fair, and independent. | ✓ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5. | No audit and certification of the financial statements of the institutions that the CPAs have been working with 2 years prior to the present profession. | ✓ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6. | No third party may act in the name of the CPA. | ✓ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 7. | No holding of the stocks issued by the Company and its subsidiaries. | ✓ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8. | No financing with the Company and its affiliates. | ✓ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9. | Joint investment or sharing profits with the Company or its affiliates. | ✓ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10. | No engagement in the routine work for regular salary payment with the Company or its subsidiaries. | ✓ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 11. | No involvement with the job functions of the Company and its affiliates in decision-making. | ✓ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 12. | No engagement in any other business that may damage the status of independence. | ✓ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 13. | Not a spouse or kindred within the 2nd tier under the Civil Code to any management personnel of the Company. | ✓ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 14. | No acceptance of commission from any business. | ✓ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 15. | No penalty on violation of the principle of independence has ever been imposed. | ✓ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Items for evaluation | The pursuit | | | Variation from the Corporate Governance Best Practice Principles for TWSE/TPEX-listed Companies and the reason |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
| | Yes | No | Summary | |
| 4. Has the Company listed at TWSE/TPEX established designated full-time (part-time) body or appointed such personnel for administering corporate governance (including but not limiting to the supply of information for the Directors and Supervisors in performing their duties, holding of meetings for the Board and the Shareholders Meeting and handling related matters, administering company registration and Fulfilled changes, compilation of the minutes of meetings of the Board and Shareholders Meeting on record)? | ✓ | | <ul style="list-style-type: none"> The Company has appointed designated personnel to administer corporate governance, including the supply of information to the needs of the Directors and Independent Directors for their performance of assigned duties, holding conventions of the Board and the Shareholders Meeting as required by law, making company registration and registration of change, compilation of minutes of Board meetings and Shareholders Meeting on record. | <ul style="list-style-type: none"> Fulfilled |
| 5. Has the Company developed the channels for the communications with the stakeholders (including without limiting to shareholders, employees, customers and suppliers) and established a special section for the stakeholders at the official website of the Company with proper response to the concerns of the stakeholders in the aspect of corporate social responsibility? | ✓ | | <ul style="list-style-type: none"> The Company has established the system of spokesman and provided the update information of the Company and communicate with stakeholders on issues pertaining to corporate social responsibility through the stakeholder section of the official website of the Company, the quarterly supplier meetings, and customer satisfaction survey. | <ul style="list-style-type: none"> Fulfilled |
| 6. Has the Company commissioned a professional share registration and investor services agent for handling matters related to Shareholder Meeting? | ✓ | | <ul style="list-style-type: none"> The Company has appointed SinoPac Securities Corp. to organize the Shareholders Meeting and handle related matters. | <ul style="list-style-type: none"> Fulfilled |
| 7. Disclosure of information | | | | |
| (I) Has the Company installed an official website for the disclosure of information on finance, operation, and corporate governance? | ✓ | | <ul style="list-style-type: none"> The Company has installed its official website (http://www.eink.com) to provide related financial and operation information and appointed designated personnel to maintain and update the content. | <ul style="list-style-type: none"> Fulfilled |
| (II) Has the Company adopted other means for disclosure (such as the installation of a website in the English language, appointment of designated persons to the collection and disclosure of information on the Company, the implementation of the spokesman system, and the videotape on institutional investor conferences)? | ✓ | | <ul style="list-style-type: none"> The Company has set up the Public Relation Office and the Share Registration and Investor Service Office to perform the function of information gathering and disclosure. The Company also has had an official website in the English language and properly implemented the spokesman system. | <ul style="list-style-type: none"> Fulfilled |
| 8. Is there any vital information that helps to understand the actions on corporate governance better (including without limiting to employee rights, employee care, investor relation, supplier relation, stakeholder right, the continuing education of the Directors and Supervisors, risk management policy, and the standard of risk assessment and the pursuit of risk assessment, the pursuit of customer policy, professional liability insurance for the Directors and the Supervisors of the Company)? | ✓ | | Description below: | <ul style="list-style-type: none"> Fulfilled |
| (I) For information on the rights of employees, such as fringe benefits, continuing education, training, and retirement system of the Company, refer to Section 5.5. | | | | |

| Items for evaluation | The pursuit | | | Variation from the Corporate Governance Best Practice Principles for TWSE/TPEX-listed Companies and the reason |
|----------------------|-------------|----|---------|----------------------------------------------------------------------------------------------------------------|
| | Yes | No | Summary | |

- (II) The Company takes risk management and the impact on the environment into consideration for the advocacy of sustainable development and holds training programs in safety, health, and environment management for all at regular intervals.
- (III) The Company has duly observed applicable legal rules governing environmental protection. For further information on environmental protection and related expenditures, refer to Section 5.4.
- (IV) The Company has instituted the procedure for the evaluation of suppliers.
- (V) Continuing education of the Directors in 2018:

| Name | Title | Organizer | Name of course | Date of training | Training hours |
|----------------|------------------------------------------|---------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|--------------------|----------------|
| Frank Ko | Representative of Institutional Director | Taiwan Corporate Governance Association | Responses to the Global and Cross-Straits Anti-Tax Avoidance Policy | March 23, 2018 | 3.0 |
| Frank Ko | Representative of Institutional Director | Taiwan Corporate Governance Association | Corporate Management and News Crisis Management Strategy | December 11, 2018 | 3.0 |
| Johnson Lee | Representative of Institutional Director | Securities and Futures Institute | The Development of Anti-Tax Avoidance in the World and Taiwan and the Responses of the Enterprises | September 12, 2018 | 3.0 |
| Johnson Lee | Representative of Institutional Director | Securities and Futures Institute | The New Version of the Corporate Governance Blueprint and the Vitalization of Corporate Governance Mechanisms | September 12, 2018 | 3.0 |
| S.C. Ho | Representative of Institutional Director | Taiwan Corporate Governance Association | Analysis of the Practice of Tax Avoidance | October 29, 2018 | 3.0 |
| S.C. Ho | Representative of Institutional Director | Taiwan Corporate Governance Association | The Importance and Practice of the Amendment to the Company Act | October 29, 2018 | 3.0 |
| Felix Ho | Representative of Institutional Director | Taiwan Corporate Governance Association | Analysis of the Practice of Tax Avoidance | October 29, 2018 | 3.0 |
| Felix Ho | Representative of Institutional Director | Taiwan Corporate Governance Association | The Importance and Practice of the Amendment to the Company Act | October 29, 2018 | 3.0 |
| FY Gan | Representative of Institutional Director | Taipei Exchange | Forum of 100% Electronic Voting and Upgrade of Corporate Value | March 5, 2018 | 6.0 |
| CC Tsai | Representative of Institutional Director | Chinese National Association of Industry and Commerce, Taiwan | Corporate Innovative, Information Technology and Competitive Advantage that Directors and Supervisors Shall Understand | May 15, 2018 | 3.0 |
| CC Tsai | Representative of Institutional Director | Taiwan Corporate Governance Association | Corporate Management and News Crisis Management Strategy | December 11, 2018 | 3.0 |
| Ten-Chung Chen | Independent Director | Taiwan Corporate Governance Association | The Leadership of Directors in Enterprises in an Environment of Rapid Technological Change | March 2, 2018 | 3.0 |
| Ten-Chung Chen | Independent Director | Taiwan Corporate Governance Association | Analysis of the Practice of Tax Avoidance | October 29, 2018 | 3.0 |
| Ten-Chung Chen | Independent Director | Taiwan Corporate Governance Association | Response of the Enterprises to Legal Reform - The Importance and Practice of the Amendment to the Company Act. | October 29, 2018 | 3.0 |
| Chao-Tung Wen | Independent Director | Securities and Futures Institute | Anti-Money Laundering Act and Compliance | March 9, 2018 | 3.0 |
| Chao-Tung Wen | Independent Director | Chinese National Association of Industry and Commerce, Taiwan | Corporate Innovative, Information Technology and Competitive Advantage that Directors and Supervisors Shall Understand | May 15, 2018 | 3.0 |

- (VI) More than two-thirds of the Directors were present in each session of the Board to participate in the operation of the Board.
- (VII) The recusal of the Directors on motions with a conflict of interest: Directors will recuse themselves from the discussion and voting of motions that involve a conflict of their personal interests.
- (VIII) Professional liability insurance for the protection of the Directors and Supervisors: the Company has taken professional liability insurance for the protection of the Directors.

9. The state of corrective action taken in response to the corporate governance evaluation result announced by the Corporate Governance Center of Taiwan Stock Exchange Corporation, and the issues required special effort for improvement and related measures.

- (I) The Company's corporate governance evaluation result for 2018 is 6%~20%.
- (II) Future response actions:
- Add a new section for stakeholder in the Company's official website to disclose the information of a specified contact person.
 - Add a new position of Corporate Governance Officer
 - Enhance the communication channel between the Company and its Board of Directors.
- (III) Self-evaluation report will be prepared as the Company assessing its corporate governance evaluation items for further improvement.

3.3.4 Composition, Responsibilities and Operations of the Remuneration Committee

The Remuneration Committee assists the Board in discharging its responsibilities relating to the Company's compensation and benefits policies, plans and programs, and the evaluation of the directors' and executives' compensation.

The Chairman of the Remuneration Committee convened four regular meetings in 2018. The Remuneration Committee Charter is available on the Company's corporate website.

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 | Ten-Chung Chen | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 | Convener |
| Independent director | Bing-Sheng Wu | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 | 2018/09/21 resigned |
| Independent director | Chao-Tung Wen | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 2 | N/A |
| Member | Bo-Yong Zhu | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 4 | 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 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.

B. Attendance of Members at Remuneration Committee Meetings

There are 3 members in the Remuneration Committee. A total of 3 (A) Remuneration Committee meetings 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 | Ten-Chung Chen | 3 | 0 | 100% | |
| Committee Member | Bing-Sheng Wu | 3 | 0 | 100% | Resignation on Sep.21 2018 |
| Committee Member | Chao-Tung Wen | 3 | 0 | 100% | |
| Committee Member | Bo-Yong Zhu | 0 | 0 | 0% | On Board on Nov.12 2018 |

Other mentionable items:

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

C. Functions

1. Establish and regularly review the policies, systems, standards and structures for performance evaluation and compensation for directors and managers.
2. Regularly assess and determine the salary remuneration of directors and managers.

3.3.5 Corporate Social Responsibility

| Items for evaluation | The pursuit | | | Variation with the Corporate Governance Best Practice Principles for TWSE/TPEX -Listed Companies, and the reason for the variation |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| | Yes | No | Summary | |
| 1. The pursuit of corporate governance (I) Has the Company established its corporate social responsibility policy or system and reviewed the result of the pursuit? (II) Has the Company organized training and education on corporate social responsibility regularly? (III) Has the Company established a designated (part-time) body for the advocacy of corporate social responsibility with the empowerment to a senior executive by the Board and reported to the Board on the state of pursuit? | ✓ ✓ ✓ | | <ul style="list-style-type: none"> • As always, the Company treasures corporate social responsibility. For this end, the Company has established related internal control system, regulations, and strategy for sustainable development and reviewed the result from time to time with a view to making contribution to society with the value of sustainable development. • The Company has organized lectures and trainings on topics of corporate social responsibility and participated in external seminars and forums to train seed personnel of the Company in internal training. In addition, the Company has also invited scholars and experts to deliver speeches on topics of corporate social responsibility to the senior and middle management. In sum, the Company enabled the officers and staff to understand the knowledge and practice of corporate social responsibility for the advocacy of corporate social responsibility. • The Company has established a cross-function Corporate Social Responsibility Committee in February 2016. This is an adjunct functional body subordinated to each functional department and was led by a senior officer of the Company for the incremental planning and implementation of corporate social responsibility, and report to the Board of the result. | <ul style="list-style-type: none"> • Fulfilled • Fulfilled • Fulfilled |

| Items for evaluation | The pursuit | | | Variation with the Corporate Governance Best Practice Principles for TWSE/TPEX -Listed Companies, and the reason for the variation |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| | Yes | No | Summary | |
| (IV) Has the Company established a reasonable remuneration system in connection with the employee performance evaluation system and corporate social responsibility policy and established a clear and effective system for reward and punishment? | ✓ | | <ul style="list-style-type: none"> The Company has mapped out a reasonable remuneration policy to ensure the planning of remuneration congruent with the organizational strategic objective and the interests of the stakeholders. In addition, the Company also combined the performance evaluation system of employees with corporate social responsibility for establishing the system delineating reward and punishment. The Company put corporate social responsibility into practice in accordance with applicable rules and regulations and will continue the practice. | <ul style="list-style-type: none"> Fulfilled |
| 2. Development of Sustainable Environment | | | | |
| (I) Has the Company made effort for the efficient use of all resources and used renewable materials for mitigating the impact on the environment? | ✓ | | <ul style="list-style-type: none"> The Company has continued the advocacy of waste reduction in production process and the efficient use of energy. Chemical materials recycled in the process will be referred to the original suppliers for refinement for repeated use to enhance performance in safety, health and environmental protection. Packing materials that could be reused and waste that could be recycled as resources are recycled and reused through proper channels. | <ul style="list-style-type: none"> Fulfilled |
| (II) Has the Company established an appropriate environmental management system relevant with the specific nature of its industry? | ✓ | | <ul style="list-style-type: none"> The Company has been accredited with the ISO 14001 environmental management system from 2002 to present. The accreditation was made by a third party institution appointed by the Company with related external audits. The Company has also upgraded the version of ISO 14001: 2015 for accreditation in 2017 and will continue to commit resources in environmental improvement management. | <ul style="list-style-type: none"> Fulfilled |
| (III) Has the Company paid close attention to the influence of climate change on its operation, conducted inspection on greenhouse gas, and made policies for regulating energy efficiency and carbon reduction, and the reduced emission of greenhouse gas for the Company? | ✓ | | <ul style="list-style-type: none"> The Company has conducted greenhouse gas inspection in accordance with the ISO 14064-1 standard since 2005 and has been accredited by a third party institution. In addition, the Company has continued the implementation of carbon reduction every year in supporting the government policy of carbon reduction and energy saving and in compliance with applicable laws governing energy resources. Objectives and action plans for the saving of resources have been prepared and achieved. The Company has bought 262 renewable energy certificates from the National Renewable Energy Certification Center in 2017 and bought 290 certificates in 2018. As of January 29, 2019, the Company is the enterprise that has bought the largest number of renewable energy. The Company plans to purchase the certificates persistently to demonstrate the determination of the Company in supporting green power, energy saving and carbon reduction with action. | <ul style="list-style-type: none"> Fulfilled |

| Items for evaluation | The pursuit | | | Variation with the Corporate Governance Best Practice Principles for TWSE/TPEX -Listed Companies, and the reason for the variation |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| | Yes | No | Summary | |
| 3. Protection of public interests | | | | |
| (I) Has the Company established Fulfilled management policies and procedures in accordance with applicable laws and the International Bill of Human Rights? | ✓ | | <ul style="list-style-type: none"> The Company has instituted the Rules of Business Engagement that regulates different forms of behaviors. Lectures on the rules will be provided to the new employees in the orientation. The labor right of employees will also be introduced, including the right of employment, work hours, salaries and benefits, humanity treatment, no discrimination, the freedom of association and related basic rights. Others like employee health and safety, environmental protection, the protection of Company information and assets, the basic principle for transactions with the customers, legal and moral requirements, and code of conduct. The employment policy of the Company is in compliance with applicable laws in Taiwan and the international basic rights of labor. Human Resources is responsible for the implementation of the employment procedure after proper review. | <ul style="list-style-type: none"> Fulfilled |
| (II) Has the Company established the mechanisms and channels for employees in filing complaints and appropriately responded to the complaint? | ✓ | | <ul style="list-style-type: none"> It is stated in the Rules of Business Engagement that channels are available for complaints in case of violation of the rules or human rights: function heads, HR head, chief legal officer, chief internal auditor, President or external institutions (such as the Legal Aid Foundation or other agencies for reporting). A President mailbox has also been installed online for receiving complaints. There is a variety of channels for filing complaints for the protection of the right of employees and avoidance of law violation. The information on the complaints will be kept in strict confidence. Informants will not face any form of retaliatory action in the afterward. | <ul style="list-style-type: none"> Fulfilled |
| (III) Has the Company provided a safe and healthy work environment for employees, and related education on occupational safety and health for employees at regular intervals? | ✓ | | <ul style="list-style-type: none"> The Company provides health examination for employees at regular intervals and has set up first aid stations. Nursing professionals were employees to educate employees in current affairs and health, provide weight loss class. The Company also organizes different kinds of ball games and annual family day to keep the employee healthy. The Company has also set up breast-feeding facilities with privacy for the mothers at workplace so that they could use the facilities with the peace of mind. The Company has arranged courses in occupational safety and health in the orientation of new employees as required by law, and also arranged training on the use of protective gears, lectures on driving safety, training in fire safety, and exercise drills in response to emergency in the year to ensure a safe work environment and the safety and health of employees. | <ul style="list-style-type: none"> Fulfilled |
| (IV) Has the Company developed the mechanisms for routine communication with employees and has notified employees of changes in the operation that may cause significant impact through reasonable means? | ✓ | | <ul style="list-style-type: none"> The Company holds labor-management conferences at regular intervals and values the rights of employees and respects the opinions from employees. The Company also holds colloquium for discussion with employees at regular intervals. The management of the Company will explain to employees the state of business operation of the Company. Major information on the operation will also be made known to employees in this occasion. | <ul style="list-style-type: none"> Fulfilled |

| Items for evaluation | The pursuit | | | Variation with the Corporate Governance Best Practice Principles for TWSE/TPEX -Listed Companies, and the reason for the variation |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| | Yes | No | Summary | |
| (V) Has the Company established an effective career planning and development program for employees? | ✓ | | <ul style="list-style-type: none"> The Company planned and organized different programs regularly in line with the strategic direction of the Company and the operation management objectives and the needs for organizational management. Prominent tutors in the industry will be invited to present lectures to upgrade the professional standing, competence, and team spirit of employees. This arrangement will help to remove the barrier between the departments and the individuals, bring about cohesiveness and build up consensus to achieve the organizational goal. | <ul style="list-style-type: none"> Fulfilled |
| (VI) Has the Company established Fulfilled policies for the protection of consumer rights and the procedures for consumer complaints in the aspects of R&D, purchase, production, operation, and service process? | ✓ | | <ul style="list-style-type: none"> The functional departments of the Company have established related operation procedures. The Company has also established the quality assurance function to protect the rights of the customers. Through customer satisfy survey and hearing the voice of the customers, the Company could properly understand the needs of the customers as reference for continued improvement to the needs of the customers in products and enhance customer satisfaction. In addition, routine interview with the customers and review meeting would be held to ensure through channels for communication and understand the needs of the customers to its entirety. The Company has established the mechanisms for monitoring and control so as to provide best quality products and services to the needs of the customers. | <ul style="list-style-type: none"> Fulfilled |
| (VII) Has the Company complied with applicable laws and internal standard in the marketing and labeling of products and services? | ✓ | | <ul style="list-style-type: none"> The Company assures no use of prohibited substances, conflict materials, and substances subject to environmental control for its parts and components, raw materials, and packing materials. The Company also duly observes applicable legal rules, seeks to satisfy customer needs, protects the environment, mitigates the impact on the ecological system, and requires all materials from suppliers in conformity to the following rules: <ol style="list-style-type: none"> Registration, Evaluation, Authorization and Restriction of Chemicals (EU REACH) Directive of Waste Electronic and Electrical Equipment (EU WEEE) Directive of the Restriction of Hazardous Substances (EU RoHS) No use of conflict minerals The quality policy and objective of the Company in products and environment (established in accordance with applicable international legal rules and regulations and customer needs). | <ul style="list-style-type: none"> Fulfilled |
| (VIII) Has the Company assessed any previous record of the suppliers on influence of the environment and society before the engagement in business transactions with the suppliers? | ✓ | | <ul style="list-style-type: none"> In assessing the suppliers, the Company considers if they are accredited with ISO 14001 as an element for evaluation of their control over the impact on the environment. | <ul style="list-style-type: none"> Fulfilled |
| (IX) Is the termination or rescission clause included in the contracts with major suppliers in defiance of its corporate social responsibility policy with significant influence on the environment and society that the Company may terminate or rescind the contract at any time? | ✓ | | <ul style="list-style-type: none"> The Company has put the items of social impact assessment and corporate social responsibility on the evaluation sheet of suppliers in September 2015. After years of adjustment and revision of the content, this sheet is sufficient for sorting and rating suppliers at regular intervals. Suppliers who have significant social impact will be shown on the evaluation sheet. This information will be served as reference for deciding purchase orders and audits on the suppliers. | <ul style="list-style-type: none"> Implementation as required by law in the future. |

| Items for evaluation | The pursuit | | | Variation with the Corporate Governance Best Practice Principles for TWSE/TPEX -Listed Companies, and the reason for the variation |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| | Yes | No | Summary | |
| <p>4. Information Disclosure</p> <p>(l) Has the Company disclosed Fulfilled and reliable information on corporate social responsibility at its official website and MOPS?</p> | ✓ | | <ul style="list-style-type: none"> The Company started to disclose its Corporate Social Responsibility Report on its official website since 2015 and has circulated CSR report in 2014, 2015, 2016, and 2017 for the viewing of the stakeholders. The Company has also set up link to the webpage of MOPS and TPEX. shall intensify the disclosure of corporate social responsibility, and has undertaken limited assurance in accordance with the Statements of Assurance Engagements Standards No. 1 - "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" released by Accounting Research and Development Foundation of the ROC (established on the basis of ISEA 3000 Revised), which is in conformity to the principles of the GRI Standards in disclosure to upgrade information transparency and reliability of the report. | <ul style="list-style-type: none"> Relevant |
| <p>5. If the Company has instituted the corporate social responsibility best practice principles in accordance with the "Corporate Social Responsibility Best Practice Principle for TWSE/TPEX-listed Companies", elaborate the state of pursuit and its variation with this regulation: the Company has instituted the E Ink Corporate Social Responsibility Best Practice Principles and will refer to discussion in the Board this year. For the performance of corporate social responsibility to its entirety, the Company has established related systems and regulations in the spirit of corporate social responsibility and has properly implemented these systems and regulations.</p> | | | | |
| <p>6. Any other vital information that helps to understand the performance of corporate social responsibility better:</p> <p>In the first release of the 2014 CSR Report compiled by the Company for the first time in 2015, it covers environmental protection, the use of resources and energy, energy saving and carbon reduction, safety and health, product innovation, quality assurance, customer service, procurement and supplier management, human right and employee rights, internal and external communications, and the mechanisms of complaints, legal affairs and compliance, and social charity. For further information, visit our official website at http://www.eink.com, in the section of Corporate Social Responsibility. The 2018 CSR Report is scheduled to release in June 2019.</p> <p>E Ink is a member of society and is conceived with the spirit of "Take from Society and Give Back to Society". For this reason, the Company commits its human resources and financial resource to build up a good quality society and make contribution to the natural environment.</p> <p>The summary of the activities pertaining to corporate social responsibility of the Company:</p> <p><u>Credentials</u></p> <p>In participating in the "2018 11th Taiwan Corporate Sustainability Awards" organized by TACS in 2018, the Company won the Chinese Report Awards - Gold Award, Corporate Comprehensive Performance Award - TOP 50, and Particular Performance - Social Communion Award: "E-Read the Future" E-Reader mobile library plan. The awards were presented by Deputy Director-General Chang Chuang-Chang of Financial Supervisory Commission and received by the President of the Company on the stage.</p> <p><u>E-Read the Future</u></p> <p>The "E-Read the Future" E-Reader mobile library donation plan is an integration of the e-paper module developed by E Ink, the hardware system of NETRONIX, and the software interface and eBook licensing purchase and management of Readmoo. The E-Read the Future was presented to 10 elementary schools in Changhua County in 2018, including Nan Hsing Elementary School with 310 E-Reader installed with traditional Chinese interface. This is the first mobile library of its kinds that allowed the pupils to read wherever they go.</p> <p>E Ink will continue to use the core value and technology of ePaper as feedback to society with the starting of E-Read the Future to make the diversity of applications of the green technology inherent to ePaper that helps to protect eyesight and save energy. This will bring the public a comfortable and convenient way of life. The Company will continue to work in cooperation with the business partners to contribute more as a whole to society.</p> <p><u>Together, our employees pledged to purchase 8,000 kg bananas in order to help the banana farmers.</u></p> <p>2018 was a good year for the banana harvest that resulted in over supply in quantity. The price of bananas plummeted and hit banana farmers hard. They could not even cover the cost. As a corporate citizen, E Ink performs its corporate social responsibility for long time. Likewise, community care is also a vital issue for the Company and all employees. The Employee Welfare Committee pioneered the event with the support of all employees to work in conjunction with the Zhuqi Farmers Association of Chiayi to purchase 8,000 kg of grade A bananas at a reasonable price during harvest period. This move helped the banana farmers to absorb a huge quantity of high quality bananas so that these farmers could have a fair share of revenue. Our employees shared the good quality bananas they purchased with friends and relatives. Our employee cafeteria also purchased certain quantity and supplied them every day as bonus for the health of employees.</p> | | | | |

| Items for evaluation | The pursuit | | | Variation with the Corporate Governance Best Practice Principles for TWSE/TPEX -Listed Companies, and the reason for the variation |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|----|---------|------------------------------------------------------------------------------------------------------------------------------------|
| | Yes | No | Summary | |
| <p>Support green energy development. The Company supported the voluntary green electricity price system trial program to purchase 1.16 million kWh of electricity and has also purchased 262 renewable energy certificates from the National Renewable Energy Center in 2017 and 290 certificates in 2018. As of January 29, 2019, E Ink is the enterprise that purchased the largest quantity of certificates. E Ink planned to purchase more in the future to demonstrate the determination of supporting green energy and energy saving and carbon reduction.</p> | | | | |
| <p>7. Specify if the Corporate Social Responsibility Report has been accredited by related institutions with applicable standards: The Company has appointed CPA to affirm limited assurance in accordance with the Statements of Assurance Engagements Standards No. 1 - "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" released by Accounting Research and Development Foundation of the R.O.C. (established on the basis of ISEA 3000 Revised), which is in conformity to the principles of the GRI G4 Standards in disclosure to upgrade information transparency and reliability of the report.</p> | | | | |

Note: 1. Regardless of whether the evaluation item is achieved or not, the company shall state an appropriate explanation.
2. Companies who have compiled CSR reports may cite the source from specific pages of their CSR reports instead.

3.3.6 Ethical Corporate Management

| Items for evaluation | The pursuit | | | Variation with the Ethical Corporate Management Best Practice Principles for TWSE/TPEX-listed Companies |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| | Yes | No | Summary | |
| <p>1. Establishment of the Ethical Corporate Management Policy and Action Plan</p> | | | | |
| (I) Has the Company explicitly stated its policies and practices of ethical corporate management in its internal code and external document, and have the Board and the management fulfilled its policy commitment to its entirety? | ✓ | | <ul style="list-style-type: none"> The Company duly observes the Company Act, other applicable legal rules governing companies listed at TWSE and TPEX, and other laws governing commercial behaviors as the prerequisites for the implementation of ethical corporate governance. | <ul style="list-style-type: none"> Fulfilled |
| (II) Has the Company prepared any action plan for the prevention of unethical practices and specified the procedure, code of conduct, punishment of violation, and the complaint system in the action plan? | ✓ | | <ul style="list-style-type: none"> The Company has instituted the "Rules of Business Engagement" for the implementation of the ethical corporate management policy. In addition, the Company has appointed senior officers to participate in the seminars and conferences organized by the competent authority on topics of ethical corporate management from time to time to strengthen the idea of ethical corporate management and business ethics of the managers, and practice in internal management and external business activities. | <ul style="list-style-type: none"> Fulfilled |
| (III) Has the Company taken any preventive measures to tackle with the business activities exposed to the risk of unethical practices at the level higher than those specified in Paragraph 2, Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX-listed Companies"? | ✓ | | <ul style="list-style-type: none"> As stated in the internal control system and "Rules of Business Engagement" of the Company, Directors, employees and the parties with de facto control, shall not directly or indirectly offer, promise, request or accept unjustified benefits in any form in the pursuit of business activities, including kickbacks, commissions, finder's fee, or offers or accept unjustified benefit from customers, agents, contractors, suppliers, public officials, or other stakeholders in any other means. | <ul style="list-style-type: none"> Fulfilled |
| <p>2. Integrity in business operation</p> | | | | |
| (I) Has the Company conducted assessment on the record of integrity of the counterparties and inscribed the integrity clause in the contracts binding the Company and the counterparties? | ✓ | | <ul style="list-style-type: none"> The Company engaged in business operation in fairness and transparency. Before proceeding to business transaction, the Company will consider the legality of the counterparties of trade, and if there is any record of unethical practice to avoid business transactions with parties having a record of unethical practice. | <ul style="list-style-type: none"> Fulfilled |

| Items for evaluation | The pursuit | | | Variation with the Ethical Corporate Management Best Practice Principles for TWSE/TPEX-listed Companies |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| | Yes | No | Summary | |
| (II) Has the Company established a designated (part-time) body for the advocacy of ethical corporate management directly under the Board and reported to the Board at regular intervals on the state of pursuit of the policy? | ✓ | | <ul style="list-style-type: none"> The Company has established an Auditing Office. The internal auditors conduct audits on the implementation of corporate governance at regular intervals and compile the findings into audit reports for presenting to the Board. | <ul style="list-style-type: none"> Fulfilled |
| (III) Has the Company made the policy for the prevention of the conflict of interest, provided appropriate channel for reflection, and properly pursued such policy? | ✓ | | <ul style="list-style-type: none"> Directors and managers recuse from matters where a conflict of interest is involved, and the recusal of the Board for avoidance of the conflict of interest was stated in the annual report. | <ul style="list-style-type: none"> Fulfilled |
| (IV) Has the Company established an effective accounting system and internal control system for the pursuit of ethical corporate management subject to the routine examination of the internal audit function or by an external certified public accountant retained by the Company? | ✓ | | <ul style="list-style-type: none"> The Company has established an effective internal control system and accounting system to assure the effective design and implementation of the system. The Company has also appointed CPAs to conduct annual review and amendment to the system jointly with the auditors, and the implementation of corporate governance so as to establish sound mechanisms for corporate governance and risk control. | <ul style="list-style-type: none"> Fulfilled |
| (V) Has the Company provided internal and external trainings on topics of ethical corporate management at regular intervals? | ✓ | | <ul style="list-style-type: none"> The Company conducts evaluation on the performance of employees annually. The HR Division arranges training while the function heads interview the staff for education and evaluation. In addition, the Company also appoints senior officers to participate in the seminars and conferences organized by the competent authority on topics of ethical corporate management from time to time to strengthen the idea of ethical corporate management and business ethics of the managers, and practice in internal management and external business activities. | <ul style="list-style-type: none"> Fulfilled |
| 3. The reporting system of the Company in action | | | | |
| (I) Has the Company established the system for reporting and rewards for the informants, and the channels for facilitating the reporting of unethical practices, and appointed appropriate personnel to conduct investigation on the suspects reported by the others? | ✓ | | <ul style="list-style-type: none"> The Company has established the complaint system at the official website for internal and external personnel to file complaints. The audit team will appoint designated persons to respond to the complaints. In addition, the Company keeps the investigation on complaints as reported in strict confidence and protects the identity of related parties with waiver of related responsibilities. | <ul style="list-style-type: none"> Fulfilled |
| (II) Has the Company established the standard operation procedure for the investigation of the reports and related mechanisms for confidentiality? | ✓ | | | <ul style="list-style-type: none"> Fulfilled |
| (III) Has the Company established related policies for the protection of the informants from undue treatment? | ✓ | | | <ul style="list-style-type: none"> Fulfilled |
| 4. Information Disclosure | | | | |
| (I) Has the Company disclosed the content of its ethical corporate management best practice principles and the result of implementation at its official website or MOPS? | ✓ | | <ul style="list-style-type: none"> The Company provides information on the annual report at its official website and MOPS to disclose the result of the pursuit of ethical corporate governance. | <ul style="list-style-type: none"> Fulfilled |

| Items for evaluation | The pursuit | | | Variation with the Ethical Corporate Management Best Practice Principles for TWSE/TPEX-listed Companies |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|----|---------|---------------------------------------------------------------------------------------------------------|
| | Yes | No | Summary | |
| 5. If the Company has established its ethical corporate management best practice principles in accordance with the "Ethical Corporate Management Best Practice Principles for the TWSE/TPEX-listed Companies", specify the state of pursuit and variation with the "Ethical Corporate Management Best Practice Principles for the TWSE/TPEX-listed Companies": The Company has not yet established the Ethical Corporate Management Best Practice Principles but has established related systems and regulations in conformity to the spirit of the Company in ethical corporate management. The Company duly observes the spirit of the practice of ethical corporate management in action. | | | | |
| 6. Any other vital information that helps to understand the pursuit of ethical corporate management of the Company: (such as the review and amendment to the Ethical Corporate Management Best Practice Principles): nil. | | | | |

Note: Regardless of whether the evaluation item is achieved or not, the company shall state an appropriate explanation.

3.3.7 The implementation of ethical corporate management and policies: E Ink educate employees the value of business ethics from time to time for strengthening the moral idea of integrity and anti-corruption to all and provide related training to demand all to observe the code of conduct. Any offense against the ethical norm shall be punished in accordance with the internal rules and regulations of the Company.

3.3.8 The method of inquiry shall be disclosed if the Company has established the Corporate Governance Best Practice Principles and related rules and regulations: nil.

3.3.9 Any other vital information that helps to understand the performance of corporate governance of the Company shall also be disclosed:nil.

3.3.10 The following shall be disclosed in the pursuit of internal control system:

1. Declaration of Internal Control: refer to Section 8.2.

2. If CPAs are retained to audit the internal control system, disclose the Auditors' Report: nil.

3.3.11 Penalty of the Company and its personnel by law, punishment of the personnel by the Company on violation of the internal control system in the most recent year to the date this report was printed, the major defects and the status of corrective action:

| Date | Reason | Status of corrective action |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| April 16, 2018 | The Company was invited to a teleconference on March 8, 2018. This teleconference was a form of institutional investor conference recognized by the competent authority. Declaration has been made in accordance with applicable rules and procedures. This was a defect that the Company was imposed a default charge amounting to NT\$50,000 in accordance with applicable rules and regulations governing declaration. | The Company has made declaration in the afterward and paid the penalty fee. |

3.3.12 Major resolutions of the Shareholders Meeting and the Board in the most recent year to the date this reported was printed: refer to Section 8.7.

3.3.13 Adverse opinions of the Directors or Supervisors on motions passed by the Board on record or in written declaration in the most recent year to the date this report was printed, and the content of the opinions: nil.

3.3.14 Resignation or dismissal of senior officers of the Company like the Chairman, President, Chief Accounting Officer, Chief Financial Officer, Chief Internal Auditor, and Chief R&D Officer:

| Title | Name | Date of office | Date of resignation/ discharge | Reason for resignation and discharge |
|-------------------------------------|---------------|--------------------|-----------------------------------|-----------------------------------------|
| Finance Center: Finance Director | Patrick Chang | February 1st, 2017 | November 12, 2018 | Rearrangement of assigned duties |

3.4 Information Regarding the Company's Audit Fee and Independence

3.4.1 Audit Fee

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 | Company Registration | Human Resource | Others | | |
| Deloitte Touche Tohmatsu Limited | Ya-ling Weng | 12,710 | - | 1,400 | - | 1,180 | 2,580 | 2018.01.01~ 2018.12.31 | Tax consulting service fee |
| | Chih-Ming Shao | | | | | | | | |

3.5 Information on the replacement of CPAs in the last 2 years and beyond: Not applicable.

1. Information on preceding CPAs: not applicable
2. Information on succeeding CPAs: not applicable
3. Replies from the preceding CPAs on matters specified in 6.1 and 6.2.3 in Article 10 of this regulations: not applicable.

3.6 Working in the capacity as the chairman, president, financial and accounting manager with the CPA office retained for auditing service or its affiliates in the most recent year: Not applicable.

3.7 Changes in Shareholding of Directors, Supervisors, Managers and Major Shareholders

3.7.1 Changes in Shareholding

Unit: Shares

| Title | Name | 2018 | | As of Apr. 20, 2019 | |
|----------------------|----------------|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
| | | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) |
| Chairman | Frank Ko | | | | |
| Director | Johnson Lee | - | - | - | - |
| Director | S.C. Ho | | | | |
| Director | Felix Ho | | | | |
| Director | CC Tsai | - | - | - | - |
| Director | FY Gan | | | | |
| Independent director | Ten-Chung Chen | - | - | - | - |
| Independent director | Bing-Sheng Wu | - | - | - | - |
| Chairman | Frank Ko | 250,000 | - | - | - |

| Title | Name | 2018 | | As of Apr. 20, 2019 | |
|---------------------------------------------------------------------|--------------------|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
| | | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) |
| General manager | Johnson Lee | 245,000 | – | – | – |
| Chief Technology Officer | CC Tsai | 109,000 | – | – | – |
| Auditor Office Vice President | Mico Yu | – | – | – | – |
| Operation Center Executive Vice President | Luke Chen | 184,000 | – | – | – |
| Business Center Executive Vice President | FY Gan | 365,000 | – | – | – |
| Executive Assistant | James Hong | 4,000 | – | – | – |
| New Process Development Div.Vice President | YS Chang | 94,000 | – | – | – |
| Application Service Div.Associate Vice President | Jeff Chang | 10,000 | – | – | – |
| FPL MFG Central Div.Associate Vice President | Mano Lo | 104,000 | – | – | – |
| Product Development Div. I Associate Vice President | Tung Liang Lin | – | – | – | – |
| Panel Technology Platform Development Div. Associate Vice President | Ian Douglas French | (29,000) | – | – | – |
| Product Development Div. III Associate Vice President | Eric Lo | 55,000 | – | (14,000) | – |
| IoT BU Associate Vice President | Max Chen | 100,000 | – | – | – |
| Product Management Central Div. Associate Vice President | Jim Chang | N/A | – | – | – |
| System Design Central Div. Associate Vice President | JM Hung | N/A | – | – | – |
| Chief Finance Officer | Lloyd Chen | – | – | – | – |
| Finance Center Accounting Director | James Huang | 10,000 | – | – | – |
| Major Shareholders | YFY Inc. | – | – | – | – |

3.7.2 The transferee of equity shares is a related party: nil.

3.7.3 The lien holder of pledged equity shares is a related party: nil.

3.8 Relations among the Top 10 shareholders by quantity of shareholding.

2019/04/20

| 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 | |
| YFY Venture Capital Investment Co., Ltd Representative: Felix Ho | 133,472,904 | 11.70% | N/A | N/A | 0 | 0.00% | 1. Shin-Yi Enterprise Co., Ltd. 2. S.C. Ho 3. Felix Ho | 1. Juristic-person Director 2. Representative of Juristic-person Director 3. Chairman | |
| S.C. Ho | 80,434,300 | 7.05% | 0 | 0.00% | 0 | 0.00% | 1. YFY Inc. 2. Felix Ho 3. Shin-Yi Enterprise Co., Ltd. 4. YFY Venture Capital Investment Co., Ltd 5. Shangyi Culture Industry Co., Ltd. | 1. Representative of Juristic-person Director; Son is Chairman 2. Father 3. Director; Wife is Chairman; Son is Director 4. Representative of Juristic-person Director 5. Director; Spouse is the Chairman | |

| 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 | |
| Cathay Life Insurance Co., Ltd. Representative: Tiao-Gui Huang | 68,287,000 | 5.99% | N/A | N/A | 0 | 0.00% | None | None | |
| Shin-Yi Enterprise Co., Ltd. Representative: C. J. Chang | 32,842,345 | 2.88% | N/A | N/A | 0 | 0.00% | 1. S.C. Ho 2. Felix Ho | 1. Director;Spouse is the Chairman 2. Director;Mother is Chairman | |
| Shangyi Culture Industry Co., Ltd. Representative: C. J. Chang | 24,772,127 | 2.17% | N/A | N/A | 0 | 0.00% | S.C. Ho | Director; Spouse is the Chairman | |
| YFY Venture Capital Investment Co., Ltd Representative: Melody Chiu | 23,059,296 | 2.02% | N/A | N/A | 0 | 0.00% | S.C. Ho | Representative of Juristic-person Director | |
| JPMorgan Chase Bank N.A. Taipei Branch in custody for Schroder International Selection Fund Emerging Asia | 22,610,000 | 1.98% | N/A | N/A | 0 | 0.00% | None | None | |
| Chung Hwa Pulp Corporation Representative: Kun-Xiong Huang | 20,000,000 | 1.75% | N/A | N/A | 0 | 0.00% | 1. YFY Inc. 2. Felix Ho | 1. Juristic-person Director 2. Representative of Juristic-person Director | |
| Indus Select Master Fund, Ltd. | 18,669,000 | 1.64% | N/A | N/A | 0 | 0.00% | None | None | |
| INDUS ASIA PACIFIC MASTER FUND, LTD | 18,000,000 | 1.58% | N/A | N/A | 0 | 0.00% | None | None | |

3.9 Ownership of Shares in Affiliated Enterprises

December 31, 2018/Unit: Shares

| Affiliated Enterprises | Ownership by the Company | | Direct or Indirect Ownership by Directors, Supervisors, Managers | | Total Ownership | |
|--------------------------------|--------------------------|---------|------------------------------------------------------------------|--------|-----------------|---------|
| | Shares | % | Shares | % | Shares | % |
| New Field e_Paper Co., Ltd. | 671,032,318 | 100.00% | 0 | 0 | 671,032,318 | 100.00% |
| PVI Global Corp. | 99,413,176 | 100.00% | 0 | 0 | 99,413,176 | 100.00% |
| Yuen Yu Investment Co., Ltd. | 152,432,562 | 100.00% | 0 | 0 | 152,432,562 | 100.00% |
| E Ink Corporation | 1,034 | 45.31% | 1,248 | 54.69% | 2,282 | 100.00% |
| Dream Universe Ltd. | 4,050,000 | 100.00% | 0 | 0 | 4,050,000 | 100.00% |
| Prime View Communications Ltd. | 3,570,000 | 100.00% | 0 | 0 | 3,570,000 | 100.00% |
| Enttek Co., Ltd.(Note 2) | 2,203,161 | 47.07% | 0 | 0 | 2,203,161 | 47.07% |
| Tech Smart Logistics Ltd. | 1,550,000 | 0.09% | 1,748,251,748 | 99.91% | 1,749,801,748 | 100.00% |
| Hot Tracks International Ltd. | 50,000 | 100.00% | 0 | 0 | 50,000 | 100.00% |
| SiPix Technology Inc. | 90 | 100.00% | 0 | 0 | 90 | 100.00% |

Note 1 : Investment with equity method.

Note 2 : Under liquidation

4 Capital Overview

4.1 Capital and Shares

4.1.1 Source of Capital

| MM YYYY | Offering price | Authorized capital | | Paid-in capital | | Remark | | |
|----------------|----------------|--------------------|------------|--------------------|------------|------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|-----------------------------------------------------------|
| | | Quantity of shares | Amount | Quantity of shares | Amount | Source of capital stock | Investment in kind by assets other than cash | Others |
| July 2004 | 10 | 1,000,000 | 10,000,000 | 425,960 | 4,259,597 | Capitalization of retained earnings into new shares amounting to NT\$259,597 thousand | Nil. | July 21, 2004: Jin-Guan-Zheng(I)-Zi No. 0930132629 |
| June 2005 | 10 | 1,000,000 | 10,000,000 | 548,435 | 5,484,353 | Capitalization of retained earnings into new shares amounting to NT\$1,224,756 thousand | Nil. | June 29, 2005: Jin-Guan-Zheng(I)-Zi No. 0940125990 |
| May 2006 | 10 | 1,000,000 | 10,000,000 | 548,139 | 5,481,393 | Decapitalization amounting to NT\$2,960 thousand | Nil. | February 20, 2006: Jin-Guan-Zheng (III)-Zi No. 0950105976 |
| September 2007 | 10 | 1,000,000 | 10,000,000 | 582,760 | 5,827,596 | Capitalization of retained earnings amounting to NT\$233,113 thousand. ESO and convertible bonds conversion amounting to NT\$113,090 thousand. | Nil. | September 17, 2007: (2007)Yuan-Shang-Zi No. 0960025503 |
| January 2008 | 10 | 1,000,000 | 10,000,000 | 587,833 | 5,878,331 | ESO and convertible bonds conversion amounting to NT\$50,735 thousand | Nil. | January 17, 2008: (2008) Yuan-Shang-Zi No. 0970000871 |
| April 2008 | 10 | 1,000,000 | 10,000,000 | 590,128 | 5,901,280 | ESO conversion amounting to NT\$22,949 thousand | Nil. | April 10, 2008: (2008) Yuan-Shang-Zi No. 0970009235 |
| June 2008 | 10 | 1,000,000 | 10,000,000 | 590,534 | 5,905,341 | ESO conversion amounting to NT\$4,061 thousand | Nil. | June 27, 2008: (2008) Yuan-Shang-Zi No. 0970017534 |
| September 2008 | 10 | 1,000,000 | 10,000,000 | 678,278 | 6,782,781 | Capitalization of retained earnings amounting to NT\$873,130 thousand. ESO conversion amounting to NT\$4,310 thousand. | Nil. | September 3, 2008: (2008)Yuan-Shang-Zi No. 0970024760 |
| January 2009 | 10 | 1,000,000 | 10,000,000 | 748,313 | 7,483,128 | Offering new shares through private placement amounting to NT\$700,000 thousand. ESO conversion amounting to NT\$347 thousand. | Nil. | January 20, 2009: (2009) Yuan-Shang-Zi No. 0980001762 |
| April 2009 | 10 | 1,000,000 | 10,000,000 | 750,227 | 7,502,270 | ESO conversion amounting to NT\$19,143 thousand. | Nil. | April 13, 2009: (2009) Yuan-Shang-Zi No. 0980009913 |
| August 2009 | 10 | 1,000,000 | 10,000,000 | 830,227 | 8,302,227 | Raising capital by issuing new shares amounting to NT\$800,000 thousand. | Nil. | August 25, 2009: (2009) Yuan-Shang-Zi No. 0980023051 |
| September 2009 | 10 | 1,000,000 | 10,000,000 | 832,602 | 8,326,016 | ESO conversion amounting to NT\$23,746 thousand | Nil. | September 7, 2009: (2009) Yuan-Shang-Zi No. 0980024687 |
| January 2010 | 10 | 2,000,000 | 20,000,000 | 956,321 | 9,563,210 | ESO conversion amounting to NT\$26,957 thousand. Convertible bonds conversion amounting to NT\$510,237 thousand. | Nil. | January 7, 2010: (2010) Yuan-Shang-Zi No. 0990000661 |
| February 2010 | 10 | 2,000,000 | 20,000,000 | 1,060,468 | 10,604,680 | Offering of preferred shares amounting to NT\$1,041,471 thousand. | Nil. | February 3, 2010: (2010) Yuan-Shang-Zi No. 0990003179 |

| MM YYYY | Offering price | Authorized capital | | Paid-in capital | | Remark | | |
|---------------|----------------|--------------------|------------|--------------------|------------|------------------------------------------------------------------------------------------------------------------|----------------------------------------------|-----------------------------------------------------|
| | | Quantity of shares | Amount | Quantity of shares | Amount | Source of capital stock | Investment in kind by assets other than cash | Others |
| March 2010 | 10 | 2,000,000 | 20,000,000 | 1,060,468 | 10,604,680 | Conversion of preferred shares to common shares amounting to NT\$1,041,471 thousand. | Nil. | March 12, 2010: (2010) Yuan-Shang-Zi No. 0990006406 |
| April 2010 | 10 | 2,000,000 | 20,000,000 | 1,073,586 | 10,735,856 | ESO conversion amounting to NT\$27,603 thousand. Convertible bonds conversion amounting to NT\$103,571 thousand. | Nil. | April 12, 2010: (2010) Yuan-Shang-Zi No. 0990009479 |
| July 2010 | 10 | 2,000,000 | 20,000,000 | 1,074,467 | 10,744,667 | ESO conversion amounting to NT\$2,590 thousand. Convertible bonds conversion amounting to NT\$6,221 thousand. | Nil. | July 21, 2010: Yuan-Shang-Zi No. 0990020870 |
| October 2010 | 10 | 2,000,000 | 20,000,000 | 1,075,118 | 10,751,180 | ESO conversion amounting to NT\$6,514 thousand | Nil. | November 17, 2010: Yuan-Shang-Zi No. 0990034114 |
| December 2010 | 10 | 2,000,000 | 20,000,000 | 1,077,273 | 10,772,732 | ESO conversion amounting to NT\$21,552 thousand | Nil. | January 5, 2011: Yuan-Shang-Zi No. 1000000584 |
| March 2011 | 10 | 2,000,000 | 20,000,000 | 1,078,495 | 10,784,953 | ESO conversion amounting to NT\$12,220 thousand | Nil. | April 20, 2011: Yuan-Shang-Zi No. 1000010702 |
| August 2011 | 10 | 2,000,000 | 20,000,000 | 1,079,705 | 10,797,054 | ESO conversion amounting to NT\$12,101 thousand | Nil. | January 17, 2012: Yuan-Shang-Zi No. 1010002102 |
| December 2011 | 10 | 2,000,000 | 20,000,000 | 1,080,142 | 10,801,418 | ESO conversion amounting to NT\$4,364 thousand | Nil. | April 9, 2012: Yuan-Shang-Zi No. 1010010516 |
| March 2012 | 10 | 2,000,000 | 20,000,000 | 1,080,250 | 10,802,504 | ESO conversion amounting to NT\$1,086 thousand | Nil. | April 9, 2012: Yuan-Shang-Zi No. 1010010516 |
| June 2012 | 10 | 2,000,000 | 20,000,000 | 1,080,398 | 10,803,981 | ESO conversion amounting to NT\$1,477 thousand | Nil. | July 9, 2012: Yuan-Shang-Zi No. 1010020074 |
| August 2012 | 10 | 2,000,000 | 20,000,000 | 1,080,465 | 10,804,646 | ESO conversion amounting to NT\$665 thousand | Nil. | September 11, 2012: Yuan-Shang-Zi No. 1010028380 |
| October 2012 | 10 | 2,000,000 | 20,000,000 | 1,080,896 | 10,808,962 | ESO conversion amounting to NT\$4,316 thousand | Nil. | November 12, 2012: Yuan-Shang-Zi No. 1010034764 |
| March 2013 | 10 | 2,000,000 | 20,000,000 | 1,080,990 | 10,809,897 | ESO conversion amounting to NT\$935 thousand | Nil. | April 8, 2013: Yuan-Shang-Zi No. 1020009668 |
| July 2013 | 10 | 2,000,000 | 20,000,000 | 1,140,990 | 11,409,897 | Offering new shares through private placement amounting to NT\$600,000 thousand | Nil. | July 24, 2013: Yuan-Shang-Zi No. 1020022148 |
| June 2014 | 10 | 2,000,000 | 20,000,000 | 1,140,468 | 11,404,677 | Cancellation of treasury shares amounting to NT\$5,220 thousand. | Nil. | June 04, 2014: Zhu-Shang-Zi No. 1030016291 |

| Class \ Share | Authorized capital | | | Remark |
|--------------------------|--------------------|-----------------|---------------|-----------------------------------------------------------------------------------------------------------|
| | Outstanding shares | Unissued shares | Total | |
| Registered common shares | 1,140,467,715 | 859,532,285 | 2,000,000,000 | 1. Stocks listed at TWSE or TPEX 2. Balance of 10,259 thousand treasury shares as of December 31, 2018 |

4.1.2 Status of Shareholders

As of 2019/04/20

| Item | Government Agencies | Financial Institutions | Other Institutional Investors | Domestic Natural Persons | Foreign Institutions & Natural Persons | Total |
|------------------------|---------------------|------------------------|-------------------------------|--------------------------|----------------------------------------|---------------|
| Number of Shareholders | 4 | 27 | 206 | 59,531 | 319 | 60,087 |
| Shareholding (shares) | 9,801,022 | 100,299,649 | 341,235,338 | 423,792,559 | 265,339,147 | 1,140,467,715 |
| Percentage | 0.86% | 8.79% | 29.92% | 37.16% | 23.27% | 100.00% |

4.1.3 Shareholding Distribution Status

A. Common Shares

As of 2019/04/20

| Class of Shareholding | | | Number of Shareholders | Shareholding (Shares) | Percentage |
|-----------------------|---|-----------|------------------------|-----------------------|------------|
| 1 | – | 999 | 19,850 | 1,941,146 | 0.17% |
| 1,000 | – | 5,000 | 29,748 | 64,169,867 | 5.63% |
| 5,001 | – | 10,000 | 5,207 | 42,039,508 | 3.69% |
| 10,001 | – | 15,000 | 1,536 | 20,032,397 | 1.76% |
| 15,001 | – | 20,000 | 1,103 | 20,685,962 | 1.81% |
| 20,001 | – | 30,000 | 782 | 20,176,468 | 1.77% |
| 30,001 | – | 50,000 | 734 | 29,584,024 | 2.59% |
| 50,001 | – | 100,000 | 507 | 36,632,442 | 3.21% |
| 100,001 | – | 200,000 | 276 | 38,873,609 | 3.41% |
| 200,001 | – | 400,000 | 151 | 43,494,128 | 3.81% |
| 400,001 | – | 600,000 | 45 | 22,045,270 | 1.93% |
| 600,001 | – | 800,000 | 33 | 23,369,333 | 2.05% |
| 800,001 | – | 1,000,000 | 15 | 13,227,024 | 1.16% |
| 1,000,001 or over | | | 100 | 764,196,537 | 67.01% |
| Total | | | 60,087 | 1,140,467,715 | 100.00% |

B. Preferred Shares: None

4.1.4 List of Major Shareholders

As of 2019/04/20

| Shareholder's Name | Shareholding | |
|-----------------------------------------|--------------|------------|
| | Shares | Percentage |
| YFY Inc. | 133,472,904 | 11.70% |
| S.C. Ho | 80,434,300 | 7.05% |
| Cathay Life Insurance Co.,Ltd. | 68,287,000 | 5.99% |
| Shin-Yi Enterprise Co., Ltd. | 32,842,345 | 2.88% |
| Shangyi Culture Industry Co., Ltd. | 24,772,127 | 2.17% |
| YFY Venture Capital Investment Co., Ltd | 23,059,296 | 2.02% |
| Shangyi Culture Industry Co., Ltd. | 22,610,000 | 1.98% |
| Chung Hwa Pulp Corporation | 20,000,000 | 1.75% |
| Indus Select Master Fund, Ltd. | 18,669,000 | 1.64% |
| INDUS ASIA PACIFIC MASTER FUND, LTD | 18,000,000 | 1.58% |

4.1.5 Market Price, Net Worth, Earnings, and Dividends per Share

Unit: NT\$

| Items | | 2017 | 2018 | 2019 Jan.1st-April.20th | |
|------------------------|----------------------------------------------|----------------------------------|-----------|----------------------------|---|
| Market Price per Share | Highest Market Price | 57.7 | 57.7 | 38.55 | |
| | Lowest Market Price | 22.55 | 21.6 | 28.75 | |
| | Average Market Price | 36.69 | 38.1 | 34.03 | |
| Net Worth per Share | Before Distribution | 23.62 | 24.49 | — | |
| | After Distribution | 22.14 | | — | |
| Earnings per Share | Weighted Average Shares (thousand shares) | 1,121,916 | 1,126,786 | — | |
| | Diluted Earnings Per Share | 1.85 | 2.32 | — | |
| Dividends per Share | Cash Dividends | 1.65 | | — | |
| | Stock Dividends | Dividends from Retained Earnings | — | — | — |
| | | Dividends from Capital Surplus | — | — | — |
| | Accumulated Undistributed Dividends | — | — | — | |
| Return on Investment | Price / Earnings Ratio ^{Note 1} | 19.83 | 16.42 | — | |
| | Price / Dividend Ratio ^{Note 2} | 22.24 | | — | |
| | Cash Dividend Yield Rate ^{Note 3} | 4.5 | | — | |

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

4.1.6 Dividend Policy and Implementation Status

1. Dividend policy and implementation

The dividend policy of the Company is specified below:

The Company is engaged in frontier technologies and adopted the residual dividend policy in supporting the long-term financial planning of the Company for sustainable development.

If the Company has a balance after annual account settlement, appropriate for tax payment and covering carryforward loss, followed by the appropriation of 10% as legal reserve under law, and appropriation or reversal of special reserve. If there is still a balance, the Board will retain specific amount of earnings with reference to the capital budget planning of the future to meet the capital needs in the years ahead, and appropriate 50% of the remainder as dividend payable to the shareholders.

The aforementioned distribution of income could be pooled up with the undistributed earnings accumulated in the previous year.

Dividends to the shareholders may be paid in cash or in stock where cash dividend shall not fall below 10% of the total dividend payable to the shareholders of the year.

The appropriation of legal reserve as mentioned in paragraph 2 could be waived if the amount is equivalent to the paid-in capital.

The Board shall prepare the proposal for the distribution of income and present to the Shareholders Meeting for final approval.

2. The proposal of dividend payment in this session of the Shareholders Meeting:

The Board passed the proposal for the distribution of income in 2018 in a session dated March 20, 2019, and the dividend approved for distribution is shown below:

(Pending on the final approval of the Shareholders Meeting scheduled to be held on June 18, 2019)

E Ink Holdings Incorporated Table for the Distribution of Earnings in 2018

Unit: NT\$

| Item | Amount | Notes |
|---------------------------------------------------------|---------------|----------------------------------------------------|
| Earnings undistributed at the period-beginning | 2,184,846,587 | |
| The amount affected by retroactive application | 327,467,976 | |
| Adjusted undistributed earnings at the period-beginning | 2,512,314,563 | |
| Earnings undistributed at the period-beginning | 18,930,638 | |
| The amount affected by retroactive application | (6,834,021) | |
| Adjusted undistributed earnings at the period-beginning | 2,524,411,180 | |
| Net profits in this year | 2,613,673,179 | |
| Statutory surplus reserve set aside (10%) | (261,367,318) | |
| Special surplus reserve set aside according to law | (184,796,348) | |
| Earnings available for distribution in this period | 4,691,920,693 | |
| Items of distribution | | |
| Cash dividends and bonuses for shareholders | 2,373,438,302 | Distributing a dividend of NT\$2.10 for each share |
| Earnings undistributed at the period-end | 2,318,482,391 | |

4.1.7 The influence of the payment of stock dividend proposed in this session of the Shareholders Meeting on the operation performance and earnings per share of the Company: not applicable.

4.1.8 Employee Bonus and Directors' and Supervisors' Remuneration

1. The percentage and scope of remuneration to employees, Directors, and Supervisors as stated in the Articles of Incorporation:

If the Company has earnings in the year, appropriate 1%-10% as remuneration to employees and no more than 1% as remuneration to the Directors and Supervisors. If there is a accumulated deficit, appropriate for covering the loss first.

Remuneration to the Directors shall be made in cash. Remuneration to employees may be made in cash or stock. The employees of subsidiaries meeting specific condition are entitled to the remuneration. Such condition shall be determined by the Board under authorization. The ratio of remuneration to the Directors, the ratio of remunerations to employees and method of payment shall be determined by the Board in a session with the presence of at least two-thirds of the Directors and a simple majority of the Directors in session, and report to the Shareholders Meeting.

Remunerations to employees and the Directors shall be calculated on the basis of the earnings of the current year (the balance of earnings before taxation before the deduction of remunerations to employees and Directors) net of accumulated deficit.

2. The estimation of the amount for the remunerations to employees, Directors, and Supervisors in current period is based on the quantity of shares paid as remunerations to employees in the calculation and the actual amount paid, and the accounting if there is a difference between the estimated amount and the actual amount:

- (1) The estimation of remuneration to employees in 2018 amounted to NT\$27,100 thousand and to the Directors in the same year amounted to NT\$12,238 thousand. The Board resolved to pay the aforementioned amount in cash in a session dated March 20, 2019 pending on reporting to the Shareholders Meeting for final approval on June 18, 2019.
- (2) If there is significant change in the amount stated in the consolidated financial statements before announcement, the accounting of the adjustment of the change is recognized as expense in the period. If there is still a significant change in the amount after the announcement of the consolidated financial statements, handle the account under the change in accounting estimation and entered for adjustment in the next fiscal year.

3. Remuneration passed by the Board:

- (1) The amount of remuneration to employees, Directors, and Supervisors in cash or stock. If the recognized amount of expense is different from the estimated amount, disclose the difference, the reasons and the response:
 - A. The estimated remuneration to employees in 2018 amounted to NT\$27,100 thousand, and to the Directors in the same year amounted to NT\$12,238 thousand. The Board resolved to pay the aforementioned amount in cash in a session dated March 20, 2019, pending on reporting to the Shareholders Meeting for final approval on June 18, 2019.
 - B. There is no difference between the amount of remuneration passed by the Board and the amount of recognition in the year.
- (2) The ratio of amount of remuneration to employees paid in cash to the sum of the net income and remuneration to employees in current period: not applicable.

4. The actual payment to employees, Directors, and Supervisors in the previous year:

| Item | Amount |
|----------------------------------------|------------|
| Remuneration to employees in cash | 23,000,000 |
| Remuneration to the Directors in cash. | 13,000,000 |

There is no difference between the actual amount paid and the recognized amount in 2018.

4.1.9 Buyback of Treasury Stock

As of 04/20/2019

| Items | Description |
|------------------------------------------------------------------|-------------------------------------------------|
| 3rd Batch(2016)Expected to buy-back company shares | |
| Board resolution date | 2016/6/13 |
| Purpose of buy-back | For motivate employees, as a transfer employee. |
| Class of shares bought back | Common Shares |
| Maximum amount of shares bought back | NTD13,263,604,327 |
| Scheduled buy-back period | 2016/6/14~2016/8/13 |
| Quantity of shares (Percentage of total company shares held (%)) | 20,000,000 shares (1.754%) |
| Price range | NTD13.00~NTD24.60 |
| Way of buying back | from Secondary Market |
| 3rd Batch(2016)Buy-back company shares | |
| Period | 2016/6/14~2016/8/4 |
| Quantity of shares (Percentage of total company shares held (%)) | 20,000,000 shares (1.754%) |
| Total amount | NTD360,463,846 |
| Average price of per share | NTD18.02 |
| 3rd Batch(2017)Transfer employee (I) | |
| Period | July,2017 |
| Quantity of shares | 2,896,000 shares |
| Balance | 17,104,000 shares |
| Transfer Price | NTD18.02 |
| 3rd Batch(2018)Transfer employee (II) | |
| Period | July,2018 |
| Quantity of shares | 6,845,000 shares |
| Balance | 10,259,000 shares |
| Transfer Price | NTD18.02 |

4.2 Corporate Bonds : None

4.3 Preferred Stock : None

4.4 Global Depository Receipts

| Item | Issue date | 1998/12/111 | |
|-------------------------------------------------------------|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Issuance and listing | | 1998/12/111 | |
| | | Luxembourg Stock Exchange | |
| Unit issuing price | | USD165,012,400 | |
| Units issued | | USD23.5732 | |
| Quantity of Issuance | | 7,000,000 units | |
| Source of negotiable securities | | The Company's common shares held by capital increased in Cash | |
| Quantity of negotiable securities | | 70,000,000 shares | |
| Rights and obligations of GDR holders | | Same as those of common share holders | |
| Trustee | | - | |
| Depository bank | | CITIBANK,NA | |
| Custodian bank | | Citi Bank,Taiwan | |
| Outstanding balance | | 140,160 units | |
| Treatment of expenses incurred at issuance and thereafter | | Issue cost: amortized by the issuing companies and shareholder participants according to the actual shares issued Expenses incurred after issuance: amortized by the issuing company | |
| Important conventions about depository and escrow agreement | | Detailed contract | |
| Market price per unit (USD) | 2018 | Highest | 18.2 |
| | | Lowest | 7.25 |
| | | Average | 12.725 |
| | Current year to 2019/04/20 | Highest | 12,2 |
| | | Lowest | 9.4 |
| | | Average | 10.8 |

4.5 Employee Stock Options

4.5.1 ESO before maturity shall be disclosed to the date this report was printed and the influence on shareholders' equity: not applicable.

4.5.2 The names of the managers and the top 10 employees who have acquired ESO over the years to the date this report was printed, their status of acquisition and subscription of shares from the ESO: The Company offered ESO from 2004 to 2010, and the instruments were matured from 2010 to 2016. For information on the names of the managers and the Top 10 employees who have acquired ESO, the quantity and the amount of ESO, refer to the Annual Reports covering these periods.

4.6 The Offering of Restricted Stock: Not applicable.

4.7 Merger and acquisition, and acceptance of assigned shares from other Company for issuing new shares: Not applicable.

4.8 The implementation of the fund utilization plan: Not applicable.

5 Operational Highlights

5.1 Business Activities

5.1.1 Business Scope

1. Primary Content of E Ink's Business Range

E Ink Holdings Inc. is the world leader in ePaper technology, engages in the research, development, manufacturing and sales of display devices and materials concerning electronic paper (ePaper) technology, for example, FPL Film and Electronic Paper Display (EPD).

2. E Ink's current main products and their applications

The main products are EPD modules. These EPD modules can be applied in eReaders, Electronic Shelf Labels (ESL), eNotes, ePaper Mobile devices, Digital Signage and so on.

3. Operating proportion

| Product | Year | 2018 | |
|------------------------------------|------|--------------------|------------|
| | | Revenue (NT\$1000) | Percentage |
| EPD Modules | | 10,546,456 | 74.23% |
| Electronic Shelf Labels and Others | | 3,662,205 | 25.77% |
| Total | | 14,208,661 | 100.00% |

4. New Products and Services in the Pipeline

E Ink's current product development direction can be classified into five main areas:

- A. To take advantage of ePaper's paper-like quality and strengthen the product development for the reading and hand-writing applications, e.g., eReaders, eNotes, etc.
- B. To take advantage of ePaper's low-power consumption and strengthen the product development for IoT applications, e.g., ESLs, mobile devices, smart homes, and Digital Signage.
- C. To continue with the development evaluation kits design, development and all-in-one Turnkey Solutions in order for customers to speed up their new product integration and develop new applications.
- D. To introduce new materials and new manufacturing processes, to enhance ePaper's product performance and specifications to comply with market needs, and to strengthen product competitiveness.
- E. To foster strategic cooperation and horizontal alliances with domestic/overseas companies for shared investment in technology and resources so as to develop low-power ePaper display technology applications and to build the foundation for sustainable management.

5.1.2 Industry Overview

1. Current State and Development of EPD Industry

The ePaper development can be traced back to early 1970s. In 1996, the Massachusetts Institute of Technology solved the problem of dye particle condensation with the Microcapsules technology, thereby affirming the development of Electrophoretic Display technology which contributes to what we know as Electronic Ink today. ePaper technology underwent continuous extensive development, sample trial runs and limited production and finally, entered the mass production phase in 2008. In 2012, E Ink Holdings Inc. merged with SiPix Technology Inc. and acquired the Microcaps® in the Electrophoretic Display technology, not only to secure its consistently leading position in technology, to expand patent deployment, and to invest in ePaper industry on a long term basis, but also to integrate global talents, technologies and resources from Taiwan, China, the US and Japan, in a bid to complete its deployment in the ePaper technology sector.

ePaper features paper-thin, low-power, bistable, readable in direct sunlight and flexible attributes with a wide viewing angle. Besides being applied in eReaders, ePaper's market potential has been well acknowledged, as seen in continuously rising demand for Electronic Shelf Labels, whose presence has reached all major retailers in the US and Europe. Electronic Shelf Labels also comply with the demand trend for low power consumption in IoT applications, and we can anticipate a future growth in demand.

Electronic notebooks (eNotes) with an emphasis on reading and writing can be applied in commerce and education markets. Recent cases of successful commercialization on customers' end include SONY, reMarkable and OKAY that have launched new products to the market to indicate eNotes' increasing market demand.

Applications like Digital Signage and digital walls come in two display modes: full color and Black & White. This has not only entailed a diverse evolution of conventional advertisement paper but also started a new market for green display technologies. Furthermore, advanced color ePaper, E Ink Prism™, can be applied in all kinds of architectures, for instance, digital dynamic architectural sculptures.

As the ePaper technology's product applications and ecosystem continue to develop, E Ink plays a pivotal role in the overall supply chain and remains as the industry leader in terms of technology and production capacity via endless innovation and resources investment.

2. Correlations between the upstream, midstream and downstream of the industry

| | |
|------------|---------------------------------------------------------------------------------------------------|
| Upstream | Color Pigment, PET Film, TFT Substrate, PI Film, Driving IC, PCB, Front Light Module, Touch Panel |
| Midstream | FPL Film, EPD |
| Downstream | Module Manufacturers, System Manufacturers, Brand Customers |

3. Various Product Development Trends

(1) eReader

As times change, along comes rising health consciousness. Consumers have been looking for mobile reading devices that save storage space; harmless to the eyes and are available anytime anywhere for your reading pleasure. To this end, eReaders undoubtedly are one of the most competitive products, their biggest niche being light, compact, easy to carry and not causing eye fatigue after extensive use.

E Ink has been investing and developing eReaders as an ePaper application for many years, teaming up with eReader brands from all over the world to launch a wide range of eReaders added with a front light plus dust-proof and water-proof features compliant with international standards. E Ink will continue developing enlarged screen sizes in eReaders. In response to the weight increase indirectly caused by enlarged screens, E Ink has also been collaborating with leading players in material technologies to jointly develop ultra-thin glass substrates and flexible substrates, which will be implemented in future product planning. The Company has already launched an eReader with 8" flexible technology display in 2018 Q4 to further enlarge the dimensions of eReaders to the 8" territory. Moreover, E Ink will continue to work with its first-tier clients to launch premium eReaders that are not only larger in size but also make no compromises in terms of minimal weight and ease of carry.

(2) Electronic Shelf Label (ESL)

Thanks to the increasingly mature technology for smart retailing applications, merchandise management and price labelling in today's physical stores can also rely on Electronic Shelf Labels (ESLs) for real-time updates. Compared with traditional paper tags, Electronic Shelf Labels take advantage of wireless data transmission that not only improves efficiency and speed but also eliminates errors due to pricing changes while allowing for more precise data updates. This not only lowers the likelihood of pricing errors but also helps stores by offering a fast response mechanism to price changes in a highly competitive market with real-time promotional pricing updates, while reducing labor cost in manually renewing the price tags. ESLs application can also be extended to smart inventory management and factory/warehouse logistics. ESLs not only can be accessed remotely and wirelessly to achieve access to massive quantity of data to facilitate inventory management but also configured to send automatic notifications when specific products are approaching their expiration dates. As an application for unmanned stores, ESLs placed on product shelves can be configured to dynamically update product pricing in real-time to prevent human-errors in price updating. As a primary solution for product pricing and information display, ESLs is perfectly aligned with the Industry 4.0 trends for automation and smart management.

ePaper offers the advantages of being compact, lightweight and power-saving. It is not only very close to the visual effect of real paper but offers incredibly useful features such as enabling users to update product pricing dynamically from anywhere. Through the integration of wireless data transmission and ESL, the solution makes it possible to perform real-time information update for the benefit of greater precision. As far as product management at wholesale stores or cargo management at large warehouses, adopting ESL with ePaper technology is also in sync with the latest trends of automation and smart management. Using ePaper for ESL not only reduces the likelihood of pricing error but also enables clients to quickly improve their efficiency at price updating in a highly competitive market by performing real-time price updates online to reduce the cost of manually replacing price tags. And as such, it is fast becoming an ideal choice for many retailers.

Its bistable attribute allows ePaper products to only draw power during data input or updates. When the displayed information remains un-updated, it will consume no power. This advantage not only complies with the energy-saving low-power trend that has been strongly advocated by the society as a whole but also reduces the electricity cost for extensive ESLs uses in the malls. Additionally, compared with LCD displays, ePaper offers a close-to-180 degree viewing angle, which enables clear viewing even from a distance or from a slanted angle.

For ESL applications in various locations/occasions, besides its regular Black & White dual-color ePaper, E Ink has also developed a low-temperature ePaper suitable for freezers, as well as triple color ePaper for concessional or promotional markings: black, white and red; black, white and yellow. Recent launches also include low voltage-driven ESLs solutions. Compared with the wireless transmission as required in large-scale malls, this battery-free solution is more suitable in small shops and requires no interior decoration to be altered nor any hardware installation to be involved. Only one single mobile phone equipped with the Near Field Communication (NFC) feature is able to update the label content anytime.

(3) eNote

Besides maintaining ePaper's original product niche of being comfortable to read and power-saving, eNotes come with hand-writing features. E Ink's eNotes contain paper attributes for handwriting, plus features like data editing, saving and management so that consumers will not only enjoy the ePaper advantages but also upgrade the overall operation efficiency. In particular, eNotes are light, compact with highly durable and flexible panels. Even its maximum 13.3-inch sizes are still light, easy to carry and stored.

Currently this product is initially targeted for professional and commercial applications in regions such as North America, Europe, Japan and China and has won support of new consumer tech product users. This year, the solution has established a solid foothold in the educational application market and gradually achieve our vision of replacing traditional pen and paper notebooks with eNote, which has received significant support from fans of consumer technological products.

For the professional and commercial application product, the Company has offered a smart office notebook that combines features including voice recognition, speech-to-text editing and handwriting recognition technology as a tool for keeping track of day-to-day work. As we create a product of electronic notebook that is also capable of recording audio so that speech can be converted into text, we offer a solution for success-oriented business people and office workers to seriously boost their productivity. Targeting the education market, E Ink integrates technology partners' digital writing prowess to deliver a solution that makes for fatigue-free reading, easy-writing and smart-learning possible. In light of the steadily increasing number of students in fundamental education and trainees in OTJ around the world, eNotes are expected to have great potential in the future education market, thanks to the rapid development of digital learning environments, plus its superior product advantages with actual applications already implemented in China, India and Japan.

E Ink is always hard at work to develop new technologies, enhance product performance and add-on features, while also diversifying product combinations with consistent partnerships with customers. E Ink carries on boosting software functionalities to enhance the user experience. The incorporation of AI features such as handwriting and speech recognition

not only makes for effective application in the market of smart education but has also been gradually introduced to smart office environments and conference room settings for academic and research institutions. At the same time, E Ink will also continue to promote smart paper-less applications by targeting such specialist sectors as law, finance and medical care as we expect the market for electronic notebooks to achieve stable growth.

(4) Smart Display Card

In recent years, consumption is heading towards online and mobile shopping, which has caused an increasing number of credit card fraud, damaging the finance and credibility of the credit card issuing agencies. The majority of credit card fraud comes from online shopping and card-less transaction in contact-free transaction services. Since 2006, the world's major financial security product and service providers have been developing functions like status display or biometrics to enhance credit card security. In addition, the all-in-one smart cards can fuse consumers' credit cards, membership cards or bonus collection cards into one single card. Some smart cards are outfitted with the discount barcode display, which provides better value for users.

In order to combat the serious and rampant problem of credit card fraud, many financial institutions and credit card organizations have been hard at work to utilize specific software and hardware combinations in order to provide credit card products that offer greater security for clients. The solution features Dynamic CVV (DCVV) credit card that was developed by Oberthur (IDEMIA) and Gemalto (Thales) and the primary feature of the solution features ePaper on the back of credit card to dynamically display the card verification code. It is expected that with the launch of DCVV cards, consumers can expect the motion code (3-digit number) on the back of their credit cards to be synched and updated by their issuing banks once every 30-60 minutes to prevent accidental loss/intentional duplication of the code to prevent potential losses. As credit card companies begin to provide credit card solutions embedded with ePaper Displays would renew the "One Time Password" (a one-off safety code) every 60 minutes to ensure safe transactions and effectively prevent criminals from making copies of the credit card numbers for online or mobile transaction fraud. Furthermore, ePaper is light, compact, low-power, high-contrast and can endure folding and impact from falling, hence the most suitable for smart card applications. Responding to the heights of virtual currency in recent years, Bitcoins, to integrate the Cold Storage technology and ePaper display into the Bitcoin wallet-sized cards is the epochal product trend.

(5) Luggage/Logistic Tag

As ePaper displays are bistable, reflective, low-power, readable in direct sunlight, flexible and pressure-resistant, with a viewing angle of nearly 180 degrees, the aviation and logistic-related industries in more developed countries like Europe, the US, Japan have been investing in all-in-one system solutions, in recent years, integrating Logistics and Luggage Tags with ePaper as the primary display.

Taking the aviation industry for instance, the world's total air travel passengers have so far exceeded 3.5 million people. Each year, the lost luggage costs the airlines up to tens of billions of dollars in damage. How to effectively track the luggage while lowering the expenditure in manpower, energy and paper cost has presently become the most urgent issue in the aviation industry awaiting a solution.

Today's readily-constructed system solutions combine ePaper Display and wireless transmission technologies such as Bluetooth or Near Field Communication (NFC) to transmit and receive the luggage ID code corresponding to its flight details, with passengers and flight details displayed on the tag to effectively track luggage and solve problems that may arise during the luggage delivery in the aviation industry.

Later on, there will be more companies in the aviation industry to join this system platform and collectively commit to effectively improve the travel experience of the world's massive number of flight passengers. Likewise, in the logistic industry, the paper consumed for logistics tags amounts to tens of billions of pieces per years. To save manpower, energy and paper consumption and to enhance its green performance, many logistics-related companies are working on how to switch the current practice of traditional logistic tags to ePaper applications and fuse with wireless transmission systems for all-in-one solutions featuring central control and monitor of stock status. To combine luggage and logistics tags will save paper, energy consumption, manpower resources in switching tags, as well as enabling remote surveillance on the luggage and stocks to drastically lower the overall cost in travel/logistic time, money and speed. This has become the inevitable trend in the future global aviation and logistic industries

(6) Mobile Device

For dual-screen application, Lenovo unveiled its innovative product at the 2018 IFA - the Yogabook C930, which incorporates EPD into the innovative product sector of PC Convertibles, offering the new user experience of the 3-in-1 features: dynamic keyboards, handwriting and reading. Not surprisingly, the product generated substantial market buzz. Not only that, single-

screen smart phone reader products will also be launched soon as a product that organically integrates the convenience of portability of smart phones and the characteristic of ease-to-read of EPD screen. Wearable products will continue to feature ePaper attributes: always-on, low-power, readable outdoors, and further integrate traditional watches with rotating hands for the Hybrid watch sector in a bid to pioneer new user experience and product ranges. We expect to see a series of product launches in the second half of 2019.

(7) Digital Signage

In the world of ubiquitous IoT, It is extremely valuable to provide useful and precise information at the right moment. Under such premises, Digital Signage has become an industry worth several billions of dollars. Drawing on the strength of ePaper's existing low-power, readable in direct sunlight and paper-like attributes, E Ink has secured a highly favorable position in the Digital Signage market.

Digital Signage can be widely applied in various public places, e.g., public transportation, gas stations, retailers, education industry, smart medicine, health care industries, museums and libraries. In direct sunlight, ePaper Digital Signage is clearly readable, can be driven by solar power supply systems and has the frameworks of images renewed/updated via mobile phone's remote online networks without the need for sophisticated and expensive construction. As such, ePaper Digital Signage is not only ideal for installations in urban areas but also suitable for installation in remote areas or places with no power lines.

The environmental impact is an important consideration for commercial users and governmental agencies during their evaluation of Digital Signage installation. ePaper's attribute of exceptionally low power consumption makes ePaper Digital Signage a great green product regarding environmental sustainability issues. ePaper Digital Signage System's simple design requires no components or parts for fans and air conditioners, enabling lighter, more compact and easier installation. Under certain circumstances, they can even be installed onto existing infrastructures for immense cost reduction in installation and maintenance, plus speedy installation.

Digital Signage installations are mostly solutions that span over several years. Its Total Cost of Ownership (TCO) is the key factor that determines the Return on Investment (ROI). Owing to its extremely low cost in power consumption and maintenance, easy installation, and long-standing reliability, ePaper Digital Display serves as a sustainable solution offering both TCO and fantastic outdoor readability. As the demand continues to grow for Digital Signage, plus E Ink's product advantages in the market, Digital Signage is expected to contribute significantly towards the revenue for the next few years.

Currently, the growing demand for Digital Signage can be seen mostly in Asia, Europe and North America. Most display signs are still static paper products and rely on manual replacement. The need to upgrade such displays has propelled the growth of Digital Signage. In the meantime, E Ink has secured a great position in this continuously growing Digital Signage market.

With EDP at the core, E Ink's technology partners continue to add on value to EDP products. We expect the Digital Signage's application market will carry on expanding, and we will work with customers of various sectors to enhance our product and technology visibility and sales growth in the market.

4. Competition Updates

E Ink has secured an absolute leading position in the global market of ePaper technology and products. In the market of eReaders as EPD application, E Ink owns more than 95% of the market share. The world's major eReader brand suppliers, e.g., Amazon, kobo, all use E Ink-produced EPD. ePaper for Electronic Shelf Labels applications has in recent years gradually replaced LCD displays, with its penetration rate rising by the year, due to ePaper's attributes and advantages. Furthermore, regarding eNotes as an EPD application, E Ink has also partnered with the likes of SONY and reMarkable to release a host of products which are all market leaders.

E Ink has a strong foundation of managing EPD market for many years and owns top research and development teams, so E Ink has undoubtedly a great competitive edge in terms of future technology research and product development.

5.1.3 Research and Development Overview

E Ink continued its commitment to the development of EPD products and technologies. In addition to continuously advance the EPD module technology, we are also devoted to the innovation of color EPD technology. Leveraging the know-how of electronic shelf label, flexible display and touch panel, our new products received very positive market feedback. Meanwhile, we expanded the manufacturing capacity to maintain our leadership in the EPD market.

In Year 2017 and 2018, E Ink's consolidated research and development expense came to NT\$ 1.94 billion, NT\$ 2.07 billion.

1. ePaper Technology

E Ink Carta™ is the latest generation of the mass-produced ePaper. E Ink Carta™ has the highest reflectivity to date, with 50% higher contrast ratio and 22% higher reflectivity compared to E Ink Pearl™, the previous E Ink product. E Ink Carta™ is lightweight, environmentally friendly and can be comfortably read for extended periods of time, making it suitable for eReaders, digital dictionaries, reference books, magazines and other future products to replace the traditional printed paper. E Ink Carta™ allows readers to enjoy the convenience of digital products without sacrificing the reading experience provided by printed materials. In 2015, E Ink upgraded the ePaper technology to Carta™ 1.2 for sharper image quality.

2. Advanced Color ePaper (ACeP) Technology

E Ink launched ACeP, a high quality, full color reflective display. For the first time ever, an EPD can produce full color gamut without the use of a color filter array by having all the colored pigments in every pixel. ACeP sets a new standard for bright, reflective color achievable with EPDs. This eliminates the light attenuation, which can be quite significant. Like regular E Ink ePaper, ACeP maintains the ultra-low-power and paper-like readability under all lighting conditions.

3. Three Pigment ePaper Technology

E Ink Spectra™ is the latest generation of mass-produced multi-colored E Ink product. In addition to black and white pigments, E Ink Spectra™ includes an additional red or yellow pigment, making it suitable for the application of electronic shelf labels and advertising displays. Retailers can easily change the product price, enabling dynamic pricing. Moreover, the third color can be remotely activated to display promotion and sale items dynamically. Combining with red or yellow backgrounds, the electronic shelf labels can draw consumer's attention to enhance product marketability. E Ink Spectra™ supports both active matrix and segmented systems to meet different retailers' requirement. The three pigment EPD can also be employed for ID cards in industrial, smart card and medical applications.

4. Color Changing Film for Architecture and Art Design

E Ink Prism™ is the latest dynamic color display technology ideally suited for the architecture and art design applications. Besides being a static display technology without consuming power, E Ink Prism™ can also support dynamic presentation. Coupled with motion sensing, E Ink Prism™ can completely transform a lifeless space into an interactive environment. This innovation enables architects and designers to express their ideas by presenting space and surroundings in a unique manner. The revolutionary way of applying E Ink Prism™ gives architects and designers more flexibility and freedom. In a commercial building, a hotel lobby, an airport, a transit station or a stadium, architects and designers can change the appearance of the venue by E Ink Prism™ to enhance people's perception through color transformation.

5. Flexible EPD

E Ink Mobius™ is a flexible EPD with flexible plastic backplanes of either amorphous silicon or organic TFT. The flexible display technology enables customers to integrate conformal element into product design, leading to end products with unique design and function. The flexible EPD device has been mass-produced and introduced in the market. Using a plastic substrate, the flexible EPD module is thinner, lighter and shatter proof compared to its glass counterpart. Such features become more important as the display grows larger. We have collaborated with leading companies to develop and mass produce E Ink Mobius™ EPD products, which have received positive feedbacks from the market. Such eco-friendly and power saving E Ink Mobius™ EPD will have great potential to grow in the near future.

6. Front Light and Touch Panel Technologies

Reading under dim light is a common requirement of eReader, which can be realized by integrating front light on top of eReaders. In addition, we have developed a color-temperature-modulation technology of the front light, which allows consumers to adjust the color temperature of the eReader from a cooler color to a warmer color, or vice versa, depending on their personal preference. In addition to the commonly adopted capacitive touch technology, we have been actively working with partners to develop touch panels for EPDs. These new touch panel modules not only maintain the reflectivity of EPD, but also offer other design benefits to support new product developments.

7. EPD with Energy Harvesting Technology

The ultra-low power consumption feature of EPD makes it possible to adopt the wireless energy harvesting technology to drive a low-voltage EPD module. The small amount of the electricity generated by wireless transmission is sufficient to drive and refresh the EPD without the need of a battery. The technology supports both the Near Field Connection (NFC) at 13.56 MHz and the

ultra-high frequency (UHF) at 915 MHz for short and long distance applications, respectively, which are in complete compliance with the mainstream wireless communication protocols.

For the short distance applications, the EPD modules can be used in eWallets, electronic IDs, as well as luggage tags and smart watches with an NFC receiver. For the long distance application, the EPD with the UHF RFID reader can be used in a transportation system, ESL, logistics tags, warehouse automation system, smart home, eBulletin and Digital Signage.

5.1.4 Long-Term and Short-Term Sales Development Plan

1. Short-Term Sales Development Plan

- (1) To follow current product plans, to promote standardized products, to upgrade the current products' performance and to provide all-in-one systematic solutions.
- (2) To enhance product quality, to provide more comprehensive manufacturing services so as to win over the custom of more major international players.
- (3) To establish local support services for the US, Europe, China and Japan, and strengthen distribution channels.

2. Long-Term Sales Development Plan

- (1) To put research and development resources on ACeP, Flexible, Low-Power technologies and strengthen processing capabilities, while continuing to complete the patent deployment to maintain the leading position.
- (2) To continue promoting the new application market and cultivating on its ecosystem, to integrate the upstream and downstream industries and to jointly develop products and applications with more value and more features.
- (3) To build a highly-efficient marketing operation model, to combine marketing channels, products, research and development, and production for seamless team collaboration that will effectively support the commercial development and facilitate a win-win relationship between E Ink and customers.

5.2 Market, Manufacturing & Sales Overview

5.2.1 Supply, demand and growth in the ePaper market

IoT and smart city developments have seen ePaper as an ideal display medium for smart retail, education, transportation and other smart spaces due to its technology features of bi-stability and reflectivity. These trends resulted in E Ink making significant business outcomes in 2018.

Smart retail (new retail) is taking the world by storm and this is driving the continued growth in demand for Electronic Shelf Labels (ESL). While ESL is already widely used by retail stores in the US, Europe and China, ESL solutions with ePaper displays will be progressively introduced in Southeast Asia and South America as well. This will drive the steady growth of the ESL business. ePaper signage use for sales promotions in retail premises and other in-store promotions will become a key business area in the vertically integrated retail market for E Ink. E Ink has integrated the ultra-low power consumption ePaper displays with both hardware and software solution from the ecosystem partners to create front-end solution such as ESL or ePaper POP sign retailers can connect and operate remotely. In addition to the wireless updating of information in real-time, online and offline product prices, promotions and other information can also be synchronized. The company is optimistic with regards to future growth in this area.

For the development of smart education applications, ePaper features such as eyes friendly, natural handwriting and ultra-low power consumption make it an ideal display technology for learning and reading over extended periods of time. Due to the advances in technology, consumer electronics products with displays are increasingly used by consumers at all age groups and this has gradually increased the burden on vision. Global education policies and usage requirements are paying particular attention to balance the needs of e-learning against eye protection. ePaper display emerges as the ideal choice because it is easy on the eyes and comfortable to read in a digital form. In terms of regional market development, several educational solution vendors in China and India have now adopted ePaper as the display for digital textbooks and learning devices. User demand in the education industry shows excellent prospects for ePaper in educational applications.

The trend towards smart and sustainable cities is now actively implemented around the world. E Ink is continuing to work with the ecosystem partners to implement ePaper smart bus stop signs and information displays in Europe, US, Japan, Shanghai and Taiwan. Smart bus stop signs that adopt ePaper display leverage the low power consumption feature. The ePaper bus stop sign can run on solar power alone. There is no need to deploy power cables to ePaper smart bus stop, resulting in savings on the total operation and maintenance costs. ePaper is also clearly legible under the sun so it has tremendous potential as outdoor signage. .

E Ink has adopted a strategy of market diversification that continues to optimize customer and product portfolios of the company. The company expects the native advantages of ePaper to excel in various competitive niches and achieve steady growth in different smart spaces.

During 2018, E Ink continued to promote the brand and ePaper technology and application with online and off-line integrated brand strategy. The company's promotional efforts encompassed not only ePaper technology and applications, but also worked with the eco-system partners, including supply chain, brand customers and vertical industry partners to promote ePaper for smart applications in order to realize our vision for a sustainable smart city. As part of our offline promotion strategy E Ink exhibited in the trade show for tech electronics and displays such as CES, SID, MWC Shanghai, and Touch Taiwan. The company also attended key vertical application market exhibitions such as the China Educational Equipment Exhibition and DIDAC India that tie in closely with the business development of the company. E Ink's partners in the retail, education, transport and medical fields were also invited to take part in the exhibitions as well to promote the smart paperless applications of ePaper. That's not all. E Ink also took part in ecosystem conferences and exhibitions such as the Advantech's Global IoT Summit to strengthen the links with solution providers and industrial vendors.

Online marketing and promotion have continued to promote E Ink, ePaper technology and applications as well. In addition to communicate from key social media such as WeChat, Weibo, Instagram, LinkedIn and Facebook to promote ePaper benefits and applications, the company also integrated the marketing resources from eco-system partners to give the target customers and the general public a better understanding of ePaper's technology features. These efforts not only increased the brand recognition but also helped boost business growth.

5.2.2 Competitive niche

After years of dedicated in research and development, E Ink has successfully carved out niche markets in retail, transport, public display, medical and outdoor applications with ePaper benefits of ultra-low power consumption, ability to continue to display content while powered off (bi-stability), and sunlight readable. These are applications where LCD and LED display technologies do not enjoy an advantage. The niche for ePaper products was further strengthened by the emergence of IoT due to its strict power consumption requirements and increased proportion of outdoor applications. ePaper applications will therefore become more diverse in the future.

As a reflective display technology with no backlight or harmful blue light emissions, light in weight, thin and flexible, the technical advantages offered by ePaper is drawing increasing attention in the education market. eReader are now popular with the digital reading market and education industry. E Ink has been working on eNote products that incorporate digital handwriting function in recent years. The education industry can now enjoy both the convenience of an electronic school bag and prevent harm caused by blue light. The company have therefore successfully differentiated ourselves from transmissive / emissive display technologies such as LCD and OLED in the market.

E Ink will not only continue to refine our existing advantages but also invest in new R&D. By pooling the expertise in materials, chemistry, electronics and machinery, the talents from E Ink overcame technical bottlenecks to develop color ePaper displays and battery-free ePaper solutions, further expanding applications for ePaper. In the future, we will continue to invest in R&D to build up the technical capabilities of E Ink and maintain our leadership.

5.2.3 Favorable/Unfavorable factors for long-term development and response strategies

The growth of IoT and smart city trends has led to the rapid proliferation of IoT devices in commercial and lifestyle settings. In the age of total connectivity, displays serve as the human machine interface. The bi-stability and reflective display technology of ePaper offers native and competitive advantages such as ultra-low power consumption, zero luminescence, paper-like, sunlight readable, and flexibility.

The international education industry now recognizes that transmissive / emissive display technologies such as LCD and OLED emit blue light that is harmful to human eyes. If these displays are used in learning devices for smart education applications, they can cause serious and unrecoverable damage to the eyesight of students who are still growing. Some countries such as China and France have therefore banned the smart phones in schools. China in particular has introduced stress-reducing measures for middle and elementary schools. The goal is to reduce the total number of short-sighted children and youths throughout the country by 0.5% per year in 2023 compared to 2018. In response to regional policies and market requirements, ePaper developed by E Ink

has a paper-like and is non-emissive. As the ePaper satisfies both e-learning and eye-safe requirements it is well positioned for the educational applications market.

In terms of unfavorable factors, the main challenge for E Ink was to reduce our costs in order to meet market expectations and achieve sufficient capacity to meet demand. In addition to strengthening internal research, development and design capabilities, E Ink is also co-working with the supply chain partners and customers during the early stages of ePaper product development. Such an approach helped to reduce the overall design and development costs. Production costs were also reduced through high automated ratio. In addition to increasing the production output and yield of E Ink ePaper films, the company strengthened the collaboration with material suppliers to ensure that production capacity and quality could meet market requirements.

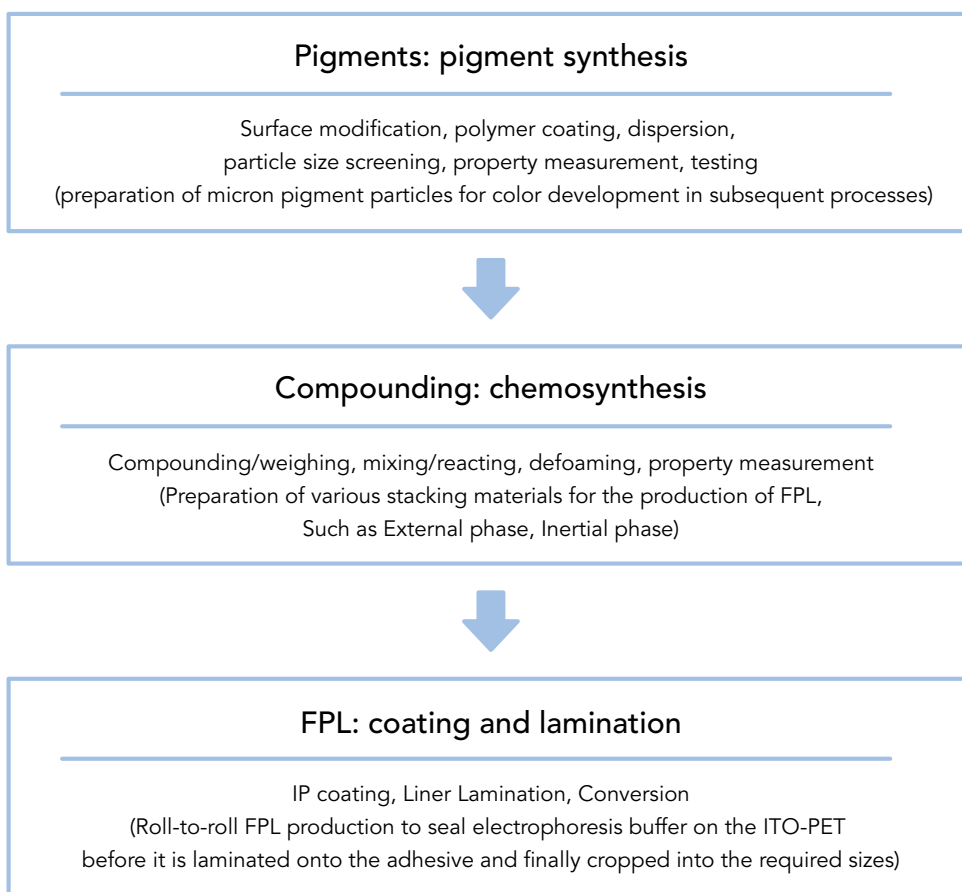
5.2.4 Primary purpose and production processes of key products

1. Primary purposes

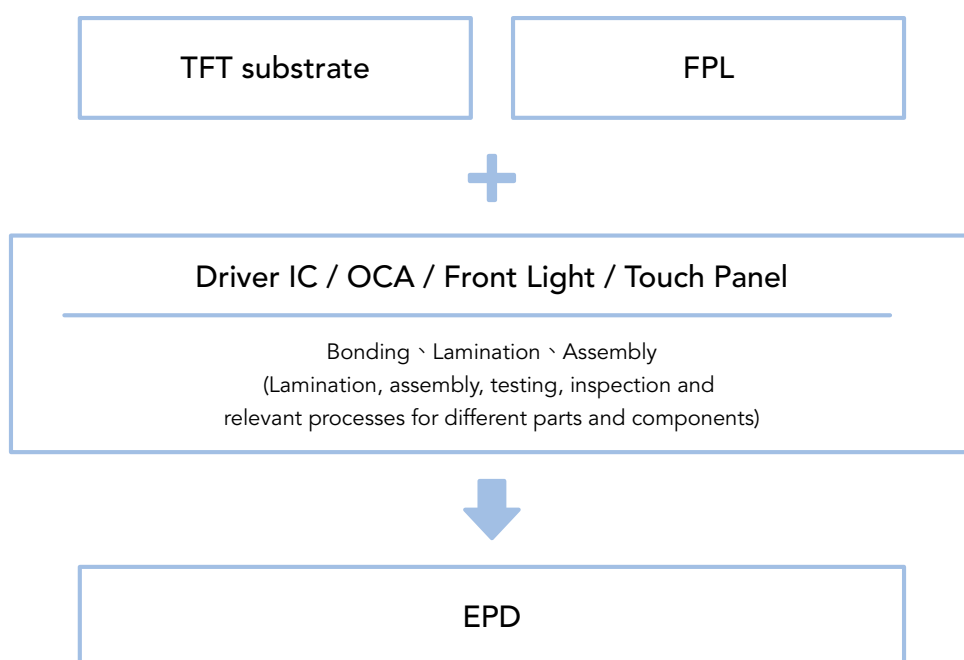
E-Paper Display is primarily used as a display device designed for the delivery/presentation of information

2. Production process

FPL (Front Panel Laminate)



EPD (E-Paper Display)



5.2.5 Supply status of key raw materials

E Ink's primary raw materials include TFT back panel, touch panel and Driver IC. Each of these raw materials are sourced from no less than two primary suppliers, with whom the Company has maintained close relationship to ensure steady material supply after the raw materials have been accredited to pertinent standards and requirements. In addition to ensuring adequate supply of materials, E Ink has also implemented stringent measures for quality and delivery to minimize the risk of material shortages.

5.2.6 Major Suppliers and Clients

A. Major Suppliers in the Last Two Calendar Years

Unit: NT\$ thousands

| Item | 2017 | | | | 2018 | | | |
|------|---------------------|-----------|---------|----------------------|---------------------|-----------|---------|----------------------|
| | Company Name | Amount | Percent | Relation with Issuer | Company Name | Amount | Percent | Relation with Issuer |
| 1 | A | 1,048,889 | 14 | None | E | 833,327 | 16 | Associate |
| 2 | D | 1,016,772 | 13 | None | D | 811,611 | 15 | None |
| 3 | E | 534,123 | 7 | None | A | 743,538 | 14 | None |
| 4 | Others | 5,101,452 | 66 | | Others | 2,857,859 | 55 | |
| | Net Total Purchases | 7,701,236 | 100 | | Net Total Purchases | 5,246,335 | 100 | |

B. Major Clients in the Last Two Calendar Years

Unit: NT\$ thousands

| Item | 2017 | | | | 2018 | | | |
|------|--------------|------------|---------|----------------------|--------------|------------|---------|----------------------|
| | Company Name | Amount | Percent | Relation with Issuer | Company Name | Amount | Percent | Relation with Issuer |
| 1 | I | 4,961,278 | 32 | None | I | 4,476,536 | 32 | None |
| 2 | P | 2,902,624 | 19 | None | P | 2,511,470 | 18 | None |
| 3 | D | 1,698,101 | 11 | None | | | | |
| 4 | Others | 5,774,412 | 38 | | Others | 7,220,655 | 50 | |
| | Net Sales | 15,336,415 | 100 | | Net Sales | 14,208,661 | 100 | |

5.2.7 Production in the Last Two Years

Unit: NT\$ thousands

| Output Major Products | Year | 2017 | | | 2018 | | |
|--------------------------|------|----------|----------|-----------|----------|----------|-----------|
| | | Capacity | Quantity | Amount | Capacity | Quantity | Amount |
| Monitors | | 32,400 | 19,242 | 7,337,831 | 30,603 | 17,139 | 5,103,737 |

5.2.8 Shipments and Sales in the Last Two Years

Unit: NT\$ thousands

| Shipments & Sales Major Products | Year | 2017 | | | | 2018 | | | |
|-------------------------------------|------|----------|-----------|----------|------------|----------|-----------|----------|------------|
| | | Local | | Export | | Local | | Export | |
| | | Quantity | Amount | Quantity | Amount | Quantity | Amount | Quantity | Amount |
| Monitors | | 1,339 | 1,989,550 | 23,764 | 13,346,865 | 1,053 | 1,840,872 | 19,357 | 12,367,789 |

5.3 Human Resources

| Year | | 2017 | 2018 | Data as of ending data in the current year |
|--------------------------|--------------------------|--------|--------|--------------------------------------------|
| Number of Employees | Manager level | 291 | 371 | 373 |
| | IDL(non-manager) | 1,172 | 1,161 | 1,161 |
| | DL | 1,190 | 1,064 | 1,516 |
| | Total | 2,653 | 2,609 | 3,050 |
| Average Age | | 34.19 | 34.66 | 32.67 |
| Average Years of Service | | 5.52 | 5.30 | 5.15 |
| Education | Ph.D. | 3.26% | 3.65% | 3.05% |
| | Masters | 16.41% | 17.85% | 15.13% |
| | Bachelor's Degree | 24.87% | 46.19% | 54.96% |
| | Senior High School | 11.75% | 21.58% | 19.58% |
| | Below Senior High School | 43.71% | 10.73% | 7.27% |

5.4 Information on environmental protection expenditure

Loss from pollution to the environment (including the compensation) and penalty in the most recent year to the date this report was printed, explain the policy in response in the future (including corrective action plan) and possible expenses (including the estimated amount of possible loss, penalty and compensation due to the failure of the remedy. If estimation could not be reasonably estimated, explain with evidence):

5.4.1 Loss from pollution to the environment in the most recent year to the date this report was printed: nil.

5.4.2 Remedy and possible spending in the future: Intensify the matching between the environmental protection permission documents and the practice of environmental protection on shop floor, and implement the proper change in the management program for facilitating audits.

E Ink treasures issues pertinent to environmental protection. Further to the effort in anti-pollution, the Company also duly observes domestic laws governing the standard of emissions, retains qualified waste disposal and treatment plant for handling wastes, assures the proper classification of wastes, and upgrades the recycling rate of resourceful wastes. The Company also follows the environmental protection files in setting up facilities for the treatment of air and water pollutants in conformity to the emission standards governed by applicable laws in Taiwan. There is no other expense further to the aforementioned expenses incurred from the maintenance and operation of the environmental protection facilities.

5.5 Labor Relations

5.5.1 Employee welfare and benefits, training, development, retirement scheme and its implementation, labor-management agreements, and protection of employee rights:

1. Employee welfare and benefits

- (1) Employee benefits are managed by the Employee Welfare Committee. Social events are organized on a regular basis to help employees recover from the stress of work.
- (2) In addition to labor insurance, E Ink employees also receive group life, accident, medical and cancer-prevention insurance, national health insurance and regular health exams to provide them with additional layers of protection.
- (3) The company budgets for employee education and training every year to help employees improve their management and professional skills as well as provide employees with a personalized career development plan.
- (4) To build a people-centric management system, management rules are revised when necessary based on labor standards and changes in the business environment.
- (5) Reasonable compensation and incentives are provided to recruit competitive workers.
- (6) Clear channels of advancement are provided for outstanding personnel.
- (7) Regular labor-management meetings are convened to communicate with employees.

2. Employee education and training

E Ink employees are considered the company's most important asset. A strong emphasis is placed on the cultivation and training of talent. Various education and training systems are offered to satisfy the learning requirements of employees. Comprehensive educational resources and a sound learning environment are provided so that employees can improve their own skills through education and training. The overall quality of company personnel will continue to increase.

E Ink plans to introduce an "e-Learning System" that will develop a training map for people in each field and provide them with specialized training plans in 2018. The training courses will be divided into the six main categories:

- (1) Orientation course: Compulsory training for everyone in the company. The contents cover introduction to the company, corporate image, company products and principles, personnel management rules, employee benefits, business code of conduct (theory) and industrial safety education & training.

- (2) General knowledge course: Help teams develop their core competency and provide progressive learning courses for people of all ranks.
- (3) Professional course: Cultivate key talents and boost the competitiveness of the organization through talent development. Use e-learning platform for knowledge management and combined them with internal professional training conducted by each unit to pass on past experience and build an environment for continuous learning.
- (4) Management course: Design management training targeted at management weaknesses based on the results of performance evaluations. The education and training will include: innovative thinking, management skills, strategic goal management, unit performance management and execution management.
- (5) Group English course: To improve the ability of employees to communicate internationally in English, English requirements for promotions, group courses and TOIEC exam subsidies were integrated to create an environment conducive to English learning.
- (6) Production line personnel training: Provide technicians on the production line with the knowledge they need as well as the necessary exams to ensure they are licensed to operate the machinery. These include: Introduction to TFT/EPD Defects, front-end/back-end machine operations and certification training, training on ionizing free radiation, electro-static (ESD) prevention management, clean-room management rules and testing.

3. Employee Code of Conduct or Ethics

E Ink has always embraced a philosophy of "putting people first." In addition to respecting our employees for their expertise, we also provide them with a stage where they can truly show-off their talents. HR must therefore provide new employees with the relevant company rules upon arrival and ask them to live by those rules.

4. Employee safety and health

The "safety" and "health" of employees has always been a key issue for E Ink. We've not only received international certification on OHSAS 18001 Professional Safety and Health Management System but also received international certification on the ISO 14001 Environmental Management System. For employee health management, employee health exams are conducted on a regular basis as required by law. Coverage of the health exams exceeds mandatory protections for worker health.

5.5.2 Retirement scheme and its implementation.

The employee retirement rules were developed based on the "Labor Standards Act": and "Labor Pension Act." Monthly contributions are made to the pension preparatory fund at the Bank of Taiwan in accordance with the "Labor Standards Act". Employee pensions are paid directly to their personal account as required by the " Labor Pension Act." The new and old pension systems above are both carried out in accordance with the law.

5.5.3 Labor-Management Disputes

The measures and rules regarding the implementation of labor relations shall be carried out in accordance with the relevant laws.

5.5.4 Estimation of current and potential future losses suffered by the company due to labor-management disputes in the last two years and up to the publication of this report, and the measures taken in response:

Explanation of labor-management dispute at "Hydis Technologies Co., Ltd. ("Hydis")"

Mediation by the Seoul High Court finally led to the Hydis company and Hydis union both agreeing to the court's recommendations in early February 2018, bringing the dispute between the company and dismissed workers to a successful conclusion for all concerned. The civil lawsuit, administrative litigation, and other claims for damages between Hydis and dismissed workers (including 58 in manufacturing and 15 from equipment) were all withdrawn.

5.6 Important Contracts

| Agreement | Counterparty | Period | Major Contents | Restrictions |
|-------------------------------|-----------------------------|--------------|-----------------|--------------|
| Patent and Technology license | A company | As Agreement | ePaper | NA |
| Cross-licensing agreement | B company | As Agreement | Cross-licensing | As Agreement |
| Cross-licensing agreement | C company | As Agreement | Cross-licensing | As Agreement |
| Cross-licensing agreement | D company | As Agreement | Cross-licensing | As Agreement |
| Cross-licensing agreement | E company | As Agreement | Cross-licensing | As Agreement |
| Cross-licensing agreement | F company | As Agreement | Cross-licensing | As Agreement |
| Cross-licensing agreement | D company | As Agreement | Cross-licensing | As Agreement |
| Land Lease Contract | Hsinchu Science Park Bureau | As Agreement | Land Lease | As Agreement |
| Cross-licensing agreement | G company | As Agreement | Cross-licensing | As Agreement |



6 Financial Information

6.1 Five-Year Financial Summary

A. Stand-alone Condensed Balance Sheet - Based on IFRS

Unit: NT\$ thousands

| Item | Year | Financial Information for The Last Five Years ^{Note 1} | | | | | As of March 31, 2019 |
|-------------------------------|---------------------|-----------------------------------------------------------------|------------|------------|------------|------------|----------------------|
| | | 2014 | 2015 | 2016 | 2017 | 2018 | |
| Current assets | | 7,906,308 | 5,719,032 | 5,811,675 | 7,259,317 | 6,919,381 | Not Applicable |
| Property, Plant and Equipment | | 1,994,224 | 1,770,660 | 1,511,731 | 1,435,385 | 1,376,998 | |
| Intangible assets | | 106,479 | 123,694 | 198,165 | 209,607 | 254,224 | |
| Other non-current assets | | 28,533,208 | 25,598,659 | 25,291,037 | 25,327,895 | 26,783,798 | |
| Total assets | | 38,540,219 | 33,212,045 | 32,812,608 | 34,232,204 | 35,334,401 | |
| Current liabilities | Before distribution | 10,039,589 | 6,507,735 | 5,666,215 | 7,194,655 | 7,259,294 | |
| | After distribution | 10,039,589 | 7,043,755 | 7,346,917 | 9,048,205 | Note 2 | |
| Non-current liabilities | | 1,867,104 | 24,499 | 56,378 | 105,051 | 146,462 | |
| Total liabilities | Before distribution | 11,906,693 | 6,532,234 | 5,722,593 | 7,299,706 | 7,405,756 | |
| | After distribution | 11,906,693 | 7,068,254 | 7,403,295 | 9,153,256 | Note 2 | |
| Total equity | | 26,633,526 | 26,679,811 | 27,090,015 | 26,932,498 | 27,928,645 | |
| Capital stock | | 11,404,677 | 11,404,677 | 11,404,677 | 11,404,677 | 11,404,677 | |
| Share capital | | 10,071,578 | 10,071,578 | 10,071,683 | 10,108,119 | 10,243,293 | |
| Retained earnings | Before distribution | 3,616,465 | 4,122,865 | 5,485,499 | 5,621,362 | 6,721,050 | |
| | After distribution | 3,616,465 | 3,586,845 | 3,804,797 | 3,767,812 | Note 2 | |
| Other equity | | 1,540,806 | 1,080,691 | 488,620 | 106,609 | (255,475) | |
| Treasury stock | | - | - | (360,464) | (308,269) | (184,900) | |
| Non-controlling interests | | - | - | - | - | - | |
| Total equity | Before distribution | 26,633,526 | 26,679,811 | 27,090,015 | 26,932,498 | 27,928,645 | |
| | After distribution | 26,633,526 | 26,143,791 | 25,409,313 | 25,078,948 | (Note 2) | |

Note 1: Below financial information is based on the audited financial statements of the corresponding year.

Note 2: The appropriations of earnings for 2018 were approved by the board of directors and finalized after the resolution of the shareholders' meeting of 2019.

B. Consolidated Condensed Balance Sheet - Based on IFRS

Unit: NT\$ thousands

| Item | Year | Financial Information for The Last Five Years ^{Note 1} | | | | | As of March 31, 2019 |
|-------------------------------|---------------------|-----------------------------------------------------------------|------------|------------|------------|------------|----------------------|
| | | 2014 | 2015 | 2016 | 2017 | 2018 | |
| Current assets | | 15,882,253 | 13,730,805 | 14,707,222 | 17,747,740 | 18,870,925 | 20,259,421 |
| Property, Plant and Equipment | | 9,041,082 | 6,497,167 | 5,319,822 | 4,752,982 | 4,521,441 | 4,443,294 |
| Intangible assets | | 9,675,994 | 9,461,830 | 9,178,475 | 8,591,789 | 8,526,053 | 8,462,359 |
| Other non-current assets | | 4,354,523 | 3,735,424 | 4,208,044 | 4,783,409 | 4,995,689 | 7,309,237 |
| Total assets | | 38,953,852 | 33,425,226 | 33,413,563 | 35,875,920 | 36,914,108 | 40,474,311 |
| Current liabilities | Before distribution | 9,112,824 | 6,036,805 | 5,143,950 | 6,871,552 | 6,569,117 | 7,421,166 |
| | After distribution | 9,112,824 | 6,572,825 | 6,824,652 | 8,725,102 | Note 2 | Note 2 |
| Non-current liabilities | | 3,328,026 | 804,891 | 1,180,474 | 1,777,473 | 2,030,547 | 3,615,434 |
| Total liabilities | Before distribution | 12,440,850 | 6,841,696 | 6,324,424 | 8,649,025 | 8,599,664 | 11,036,600 |
| | After distribution | 12,440,850 | 7,377,716 | 8,005,126 | 10,502,575 | Note 2 | Note 2 |
| Total equity | | 26,633,526 | 26,679,811 | 27,090,015 | 26,932,498 | 27,928,645 | 29,033,225 |
| Capital stock | | 11,404,677 | 11,404,677 | 11,404,677 | 11,404,677 | 11,404,677 | 11,404,677 |
| Share capital | | 10,071,578 | 10,071,578 | 10,071,683 | 10,108,119 | 10,243,293 | 10,280,947 |
| Retained earnings | Before distribution | 3,616,465 | 4,122,865 | 5,485,499 | 5,621,362 | 6,721,050 | 7,164,285 |
| | After distribution | 3,616,465 | 3,586,845 | 3,804,797 | 3,767,812 | Note 2 | Note 2 |
| Other equity | | 1,540,806 | 1,080,691 | 488,620 | 106,609 | (255,475) | 368,216 |
| Treasury stock | | - | - | (360,464) | (308,269) | (184,900) | (184,900) |
| Non-controlling interests | | (120,524) | (96,281) | (876) | 294,397 | 385,799 | 404,486 |
| Total equity | Before distribution | 26,513,002 | 26,583,530 | 27,089,139 | 27,226,895 | 28,314,444 | 29,437,711 |
| | After distribution | 26,513,002 | 26,047,510 | 25,408,437 | 25,373,345 | Note 2 | Note 2 |

Note 1: Below financial information is based on the audited financial statements of the corresponding year.

Note 2: The appropriations of earnings for 2018 were approved by the board of directors and finalized after the resolution of the shareholders' meeting of 2019.

Note 3: Below financial information is not based on the audited financial statements.

6.1.2 The Last Five Years Condensed Statement of Comprehensive Income

A. Stand-alone Condensed Statement of Comprehensive Income - Based on IFRS

Unit: NT\$ thousands

| Item | Year | Financial Information for The Last Five Years ^{Note 1} | | | | | As of March 31, 2019 |
|------------------------------------------------------|------|-----------------------------------------------------------------|------------|------------|------------|------------|----------------------|
| | | 2014 | 2015 | 2016 | 2017 | 2018 | |
| Operating revenue | | 12,461,581 | 12,501,126 | 13,112,855 | 13,905,359 | 12,773,679 | Not Applicable |
| Gross profit | | 919,055 | 1,973,787 | 1,740,245 | 2,648,799 | 2,191,574 | |
| Income from operations | | (486,906) | 511,724 | 130,769 | 934,774 | 256,550 | |
| Non-operating income and expenses | | 458,895 | 122,021 | 1,830,786 | 1,297,179 | 2,410,833 | |
| Income before income tax | | (28,011) | 633,745 | 1,961,555 | 2,231,953 | 2,667,383 | |
| Net income (loss) for the year | | 13,476 | 539,330 | 1,907,939 | 2,078,065 | 2,613,673 | |
| Other comprehensive income (loss) (income after tax) | | 939,451 | (483,569) | (601,356) | (387,910) | (377,654) | |
| Total comprehensive income for the year | | 952,927 | 55,761 | 1,306,583 | 1,690,155 | 2,236,019 | |
| Earnings per share ^{Note 2} | | 0.01 | 0.47 | 1.69 | 1.85 | 2.32 | |

Note 1: Below financial information is based on the audited financial statements of the corresponding year.

Note 2: Earnings per share are based on the weighted average number of shares outstanding of the corresponding year.

B. Consolidated Condensed Statement of Comprehensive Income - Based on IFRS

Unit: NT\$ thousands

| Item | Year | Financial Information for The Last Five Years ^{Note 1} | | | | | As of March 31, 2019 |
|----------------------------------------------------------------------|------|-----------------------------------------------------------------|-------------|------------|------------|------------|----------------------|
| | | 2014 | 2015 | 2016 | 2017 | 2018 | |
| Operating revenue | | 13,498,720 | 13,306,503 | 14,006,206 | 15,203,334 | 14,208,661 | 2,954,772 |
| Gross profit | | 3,049,866 | 4,148,730 | 5,120,546 | 6,284,416 | 5,930,176 | 1,253,340 |
| Income from operations | | (1,388,942) | (449,217) | 60,588 | 1,102,387 | 457,165 | (107,499) |
| Non-operating income and expenses | | 2,955,409 | 3,196,182 | 2,347,936 | 2,235,624 | 2,802,103 | 712,399 |
| Income before income tax | | 1,566,467 | 2,746,965 | 2,408,524 | 3,338,011 | 3,259,268 | 604,900 |
| Net income from continuing operations | | 1,942,431 | 2,429,173 | 2,057,909 | 2,932,298 | 2,692,076 | 459,610 |
| Loss from discontinued operations | | (1,888,222) | (1,861,568) | (64,588) | (849,968) | - | - |
| Net income (loss) for the year | | 54,209 | 567,605 | 1,993,321 | 2,082,330 | 2,692,076 | 459,610 |
| Other comprehensive income (loss) (income after tax) | | 934,274 | (481,085) | (591,333) | (368,115) | (380,558) | 626,003 |
| Total comprehensive income for the year | | 988,483 | 86,520 | 1,401,988 | 1,714,215 | 2,311,518 | 1,085,613 |
| Net income attributable to owners of the company | | 13,476 | 539,330 | 1,907,939 | 2,078,065 | 2,613,673 | 438,048 |
| Net income attributable to non-controlling interests | | 40,733 | 28,275 | 85,382 | 4,265 | 78,403 | 21,562 |
| Total comprehensive income attributable to owners of the company | | 952,927 | 55,761 | 1,306,583 | 1,690,155 | 2,236,019 | 1,066,926 |
| Total comprehensive income attributable to non-controlling interests | | 35,556 | 30,759 | 95,405 | 24,060 | 75,499 | 18,687 |
| Earnings per share ^{Note 2} | | 0.01 | 0.47 | 1.69 | 1.85 | 2.32 | 0.39 |

Note 1: Below financial information is based on the audited financial statements of the corresponding year.

Note 2: Earnings per share are based on the weighted average number of shares outstanding of the corresponding year.

Note 3: Below financial information is not based on the audited financial statements.

6.1.3 Auditors' Opinions from 2014 to 2018

| Year | Accounting Firm | CPA | Audit Opinion |
|------|----------------------------------|-------------------------------|---------------------|
| 2014 | Deloitte Touche Tohmatsu Limited | Lin Shuzhen / Ya-ling Weng | unqualified opinion |
| 2015 | Deloitte Touche Tohmatsu Limited | Ya-ling Weng / Chih-Ming Shao | unqualified opinion |
| 2016 | Deloitte Touche Tohmatsu Limited | Ya-ling Weng / Chih-Ming Shao | unqualified opinion |
| 2017 | Deloitte Touche Tohmatsu Limited | Ya-ling Weng / Chih-Ming Shao | unqualified opinion |
| 2018 | Deloitte Touche Tohmatsu Limited | Ya-ling Weng / Chih-Ming Shao | unqualified opinion |

6.2 Five-Year Financial Analysis

A. Financial Analysis Unconsolidated - Based on IFRS

| Item | Year | Financial Analysis for the Last Five Years | | | | | As of March 31, 2019 |
|-------------------------|-------------------------------------------------------------|--------------------------------------------|----------|----------|----------|----------|----------------------|
| | | 2014 | 2015 | 2016 | 2017 | 2018 | |
| Financial structure (%) | Debt Ratio | 30.89 | 19.67 | 17.44 | 21.32 | 20.96 | Not applicable |
| | Ratio of long-term capital to property, plant and equipment | 1,429.16 | 1,508.16 | 1,795.72 | 1,883.64 | 2,038.86 | |
| Solvency (%) | Current ratio | 78.75 | 87.88 | 102.57 | 100.9 | 95.32 | |
| | Quick ratio | 68.36 | 71.17 | 84.73 | 72.88 | 70.64 | |
| | Interest earned ratio (times) | 0.73 | 11.14 | 117.73 | 229.42 | 187.41 | |
| Operating performance | Accounts receivable turnover (times) | 2.33 | 3.78 | 3.74 | 3.34 | 3.04 | |
| | Average collection period | 157 | 97 | 98 | 110 | 121 | |
| | Inventory turnover (times) | 9.63 | 11.61 | 12.87 | 7.95 | 5.89 | |
| | Accounts payable turnover (times) | 1.41 | 2.06 | 2.47 | 2.06 | 2.07 | |
| | Average days in sales | 38 | 32 | 29 | 46 | 62 | |
| | Property, plant and equipment turnover (times) | 6.14 | 6.64 | 7.99 | 9.44 | 9.08 | |
| | Total assets turnover (times) | 0.31 | 0.35 | 0.4 | 0.41 | 0.37 | |
| Profitability | Return on total assets (%) | 0.25 | 1.64 | 5.82 | 6.22 | 7.55 | |
| | Return on stockholders' equity (%) | 0.05 | 2.02 | 7.1 | 7.69 | 9.53 | |
| | Pre-tax income to paid-in capital (%) | -0.25 | 5.56 | 17.2 | 19.57 | 23.39 | |
| | Profit ratio (%) | 0.11 | 4.31 | 14.55 | 14.94 | 20.46 | |
| | Earnings per share (NT\$) | 0.01 | 0.47 | 1.69 | 1.85 | 2.32 | |
| Cash flow | Cash flow ratio (%) | -1.54 | -14.35 | 14.40 | 12.12 | 0.61 | |
| | Cash flow adequacy ratio (%) | 99.62 | 56.34 | 105.41 | 16.62 | -33.36 | |
| | Cash reinvestment ratio (%) | -0.42 | -2.66 | 0.79 | -2.37 | -5.15 | |
| Leverage | Operating leverage | 0.38 | 1.57 | 3.27 | 1.29 | 2.10 | |
| | Financial leverage | 0.82 | 1.14 | 1.14 | 1.01 | 1.06 | |

| Item | Year | Financial Analysis for the Last Five Years | | | | | As of March 31, 2019 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|------|--------------------------------------------|------|------|------|------|----------------------|
| | | 2014 | 2015 | 2016 | 2017 | 2018 | |
| Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%) | | | | | | | |
| (1) Inventory turnover declined and average collection period raised mainly due to prebuild for production increase and lead to the inventory increased. | | | | | | | |
| (2) Profitability increased mainly due to the profit from investment in other companies increased. | | | | | | | |
| (3) Cash flow ratio and Cash flow adequacy ratio declined mainly due to net cash generated from operating activities decreased. | | | | | | | |
| (4) Leverage increased mainly due to net operating profit decreased. | | | | | | | |

B. Consolidated Financial Analysis Consolidated - Based on IFRS

| Item | Year | Financial Analysis for the Last Five Years | | | | | As of March 31, 2019 |
|-------------------------|-------------------------------------------------------------|--------------------------------------------|--------|--------|--------|--------|----------------------|
| | | 2014 | 2015 | 2016 | 2017 | 2018 | |
| Financial structure (%) | Debt Ratio | 31.94 | 20.47 | 18.93 | 24.11 | 23.3 | 27.27 |
| | Ratio of long-term capital to property, plant and equipment | 331.39 | 423.03 | 531.42 | 604.04 | 662.60 | 734.79 |
| Solvency (%) | Current ratio | 174.28 | 227.45 | 285.91 | 258.28 | 287.27 | 273.00 |
| | Quick ratio | 149.10 | 200.74 | 252.83 | 223.88 | 253.08 | 239.29 |
| | Interest earned ratio (times) | -1.43 | 10.68 | 76.18 | 103.14 | 114.94 | 32.61 |
| Operating performance | Accounts receivable turnover (times) | 4.51 | 6.62 | 8.77 | 8.36 | 6.68 | 5.05 |
| | Average collection period | 81 | 56 | 42 | 44 | 55 | 73 |
| | Inventory turnover (times) | 4.03 | 5.36 | 6.15 | 4.95 | 4.07 | 3.27 |
| | Accounts payable turnover (times) | 5.11 | 7.12 | 8.22 | 5.34 | 4.67 | 4.94 |
| | Average days in sales | 91 | 69 | 60 | 74 | 90 | 112 |
| | Property, plant and equipment turnover (times) | 1.43 | 1.71 | 2.37 | 3.02 | 3.06 | 2.64 |
| | Total assets turnover (times) | 0.34 | 0.37 | 0.42 | 0.44 | 0.39 | 0.31 |
| Profitability | Return on total assets (%) | 0.36 | 1.69 | 5.78 | 6.06 | 7.24 | 1.09 |
| | Return on stockholders' equity (%) | 0.05 | 2.02 | 7.10 | 7.69 | 9.53 | 1.54 |
| | Pre-tax income to paid-in capital (%) | -3.18 | 7.52 | 19.80 | 21.78 | 27.89 | 5.11 |
| | Profit ratio (%) | 0.10 | 4.05 | 13.62 | 13.67 | 18.39 | 14.83 |
| | Earnings per share (NT\$) | 0.01 | 0.47 | 1.69 | 1.85 | 2.32 | 0.39 |
| Cash flow | Cash flow ratio (%) | 46.10 | 40.75 | 93.87 | 80.26 | 37.77 | 2.53 |
| | Cash flow adequacy ratio (%) | 145.39 | 156.12 | 236.02 | 310.34 | 217.97 | 177.24 |
| | Cash reinvestment ratio (%) | 8.07 | 7.12 | 12.20 | 11.31 | 1.77 | 0.51 |

| Item | Year | Financial Analysis for the Last Five Years | | | | | As of March 31, 2019 |
|----------|--------------------|--------------------------------------------|-------|-------|------|------|----------------------|
| | | 2014 | 2015 | 2016 | 2017 | 2018 | |
| Leverage | Operating leverage | -0.41 | -2.71 | 22.63 | 2.06 | 3.42 | -1.87 |
| | Financial leverage | 0.90 | 0.84 | 1.96 | 1.02 | 1.07 | 1.21 |

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

- (1) Accounts receivable turnover declined and average collection period raised mainly due to average account receivable increased as a result of 2018 Q4 sales revenue increased.
- (2) Average collection period raised mainly due to inventory increase from production prebuild.
- (3) Profitability increased mainly due to the decline of net loss from discontinued operation.
- (4) Cash flow ratio and Cash flow adequacy ratio declined mainly due to net cash generated from operating activities decreased.
- (5) Operating leverage increased mainly due to the decrease from net operating profit.

6.3 The Review Report of the Audit Committee on the financial statements covering the most recent year.

Review Report of the Audit Committee

We express our consent on the separate and consolidated financial statements compiled by the Board of Directors covering the year ended on December 31, 2018. These financial statements were audited by Ya-ling Weng and Chih-Ming Shao, CPAs of Deloitte Taiwan with the issuance of Auditors' Report.

The Board of Directors also presented the 2018 Business Report and Proposal for Distribution of Income of the year for our review. In our opinion, these reports and statements were fairly presented in accordance with applicable legal rules. We present the aforementioned statements and report to the Shareholders Meeting pursuant to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

2019 Annual General Meeting of Stockholders Meeting

E INK HOLDINGS INC.

Convener of the Audit Committee Ten Chung Chen

March 20, 2019

- 6.4 The financial statements covering the last 2 years, including the Auditors' Report, Comparative Balance Sheets, Comparative Income Comparative Comprehensive Income Statements, Comparative Statement of Changes in equity, and Comparative Statements of Cash Flows covering the last 2 years and the notes to financial statements: refer to Appendix.
- 6.5 Audited Separate financial Statements covering the most recent year, excluding the list of important accounting items: refer to Appendix.
- 6.6 Insolvency of the Company and its affiliates in the most recent year to the date this report was printed, and the influence on the financial position of the Company: nil.



7 Review of Financial Conditions, Financial Performance, and Risk Management

7.1 Analysis of Financial Status

Unit: NT\$ thousands

| Item \ Year | Dec. 31th, 2018 | Dec. 31th, 2017 | Difference | |
|--------------------------------------------------------------------------------|-----------------|-----------------|------------|----------|
| | | | Amount | % |
| Current assets | 18,870,925 | 17,747,740 | 1,123,185 | 6.33% |
| Property, plant and equipment | 4,521,441 | 4,752,982 | (231,541) | -4.87% |
| Intangible assets | 8,526,053 | 8,591,789 | (65,736) | -0.77% |
| Other non-current assets | 4,995,689 | 4,783,409 | 212,280 | 4.44% |
| Total assets | 36,914,108 | 35,875,920 | 1,038,188 | 2.89% |
| Current liabilities | 6,569,117 | 6,871,552 | (302,435) | -4.40% |
| Long-term borrowings | 44,752 | 45,545 | (793) | -1.74% |
| Other non-current liabilities | 1,985,795 | 1,731,928 | 253,867 | 14.66% |
| Total liabilities | 8,599,664 | 8,649,025 | (49,361) | -0.57% |
| Total equity attributable to owners of the Company | 27,928,645 | 26,932,498 | 996,147 | 3.70% |
| Share capital | 11,404,677 | 11,404,677 | 0 | 0.00% |
| Capital surplus | 10,243,293 | 10,108,119 | 135,174 | 1.34% |
| Retained earnings | 6,721,050 | 5,621,362 | 1,099,688 | 19.56% |
| Other equity | (255,475) | 106,609 | (362,084) | -339.64% |
| Treasury shares | (184,900) | (308,269) | 123,369 | 40.02% |
| Total Net Income Attributable to Shareholders of the non-controlling interests | 27,928,645 | 26,932,498 | 996,147 | 3.70% |
| Total Comprehensive Income Attributable to Shareholders of the Parent | 385,799 | 294,397 | 91,402 | 31.05% |
| Total equity | 28,314,444 | 27,226,895 | 1,087,549 | 3.99% |

Analysis of changes in financial status:

- (1) Other non-current liabilities raised significantly mainly due to increase in advance payment of royalties.
- (2) Retained earnings increased mainly due to net profit increased.
- (3) Other equity declined mainly due to market value fluctuation of the equity investments resulted to unrealized losses.
- (4) Treasury shares decreased due to the distribution of shares to employees.
- (5) Non-controlling interests raised mainly due to the increase of net profit from not 100% holding subsidiaries .

- **Effect of changes on the company's financial condition:** The Company's financial condition has not changed significantly.
- **Future response actions:** Not applicable

7.2 Analysis of Operation Results

1. Financial Analysis

Unit: NT\$ thousands

| Item | Year | Dec. 31th, 2018 | Dec. 31th,2017 | Difference | |
|-----------------------------------------------------|------|-----------------|----------------|------------|----------|
| | | | | Amount | % |
| Operating revenue | | 14,208,661 | 15,203,334 | (994,673) | -6.54% |
| Operating costs | | 8,278,485 | 8,918,918 | (640,433) | -7.18% |
| Gross profit | | 5,930,176 | 6,284,416 | (354,240) | -5.64% |
| Operating expenses | | 5,473,011 | 5,182,029 | 290,982 | 5.62% |
| Income from operations | | 457,165 | 1,102,387 | (645,222) | -58.53% |
| Non-operating income and expenses | | 2,802,103 | 2,235,624 | 566,479 | 25.34% |
| Income before income tax from continuing operations | | 3,259,268 | 3,338,011 | (78,743) | -2.36% |
| Income tax expenses | | (567,192) | (405,713) | (161,479) | 39.80% |
| Net income from continuing operations | | 2,692,076 | 2,932,298 | (240,222) | -8.19% |
| Income (Loss) from Discontinued Operations | | - | (849,968) | 849,968 | -100.00% |
| Net income | | 2,692,076 | 2,082,330 | 609,746 | -11.54% |

Analysis of changes in financial ratios:

- (1) Operating income decreased mainly due to the operating expenses increased.
- (2) Non-operating income and expenses raised due to the gain from foreign exchange increased.
- (3) Income tax expense increased mainly due to the profit from a subsidiary in South Korea increased.
- (4) Loss from Discontinued Operations decreased mainly due to the assets disposal process was completed in year 2017 and no non-operating sector in 2018.
- (5) Net income of year 2018 increased mainly due to increased gain from foreign exchange and decreased expenses from Discontinued Operation.

2. NT\$ th Effect of changes on the company's future business:

The company sets the annual sales target based on the overall industry environment, market supply and demand situation and past operating performance.

3. Future response actions:

The Company will adjust product portfolio and continue to focus on product optimization and innovation, maintaining technological leadership and product competitiveness in order to expand the market share and enhance the company's profitability.

7.3 Analysis of Cash Flow

7.3.1 Analysis of the changes in cash flows in the most recent year (2018)

Unit: NT\$ thousands

| Cash balance at the beginning of period ① | Cash flows from operating activities of the period ② | Cash flows from investing activities of the period ③ | Cash flows from financing activities of the period ④ | The influence of changes in the exchange rate on cash and cash equivalents ⑤ | Amount of cash surplus (short) ① + ② + ③ + ④ + ⑤ | Remedy for cash short | |
|----------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------|----------------|
| | | | | | | Investment plan | Financing plan |
| 11,878,649 | 2,481,304 | (6,399,581) | (203,499) | (61,767) | 7,695,106 | Not applicable | Not applicable |

1. Analysis of changes in cash flows:

(1) Operating activities: net cash inflow from operation was the mainly the result of related incomes of business growth.

(2) Investing activities: net cash outflow from investment was mainly the result of capital expenditure.

(3) Financing activities: net cash outflow from financing was mainly the result of cash dividend payment.

2. Remedy to cash short and corrective action plan for inadequate liquidity: not applicable.

7.3.2 Cash Flow Analysis for the Coming Year

The Company expected the cash in book and net cash inflow from operating activities in 2019 is adequate for the retirement of bank loans and payment of cash dividend. Cash flow in the year ahead is strong.

7.4 Major Capital Expenditure Items

7.4.1 Major Capital Expenditure Items and Source of Capital

Unit: NT\$ thousands

| Project | Actual or Planned Source of Capital | Actual or Planned Date of Completion | Total Capital | Actual or Expected Capital Expenditure | | | | |
|-------------------------------------------------------------|-------------------------------------|--------------------------------------|------------------|----------------------------------------|-----------------|------------------|------------------|-----------------|
| | | | | 2014 | 2015 | 2016 | 2017 | 2018 |
| Subscribe Convertible Bond of Chungghwa Picture Tubes, Ltd. | Equity | 2014.05 | 1,500,000 | 1,500,000 | - | - | - | - |
| Long term equity investment | Equity | 2014.12 | 1,266,000 | 1,266,000 | - | - | - | - |
| Long term equity investment | Equity | 2015.06 | 9,800 (RMB'000) | - | 9,800 (RMB'000) | - | - | - |
| Long term equity investment | Equity | 2016.01 | 37,500 (RMB'000) | - | - | 37,500 (RMB'000) | - | - |
| Long term equity investment | Equity | 2016.06 | 36,000 | - | - | 36,000 | - | - |
| Long term equity investment | Equity | 2016.06 | 9,800 (RMB'000) | - | - | 9,800 (RMB'000) | - | - |
| Long term equity investment | Equity | 2017.06 | 15,000 (RMB'000) | - | - | - | 15,000 (RMB'000) | - |
| Long term equity investment | Equity | 2017.08 | 24,000 | - | - | - | 24,000 | - |
| Long term equity investment | Equity | 2017.09 | 340,200 | - | - | - | 340,200 | - |
| Long term equity investment | Equity | 2018.01 | 9,000 (RMB'000) | - | - | - | - | 9,000 (RMB'000) |
| Long term equity investment | Equity | 2018.06 | 916,630 | - | - | - | - | 916,630 |

7.4.2 Expected Benefits

1. The Company increased capital at Transyork Technology (Yangzhou) Ltd. by US\$40,000k in 2014, in order to expand EPD capacity and market share, and further secure market position in EPD industry.
2. The Company established Linfiny Corporation as a joint venture with Sony Semiconductor Solutions as a long term business strategy. The new JV will leverage both E Ink's development and manufacturing technology for electronic paper displays and Sony's expertise in product development and marketing. It will aim to create new electronic paper display products and systems and grow the market of ePaper based solutions.
3. The Company subscribed shares of SES-imagotag as a reserved capital increase in attempt to strengthen its business through closer partnership with players in the smart retail ecosystem, and accelerate the collaboration with SES-imagotag to expand their common growth objectives in the retail Internet of Things (IoT) market. With SES-imagotag's worldwide, leading expertise on smart retail solutions, E Ink and SES-imagotag will expand the ePaper display applications in the smart retail sector together.

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 Last Year

1. Invest in EPD supply chain to reduce production cost and increase capacity for long term development of the Company.
2. The choices of investment targets are primarily determined by its potential contribution to the Company's business development and overseas business growth, with consideration of financial risks and return.

7.5.2 Main Causes for Profits or Losses

Net Gain from investment in affiliates is NT\$2,119,710 thousands in Year 2018, increased NT\$1,113,098 Year-on-year, mainly due to foreign exchange gain of subsidiaries as US Dollar appreciated.

7.5.3 Improvement Plans & Investment Plans for the Coming Year

Improve Plans:

The Company will invest in financial products for hedge purpose to eliminate impact of foreign exchange fluctuation.

Investment Plans for the Coming Year:

The Company will continue to develop new EPD and its applications to expand EPD market share. In order to control investment risk, investment evaluation procedure is required for every equity investment by the Company and its subsidiaries, and investments exceed certain monetary threshold must be approved by the Board of Directors. The Company will work on improving transparency of long term equity investment. The investment targets will be focused on vertical integration, and the Company will strengthen post-investment management for higher return on investment.

7.6 Analysis of Risk Management

7.6.1 The influence of interest rate, exchange rate fluctuation, inflation on the income position of the Company, and the responses in the future:

1. Interest rate:

Compared with the previous year, net interest income increased due to the Company has sufficient equity capital and bank interest rates rose.

2. Exchange rate:

Most of the assets and liabilities of the Company denominated in foreign currencies is in USD. The continued appreciation of US Dollar against Asian currencies resulted in exchange gain to the Company in 2018.

Responses in the future: The Company insists on the pursuit of stable foreign exchange strategy for the dynamic adjustment of the position of assets and liabilities in foreign currencies matching with appropriate hedge tools to reduce the effect of exchange rate fluctuation on the overall operation of the Company.

3. Inflation:

Most countries of the world still adopted the QE policy. Global inflation is still moderate that the influence on the profit position of the Company is only marginal.

7.6.2 Undertaking of high risk and high leverage investment, the policies of loaning of funds to a third party, and endorsement/guarantee, the main reason for profit or loss, and the response in the future:

The Company was not engaged in high risk and high leverage investment. In general, the Company does not finance a third party or undertake endorsement/guarantee in favor of a third party except to subsidiaries under the control of the Company or for business reasons. Loaning of funds and endorsement/guarantee shall be subject to review and evaluation in accordance with the "Procedure for Loaning of Funds and Endorsement/Guarantee" in processing. The Company engaged in derivative trade for hedge only and will proceed with the policies and measurement under the "Procedure for the Acquisition or Disposition of Assets" of the Company.

7.6.3 R&D Plan in the future and the projection of expenses for R&D:

The Company will continue the research and development on hand in 5 years ahead in the same direction and will target at large screen size, color, slim and light, touch control, writable and flexible product for ePaper in the area of display. In addition, the Company will continue the development of other displays, such as the Active Matrix OTFT component and invest in the development of backboard technology. With the technological advantages of different forms of displays, the Company will integrate with the specific product requirement of the niche group of customers and could maintain sustainable development in the display industry where keen competition is the order of the day.

Further to the application of the E-Read and the development of related technologies, the Company will broaden the application of ePaper to areas other than display. This will be the gravity and direction of the R&D team. Currently, the ePaper technology of E Ink has yielded result in the area of electronic tag. The R&D tea will respond to the needs of the market and launch related products to respond to the quick development of the area of electronic tag. Effort has also been made in the development of applications in other areas such as the Notebook PC system, IoT devices, smart card, double screen cell phones, and bulletin board. The R&D expenses incurred from the aforementioned programs in the year ahead will account for 15%~19% of the revenue.

7.6.4 The influence of the changes in major policies of the home governments and foreign governments, and the regulatory environment, on the financial position and operation of the Company, and the response:

The Company pays close attention to any change in policies and regulatory environment that may affect the operation of the Company and makes corresponding adjustment to its related internal system.

7.6.5 The influence of technological and industrial change on the financial position and operation of the Company, and the response:

The Company pays close attention to the technological development and change in the display industry and proceeds to evaluate and research and development. Technological change and industrial change did not significantly affect the financial position and operation so far.

7.6.6 The influence of the change in corporate image on corporate crisis management, and the response:

The core value of an enterprise is corporate image and reputation. The buildup of an image and accumulation of reputation was rested with the cornerstone of rapid and effective communication and sincerity. It is not only the responsibility of the enterprise but also the responsibility of all of the enterprise for the effective and efficient response to crisis of the enterprise and minimization of the damage. The officers of the Company are well aware of crisis management and amplify the effect of dissemination so that related agencies or the investors could keep abreast of the dynamic situation of the Company. The long-term support and trust of the investors will be an input to the sustainable development of the enterprise for yielding positive result.

7.6.7 The expected result of merger and acquisition and possible risk, and the response: nil.

7.6.8 The expected result from capacity expansion and possible risk:

Feasibility study has been conducted by a professional technology team on capacity expansion and new facilities of the Company before proceeding.

7.6.9 The risks of over concentration of sale and purchase, and the response:

The Company has pursued a diversification policy for avoiding the risk deriving from over concentration in purchase and sale.

7.6.10 The influence and risk from the massive transfer of equity shares or swap by the Directors, Supervisors, or shareholders holding more than 10% of the shares issued by the Company, and the response:

The Directors, Supervisors and dominant shareholders of the Company are highly convergence towards the Company with fair concentration of shareholding. The risk from the massive transfer of swap of shares is unlikely.

7.6.11 The influence and risk from change hand in ownership, and the response:

The Company has a strong team of professional managers. Change in ownership will unlikely affect the competitive advantage of the Company.

7.6.12 Legal actions or non-contentious matters shall be assured to include major legal actions, non-contentious matters or administrative appeals already trialed with sentence or in proceeding as stated in the financial statements covering the most recent year: nil.

7.6.13 Other major risks and response:

Disclosure of Information Security Risk Assessment

1. Risk prevention and continuity management for back-end information systems:

- (1) Server hardware architecture was designed for hardware redundancy. There is hardware redundancy for everything from server hardware and storage equipment to network architecture to prevent interruption to information system services due to hardware single point of failure.
- (2) The information system is equipped with round-the-clock monitoring and warning mechanism. Real-time monitoring has been introduced for all information systems. If there is a system problem then system administrators can be alerted to carry out troubleshooting ASAP.
- (3) The information system is provided with automated scheduling and off-site data backup mechanisms. The primary E-Ink data center is located at the Hsinchu plant while the backup center is at Linkou plant. Both plants have identical backup systems and mechanisms. Automated scheduling carries out a back-up of the information systems in their respective server rooms every day. Once the backup is complete, the backup system at each plant makes a copy of each other's data. The status of all backups and copies made within the last 24 hours are then automatically reported at 2PM each day.
- (4) There are off-site backup servers for the primary information system and database. The architecture of the primary information systems and databases such as the ERP system is designed to support off-site backup servers. When these systems suffer an unexpected disaster and services cannot be restored right away, the off-site backup servers can be activated to provide continuity of service. Limitations of database operations mean that the data on the live system and backup servers may be out of sync by one hour.
- (5) Data stored by off-site backup may be out of sync by one day. The copying mechanism for off-site data backup is a scheduled for automatic daily execution so the off-site backup may be out of sync by up to one day.

2. Emergency response and crisis management:

E-Ink has defined a rigorous emergency response procedure for system problems. A post-disaster recovery exercise is conducted for the primary systems every year to ensure that employees can handle emergencies in a calm and orderly manner without panicking. After each incident, a post-disaster recovery exercise review is also held and logged for future reference. The information is used to improve operator familiarity and minimize the time need for disaster recovery.

3. Continuity management and information security controls for front-end information equipment:

- (1) The wired network is equipped with network access security controls that prevent unauthorized computers from maliciously connecting to the internal network and accessing the internal company information.
- (2) Strict device and account authentication measures are in place for the wireless network to prevent unauthorized devices from accessing the internal network as well.
- (3) Strict information security controls are installed for computer terminals. In addition to hardware encryption, strict controls and application procedures have been put into place for USB ports, software installation, and the access of network or cloud storage devices.
- (4) The necessary security controls have been put into place for managing smart mobile devices used as mobile offices. These not only meet the mobile office needs of employees but also provide the necessary information security controls.
- (5) Devices with Internet access are equipped with online behavior management and virus protection mechanisms. The websites that employees can access are also filtered. The age of the system however means it may provide insufficient protection against constantly evolving web services, computer viruses, phishing attacks, hacker attacks and online scams.
- (6) An e-mail protection system has been set up to filter out computer viruses, phishing attacks, hacker attacks and online scams spread through e-mail.
- (7) Apart from the above system protections, the information security unit conducts educates employees to raise their awareness on potential threats and proper methods of use in order to reduce information security risks to the company.

7.7 Risks of the most recent year and as of the printing date of this annual report: None.

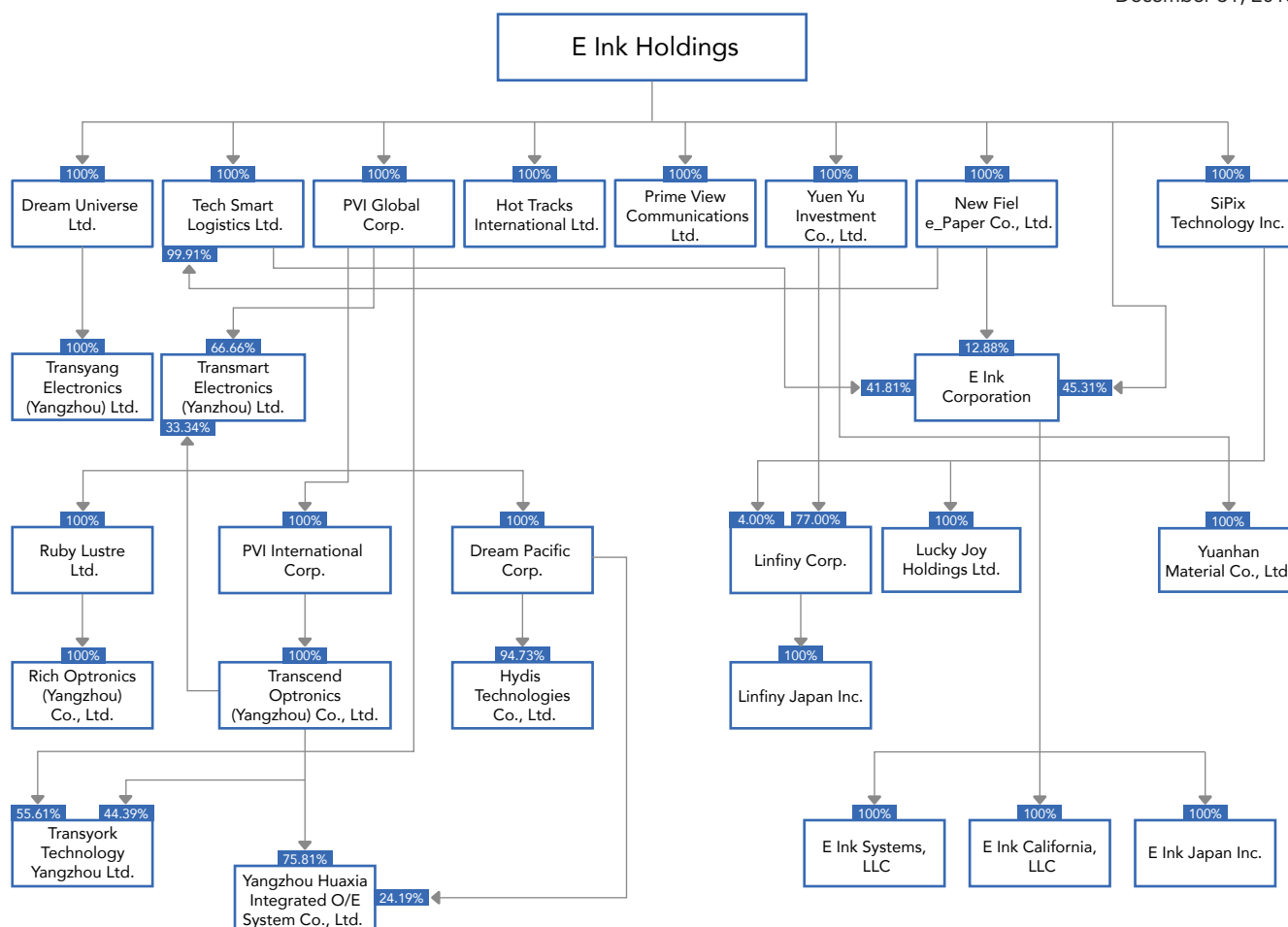


8 Special Disclosure

8.1 Summary of Affiliated Companies

8.1.1 Summary of Affiliated Companies

December 31, 2018



8.1.2 Basic Information of Affiliated Companies

December 31, 2018/In NT\$'000 unless otherwise specified

| Company Name | Date of Inception | Address | Registered Capital | Main Business or Production |
|------------------------------|-------------------|----------------------------------------------------------------------------------|--------------------|-----------------------------------------------------------|
| Yuen Yu Investment Co., Ltd. | 2000.05.29 | 15F, No. 51, Sec. 2, Chongqing S. Rd., Zhongzheng Dist., Taipei City 100, Taiwan | 1,524,326 | Investment |
| New Field e_Paper Co., Ltd. | 2009.06.01 | No. 199 Huaya Road 2, Kweishan Taoyan Taiwan | 6,710,323 | Sale & distribution of electronic components and material |
| SiPix Technology Inc. | 2002.07.02 | No. 199 Huaya Road 2, Kweishan Taoyan Taiwan | 0.9 | Sale and Manufacturing of EPD |
| Linfiny Corporation | 2017.04.11 | No. 199 Huaya Road 2, Kweishan Taoyan Taiwan | 420,000 | Sale and Development of EPD |

| Company Name | Date of Inception | Address | Registered Capital | Main Business or Production |
|-------------------------------------------------|-------------------|-----------------------------------------------------------------------------------------|--------------------|----------------------------------------------|
| Yuanhan Material Co., Ltd. | 2017.08.09 | 9F, No. 111, Xiyuan Rd., Zhongli Dist., Taoyuan City 320, Taiwan | 100,000 | Sale & distribution of electronic components |
| Linfiny Japan Inc. | 2017.04.27 | 1-24-2, Taito, Taito District, Tokyo, Japan | 20,000 (JPY'000) | Sale and Development of EPD |
| E Ink Corporation | 1997.04.02 | 1000 Technology Park Drive, Billerica, Massachusetts, United States of America | US\$2 | Manufacturing and Development of EPD |
| E Ink California, LLC | 2014.07 | 47485 Seabridge Dr., Fremont, CA, 94538, USA | 190 (US\$'000) | Sale and Development of EPD |
| E Ink Systems, LLC | 2016.02.08 | 1209 Orange Street, City of Wilmington, Country of New Castle, Delaware 19801 | 337 (US\$'000) | Development of Software |
| E Ink Japan | 2014.12.04 | 2F,Dai 12 Daitetsu Bldg., 3-12, Yotsuya 4-chome, Shinjuku-ku, Tokyo | 10,000 (JPY'000) | Sale and Development of EPD |
| PVI Global Corp. | 2002.04.30 | Palm Grove House, P.O. BOX 438, Road Town, Tortola, British Virgin Islands | 99,496 (US\$'000) | Investment |
| PVI International Corp. | 2002.04.30 | Palm Grove House, P.O. BOX 438, Road Town, Tortola, British Virgin Islands | 151,300 (US\$'000) | International Trading |
| Prime View Communications Ltd. | 2002.04.11 | 2/F., SHATIN INDUSTRIAL BUILDING, 22-28 WO SHUI STREET,FOTAN, SHATIN,N.T., HONG KONG | 3,570 (HK\$'000) | International Trading |
| Hot Tracks International Ltd. | 2002.12.11 | Palm Grove House, P.O. BOX 438, Road Town, Tortola, British Virgin Islands | 50 (US\$'000) | International Trading |
| Tech Smart Logistics Ltd. | 2002.12.11 | Palm Grove House, P.O. BOX 438, Road Town, Tortola, British Virgin Islands | 151,550 (US\$'000) | International Trading |
| Dream Universe Ltd. | 2004.03.31 | 3rd Floor, Raffles Tower,19 Cybercity, Ebene, Republic of Mauritius | 4,050 (US\$'000) | International Trading |
| Ruby Lustre Ltd. | 2003.01.03 | Palm Grove House, P.O. BOX 438, Road Town, Tortola, British Virgin Islands | 30,000 (US\$'000) | Investment |
| Dream Pacific International Corp. | 2004.03.31 | Palm Grove House, P.O. BOX 438, Road Town, Tortola, British Virgin Islands | 26,000 (US\$'000) | Sale of Display Devices |
| Lucky Joy Holdings Ltd. | 2007.02.05 | Equity Trust Chambers, P.O.BOX 3269, Apia, Samoa | 1,098 (US\$'000) | Investment |
| Transcend Optronics (Yangzhou) Co., Ltd. | 2002.04.30 | NO.8,Wuzhou West Road, Economic and Technological Development Zone, YANGZHOU, P.R.China | 151,300 (US\$'000) | Module Assembly |
| Rich Optronics (Yangzhou) Co., Ltd. | 2004.03.31 | NO.8,Wuzhou West Road, Economic and Technological Development Zone, YANGZHOU, P.R.China | 30,000 (US\$'000) | Module Assembly |
| Yangzhou Huaxia Integrated O/E System Co., Ltd. | 2002.11.18 | No.518 South Yangzejiang Road, Yangzhou, P.R.China | 18,600 (US\$'000) | Sale and Manufacturing of LED |

| Company Name | Date of Inception | Address | Registered Capital | Main Business or Production |
|------------------------------------------|-------------------|--------------------------------------------------------------------------------------------------|-------------------------|--------------------------------------------|
| Hydis Technologies Co., Ltd. | 2002.11.25 | Urbanbench Building 9F, 325,Teheran-ro,Gangnam-gu, Seoul, Republic of Korea | 19,967,175 (KRW'000) | Sale and Development of Display Devices |
| Transyang Electronics (Yangzhou) Ltd. | 2010.04.12 | NO.8,Wuzhou West Road, Economic and Technological Development Zone, YANGZHOU, P.R.China | 4,000 (US\$'000) | Module Assembly |
| Transmart Electronics (Yangzhou) Ltd. | 100.03.04 | NO.8,Wuzhou West Road, Economic and Technological Development Zone, YANGZHOU, P.R.China | 9,916 (US\$'000) | Sale and Development of Display Devices |
| Transyork Technology Yangzhou Ltd. | 100.03.04 | No.9 South Yangzejiang Road, Yangzhou, P.R.China | 71,931 (US\$'000) | Module Assembly |

8.1.3 Shareholder information of affiliates to which the Company exercise control: None.

8.1.4 Industries covered by business of all affiliated companies

| Company Name | Main Business or Production | Allocation of Function |
|------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------------|
| Yuen Yu Investment Co., Ltd. | Investment | Not Applicable |
| New Field e_Paper Co., Ltd. | Sale & distribution of electronic components and material | Not Applicable |
| SiPix Technology Inc. | Sale and Manufacturing of EPD | Sale, Manufacturing and Development of Electronic Components |
| Linfiny Corporation | Sale and Development of EPD | Sale and Development of Electronic Material |
| Yuanhan Material Co., Ltd. | Sale & distribution of electronic components | Sale, Manufacturing and Development of Electronic Components |
| Linfiny Japan Inc. | Sale and Development of EPD | Sale and Development of Electronic Material |
| E Ink Corporation | Manufacturing and Development of EPD | Sale, Manufacturing and Development of Electronic Components |
| E Ink California, LLC | Sale and Development of EPD | Sale and Development of Electronic Material |
| E Ink Systems, LLC | Development of Software | Development of Software |
| E Ink Japan | Sale and Development of EPD | Sale and Development of Electronic Material |
| PVI Global Corp. | Investment | Not Applicable |
| PVI International Corp. | International Trading | Sale of Parent Company's Products |
| Prime View Communications Ltd. | International Trading | Sale of Parent Company's Products |
| Hot Tracks International Ltd. | International Trading | Not Applicable |
| Tech Smart Logistics Ltd. | International Trading | Not Applicable |
| Dream Universe Ltd. | International Trading | Not Applicable |
| Ruby Lustre Ltd. | Investment | Not Applicable |
| Dream Pacific International Corp. | Sale of Display Devices | Sale of Parent Company's Products |
| Lucky Joy Holdings Ltd. | Investment | Not Applicable |
| Transcend Optronics (Yangzhou) Co., Ltd. | Module Assembly | Manufacturing of Parent Company's Products |

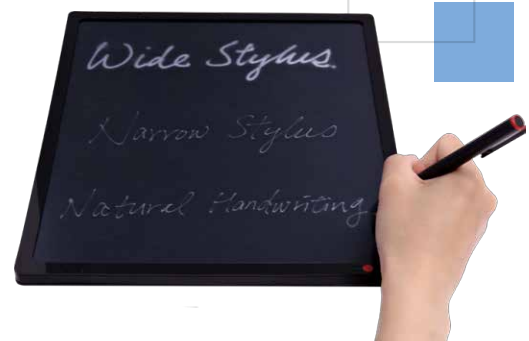
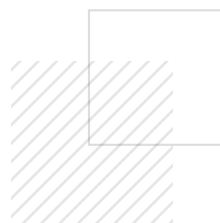
| Company Name | Main Business or Production | Allocation of Function |
|-------------------------------------------------|-----------------------------------------|--------------------------------------------|
| Rich Optronics (Yangzhou) Co., Ltd. | Module Assembly | Manufacturing of Parent Company's Products |
| Yangzhou Huaxia Integrated O/E System Co., Ltd. | Sale and Manufacturing of LED | Not Applicable |
| Hydis Technologies Co., Ltd. | Sale and Development of Display Devices | Sale of Display Devices |
| Transyang Electronics (Yangzhou) Ltd. | Module Assembly | Manufacturing of Parent Company's Products |
| Transmart Electronics (Yangzhou) Ltd. | Module Assembly | Not Applicable |
| Transyork Technology Yangzhou Ltd. | Module Assembly | Manufacturing of Parent Company's Products |

8.1.5 Directors, statutory auditor(s) and President of each affiliated companies

March 31, 2019

| Company Name | Title | Representatives | Ownership | |
|--------------------------------|-------------------|----------------------------------------------------------------------------------------------|------------------|------------|
| | | | Number of Shares | Percentage |
| Yuen Yu Investment Co., Ltd. | Director | Frank Ko, Johnson Lee, CC Tsai | 152,432,562 | 100% |
| | Statutory Auditor | Patrick Chang | | |
| New Field e_Paper Co., Ltd. | Director | Frank Ko, Johnson Lee, CC Tsai | 671,032,318 | 100% |
| | Statutory Auditor | Patrick Chang | | |
| SiPix Technology Inc. | Director | Frank Ko, Johnson Lee, FY Gan | 90 | 100% |
| | Statutory Auditor | Mano Lo | | |
| | General Manager | FY Gan | | |
| Linfiny Corporation | Director | Johnson Lee, Frank Ko, FY Gan, Luke Chen, Jacqueline Wang, Kunihiro Shioura, Terushi Shimizu | 34,020,000 | 81% |
| | Statutory Auditor | Patrick Chang | | |
| Yuanhan Material Co., Ltd. | Director | Luke Chen, Tong-Chi Hsu, Jason Jan | 10,000,000 | 100% |
| | Statutory Auditor | Patrick Chang | | |
| Linfiny Japan Inc. | Director | Johnson Lee, Keisuke Hashimoto, Kunihiro Shioura | 3,240 | 81% |
| | Statutory Auditor | Patrick Chang | | |
| E Ink Corporation | Director | S.C. Ho, Johnson Lee, Felix Ho, Simon Nip | 2,282 | 100% |
| E Ink California, LLC | General Manager | Felix Ho | 27,400,000 | 100% |
| E Ink Systems, LLC | General Manager | Paul Apen | - | 100% |
| E Ink Japan, Inc. | Director | Naoki Sumita, Patrick Chang, Johnson Lee | 200 | 100% |
| PVI Global Corp. | Director | Frank Ko, Johnson Lee | 99,413,176 | 100% |
| PVI International Corp. | Director | Frank Ko, Johnson Lee | 151,300,000 | 100% |
| Prime View Communications Ltd. | Director | Johnson Lee, Amanda Tseng | 3,570,000 | 100% |
| Hot Tracks International Ltd. | Director | Johnson Lee, Amanda Tseng | 50,000 | 100% |
| Tech Smart Logistics Ltd. | Director | Johnson Lee, Patrick Chang | 1,749,801,748 | 100% |
| Dream Universe Ltd. | Director | Luke Chen, Patrick Chang | 4,050,000 | 100% |

| Company Name | Title | Representatives | Ownership | |
|-------------------------------------------------|-------------------|----------------------------------------------|------------------|------------|
| | | | Number of Shares | Percentage |
| Ruby Lustre Ltd. | Director | Luke Chen, Patrick Chang | 30,000,000 | 100% |
| Dream Pacific International Corp. | Director | Frank Ko, Patrick Chang | 26,000,000 | 100% |
| Lucky Joy Holdings Ltd. | Director | Frank Ko, Patrick Chang | 1,097,892 | 100% |
| Transcend Optronics (Yangzhou) Co., Ltd. | Director | Johnson Lee, Luke Chen, Mano Lo | - | 100% |
| | Statutory Auditor | Patrick Chang | | |
| | General Manager | Peter Peng | | |
| Rich Optronics (Yangzhou) Co., Ltd. | Director | Johnson Lee, Luke Chen, Peter Peng | - | 100% |
| | Statutory Auditor | Patrick Chang | | |
| | General Manager | Peter Peng | | |
| Yangzhou Huaxia Integrated O/E System Co., Ltd. | Director | Johnson Lee, Luke Chen, Patrick Chang | - | 100% |
| | Statutory Auditor | Selena Lien | | |
| | General Manager | Patrick Chang | | |
| Hydis Technologies Co., Ltd. | Director | Frank Ko, Johnson Lee, Lloyd Chen, Cecil Liu | 3,783,265 | 94.73% |
| | Statutory Auditor | Patrick Chang | | |
| | General Manager | Cecil Liu | | |
| Transyang Electronics | Director | Johnson Lee, Luke Chen, Max Chen | - | 100% |
| | Statutory Auditor | Patrick Chang | | |
| | General Manager | Max Chen | | |
| Transmart Electronics (Yangzhou) Ltd. | Director | Johnson Lee, Luke Chen, Peter Peng | - | 100% |
| | Statutory Auditor | Patrick Chang | | |
| | General Manager | Peter Peng | | |
| Transyork Technology Yangzhou Ltd. | Director | Johnson Lee, Luke Chen, Mano Lo | - | 100% |
| | Statutory Auditor | Patrick Chang | | |
| | General Manager | Peter Peng | | |



8.1.6 Operation Overview of Affiliated Companies

| Company Name | Currency | Registered Capital | Total Assets | Total Liabilities | Net Asset Value | Revenue | Operating Profit/Loss | Net Profit/Loss | EPS |
|-------------------------------------------------|----------|--------------------|--------------|-------------------|-----------------|-----------|-----------------------|-----------------|--------------|
| Yuen Yu Investment Co., Ltd. | NTS'000 | 1,524,326 | 2,173,794 | 354,248 | 1,819,546 | 0 | -667 | -44,249 | -0.29 |
| New Field e_Paper Co., Ltd. | NTS'000 | 6,710,323 | 5,702,035 | 352 | 5,701,683 | 0 | -360 | -78,985 | -0.12 |
| SiPix Technology Inc. | NTS'000 | 0.9 | 1,474,419 | 222,664 | 1,251,755 | 2,072,636 | 733,723 | 757,551 | 8,417,231.06 |
| E Ink Corporation | US\$'000 | 2(US\$) | 130,792 | 44,368 | 86,424 | 118,215 | 4,191 | 4,355 | 1,908.41 |
| E Ink California, LLC | US\$'000 | 190 | 21,957 | 2,692 | 19,265 | 13,594 | 3,283 | 3,174 | 0.12 |
| E Ink Japan Inc. | JPY'000 | 10,000 | 151,939 | 127,854 | 24,085 | 379,555 | 18,879 | 3,876 | 19,380.00 |
| E Ink Systems, LLC | US\$'000 | 337 | 1,060 | 290 | 770 | 1,546 | 141 | 90 | N/A |
| PVI Global Corp. | US\$'000 | 99,496 | 362,301 | 602 | 361,699 | 0 | -1,447 | 50,809 | 0.51 |
| PVI International Corp. | US\$'000 | 151,300 | 102,501 | 4,505 | 97,996 | 0 | -2 | -5,973 | -0.04 |
| Prime View Communications Ltd. | HK\$'000 | 3,570 | 268,598 | 261,508 | 7,090 | 0 | -97 | 77 | 0.02 |
| Hot Tracks International Ltd. | US\$'000 | 50 | 1,452 | 1,451 | 1 | 0 | 0 | 0.5 | 0.01 |
| Tech Smart Logistics Ltd. | US\$'000 | 151,550 | 151,634 | 5,752 | 145,882 | 0 | -2 | -2,099 | 0 |
| Dream Universe Ltd. | US\$'000 | 4,050 | 12,990 | 893 | 12,097 | 0 | -2 | 405 | 0.1 |
| Ruby Lustre Ltd. | US\$'000 | 30,000 | 26,190 | 0 | 26,190 | 0 | (5(US\$)) | 451 | 0.02 |
| Dream Pacific International Corp. | US\$'000 | 26,000 | 201,927 | 9,428 | 192,499 | 0 | -1,095 | 57,078 | 2.2 |
| Lucky Joy Holdings Ltd. | US\$'000 | 1,098 | 0.3 | 0 | 0.3 | 0 | 0 | 1(US\$) | 0 |
| Transcend Optronics (Yangzhou) Co., Ltd. | CNY'000 | 1,040,392 | 1,393,674 | 722,422 | 671,252 | 868,933 | -40,968 | -37,628 | N/A |
| Rich Optronics (Yangzhou) Co., Ltd. | CNY'000 | 240,299 | 180,613 | 858 | 179,755 | 0 | -4,497 | 3,075 | N/A |
| Yangzhou Huaxia Integrated O/E System Co., Ltd. | CNY'000 | 143,058 | 27,015 | 225,779 | -198,764 | 0 | -3,479 | -10,502 | N/A |
| Hydis Technologies Co., Ltd. | KRW'000 | 19,967,175 | 358,853,229 | 116,939,276 | 241,913,953 | 0 | -7,966,176 | 65,942,962 | 17,430.17 |
| Transyang Electronics (Yangzhou) Ltd. | CNY'000 | 27,308 | 25,111 | 96 | 25,015 | 0 | -251 | 1,545 | N/A |
| Transmart Electronics (Yangzhou) Ltd. | CNY'000 | 62,968 | 11,326 | 985 | 10,341 | 11,609 | 4,540 | 4,764 | N/A |
| Transyork Technology Yangzhou Ltd. | CNY'000 | 442,121 | 421,211 | 35,023 | 386,188 | 1,327,350 | 34,770 | 1,093 | N/A |
| Linfiny Japan Inc. | JPY'000 | 20,000 | 177,895 | 105,221 | 72,674 | 470,797 | 22,323 | 15,215 | 3,803.75 |
| Linfiny Corporation | NTS'000 | 420,000 | 288,710 | 113,050 | 175,660 | 471,097 | -96,909 | -93,420 | -2.75 |
| Yuanhan Material Co., Ltd. | NTS'000 | 100,000 | 72,746 | 20,777 | 51,969 | 16,258 | -34,829 | -34,659 | -3.47 |

Note: EPS is after-tax basis, with same currency unit.

8.1.7 Affiliated Parties Consolidated Financial Statements: Please refer to "Consolidated Financial Statements".

8.1.8 Affiliated Parties Report: Not Applicable.

8.2 Internal Control System

8.2.1 Declaration on Internal Control System

E Ink Holdings Inc.
Declaration on Internal Control System

Date: March 20, 2019

The Company hereby declares the following in relation to its internal control system established in 2018 based on its own evaluation:

1. Knowing that the establishment, implementation and maintenance of internal control system are the responsibilities of the Company's board of directors and managers, the Company has established such system. The purpose of the system is to achieve reasonable assurance of effective and efficiency of operations (including profits, performance and safeguard of asset security), reliability, timeliness, transparency and regulatory compliance of reporting and compliance with applicable laws, regulations and bylaws.
2. An internal control system has inherent limits. However complete the design, an effective internal control system can only provide reasonable assurance for the achievement of the three objectives above. The effectiveness of the internal control system may also vary due to the change of environment and situation. However, the Company's internal control system includes an auto-supervisory mechanism. Once a deficiency is identified, the Company will be able to undertake corrective actions immediately.
3. The Company adopts the criteria for effectiveness of the internal control system under the Regulations Governing Establishment of Internal Control Systems by Public Companies (hereinafter the "Regulations") to determine whether the design and implementation of the internal control system are effective. The Regulations divide the internal control system into 5 constituent elements in the process of control: 1. Control environment, 2. Risk assessment, 3. Control procedure, 4. Information and communication, and 5. Supervision. Each constituent element also includes several items. For these items, please refer to the provisions of the Regulations.
4. The Company has adopted the above internal control system criteria to evaluate the effectiveness of the design and implementation of the internal control system.
5. Based on the results of the evaluation under the previous paragraph, the Company deems that, in relation to its internal control system as of December 31, 2018 (including supervision and management of subsidiaries), the design and implementation of the internal control system are effective, including an understanding of the level of achievement of the objectives of operational results and efficiency, reliability, timeliness, transparency and regulatory compliance of reporting and compliance with applicable laws, regulations and bylaws, and can reasonably ensure the achievement of these objectives.
6. This Declaration will become a main part of the Company's annual report and prospectus and will be published. Any falsity or concealment of such publication will result in legal liabilities under Articles 20, 32, 171 and 174 of the Securities and Exchange Act.
7. This Declaration is approved by the board of directors of the Company on March 20, 2019. All 8 attending directors approved this Declaration, and no director voiced any objection. In witness hereof.

E Ink Holdings, Inc.

Chairman **Frank Ko**

President **Johnson Lee**

8.2.2 If CPAs are retained to conduct audit on the internal control system, disclose the Auditors' Report: nil.

8.3 The offering of securities through private placement in the most recent year to the date this report was printed: nil.

8.4 The holding or disposals of Company shares by subsidiaries in the most recent year to the date this report was printed: nil.

8.5 Additional Information: nil.

8.6 Incidents that caused significant influence on the shareholders equity or stock price of the Company as stated in Subparagraph 2, Paragraph 2 in Article 36 of this law in the most recent year to the date this report was printed: nil.

8.7 Major resolutions of the Shareholders Meeting and Board in the most recent year to the date this report was printed.

(1) Important resolutions and implementation of the shareholders' meeting

The 2018 Annual Shareholders' Meeting of the Company was held in the Meeting Room at the Allied Association for Science Park Industries on June 22, 2018.. The attendance of the shareholders' resolutions and the implementation of the meeting were as follows:

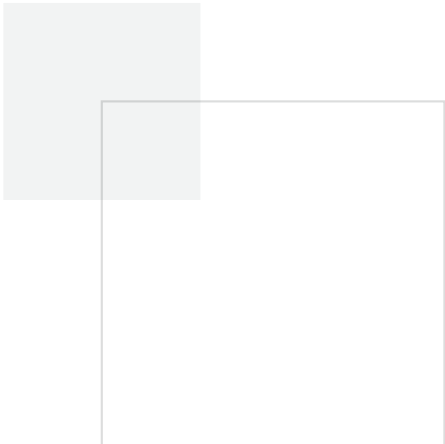
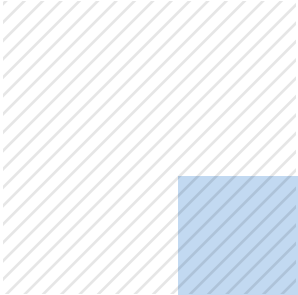
| Adoption / Discussion Items | Implementation |
|--------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| 1. Adoption of the 2017 financial statements of the Company | Resolution passed. |
| 2. Adoption of the proposal for 2017 earnings distribution of the Company | Resolution passed. Paid on Oct. 4,2018. |
| 3. To amend some provisions of the Company's Procedures for Acquisition or Disposition of Assets Explanatory | Resolution passed. |

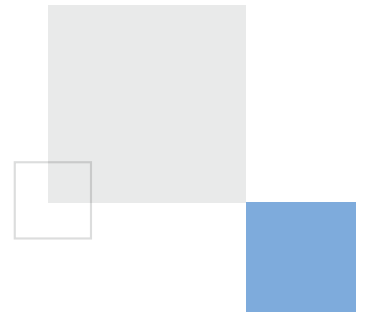


(2) Important resolutions of the board of directors

The company convened 6 times of the board of directors in 2018 and as of the printing date. The important resolutions are as follows:

| Item | Date | Major resolutions |
|---------------|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Board meeting | 27, Mar, 2018 | <ol style="list-style-type: none"> 1. Report of the 2017 business report and financial statements. 2. Report of the 2017 & 2018 Jan to Feb Financial Derivatives transaction. 3. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of February 28, 2018. 4. Report on the implementation of the audit plan for the period from October to December 2017 5. Report on the Audit report for internal control assessment from CPA (Certified Public Accountants) from January 1, 2016 to June 30, 2017 6. Approval of the 2017 business report and financial statements 7. Approval of the 2017 「Internal Control System Statement」 8. Approval of financing loan amount between the company and various banks 9. Approval of the application of the company as a subsidiary and bank financing loan amount |
| Board meeting | 8, May, 2018 | <ol style="list-style-type: none"> 1. Report assesses the independence and competence of the appointment of a visa accountant. 2. Report of the 2018Q1 business report and financial statements. 3. Report of the 2018 Jan to Mar Financial Derivatives transaction. 4. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of March 31, 2018. 5. Report on the strategic cooperation investment case of Yong yu Investment Co., Ltd., a subsidiary of the Company. 6. Report on the implementation of the audit plan for the period from Jan to Mar 2018. 7. Approval of handling the third case of repurchasing shares 8. Approval of Amendment to the section of the Company's "Funding and Endorsement Guarantee Procedures" 9. Approval of 2018 annual visa accountant service fee case |
| Board meeting | 14, Aug, 2018 | <ol style="list-style-type: none"> 1. Report of the 2018 Q1&Q2 business report and financial statements. 2. Report of the 2018 Apr to Jun Financial Derivatives transaction. 3. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of June 30, 2018. 4. Approval of internal control audit by CPA and issue follow-up. 5. Approval of financing loan amount between the company and various banks 6. Approval of the application of the company as a subsidiary and bank financing loan amount |
| Board meeting | 12, Nov, 2018 | <ol style="list-style-type: none"> 1. Report of the 2018 Q1 to Q3 business report and financial statements. 2. Report of the 2018 Jul to Sep Financial Derivatives transaction. 3. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of September 30, 2018. 4. Report on the implementation of the audit plan for the period from Jul to Sep 2018. 5. Approval of the 2019 implementation of the audit plan. 6. Approval of financing loan amount between the company and various banks 7. Approval of the application of the company as a subsidiary and bank financing loan amount 8. Approval of the Appointment of the successor to the third salary and compensation committee of the Company and its compensation proposal. |
| Board meeting | 26, Dec, 2018 | <ol style="list-style-type: none"> 1. Approval of financing loan amount between the company and various banks |
| Board meeting | 20, Mar, 2019 | <ol style="list-style-type: none"> 1. Report of the 2018 business report and financial statements. 2. Report of the 2018 & 2019 Jan to Feb Financial Derivatives transaction. 3. Report the fund loan and endorsement guarantees of the Company and its subsidiaries as of Jan 31, 2019. 4. Report on the implementation of the audit plan for the period from October to December 2018. 5. Approval of the 2018 business report and financial statements 6. Approval of the 2018 「Internal Control System Statement」 7. Approval of financing loan amount between the company and various banks. 8. Approval of financing loan amount between the company and various banks 9. Approval of the corporate charter amendment 10. Approval of the Applied Corporation Management of Assets amendment 11. Approval of the Dismissal of directors' non-competition restrictions. 12. Approval of the Dismissal of General Managers' non-competition restrictions |

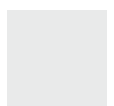
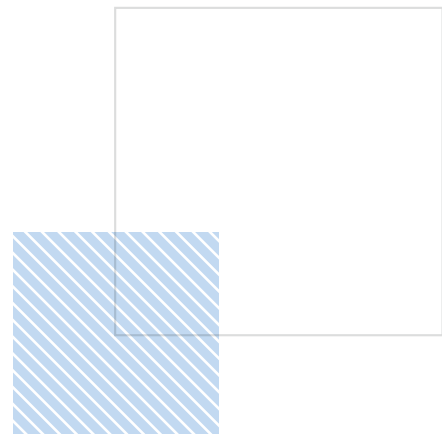




E Ink Holdings Inc. and Subsidiaries

Consolidated Financial Statements

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



REPRESENTATION LETTER OF COMBINED FINANCIAL STATEMENTS OF AFFILIATES

The entities that are required to be included in the combined financial statements of E Ink Holdings Inc. as of and for the year ended December 31, 2018, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, “Consolidated Financial Statements.” In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, E Ink Holdings Inc. and its subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

E INK HOLDINGS INC.

By:



FRANK KO
Chairman

March 20, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
E Ink Holdings Inc.

Opinion

We have audited the accompanying consolidated financial statements of E Ink Holdings Inc. 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, 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. This matter was 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 this matter.

The key audit matter for the Group's consolidated financial statements for the year ended December 31, 2018 is stated as follows:

Impairment of Goodwill

As disclosed in Notes 4 and 18 as well as Table 7 to the consolidated financial statements, the Group's goodwill was derived from acquiring related subsidiaries to obtain electronic ink research and development and manufacturing centers, as well as to integrate patents of ePaper techniques. The amount of goodwill is material to the overall consolidated financial statements, therefore, management annually assesses the impairment of goodwill in accordance with the IAS 36 "Impairment of Assets".

Management assesses goodwill for any impairment by comparing the carrying amount with the calculated recoverable amount as assessed based on the subsidiaries in the consolidated financial statements. In order to perform the assessment, management needs to estimate future operating cash flows allocated to the subsidiaries and determine their suitable discount rates to calculate the recoverable amount. When determining future operating cash flows, management considers the forecasted growth rate of sales and profit rate, etc. based on future operating perspective of the subsidiaries to calculate weighted average cost of capital as their discount rates. Since the major assumptions are subject to management's judgement and may be variable to future market or prosperity of economy, which has its uncertainty, the impairment of goodwill has been identified as a key audit matter.

Our key audit procedures performed in respective of the above area included the following:

1. We understood the related process and controls that management used to assess the impairment of goodwill, including basis of assumptions and source of the data used in evaluation.
2. We evaluated whether management has taken into account the Group's recent operating performance and its industry conditions when estimating future growth of sales and profit rate to assess their achievability.
3. We evaluated the reasonableness of the discount rates that management used and re-performed to check the calculation.

Other Matter

We have also audited the financial statements of E Ink Holdings Inc. as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, IFRS, IAS, IFRIC, and 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 members of 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 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 the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We 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 a matter that was of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018, and is therefore the key audit matter. We describe this matter 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 Ya-Ling Wong and Chih-Ming Shao.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 20, 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.

E INK HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

| ASSETS | 2018 | | 2017 | |
|-----------------------------------------------------------------------------------|----------------------|------------|----------------------|------------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | \$ 7,695,106 | 21 | \$ 11,878,649 | 33 |
| Financial assets at fair value through profit or loss (Notes 4 and 7) | 1,840,835 | 5 | - | - |
| Financial assets at amortized cost (Notes 4 and 9) | 3,860,537 | 10 | - | - |
| Contract assets (Notes 4 and 24) | 187,329 | 1 | - | - |
| Debt investments with no active market (Notes 4 and 12) | - | - | 519,209 | 1 |
| Accounts receivable (Notes 4, 13 and 33) | 2,243,412 | 6 | 2,009,800 | 6 |
| Other receivables (Note 4) | 223,850 | 1 | 325,740 | 1 |
| Current tax assets (Notes 4 and 26) | 44,850 | - | 315,229 | 1 |
| Inventories (Notes 4 and 14) | 1,926,990 | 5 | 2,143,359 | 6 |
| Prepayments (Note 33) | 318,982 | 1 | 220,007 | 1 |
| Non-current assets held for sale (Notes 4 and 15) | 10,166 | - | - | - |
| Other financial assets (Notes 4 and 6) | - | - | 199,391 | - |
| Other current assets (Note 34) | 518,868 | 1 | 136,356 | - |
| Total current assets | 18,870,925 | 51 | 17,747,740 | 49 |
| NON-CURRENT ASSETS | | | | |
| Financial assets at fair value through other comprehensive income (Notes 4 and 8) | 3,431,736 | 9 | - | - |
| Available-for-sale financial assets (Notes 4 and 10) | - | - | 2,749,317 | 8 |
| Financial assets measured at cost (Notes 4 and 11) | - | - | 267,981 | 1 |
| Investments accounted for using the equity method (Note 4) | 82,802 | - | 88,756 | - |
| Property, plant and equipment (Notes 4, 15 and 17) | 4,521,441 | 12 | 4,752,982 | 13 |
| Goodwill (Notes 4 and 18) | 6,781,244 | 19 | 6,702,636 | 19 |
| Other intangible assets (Notes 4 and 18) | 1,744,809 | 5 | 1,889,153 | 5 |
| Deferred tax assets (Notes 4 and 26) | 1,071,888 | 3 | 1,425,249 | 4 |
| Other non-current assets (Notes 33 and 34) | 409,263 | 1 | 252,106 | 1 |
| Total non-current assets | 18,043,183 | 49 | 18,128,180 | 51 |
| TOTAL | \$ 36,914,108 | 100 | \$ 35,875,920 | 100 |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Note 19) | \$ 1,480,000 | 4 | \$ 377,600 | 1 |
| Short-term bills payable (Note 19) | 564,722 | 2 | - | - |
| Contract liabilities (Notes 4 and 24) | 1,573,002 | 4 | - | - |
| Notes and accounts payable (Note 33) | 1,347,676 | 4 | 2,201,116 | 6 |
| Other payables (Notes 20 and 30) | 1,351,759 | 4 | 1,641,420 | 5 |
| Current tax liabilities (Notes 4 and 26) | 128,343 | - | 153,649 | - |
| Provisions (Notes 4 and 21) | 26,095 | - | 637,781 | 2 |
| Receipts in advance (Note 15) | 18,373 | - | 1,701,659 | 5 |
| Current portion of long-term borrowings (Note 19) | - | - | 117,993 | - |
| Other current liabilities (Notes 4 and 7) | 79,147 | - | 40,334 | - |
| Total current liabilities | 6,569,117 | 18 | 6,871,552 | 19 |
| NON-CURRENT LIABILITIES | | | | |
| Contract liabilities (Notes 4 and 24) | 1,761,719 | 5 | - | - |
| Long-term borrowings (Note 19) | 44,752 | - | 45,545 | - |
| Deferred revenue - non-current (Note 4) | - | - | 1,607,917 | 5 |
| Net defined benefit liabilities (Notes 4 and 22) | 80,770 | - | 70,350 | - |
| Other non-current liabilities (Notes 4, 26 and 33) | 143,306 | - | 53,661 | - |
| Total non-current liabilities | 2,030,547 | 5 | 1,777,473 | 5 |
| Total liabilities | 8,599,664 | 23 | 8,649,025 | 24 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4, 23 and 28) | | | | |
| Share capital | 11,404,677 | 31 | 11,404,677 | 32 |
| Capital surplus | 10,243,293 | 28 | 10,108,119 | 28 |
| Retained earnings | | | | |
| Legal reserve | 1,512,287 | 4 | 1,304,481 | 4 |
| Special reserve | 70,678 | - | 70,678 | - |
| Unappropriated earnings | 5,138,085 | 14 | 4,246,203 | 12 |
| Total retained earnings | 6,721,050 | 18 | 5,621,362 | 16 |
| Other equity | (255,475) | (1) | 106,609 | - |
| Treasury shares | (184,900) | - | (308,269) | (1) |
| Total equity attributable to owners of the Company | 27,928,645 | 76 | 26,932,498 | 75 |
| NON-CONTROLLING INTERESTS (Notes 23 and 29) | 385,799 | 1 | 294,397 | 1 |
| Total equity | 28,314,444 | 77 | 27,226,895 | 76 |
| TOTAL | \$ 36,914,108 | 100 | \$ 35,875,920 | 100 |

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

E INK HOLDINGS INC. 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 REVENUE (Notes 4, 24 and 33) | \$ 14,208,661 | 100 | \$ 15,203,334 | 100 |
| OPERATING COSTS (Notes 14, 25 and 33) | <u>8,278,485</u> | <u>58</u> | <u>8,918,918</u> | <u>59</u> |
| GROSS PROFIT | <u>5,930,176</u> | <u>42</u> | <u>6,284,416</u> | <u>41</u> |
| OPERATING EXPENSES (Notes 25 and 33) | | | | |
| Selling and marketing expenses | 796,893 | 6 | 728,467 | 5 |
| General and administrative expenses | 2,604,270 | 18 | 2,517,180 | 16 |
| Research and development expenses | <u>2,071,848</u> | <u>15</u> | <u>1,936,382</u> | <u>13</u> |
| Total operating expenses | <u>5,473,011</u> | <u>39</u> | <u>5,182,029</u> | <u>34</u> |
| INCOME FROM OPERATIONS | <u>457,165</u> | <u>3</u> | <u>1,102,387</u> | <u>7</u> |
| NON-OPERATING INCOME AND EXPENSES (Note 4) | | | | |
| Interest income (Note 33) | 176,439 | 1 | 90,819 | - |
| Royalty income (Note 24) | 2,360,815 | 17 | 2,606,703 | 17 |
| Dividend income | 136,225 | 1 | 100,951 | 1 |
| Other income (Note 33) | 119,853 | 1 | 99,243 | 1 |
| Interest expenses (Note 17) | (28,579) | - | (24,895) | - |
| Net gain on disposal of property, plant and equipment | 796 | - | 50,317 | - |
| Net gain (loss) on foreign currency exchange (Note 36) | 310,568 | 2 | (728,477) | (5) |
| Net gain on fair value change of financial assets and liabilities at fair value through profit or loss | 6,413 | - | 101,591 | 1 |
| Impairment loss (Note 17) | (223,627) | (2) | (21,672) | - |
| Other expenses | <u>(56,800)</u> | <u>-</u> | <u>(38,956)</u> | <u>-</u> |
| Total non-operating income and expenses | <u>2,802,103</u> | <u>20</u> | <u>2,235,624</u> | <u>15</u> |
| INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS | 3,259,268 | 23 | 3,338,011 | 22 |
| INCOME TAX EXPENSE (Notes 4 and 26) | <u>(567,192)</u> | <u>(4)</u> | <u>(405,713)</u> | <u>(3)</u> |
| NET INCOME FROM CONTINUING OPERATIONS | 2,692,076 | 19 | 2,932,298 | 19 |
| NET LOSS FROM DISCONTINUED OPERATIONS (Notes 4 and 15) | <u>-</u> | <u>-</u> | <u>(849,968)</u> | <u>(5)</u> |
| NET INCOME FOR THE YEAR | <u>2,692,076</u> | <u>19</u> | <u>2,082,330</u> | <u>14</u> |

(Continued)

E INK HOLDINGS INC. 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 | % |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans (Notes 4 and 23) | \$ (10,235) | - | \$ (7,076) | - |
| Unrealized loss on investments in equity instruments at fair value through other comprehensive income | (432,897) | (3) | - | - |
| Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 26) | <u>4,226</u> | <u>-</u> | <u>1,165</u> | <u>-</u> |
| | <u>(438,906)</u> | <u>(3)</u> | <u>(5,911)</u> | <u>-</u> |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating the financial statements of foreign operations | 59,248 | - | (482,418) | (3) |
| Unrealized gain on available-for-sale financial assets | - | - | 122,316 | - |
| Share of other comprehensive loss of associates and joint ventures accounted for using the equity method | <u>(900)</u> | <u>-</u> | <u>(2,102)</u> | <u>-</u> |
| | <u>58,348</u> | <u>-</u> | <u>(362,204)</u> | <u>(3)</u> |
| Other comprehensive loss for the year, net of income tax | <u>(380,558)</u> | <u>(3)</u> | <u>(368,115)</u> | <u>(3)</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>\$ 2,311,518</u> | <u>16</u> | <u>\$ 1,714,215</u> | <u>11</u> |
| NET INCOME ATTRIBUTABLE TO: | | | | |
| Owners of the Company | \$ 2,613,673 | 18 | \$ 2,078,065 | 14 |
| Non-controlling interests | <u>78,403</u> | <u>1</u> | <u>4,265</u> | <u>-</u> |
| | <u>\$ 2,692,076</u> | <u>19</u> | <u>\$ 2,082,330</u> | <u>14</u> |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | | |
| Owners of the Company | \$ 2,236,019 | 16 | \$ 1,690,155 | 11 |
| Non-controlling interests | <u>75,499</u> | <u>-</u> | <u>24,060</u> | <u>-</u> |
| | <u>\$ 2,311,518</u> | <u>16</u> | <u>\$ 1,714,215</u> | <u>11</u> |

(Continued)

E INK HOLDINGS INC. 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)

| | <u>2018</u> | | <u>2017</u> | |
|---------------------------------------------|----------------|----------|----------------|----------|
| | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> |
| EARNINGS PER SHARE (Note 27) | | | | |
| From continuing and discontinued operations | | | | |
| Basic | <u>\$ 2.32</u> | | <u>\$ 1.85</u> | |
| Diluted | <u>\$ 2.31</u> | | <u>\$ 1.85</u> | |
| From continuing operations | | | | |
| Basic | <u>\$ 2.32</u> | | <u>\$ 2.57</u> | |
| Diluted | <u>\$ 2.31</u> | | <u>\$ 2.56</u> | |

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

(Concluded)

E INK HOLDINGS INC. 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 Company | | | | | | Other Equity | | | Treasury Shares | Total | Non-controlling Interests | Total Equity |
|------------------------------------------------------------------------------------------------|----------------------------------------------|----------------------|----------------------|---------------------|------------------|-------------------------|------------------------------------------------------------------------------------|---------------------------------------------------------------|------------------------------------------------------|---------------------|----------------------|---------------------------|----------------------|
| | Share Capital | | Capital Surplus | Retained Earnings | | | Exchange Differences on Translating The Financial Statements of Foreign Operations | Unrealized Gain (Loss) on Available-for-sale Financial Assets | Unrealized Gain (Loss) on Financial Assets at FVTOCI | | | | |
| | Shares (In Thousands) | Amount | | Legal Reserve | Special Reserve | Unappropriated Earnings | | | | | | | |
| BALANCE AT JANUARY 1, 2017 | 1,140,468 | \$ 11,404,677 | \$ 10,071,683 | \$ 1,113,687 | \$ 70,678 | \$ 4,301,134 | \$ 261,704 | \$ 226,916 | \$ - | \$ (360,464) | \$ 27,090,015 | \$ (876) | \$ 27,089,139 |
| Appropriation of 2016 earnings | | | | | | | | | | | | | |
| Legal reserve | - | - | - | 190,794 | - | (190,794) | - | - | - | - | - | - | - |
| Cash dividends | - | - | - | - | - | (1,680,702) | - | - | - | - | (1,680,702) | - | (1,680,702) |
| Net income for the year ended December 31, 2017 | - | - | - | - | - | 2,078,065 | - | - | - | - | 2,078,065 | 4,265 | 2,082,330 |
| Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax | - | - | - | - | - | (5,899) | (504,327) | 122,316 | - | - | (387,910) | 19,795 | (368,115) |
| Total comprehensive income (loss) for the year ended December 31, 2017 | - | - | - | - | - | 2,072,166 | (504,327) | 122,316 | - | - | 1,690,155 | 24,060 | 1,714,215 |
| Difference between actual consideration paid and carrying amount of subsidiaries acquired | - | - | (2,223) | - | - | (255,601) | - | - | - | - | (257,824) | 191,413 | (66,411) |
| Share-based payments | - | - | 38,825 | - | - | - | - | - | - | - | 38,825 | - | 38,825 |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | 79,800 | 79,800 |
| Treasury shares transferred to employees | - | - | (166) | - | - | - | - | - | - | 52,195 | 52,029 | - | 52,029 |
| BALANCE AT DECEMBER 31, 2017 | 1,140,468 | 11,404,677 | 10,108,119 | 1,304,481 | 70,678 | 4,246,203 | (242,623) | 349,232 | - | (308,269) | 26,932,498 | 294,397 | 27,226,895 |
| Effect of retrospective application | - | - | - | - | - | 327,468 | - | (349,232) | 376,899 | - | 355,135 | 15,903 | 371,038 |
| BALANCE AT JANUARY 1, 2018 AS RESTATED | 1,140,468 | 11,404,677 | 10,108,119 | 1,304,481 | 70,678 | 4,573,671 | (242,623) | - | 376,899 | (308,269) | 27,287,633 | 310,300 | 27,597,933 |
| Appropriation of 2017 earnings | | | | | | | | | | | | | |
| Legal reserve | - | - | - | 207,806 | - | (207,806) | - | - | - | - | - | - | - |
| Cash dividends | - | - | - | - | - | (1,853,550) | - | - | - | - | (1,853,550) | - | (1,853,550) |
| Unclaimed dividends extinguished by prescription | - | - | 14 | - | - | - | - | - | - | - | 14 | - | 14 |
| Net income for the year ended December 31, 2018 | - | - | - | - | - | 2,613,673 | - | - | - | - | 2,613,673 | 78,403 | 2,692,076 |
| Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax | - | - | - | - | - | (6,052) | 61,295 | - | (432,897) | - | (377,654) | (2,904) | (380,558) |
| Total comprehensive income for the year ended December 31, 2018 | - | - | - | - | - | 2,607,621 | 61,295 | - | (432,897) | - | 2,236,019 | 75,499 | 2,311,518 |
| Share-based payments | - | - | 135,552 | - | - | - | - | - | - | - | 135,552 | - | 135,552 |
| Disposal of investments in equity instruments at fair value through other comprehensive income | - | - | - | - | - | 18,149 | - | - | (18,149) | - | - | - | - |
| Treasury shares transferred to employees | - | - | (392) | - | - | - | - | - | - | 123,369 | 122,977 | - | 122,977 |
| BALANCE AT DECEMBER 31, 2018 | <u>1,140,468</u> | <u>\$ 11,404,677</u> | <u>\$ 10,243,293</u> | <u>\$ 1,512,287</u> | <u>\$ 70,678</u> | <u>\$ 5,138,085</u> | <u>\$ (181,328)</u> | <u>\$ -</u> | <u>\$ (74,147)</u> | <u>\$ (184,900)</u> | <u>\$ 27,928,645</u> | <u>\$ 385,799</u> | <u>\$ 28,314,444</u> |

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

E INK HOLDINGS INC. AND SUBSIDIARIES

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

| | 2018 | 2017 |
|------------------------------------------------------------------------------------------------------------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax from continuing operations | \$ 3,259,268 | \$ 3,338,011 |
| Loss before income tax from discontinued operations | - | (695,735) |
| Income before income tax | <u>3,259,268</u> | <u>2,642,276</u> |
| Adjustments for | | |
| Depreciation expenses | 683,786 | 760,250 |
| Amortization expenses | 420,594 | 406,647 |
| Expected credit loss recognized (impairment loss reversed) on accounts receivable | 21,200 | (10,107) |
| Net gain on fair value changes of financial assets and liabilities at fair value through profit or loss | (6,413) | (101,591) |
| Interest expenses | 28,579 | 24,895 |
| Interest income | (176,439) | (90,819) |
| Dividend income | (136,225) | (100,951) |
| Compensation costs of share-based payments | 135,552 | 38,825 |
| Share of loss of associates and joint ventures accounted for using the equity method | 5,054 | 9,333 |
| Net gain on disposal of property, plant and equipment | (796) | (50,317) |
| Net gain on disposal of non-current assets held for sale | - | (7,280) |
| Net loss (gain) on disposal of investments | 1,888 | (2,775) |
| Impairment loss | 223,627 | 181,060 |
| Write-downs of (reversal of) inventories | 204,382 | (246,721) |
| Net unrealized gain on foreign currency exchange | (4,553) | (16,992) |
| Changes in operating assets and liabilities | | |
| Financial assets held for trading | - | 115,789 |
| Contract assets | 134,610 | - |
| Accounts receivable | (224,772) | (453,004) |
| Other receivables | 31,774 | 266,000 |
| Inventories | 80,370 | (585,945) |
| Prepayments | (183,310) | 10,373 |
| Other current assets | (363,464) | 146,036 |
| Contract liabilities | 105,027 | - |
| Notes and accounts payable | (879,066) | 1,119,507 |
| Other payables | (359,033) | 394,143 |
| Provisions | (602,151) | 136,062 |
| Receipts in advance | 18,034 | 1,082,400 |
| Other current liabilities | 33,871 | (37,043) |
| Net defined benefit liabilities | <u>376</u> | <u>(1,654)</u> |
| Cash generated from operations | <u>2,451,770</u> | <u>5,628,397</u> |
| Income tax received (paid) | <u>29,534</u> | <u>(113,125)</u> |
| Net cash generated from operating activities | <u>2,481,304</u> | <u>5,515,272</u> |

(Continued)

E INK HOLDINGS INC. AND SUBSIDIARIES

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

| | 2018 | 2017 |
|----------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of financial assets at fair value through other comprehensive income | \$ (968,590) | \$ - |
| Proceeds from disposal of financial assets at fair value through other comprehensive income | 184,552 | - |
| Proceeds from capital reduction of financial assets at fair value through other comprehensive income | 6,431 | - |
| Acquisition of financial assets at amortized cost | (4,317,194) | - |
| Proceeds from disposal of financial assets at amortized cost | 1,152,197 | - |
| Acquisition of financial assets at fair value through profit or loss | (1,818,502) | - |
| Acquisition of available-for-sale financial assets | - | (839,986) |
| Acquisition of debt investments with no active market | - | (1,571,696) |
| Proceeds from repayments of principal of debt investments with no active market | - | 1,479,431 |
| Proceeds from disposal of financial assets measured at cost | - | 25,080 |
| Disposal of subsidiaries | (713) | - |
| Proceed from disposal of non-current assets held for sale | - | 815,316 |
| Acquisition of property, plant and equipment | (575,061) | (332,067) |
| Proceeds from disposal of property, plant and equipment | 32,128 | 63,378 |
| Acquisition of other intangible assets | (249,190) | (111,594) |
| Increase in other financial assets | - | (180,145) |
| Decrease (increase) in other non-current assets | (154,318) | 40,124 |
| Interest received | 172,454 | 88,871 |
| Dividends received | <u>136,225</u> | <u>100,951</u> |
| Net cash used in investing activities | <u>(6,399,581)</u> | <u>(422,337)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase (decrease) in short-term borrowings | 1,101,625 | (45,088) |
| Increase in short-term bills payable | 564,722 | - |
| Repayments of long-term borrowings | (118,148) | (122,700) |
| Increase in other non-current liabilities | 6,783 | 5,109 |
| Cash dividends | (1,853,550) | (1,680,702) |
| Proceeds from treasury shares transferred to employees | 122,977 | 52,029 |
| Interest paid | (27,922) | (24,322) |
| Changes in non-controlling interests | - | 13,389 |
| Proceeds from unclaimed dividends extinguished by prescription | <u>14</u> | <u>-</u> |
| Net cash used in financing activities | <u>(203,499)</u> | <u>(1,802,285)</u> |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES | | |
| | <u>(61,767)</u> | <u>23,250</u> |

(Continued)

E INK HOLDINGS INC. AND SUBSIDIARIES

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

| | 2018 | 2017 |
|-----------------------------------------------------------|---------------------|----------------------|
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | \$ (4,183,543) | \$ 3,313,900 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | <u>11,878,649</u> | <u>8,564,749</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | <u>\$ 7,695,106</u> | <u>\$ 11,878,649</u> |

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

(Concluded)

E INK HOLDINGS INC. 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)

1. GENERAL INFORMATION

E Ink Holdings Inc. (the “Company”) was incorporated in June 1992 in the Hsin-Chu Science-based Industrial Park. The Company’s shares have been listed on the Taipei Exchange (TPEX) mainboard since March 30, 2004. The Company mainly researches, develops, manufactures and sells electronic paper display panels.

The consolidated financial statements of the Company and its subsidiaries, collectively referred to as the “Group”, are presented in New Taiwan dollars, the functional currency of the Company.

2. APPROVAL OF FINANCIAL STATEMENTS

The Group’s consolidated financial statements were approved by the Company’s board of directors on March 20, 2019.

3. APPLICATION OF NEW 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 referred to as 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 Group’s accounting policies:

- 1) IFRS 9 “Financial Instruments” and related amendment

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 and hedge accounting. Please 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 at 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 impact on measurement categories, carrying amount and related reconciliation for each class of the Group's financial assets under IAS 39 and IFRS 9 on January 1, 2018 is detailed below:

| Financial Assets | Measurement Category | | Carrying Amount | | Remark |
|--------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------|-----------------|---------------|--------|
| | IAS 39 | IFRS 9 | IAS 39 | IFRS 9 | |
| Cash and cash equivalents | Loans and receivables | Amortized cost | \$ 11,878,649 | \$ 11,878,649 | a) |
| Equity securities | Available-for-sale financial assets (including financial assets measured at cost) | Fair value through other comprehensive income | 3,017,298 | 3,086,572 | b) |
| Wealth investment products | Loans and receivables | Amortized cost | 519,209 | 519,209 | c) |
| Time deposits with original maturities of more than 3 months | Loans and receivables | Amortized cost | 199,391 | 199,391 | c) |
| Accounts receivable and other receivables | Loans and receivables | Amortized cost | 2,335,540 | 2,335,540 | a) |

| Financial Assets | IAS 39 Carrying Amount as of January 1, 2018 | Reclassifications | Remeasurements | IFRS 9 Carrying Amount as of January 1, 2018 | Effect on Retained Earnings as of January 1, 2018 | Effect on Other Equity as of January 1, 2018 | Remark |
|-------------------------------------------------------------------------------|----------------------------------------------|----------------------|------------------|----------------------------------------------|---------------------------------------------------|----------------------------------------------|--------|
| Financial assets at fair value through other comprehensive income | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Add: Reclassification from available-for-sale financial assets (IAS 39) | - | 3,017,298 | 69,274 | 3,086,572 | 41,607 | 27,667 | b) |
| | <u>-</u> | <u>3,017,298</u> | <u>69,274</u> | <u>3,086,572</u> | <u>41,607</u> | <u>27,667</u> | |
| Financial assets at amortized cost | - | - | - | - | - | - | |
| Add: Reclassification from cash and cash equivalents (IAS 39) | - | 11,878,649 | - | 11,878,649 | - | - | a) |
| Add: Reclassification from debt investments with no active market (IAS 39) | - | 519,209 | - | 519,209 | - | - | c) |
| Add: Reclassification from other financial assets (IAS 39) | - | 199,391 | - | 199,391 | - | - | c) |
| Add: Reclassification from accounts receivable and other receivables (IAS 39) | - | 2,335,540 | - | 2,335,540 | - | - | a) |
| | <u>-</u> | <u>14,932,789</u> | <u>-</u> | <u>14,932,789</u> | <u>-</u> | <u>-</u> | |
| | <u>\$ -</u> | <u>\$ 17,950,087</u> | <u>\$ 69,274</u> | <u>\$ 18,019,361</u> | <u>\$ 41,607</u> | <u>\$ 27,667</u> | |

- a) Cash and cash equivalents, accounts receivable and other receivables that were classified as loans and receivables under IAS 39 are classified as financial assets at amortized cost with an assessment of expected credit loss under IFRS 9.
- b) Equity securities investments of \$2,749,317 thousand were classified as available-for-sale financial assets under IAS 39. Because these investments are not held for trading, the Group elected to designate all of these investments as at fair value through other comprehensive income (FVTOCI) under IFRS 9 and reclassified the related other equity - unrealized gain on available-for-sale financial assets of \$349,232 thousand to other equity - unrealized gain on financial assets at FVTOCI.

Investments in unlisted shares of \$267,981 thousand were measured at cost under IAS 39. These investments are classified as at FVTOCI under IFRS 9 and required to be remeasured at fair value. Consequently, an increase of \$69,274 thousand was recognized in financial assets at FVTOCI and other equity - unrealized gain on financial assets at FVTOCI on January 1, 2018.

The Group recognized impairment loss on certain equity securities investments previously measured at cost and the loss was accumulated in retained earnings under IAS 39. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$41,607 thousand in other equity - unrealized gain on financial assets at FVTOCI and an increase of \$41,607 thousand in retained earnings on January 1, 2018.

- c) Under IAS 39, wealth investment products were classified as debt investments with no active market and measured at amortized cost, and time deposits with original maturities of more than three months were classified as other financial assets. The contractual cash flows of these investments were solely payments of the principal and interest on the outstanding principal, and on January 1, 2018 these investments were held within a business model whose objective is to collect contractual cash flows, therefore, these investments are classified as financial assets at amortized cost with an assessment of expected credit loss under IFRS 9.

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. Please refer to Note 4 for related accounting policies.

Under IFRS 15, certain patented technology licensed by the Group is a right to use the Group’s intellectual property as it existed at the point in time at which the license was granted and the revenue should have been recognized when the patented technology is licensed. The Group elected only to retrospectively apply IFRS 15 to contracts that were not complete on January 1, 2018 and recognized the cumulative effect of the change in the retained earnings on January 1, 2018.

The impact on assets, liabilities and equity as of January 1, 2018 from the initial application of IFRS 15 is set out below:

| | As Originally Stated | Adjustments Arising from Initial Application | Restated |
|------------------------------------|---------------------------------|-----------------------------------------------------------------|---------------------|
| Contract assets - current | \$ - | \$ 192,775 | \$ 192,775 |
| Other receivables | 325,740 | (81,879) | 243,861 |
| Contract assets - non-current | <u>-</u> | <u>110,895</u> | <u>110,895</u> |
| Total effect on assets | <u>\$ 325,740</u> | <u>\$ 221,791</u> | <u>\$ 547,531</u> |
| Contract liabilities - current | \$ - | \$ 1,652,850 | \$ 1,652,850 |
| Receipts in advance | 1,701,659 | (1,701,659) | - |
| Contract liabilities - non-current | - | 1,481,910 | 1,481,910 |
| Deferred revenue - non-current | 1,607,917 | (1,607,917) | - |
| Other non-current liabilities | <u>53,661</u> | <u>94,843</u> | <u>148,504</u> |
| Total effect on liabilities | <u>\$ 3,363,237</u> | <u>\$ (79,973)</u> | <u>\$ 3,283,264</u> |
| Retained earnings | \$ 5,621,362 | \$ 285,861 | \$ 5,907,223 |
| Non-controlling interests | <u>294,397</u> | <u>15,903</u> | <u>310,300</u> |
| Total effect on equity | <u>\$ 5,915,759</u> | <u>\$ 301,764</u> | <u>\$ 6,217,523</u> |

Had the Group applied IAS 18 in the current year, the following adjustments should have been made to reflect the line items and balances under IFRS 15:

Impact on assets, liabilities and equity for current year

| | December 31, 2018 |
|---------------------------------------|------------------------------|
| Increase in contract assets - current | \$ 187,329 |
| Decrease in other receivables | <u>(73,323)</u> |
| Increase in assets | <u>\$ 114,006</u> |

(Continued)

| | December 31, 2018 |
|------------------------------------------------|----------------------------------|
| Increase in contract liabilities - current | \$ 1,573,002 |
| Decrease in receipts in advance | (1,619,859) |
| Increase in contract liabilities - non-current | 1,761,719 |
| Decrease in deferred revenue - non-current | (1,949,185) |
| Increase in other non-current liabilities | <u>84,153</u> |
| Decrease in liabilities | <u>\$ (150,170)</u> |
| Increase in retained earnings | \$ 250,254 |
| Increase in non-controlling interests | <u>13,922</u> |
| Increase in equity | <u>\$ 264,176</u> (Concluded) |

Impact on total comprehensive income for current year

| | For the Year Ended December 31, 2018 |
|-----------------------------------------|---------------------------------------------------------|
| Decrease in royalty income | \$ (48,278) |
| Decrease in income tax expenses | <u>10,690</u> |
| Decrease in net income for the year | <u>\$ (37,588)</u> |
| Decrease in net income attributable to: | |
| Owners of the Company | \$ (35,607) |
| Non-controlling interests | <u>(1,981)</u> |
| | <u>\$ (37,588)</u> |
| Impact on earnings per share: | |
| Decrease in basic earnings per share | <u>\$(0.03)</u> |
| Decrease in diluted earnings per share | <u>\$(0.03)</u> |

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

| New, Amended or Revised Standards and Interpretations (the “New IFRSs”) | Effective Date Announced by IASB (Note 1) |
|------------------------------------------------------------------------------------|------------------------------------------------------|
| Annual Improvements to IFRSs 2015-2017 Cycle | January 1, 2019 |
| Amendments to IFRS 9 “Prepayment Features with Negative Compensation” | January 1, 2019 (Note 2) |
| 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.

Except for the following, whenever applied, the application of the above New IFRSs will not have any material impact on the Group's accounting policies:

IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a lease" 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, or investment properties if the right-of-use assets meet the definition of investment properties, 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 and interest portion of lease liabilities will be classified within financing 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.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information will not be restated.

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.

The Group expects to apply the following practical expedients:

- 1) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

- 3) The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- 4) The Group will use hindsight, such as in determining lease terms, to measure lease liabilities.

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 and liabilities

| | Carrying Amount as of December 31, 2018 | Adjustments Arising from Initial Application | Adjusted Carrying Amount as of January 1, 2019 |
|---------------------------------|------------------------------------------------------------|-----------------------------------------------------------------|-------------------------------------------------------------------|
| Right-of-use assets | \$ - | \$ 1,865,084 | \$ 1,865,084 |
| Other non-current assets | <u>409,263</u> | <u>(864)</u> | <u>408,399</u> |
| Total effect on assets | <u>\$ 409,263</u> | <u>\$ 1,864,220</u> | <u>\$ 2,273,483</u> |
| Other current liabilities | \$ 79,147 | \$ (3,019) | \$ 76,128 |
| Lease liabilities - current | - | 103,943 | 103,943 |
| Other non-current liabilities | 143,306 | (25,106) | 118,200 |
| Lease liabilities - non-current | <u>-</u> | <u>1,788,402</u> | <u>1,788,402</u> |
| Total effect on liabilities | <u>\$ 222,453</u> | <u>\$ 1,864,220</u> | <u>\$ 2,086,673</u> |

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group's assessment of the application of other standards and interpretations will have no material impact on the Group's consolidated financial position and financial performance.

- c. New IFRSs in issue by IASB 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.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of the above standards and interpretations will have on the Group's consolidated 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 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, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, 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 an 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 an 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 12 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 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries). Income and expenses of subsidiaries acquired or disposed of during the year 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 Company. 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 Company 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 Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (ii) the assets and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

See Note 16 and Tables 7 and 8 for detailed information on subsidiaries (including the percentages of ownership and main businesses).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized as expenses as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest 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 acquiree's identifiable net assets. The choice of the 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 (i.e. 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 year 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 from the retranslation of non-monetary items are included in profit or loss for the year 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 cases, 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 translated using the exchange rate at the date of the transaction and are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including subsidiaries, associates and joint ventures in other countries that use currencies that are different from the currency of the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting year; and income and expense items are translated at the average exchange rates for the year. The resulting currency translation differences are recognized in other comprehensive income and attributed to the owners of the Company and non-controlling interests.

On a disposal of the Company's entire interest in a foreign operation or a disposal involving loss of significant influence over a subsidiary that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

g. Inventories

Inventories consist of raw materials, semi-finished goods, finished goods and work in progress and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

h. Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates and joint ventures. The Group also recognizes the changes in the Group's share of equity of associates and joint ventures attributable to the Group.

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 or a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized.

When the Group subscribes for additional new shares of an associate and a joint venture 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 and joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in equity of associates and joint ventures accounted for using the equity method and investments accounted for using the equity method. If the Group's ownership interest is reduced due to the additional subscription of the new shares of the associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture 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 using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture, 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 and joint venture.

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 the goodwill and other assets that form 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 its investment ceases to be an associate and a joint venture. 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 and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate and joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Group transacts with its associates and joint ventures, profits and losses resulting from the transactions with the associates and joint ventures are recognized in the Group's consolidated financial statements only to the extent of interests in the associates and the joint ventures 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.

Property, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in estimates 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 carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purpose 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 year, that unit shall be tested for impairment before the end of the current annual year. 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 to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent years.

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 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 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 lives, residual value, and amortization methods are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

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

Expenditures on research activities are recognized as expenses in the period in which they are 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 expenditures attributable to the intangible asset during its development.

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

3) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

4) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

l. 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 smallest group of cash-generating units on a reasonable and consistent basis of allocation.

The 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 corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount (net of amortization or depreciation) 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 are classified as held for sale if their carrying amounts 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 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 1 year from the date of classification.

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

n. Financial instruments

Financial assets and financial liabilities are recognized when the Group 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 an acquisition or issuance 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 fair value through profit or loss (FVTPL), financial assets at amortized cost and investments in equity instruments at FVTOCI.

i. Financial assets at FVTPL

Financial assets at FVTPL include mutual funds and investments in equity instruments which are not designated as at FVTOCI and are mandatorily measured at fair value subsequently, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 32.

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, accounts receivable and other receivables are measured at amortized cost, which equals to gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition and repurchase agreements collateralized by bonds, 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 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, they 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 FVTPL, available-for-sale financial assets, and loans and receivables.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

Fair value is determined in the manner described in Note 32.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments 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 and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

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 and derivatives that are linked to and must be settled by delivery of such unquoted equity investments 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 measured at cost. If, in a subsequent year, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

iii. Loans and receivables

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

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition and repurchase agreements collateralized by bonds, 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.

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).

The Group always recognizes lifetime Expected Credit Loss (ECL) for accounts receivable. For all other financial instruments, the Group recognizes lifetime ECL 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 ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL 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 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, as a result of one or more events that occurred after the initial recognition of such financial assets, that the estimated future cash flows of the investment have been affected.

For financial assets measured at amortized cost, such as accounts receivable, such 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 with collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets measured at amortized cost, the amount of the impairment loss recognized is the difference between the assets' carrying amount and the present value of its 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 year, 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 losses previously recognized in other comprehensive income are reclassified to profit or loss in the year.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is 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 measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of its 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 years.

The carrying amount of a 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 accounts receivable are considered uncollectible, they are 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.

In and before 2017, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. 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 an equity instrument at FVTOCI, the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without reclassifying to profit or loss.

2) Equity instruments

The repurchase of the Company'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 Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

Except financial liabilities at FVTPL, all financial liabilities are carried at amortized cost using the effective interest method. Financial liabilities are classified as at FVTPL when such financial liabilities are held for trading and are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss.

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

In and before 2017, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. Starting from 2018, derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

o. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

1) Onerous contracts

Onerous contracts are those in which the Group's unavoidable costs of meeting the contractual obligations exceed the economic benefits expected to be received from the contract. The present obligations arising under onerous contracts are recognized and measured as provisions.

2) Restructurings

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has started to implement the plan or announced its main features. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

3) Warranties

Provisions for the expected cost of warranty obligations to assure that products comply with agreed-upon specifications are recognized on the date of sale of the relevant products at the best estimate by the management of the Group of the expenditures required to settle the Group's obligations.

p. Revenue recognition

2018

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

1) Revenue from sale of goods

Sales of products are recognized as revenue when the goods are delivered to the customer's specific location because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods. Revenue and accounts receivable are recognized concurrently.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2) Licensing revenue

If the patented technology licensed by the Group can remain functional without any updates or technical support and the Group is not obliged to undertake activities that will change the functionality of the licensed patented technology, the licensed patented technology has significant stand-alone functionality and the Group recognizes revenue at the point in time at which the license of patented technology transfers. If the Group is obliged to undertake activities that will change the functionality of the licensed patented technology, the licensed patented technology does not have significant stand-alone functionality and the Group recognizes revenue on a straight-line basis over the life of the agreements. Royalty agreements that are based on sales are recognized by reference to the underlying agreements. Royalties receivable that the Group does not have a present right to payment of the royalties is recorded as contract assets and reclassified to accounts receivable after the Group fulfills the remainder of the performance obligation. Proceeds of royalties received but which have not met the conditions of revenue recognition are recorded as contract liabilities, current and non-current, respectively, based on the remaining contract periods.

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. Allowance for sales returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Group;
and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of material ownership.

2) Royalties

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Royalties determined on a time basis are recognized on a straight-line basis over the period of the agreement. Royalty arrangements that are based on sales are recognized by reference to the underlying arrangement. Proceeds of royalties received but having not met the condition of revenue recognition are recognized as receipts in advance - current and deferred revenue - non-current, respectively, based on the remaining contract period.

3) Dividend and interest income

Dividend income from investments is recognized when the shareholders' 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 applicable effective interest rate.

q. Leasing

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

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

r. Borrowing costs

Borrowing costs directly attributable to an acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Other than stated above, all other borrowing costs are recognized in profit or loss in the year in which they are incurred.

s. 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 services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services 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 liabilities are recognized as employee benefits expense in the year they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the year in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities represent the actual deficit in the Group's defined benefit plans.

t. Share-based payment arrangements

The fair value at the grant date of share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately. The grant date of treasury shares transferred to employees is the date on which the board of directors approves the transaction.

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

u. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred taxes 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 taxes are also recognized in other comprehensive income.

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 the earnings.

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforwards to the extent that it is probable that taxable profit 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 are only recognized to the extent that it is probable that there will be sufficient taxable profit 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 profit will be available to allow all or part of the assets 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 year in which the liabilities are settled or the assets are 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.

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, estimations and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimations and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimations.

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The calculation of the value in use requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|-------------------------------------------------------------------------------|---------------------|----------------------|
| | 2018 | 2017 |
| Cash on hand | \$ 148,402 | \$ 1,541 |
| Checking accounts and demand deposits | 2,003,246 | 7,967,839 |
| Cash equivalents (investments with original maturities of less than 3 months) | | |
| Time deposits | 4,984,443 | 3,803,487 |
| Repurchase agreements collateralized by bonds | <u>559,015</u> | <u>105,782</u> |
| | <u>\$ 7,695,106</u> | <u>\$ 11,878,649</u> |

The market rate intervals of demand deposits, time deposits and repurchase agreements collateralized by bonds at the end of the reporting years were as follows:

| | December 31 | |
|-----------------------------------------------|--------------------|-------------|
| | 2018 | 2017 |
| Demand deposits | 0.01-1.15% | 0.01-1.15% |
| Time deposits | 0.35-4% | 0.2-3.2% |
| Repurchase agreements collateralized by bonds | 0.55-2.8% | 0.4-1.7% |

As of December 31, 2017, time deposits with original maturities of more than 3 months was \$199,391 thousand and was recorded as other financial assets under IAS 39. The interest rate intervals were 2.25% to 2.4%.

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | December 31 | |
|---------------------------------------------------------------------------------|---------------------|-------------|
| | 2018 | 2017 |
| <u>Non-derivative financial assets</u> | | |
| Mandatorily measured at FVTPL - mutual funds | <u>\$ 1,840,835</u> | <u>\$ -</u> |
| <u>Derivative financial liabilities (included in other current liabilities)</u> | | |
| Held for trading - forward foreign exchange contracts | <u>\$ 4,678</u> | <u>\$ -</u> |

At the end of the reporting year, the outstanding foreign exchange forward contract not under hedge accounting was as follows:

| | Currency | Maturity Date | Notional Amount (In Thousands) |
|--------------------------|-----------------|----------------------|-------------------------------------------|
| <u>December 31, 2018</u> | | | |
| Buy | USD/KRW | 2019.03 | USD46,745/KRW52,434,480 |

The Group entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. However, those contrasts did not meet the criteria of hedge effectiveness and, therefore, were not accounted for using hedge accounting.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

| | December 31, 2018 |
|--------------------------------------------------------|------------------------------|
| <u>Investments in equity investments - non-current</u> | |
| Domestic listed shares and emerging market shares | \$ 2,923,732 |
| Overseas listed shares | 462,545 |
| Domestic unlisted shares | 35,351 |
| Overseas unlisted shares | <u>10,108</u> |
| | <u>\$ 3,431,736</u> |

The Group holds the above investments in equity instruments for long-term strategic purposes and expects to gain profit through long-term investments. 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 available-for-sale under IAS 39. Please refer to Notes 3, 10 and 11 for information relating to their reclassification and comparative information for 2017.

9. FINANCIAL ASSETS AT AMORTIZED COST - 2018

As of December 31, 2018, time deposits with original maturities of more than 3 months was \$3,860,537 thousand and the interest rate intervals were 0.84% to 4%. These deposits were originally classified as other financial assets under IAS 39. Please refer to Notes 3 and 6 for information relating to their reclassification and comparative information for 2017.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

| | December 31, 2017 |
|-----------------------------|------------------------------|
| <u>Domestic investments</u> | |
| Listed shares | <u>\$ 2,749,317</u> |

11. FINANCIAL ASSETS MEASURED AT COST - 2017

| | December 31, 2017 |
|---------------------------------|------------------------------|
| Overseas unlisted shares | \$ 170,793 |
| Domestic emerging market shares | 59,218 |
| Domestic unlisted shares | <u>37,970</u> |
| | <u>\$ 267,981</u> |

Financial assets measured at cost were classified as available-for-sale financial assets according to the measurement categories.

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

12. DEBT INVESTMENTS WITH NO ACTIVE MARKET- 2017

**December 31,
2017**

Principal guaranteed wealth investment products \$ 519,209

Principal guaranteed wealth investment products bought from banks by the Group were measured at cost and may not be redeemed in advance during the term of the contracts. The expected rates of return internals were 4.25% to 4.5% per annum as of December 31, 2017.

13. ACCOUNTS RECEIVABLE

| | December 31 | |
|----------------------------------------------------|---------------------|---------------------|
| | 2018 | 2017 |
| Accounts receivable from related parties (Note 33) | \$ 159,647 | \$ 248,685 |
| Gross carrying amount of accounts receivable | 2,125,653 | 1,789,726 |
| Less: Loss allowance | <u>41,888</u> | <u>28,611</u> |
| | <u>2,083,765</u> | <u>1,761,115</u> |
| | <u>\$ 2,243,412</u> | <u>\$ 2,009,800</u> |

For the year ended December 31, 2018

The Group recognizes impairment loss when there is actual credit loss from individual client. In addition, the Group recognizes impairment loss based on the rate of expected credit loss by reference to past default experience of the debtor, an analysis of the debtor's current financial position, general economic conditions of the industry in which the debtors operate and past due status.

The following table details the loss allowance for accounts receivable.

December 31, 2018

| | Not Past Due | Past Due in 1-90 Days | Past Due over 90 Days | Total |
|-----------------------|---------------------|----------------------------------|----------------------------------|---------------------|
| Gross carrying amount | \$ 1,773,351 | \$ 307,407 | \$ 44,895 | \$ 2,125,653 |
| Less: Loss allowance | <u>-</u> | <u>-</u> | <u>(41,888)</u> | <u>(41,888)</u> |
| Amortized cost | <u>\$ 1,773,351</u> | <u>\$ 307,407</u> | <u>\$ 3,007</u> | <u>\$ 2,083,765</u> |

The movements of the loss allowance were as follows:

| | For the Year Ended December 31, 2018 |
|-----------------------------------------------|---------------------------------------------------------|
| Balance at January 1, 2018 | \$ 28,611 |
| Expected credit loss recognized | 21,200 |
| Amounts written off | (7,609) |
| Foreign exchange translation gains and losses | <u>(314)</u> |
| Balance at December 31, 2018 | <u>\$ 41,888</u> |

For the year ended December 31, 2017

In determining the recoverability of accounts receivable, the Group considered any change in the credit quality of respective accounts receivable since the date credit was initially granted to the end of the reporting period. An allowance for impairment loss was recognized based on estimated irrecoverable amounts determined by reference to past default experience with the counterparties and an analysis of their current financial positions.

Before accepting a new customer, the Group evaluates the credit quality of a potential customer through an internal credit rating system or an external credit rating agency and sets the credit line of the customer. The Group checks its customers' credit lines and ratings regularly.

For the accounts receivable balances that were past due at the end of the reporting year, the Group did not recognize an allowance for impairment loss, because there was no significant change in credit quality and the amounts were still considered recoverable.

The aging of accounts receivable was as follows:

| | December 31, 2017 |
|-----------------------|------------------------------|
| Not past due | \$ 1,625,121 |
| Past due in 1-90 days | 114,430 |
| Past due over 90 days | <u>50,175</u> |
| | <u>\$ 1,789,726</u> |

The above aging schedule was based on the number of past due days from the end of the credit term.

The aging of accounts receivable that were past due but not impaired was as follows:

| | December 31, 2017 |
|-----------------------|------------------------------|
| Past due in 1-90 days | \$ 114,430 |
| Past due over 90 days | <u>21,565</u> |
| | <u>\$ 135,995</u> |

The above aging schedule was based on the number of past due days from the end of the credit term.

The movements of the allowance for doubtful accounts receivable were as follows:

| | Individually Assessed for Impairment | Collectively Assessed for Impairment | Total |
|-----------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|------------------|
| Balance at January 1, 2017 | \$ 38,545 | \$ - | \$ 38,545 |
| Impairment losses reversed | (10,107) | - | (10,107) |
| Foreign exchange translation gains and losses | <u>173</u> | <u>-</u> | <u>173</u> |
| Balance at December 31, 2017 | <u>\$ 28,611</u> | <u>\$ -</u> | <u>\$ 28,611</u> |

Accounts receivable of the Group were mainly concentrated to Customer A. The accounts receivable from Customer A were \$834,153 thousand and \$527,455 thousand as of December 31, 2018 and 2017, respectively.

14. INVENTORIES

| | <u>December 31</u> | |
|---------------------|---------------------|---------------------|
| | 2018 | 2017 |
| Finished goods | \$ 415,364 | \$ 814,904 |
| Semi-finished goods | 292,747 | 218,500 |
| Work in progress | 29,009 | 4,940 |
| Raw materials | <u>1,189,870</u> | <u>1,105,015</u> |
| | <u>\$ 1,926,990</u> | <u>\$ 2,143,359</u> |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 included write-downs of inventories of \$204,382 thousand and reversal of inventories of \$246,721 thousand, respectively. Previous write-downs were reversed as a result of the disposal of obsolete inventories.

15. NON-CURRENT ASSETS HELD FOR SALE

a. Discontinued operations

The board of directors of subsidiary, Hydis Technologies Co., Ltd., resolved on January 6, 2015 to shut down its display panel production line in order to focus on researching and developing patents and licensing businesses. Therefore, the Group classified operations related to the production line as discontinued operations.

The details of loss from discontinued operations and the related cash flow information were as follows:

| | For the Year Ended December 31, 2017 |
|----------------------------------------------------|---------------------------------------------------------|
| Operating revenue | \$ 133,081 |
| Operating costs | <u>(128,575)</u> |
| Gross profit | 4,506 |
| Operating expenses | <u>(452,088)</u> |
| Loss from operations | (447,582) |
| Impairment loss | (159,388) |
| Non-operating income and expenses | <u>(88,765)</u> |
| Loss before tax | (695,735) |
| Income tax expense | <u>(154,233)</u> |
| Net loss for the year | <u>\$ (849,968)</u> |
| Loss from discontinued operations attributable to: | |
| Owners of the Company | \$ (805,175) |
| Non-controlling interests | <u>(44,793)</u> |
| | <u>\$ (849,968)</u> |
| Net cash used in operating activities | \$ (395,714) |
| Net cash generated from investing activities | <u>829,077</u> |
| Net cash inflows | <u>\$ 433,363</u> |

b. Non-current assets held for sale

| | <u>December 31</u> | |
|--------------------------------------------------------------|--------------------|-------------|
| | 2018 | 2017 |
| Equipment held for sale | <u>\$ 10,166</u> | <u>\$ -</u> |
| Liabilities directly associated with equipment held for sale | <u>\$ 18,373</u> | <u>\$ -</u> |

The board of directors of the subsidiary Hydis Technologies Co., Ltd. resolved to dispose of the aforementioned property, plant and equipment of the discontinued operations in October 2015 and reclassified the property, plant and equipment to non-current assets held for sale. The board of directors of Hydis Technologies Co., Ltd. resolved to sell the above property, plant and equipment to a non-related party in August 2017. The impairment loss recognized under loss from discontinued operations was \$159,388 thousand for the year ended December 31, 2017. The Group has completed the related disposal procedures as of December 31, 2017.

The subsidiary, Transcend Optronics (Yangzhou) Co., Ltd., expected to dispose of a batch of equipment to a non-related party within 12 months. Transcend Optronics (Yangzhou) Co., Ltd. has received partial contract price of RMB4,105 thousand (recorded as receipts in advance) as of December 31, 2018. The sale price is expected to exceed the carrying amount of the related net assets. Hence, the Group did not recognize impairment loss when the aforementioned equipment was reclassified as non-current assets held for sale.

16. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements are as follows:

| Investor | Investee | Main Business | Proportion of Ownership (%) | | Remark |
|------------------------------------------|-------------------------------------------------|----------------------------------------------------|-----------------------------|--------|--------|
| | | | 2018 | 2017 | |
| E Ink Holdings Inc. | PVI Global Corp. | Investment | 100.00 | 100.00 | |
| | E Ink Corporation | Manufacture and sale of electronic ink | 45.31 | 45.31 | |
| | Yuen Yu Investment Co., Ltd. | Investment | 100.00 | 100.00 | |
| | New Field e-Paper Co., Ltd. | Wholesale and sale of electronic parts | 100.00 | 100.00 | |
| | SiPix Technology Inc. | Manufacture and sale of electronic ink | 100.00 | 100.00 | |
| | Dream Universe Ltd. | Trading | 100.00 | 100.00 | |
| | Prime View Communications Ltd. | Trading | 100.00 | 100.00 | |
| New Field e-Paper Co., Ltd. | Tech Smart Logistics Ltd. | Trading | 0.09 | 0.09 | |
| | Hot Tracks International Ltd. | Trading | 100.00 | 100.00 | |
| | E Ink Corporation | Manufacture and sale of electronic ink | 12.88 | 12.88 | |
| Yuen Yu Investment Co., Ltd. | Tech Smart Logistics Ltd. | Trading | 99.91 | 99.91 | |
| | Lucky Joy Holdings Ltd. | Investment | 100.00 | 100.00 | |
| SiPix Technology Inc. | Linfinity Corporation | Research, development and sale of electronic parts | 77.00 | 77.00 | |
| | YuanHan Materials Inc. | Manufacture and sale of electronic parts | 100.00 | 100.00 | |
| Linfinity Corporation | Linfinity Corporation | Research, development and sale of electronic ink | 4.00 | 4.00 | |
| E Ink Corporation | Linfinity Japan Inc. | Research, development and sale of electronic ink | 100.00 | 100.00 | |
| | E Ink California, LLC | Research, development and sale of electronic ink | 100.00 | 100.00 | |
| | E Ink Japan Inc. | Development of electronic ink products | 100.00 | 100.00 | |
| PVI Global Corp. | E Ink Systems, LLC | Research and development of application software | 100.00 | 100.00 | |
| | PVI International Corp. | Trading | 100.00 | 100.00 | |
| | Ruby Lustre Ltd. | Investment | 100.00 | 100.00 | |
| Tech Smart Logistics Ltd. | Dream Pacific International Corp. | Sale of LCD monitor products | 100.00 | 100.00 | |
| | Transyork Technology Yangzhou Ltd. | Assembly of LCD flat panels | 55.61 | 55.61 | |
| Dream Universe Ltd. | Transmart Electronics (Yangzhou) Ltd. | Research, development and sale of LCD monitors | 66.66 | 66.66 | |
| | E Ink Corporation | Manufacture and sale of electronic ink | 41.81 | 41.81 | |
| PVI International Corp. | Transyang Electronics (Yangzhou) Ltd. | Assembly of LCD flat panels | 100.00 | 100.00 | |
| Ruby Lustre Ltd. | Transcend Optronics (Yangzhou) Co., Ltd. | Assembly of LCD flat panels | 100.00 | 100.00 | |
| Dream Pacific International Corp. | Rich Optronics (Yangzhou) Co., Ltd. | Assembly of LCD flat panels | 100.00 | 100.00 | |
| | Hydis Technologies Co., Ltd. | Research, development and sale of LCD monitors | 94.73 | 94.73 | |
| Hydis Technologies Co., Ltd. | Yangzhou Huaxia Integrated O/E System Co., Ltd. | Manufacture and sale of LED products | 24.19 | 24.19 | |
| | Hydis Taiwan Inc. | Sale of LCD monitor products | - | 100.00 | a. |
| Transcend Optronics (Yangzhou) Co., Ltd. | Hydis Shenzhen Ltd. | Sale of LCD monitor products | - | 100.00 | b. |
| | Yangzhou Huaxia Integrated O/E System Co., Ltd. | Manufacture and sale of LED products | 75.81 | 75.81 | |
| | Transyork Technology Yangzhou Ltd. | Assembly of LCD flat panels | 44.39 | 44.39 | |
| | Transmart Electronics (Yangzhou) Ltd. | Research development and sale of LCD monitors | 33.34 | 33.34 | |

a. The board of directors of Hydis Taiwan Inc., acting its authority as the shareholder, resolved to dissolve its company on September 30, 2017 and the base date of liquidation was March 1, 2018.

b. Hydis Shenzhen Ltd. has completed its liquidation process in November 2018.

17. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Machinery | Other Equipment | Construction in Progress and Prepayments for Equipment | Total |
|--------------------------------------------------|---------------------|---------------------|---------------------|-----------------------------------------------------------------------|----------------------|
| <u>Cost</u> | | | | | |
| Balance at January 1, 2017 | \$ 4,024,275 | \$ 9,656,051 | \$ 5,222,224 | \$ 225,426 | \$ 19,127,976 |
| Additions | 7,850 | 121,791 | 155,848 | 98,468 | 383,957 |
| Disposals | (218,374) | (2,499,307) | (105,267) | - | (2,822,948) |
| Effects of foreign currency exchange differences | <u>(41,912)</u> | <u>(75,069)</u> | <u>(188,103)</u> | <u>(17,660)</u> | <u>(322,744)</u> |
| Balance at December 31, 2017 | <u>\$ 3,771,839</u> | <u>\$ 7,203,466</u> | <u>\$ 5,084,702</u> | <u>\$ 306,234</u> | <u>\$ 16,366,241</u> |
| <u>Accumulated depreciation and impairment</u> | | | | | |
| Balance at January 1, 2017 | \$ 2,177,248 | \$ 8,403,090 | \$ 3,227,816 | \$ - | \$ 13,808,154 |
| Depreciation expenses | 117,735 | 318,255 | 324,260 | - | 760,250 |
| Impairment losses | - | 7,568 | 4 | - | 7,572 |
| Disposals | (218,374) | (2,487,958) | (103,555) | - | (2,809,887) |
| Effects of foreign currency exchange differences | <u>(17,162)</u> | <u>(60,358)</u> | <u>(75,310)</u> | <u>-</u> | <u>(152,830)</u> |
| Balance at December 31, 2017 | <u>\$ 2,059,447</u> | <u>\$ 6,180,597</u> | <u>\$ 3,373,215</u> | <u>\$ -</u> | <u>\$ 11,613,259</u> |
| Carrying amount at December 31, 2017 | <u>\$ 1,712,392</u> | <u>\$ 1,022,869</u> | <u>\$ 1,711,487</u> | <u>\$ 306,234</u> | <u>\$ 4,752,982</u> |
| <u>Cost</u> | | | | | |
| Balance at January 1, 2018 | \$ 3,771,839 | \$ 7,203,466 | \$ 5,084,702 | \$ 306,234 | \$ 16,366,241 |
| Additions | 13,345 | 157,765 | 170,848 | 273,527 | 615,485 |
| Disposals | (1,020) | (112,762) | (280,535) | - | (394,317) |
| Reclassifications | 146,543 | (63,105) | 1,092 | (148,233) | (63,703) |
| Effects of foreign currency exchange differences | <u>(24,688)</u> | <u>(22,107)</u> | <u>23,662</u> | <u>8,069</u> | <u>(15,064)</u> |
| Balance at December 31, 2018 | <u>\$ 3,906,019</u> | <u>\$ 7,163,257</u> | <u>\$ 4,999,769</u> | <u>\$ 439,597</u> | <u>\$ 16,508,642</u> |
| <u>Accumulated depreciation and impairment</u> | | | | | |
| Balance at January 1, 2018 | \$ 2,059,447 | \$ 6,180,597 | \$ 3,373,215 | \$ - | \$ 11,613,259 |
| Depreciation expenses | 115,437 | 278,622 | 289,727 | - | 683,786 |
| Impairment losses (reversed) | - | (3,660) | 139,093 | - | 135,433 |
| Disposals | (584) | (84,650) | (277,751) | - | (362,985) |
| Reclassifications | - | (53,346) | - | - | (53,346) |
| Effects of foreign currency exchange differences | <u>(11,158)</u> | <u>(13,198)</u> | <u>(4,590)</u> | <u>-</u> | <u>(28,946)</u> |
| Balance at December 31, 2018 | <u>\$ 2,163,142</u> | <u>\$ 6,304,365</u> | <u>\$ 3,519,694</u> | <u>\$ -</u> | <u>\$ 11,987,201</u> |
| Carrying amount at December 31, 2018 | <u>\$ 1,742,877</u> | <u>\$ 858,892</u> | <u>\$ 1,480,075</u> | <u>\$ 439,597</u> | <u>\$ 4,521,441</u> |

The Group performed an assessment of the recoverable amount of property, plant and equipment and recognized an impairment loss of \$135,433 thousand and \$7,572 thousand for the years ended December 31, 2018 and 2017, respectively.

Information about the capitalized interest is as follows:

| | For the Year Ended December 31 | |
|-------------------------------|---------------------------------------|-------------------|
| | 2018 | 2017 |
| Capitalized interest | <u>\$ 497</u> | <u>\$ 307</u> |
| Capitalization rate intervals | <u>0.91-2.11%</u> | <u>0.99-1.82%</u> |

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

| | |
|---------------------------------------|-------------|
| Buildings | |
| Main buildings | 20-56 years |
| Clean rooms and plumbing construction | 25-36 years |
| Employee dormitories | 20 years |
| Others | 2-16 years |
| Machinery | 1-10 years |
| Other equipment | 1-26 years |

18. GOODWILL AND OTHER INTANGIBLE ASSETS

| | December 31 | |
|-------------------------|---------------------|---------------------|
| | 2018 | 2017 |
| Goodwill | <u>\$ 6,781,244</u> | <u>\$ 6,702,636</u> |
| Other intangible assets | | |
| Patents | 1,619,156 | 1,864,507 |
| Others | <u>125,653</u> | <u>24,646</u> |
| | <u>1,744,809</u> | <u>1,889,153</u> |
| | <u>\$ 8,526,053</u> | <u>\$ 8,591,789</u> |

| | Goodwill | Patents | Others | Total |
|--------------------------------------------------|---------------------|---------------------|-------------------|---------------------|
| Balance at January 1, 2017 | \$ 6,907,594 | \$ 2,243,961 | \$ 26,920 | \$ 9,178,475 |
| Additions | - | 99,533 | 12,061 | 111,594 |
| Amortization expenses | - | (392,847) | (13,788) | (406,635) |
| Effects of foreign currency exchange differences | <u>(204,958)</u> | <u>(86,140)</u> | <u>(547)</u> | <u>(291,645)</u> |
| Balance at December 31, 2017 | 6,702,636 | 1,864,507 | 24,646 | 8,591,789 |
| Additions | - | 123,252 | 125,938 | 249,190 |
| Amortization expenses | - | (395,765) | (24,829) | (420,594) |
| Effects of foreign currency exchange differences | <u>78,608</u> | <u>27,162</u> | <u>(102)</u> | <u>105,668</u> |
| Balance at December 31, 2018 | <u>\$ 6,781,244</u> | <u>\$ 1,619,156</u> | <u>\$ 125,653</u> | <u>\$ 8,526,053</u> |

Other intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

| | |
|-------------------------|------------|
| Patents | 6-17 years |
| Other intangible assets | 3-5 years |

19. BORROWINGS

a. Short-term borrowings

| | December 31 | |
|-------------------------------------------------|---------------------|-------------------|
| | 2018 | 2017 |
| Line of credit borrowings | <u>\$ 1,480,000</u> | <u>\$ 377,600</u> |
| Foreign currency included (in thousands of USD) | <u>\$ -</u> | <u>\$ 10,000</u> |
| Interest rate intervals | <u>0.98-1.52%</u> | <u>0.98-2.08%</u> |

b. Short-term bills payable

| | December 31 | |
|----------------------------------|--------------------|-------------|
| | 2018 | 2017 |
| Commercial paper | \$ 565,000 | \$ - |
| Less: Discounts on bills payable | <u>278</u> | <u>-</u> |
| | <u>\$ 564,722</u> | <u>\$ -</u> |
| Interest rate intervals | <u>0.61-1.03%</u> | <u>-</u> |

c. Long-term borrowings

| | December 31 | |
|------------------------|--------------------|------------------|
| | 2018 | 2017 |
| Long-term payables | \$ 44,752 | \$ 163,538 |
| Less: Current portions | <u>-</u> | <u>117,993</u> |
| Long-term borrowings | <u>\$ 44,752</u> | <u>\$ 45,545</u> |

Long-term payables included interest-free infrastructure funds lent from the Yangzhou Economic and Technological Development Zone Development Corporation to Yangzhou Huaxia Integrated O/E System Co., Ltd. and redemption of unsecured corporate bonds issued by the subsidiary, Hydis Technologies Co., Ltd.

Hydis Technologies Co., Ltd. issued unsecured corporate bonds in the amount of KRW22,880,000 thousand in May 2008 and were acquired in equal parts by ALCO Electronics Limited and Varitronix International Limited with a coupon rate of 4% and quarterly-paid interest. The corporate bonds originally expired in May 2013. However, after several resolutions by the board of directors and creditors, the expiration of the corporate bonds was extended to January 2014 and the coupon rate was lowered to 3%. The corporate bonds were then redeemed by the subsidiaries, PVI Global Corp. and Dream Pacific International Corp., on December 31, 2013 at the price of US\$20,000 thousand, which was required to be paid in principle with no interest evenly over 5 years beginning from July 2014. These amount has been paid off in June 2018. As of December 31, 2017, the above payables included in the current portion of long-term borrowings was \$117,993 thousand.

20. OTHER PAYABLES

| | <u>December 31</u> | |
|-----------------------------------------|---------------------|---------------------|
| | <u>2018</u> | <u>2017</u> |
| Payables for salaries or bonuses | \$ 779,704 | \$ 808,450 |
| Payables for construction and equipment | 127,906 | 86,466 |
| Payable for professional service fees | 45,911 | 130,935 |
| Payables for utilities | 30,018 | 136,150 |
| Others | <u>368,220</u> | <u>479,419</u> |
| | <u>\$ 1,351,759</u> | <u>\$ 1,641,420</u> |

21. PROVISIONS

| | <u>December 31</u> | |
|---------------------------|--------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| Warranties (a) | \$ 26,082 | \$ 20,932 |
| Litigation provisions (b) | <u>13</u> | <u>616,849</u> |
| | <u>\$ 26,095</u> | <u>\$ 637,781</u> |

- a. The provision for warranty claims represents the present value of the Group's management's best estimate of the future outflow of the economic benefits based on historical experience which will be required under the Group's obligations for warranties under the agreements of sales contracts.
- b. Litigation provisions are estimated by the Group's management based on the expected highly probable outcomes of related litigations.

22. RETIREMENT BENEFIT PLANS

- a. Defined contribution plans

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

The employees of the Group's subsidiaries in China are members of a state-managed retirement benefit plan operated by the government of China.

- b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes 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 Company 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 Company 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 Company has no right to influence the investment policy and strategy.

The defined benefit plan adopted by Hydix Technologies Co., Ltd. in accordance with the law is operated by the government of South Korea.

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

| | December 31 | |
|---------------------------------------------|--------------------|------------------|
| | 2018 | 2017 |
| Present value of defined benefit obligation | \$ 145,075 | \$ 128,201 |
| Fair value of plan assets | <u>(64,305)</u> | <u>(57,851)</u> |
| Net defined benefit liabilities | <u>\$ 80,770</u> | <u>\$ 70,350</u> |

Movements in net defined benefit liabilities were as follows:

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liabilities |
|-----------------------------------------------------------------------|--------------------------------------------------------------------|------------------------------------------|------------------------------------------------|
| Balance at January 1, 2017 | \$ 117,480 | \$ (53,010) | \$ 64,470 |
| Current service cost | 6,729 | - | 6,729 |
| Net interest expense (income) | <u>1,839</u> | <u>(762)</u> | <u>1,077</u> |
| Recognized in profit or loss | <u>8,568</u> | <u>(762)</u> | <u>7,806</u> |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | 78 | 78 |
| Actuarial loss - changes in demographic assumptions | 4,255 | - | 4,255 |
| Actuarial loss - changes in financial assumptions | 925 | - | 925 |
| Actuarial loss - experience adjustments | <u>1,818</u> | <u>-</u> | <u>1,818</u> |
| Recognized in other comprehensive income | <u>6,998</u> | <u>78</u> | <u>7,076</u> |
| Contributions from the employer | - | (4,157) | (4,157) |
| Benefits paid | (5,303) | - | (5,303) |
| Exchange differences on foreign plans | <u>458</u> | <u>-</u> | <u>458</u> |
| Balance at December 31, 2017 | 128,201 | (57,851) | 70,350 |
| Current service cost | 7,871 | - | 7,871 |
| Net interest expense (income) | <u>2,071</u> | <u>(824)</u> | <u>1,247</u> |
| Recognized in profit or loss | <u>9,942</u> | <u>(824)</u> | <u>9,118</u> |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (1,465) | (1,465) |
| Actuarial loss - changes in demographic assumptions | 2,705 | - | 2,705 |
| Actuarial loss - changes in financial assumptions | 4,059 | - | 4,059 |
| Actuarial loss - experience adjustments | <u>4,936</u> | <u>-</u> | <u>4,936</u> |
| Recognized in other comprehensive income or loss | <u>11,700</u> | <u>(1,465)</u> | <u>10,235</u> |
| Contributions from the employer | - | (4,165) | (4,165) |
| Benefits paid | (4,577) | - | (4,577) |
| Exchange differences on foreign plans | <u>(191)</u> | <u>-</u> | <u>(191)</u> |
| Balance at December 31, 2018 | <u>\$ 145,075</u> | <u>\$ (64,305)</u> | <u>\$ 80,770</u> |

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

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

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

| | <u>December 31</u> | |
|-----------------------------------|--------------------|-------------|
| | 2018 | 2017 |
| Discount rates | 1.1-3.2% | 1.4-3.6% |
| Expected rates of salary increase | 2.8-3.0% | 2.8-3.3% |

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

| | <u>December 31</u> | |
|-----------------------------------|--------------------|-------------------|
| | 2018 | 2017 |
| Discount rates | | |
| 0.25-1% increase | <u>\$ (4,453)</u> | <u>\$ (4,154)</u> |
| 0.25-1% decrease | <u>\$ 4,687</u> | <u>\$ 4,378</u> |
| Expected rates of salary increase | | |
| 0.25-1% increase | <u>\$ 4,551</u> | <u>\$ 4,269</u> |
| 0.25-1% decrease | <u>\$ (4,354)</u> | <u>\$ (4,079)</u> |

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

| | <u>December 31</u> | |
|-------------------------------------------------------|--------------------|-----------------|
| | 2018 | 2017 |
| Expected contributions to the plans for the next year | <u>\$ 4,298</u> | <u>\$ 4,134</u> |
| Average duration of the defined benefit obligation | 3-12 years | 3-13 years |

23. EQUITY

a. Ordinary shares

| | <u>December 31</u> | |
|-------------------------------------------------------|----------------------|----------------------|
| | <u>2018</u> | <u>2017</u> |
| Number of shares authorized (in thousands) | <u>2,000,000</u> | <u>2,000,000</u> |
| Amount of shares authorized | <u>\$ 20,000,000</u> | <u>\$ 20,000,000</u> |
| Number of shares issued and fully paid (in thousands) | <u>1,140,468</u> | <u>1,140,468</u> |
| Amount of shares issued | <u>\$ 11,404,677</u> | <u>\$ 11,404,677</u> |

b. Capital surplus

| | <u>December 31</u> | |
|-----------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| | <u>2018</u> | <u>2017</u> |
| <u>May be used to offset a deficit, distributed as cash dividends or transferred to share capital (1)</u> | | |
| Issuance of shares | \$ 9,494,322 | \$ 9,494,322 |
| Conversion of bonds | 525,200 | 525,200 |
| Treasury share transactions | 95,922 | 20,106 |
| <u>May only be used to offset a deficit</u> | | |
| Expired employee share options | 49,840 | 49,840 |
| Changes in percentage of ownership interests in associates (2) | 105 | 105 |
| Unclaimed dividends extinguished by prescription | 14 | - |
| <u>May not be used for any purpose</u> | | |
| Employee share options | <u>77,890</u> | <u>18,546</u> |
| | <u>\$ 10,243,293</u> | <u>\$ 10,108,119</u> |

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

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the Company's amended Articles of Incorporation, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside a legal reserve of 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 at least 50% of any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors after the amendment, refer to Note 25.

The Company's Articles of Incorporation also stipulate a dividends policy that allows previous accumulated undistributed earnings to be distributed. The distribution of dividends to shareholders is allowed to be in cash or by the issuance of shares. In principle, cash dividends should be at least 10% of the total dividends distributed.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficits and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2017 and 2016 approved in the shareholders' meetings on June 22, 2018 and June 20, 2017, respectively, were as follows:

| | <u>Appropriation of Earnings</u> | | <u>Dividends Per Share (NT\$)</u> | |
|----------------|----------------------------------|-------------|-----------------------------------|----------------|
| | <u>For the Year Ended</u> | | <u>For the Year Ended</u> | |
| | <u>December 31</u> | | <u>December 31</u> | |
| | 2017 | 2016 | 2017 | 2016 |
| Legal reserve | \$ 207,806 | \$ 190,794 | | |
| Cash dividends | 1,853,550 | 1,680,702 | <u>\$ 1.65</u> | <u>\$ 1.50</u> |

The appropriation of earnings for 2018 were proposed by the Company's board of directors on March 20, 2019. The appropriation and dividends per share were as follows:

| | Appropriation of Earnings | Dividends Per Share (NT\$) |
|-----------------|----------------------------------|-----------------------------------|
| Legal reserve | \$ 261,367 | |
| Special reserve | 184,797 | |
| Cash dividends | 2,373,438 | <u>\$2.10</u> |

The appropriation of earnings for 2018 is subject to resolution in the shareholders' meeting to be held on June 18, 2019.

d. Special reserve

If a special reserve appropriated on the first-time adoption of IFRSs relates to exchange differences on translating the financial statements of foreign operations, the special reserve will be reversed proportionally on the Company's disposal of the foreign operations; on the Company's loss of significant influence, however, the entire special reserve will be reversed. An additional special reserve should be appropriated for the amount equal to the difference between the net debit balance of the reserves and the special reserve appropriated on the first-time adoption of IFRSs. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and may thereafter be distributed.

e. Other equity items

1) Exchange differences on translating the financial statements of foreign operations

| | For the Year Ended December 31 | |
|------------------------------------------------------------------------------------|---------------------------------------|---------------------|
| | 2018 | 2017 |
| Balance at January 1 | \$ (242,623) | \$ 261,704 |
| Exchange differences on translating the financial statements of foreign operations | 60,307 | (502,225) |
| Share of associates and joint ventures accounted for using the equity method | (900) | (2,102) |
| Disposal of subsidiaries | <u>1,888</u> | <u>-</u> |
| Balance at December 31 | <u>\$ (181,328)</u> | <u>\$ (242,623)</u> |

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

| | |
|--------------------------------------------------------|------------------|
| Balance at January 1, 2017 | \$ 226,916 |
| Unrealized gain on available-for-sale financial assets | <u>122,316</u> |
| Balance at December 31, 2017 (IAS 39) | 349,232 |
| Effect of retrospective application of IFRS 9 | <u>(349,232)</u> |
| Balance at January 1, 2018 (IFRS 9) | <u>\$ -</u> |

3) Unrealized gain (loss) on financial assets at FVTOCI

| | For the Year Ended December 31, 2018 |
|---------------------------------------------------------------------------------------------------|---------------------------------------------|
| Balance at January 1 (IAS 39) | \$ - |
| Effect of retrospective application of IFRS 9 | <u>376,899</u> |
| Balance at January 1 (IFRS 9) | 376,899 |
| Unrealized loss on equity instruments | (432,897) |
| Cumulative unrealized loss of equity instruments transferred to retained earnings due to disposal | <u>(18,149)</u> |
| Balance at December 31 | <u>\$ (74,147)</u> |

f. Non-controlling interests

| | For the Year Ended December 31, 2018 |
|-----------------------------------------------------------------------------------|---------------------------------------------|
| Balance at January 1 (IAS 39) | \$ 294,397 |
| Effect of retrospective application of IFRS 9 | <u>15,903</u> |
| Balance at January 1 (IFRS 9) | 310,300 |
| Share of profit for the year | 78,403 |
| Remeasurement on defined benefit plans | 43 |
| Exchange difference on translating the financial statements of foreign operations | <u>(2,947)</u> |
| Balance at December 31 | <u>\$ 385,799</u> |

| | For the Year Ended December 31, 2017 |
|-----------------------------------------------------------------------------------|---------------------------------------------------------|
| Balance at January 1 | \$ (876) |
| Share of profit for the year | 4,265 |
| Remeasurement on defined benefit plans | (12) |
| Acquisition of non-controlling interests in subsidiaries (Note 29) | 191,413 |
| Exchange difference on translating the financial statements of foreign operations | 19,807 |
| Others (Note) | <u>79,800</u> |
| Balance at December 31 | <u>\$ 294,397</u> |

Note: The Group had a joint venture partnership with Sony Semiconductor Solutions in September 2017 to increase its shareholding in Linfiny Corporation and therefore, the Group's shareholding of Linfiny Corporation went from 100% to 81%, which led to an increase in non-controlling interests.

g. Treasury shares

| | Unit: Shares in Thousand | |
|---------------------------------|---------------------------------------|----------------|
| | For the Year Ended December 31 | |
| | 2018 | 2017 |
| Number of shares at January 1 | 17,104 | 20,000 |
| Transferred to employees | <u>(6,845)</u> | <u>(2,896)</u> |
| Number of shares at December 31 | <u>10,259</u> | <u>17,104</u> |

The board of directors of the Company resolved to repurchase 20,000 thousand shares of treasury shares on June 13, 2016, which was completed in August 2016, for the purpose of transferring to employees. Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as the rights to dividends and to vote.

24. REVENUE

a. Revenue from contracts with customers

| Type of Revenue/Category by Product | For the Year Ended December 31, 2018 |
|--------------------------------------------|---------------------------------------------------------|
| Revenue from sale of goods | |
| Monitors | \$ 10,546,456 |
| Electronic shelf labels | 3,221,182 |
| Others | <u>441,023</u> |
| | <u>\$ 14,208,661</u> |
| Royalty income | <u>\$ 2,360,815</u> |

b. Contract balances

| | December 31, 2018 |
|------------------------------------|------------------------------|
| Accounts receivable (Note 13) | <u>\$ 2,243,412</u> |
| Contract assets - current | |
| Royalty | <u>\$ 187,329</u> |
| Contract liabilities | |
| Royalty | \$ 1,423,203 |
| Sale of goods | <u>149,799</u> |
| Contract liabilities - current | <u>1,573,002</u> |
| Contract liabilities - non-current | |
| Royalty | <u>1,761,719</u> |
| | <u>\$ 3,334,721</u> |

The changes in the balances of contract assets and contract liabilities primarily result from the timing difference between the satisfaction of performance obligation and the customer's payment. Revenue recognized for the year from the beginning balance of the contract liabilities is as follows:

| Type of Revenue | For the Year Ended December 31, 2018 |
|----------------------------|---------------------------------------------------------|
| Royalty income | \$ 1,586,796 |
| Revenue from sale of goods | <u>129,406</u> |
| | <u>\$ 1,716,202</u> |

25. NET INCOME FROM CONTINUING OPERATIONS

Components of net income from continuing operations were as follows:

a. Depreciation and amortization

| | For the Year Ended December 31 | |
|-----------------------------------------|---------------------------------------|---------------------|
| | 2018 | 2017 |
| Property, plant and equipment | \$ 683,786 | \$ 760,250 |
| Other intangible assets | 420,594 | 406,529 |
| Other non-current assets | <u>-</u> | <u>12</u> |
| | <u>\$ 1,104,380</u> | <u>\$ 1,166,791</u> |
| An analysis of depreciation by function | | |
| Operating costs | \$ 393,833 | \$ 424,332 |
| Operating expenses | <u>289,953</u> | <u>335,918</u> |
| | <u>\$ 683,786</u> | <u>\$ 760,250</u> |

(Continued)

| | For the Year Ended December 31 | |
|-----------------------------------------|---------------------------------------|-------------------|
| | 2018 | 2017 |
| An analysis of amortization by function | | |
| Operating costs | \$ 2,602 | \$ 2,502 |
| Operating expenses | <u>417,992</u> | <u>404,039</u> |
| | <u>\$ 420,594</u> | <u>\$ 406,541</u> |
| | | (Concluded) |

b. Employee benefits expense

| | For the Year Ended December 31 | |
|------------------------------------------------------|---------------------------------------|---------------------|
| | 2018 | 2017 |
| Post-employment benefits (Note 22) | | |
| Defined contribution plans | \$ 72,476 | \$ 67,279 |
| Defined benefit plans | <u>9,118</u> | <u>5,512</u> |
| | 81,594 | 72,791 |
| Share-based payments | | |
| Equity-settled | 135,552 | 38,825 |
| Other employee benefits | <u>3,485,230</u> | <u>3,256,795</u> |
| Total employee benefits expense | <u>\$ 3,702,376</u> | <u>\$ 3,368,411</u> |
| An analysis of employee benefits expense by function | | |
| Operating costs | \$ 1,114,021 | \$ 953,727 |
| Operating expenses | <u>2,588,355</u> | <u>2,414,684</u> |
| | <u>\$ 3,702,376</u> | <u>\$ 3,368,411</u> |

c. Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation at the rates of no less than 1% and no higher than 10% as well as remuneration of directors at the rates of no higher than 1%, respectively, of net income before income tax, employees' compensation and remuneration of directors, net of accumulated deficit, if any. The employees' compensation and remuneration of directors for the years ended December 31, 2018 and 2017, which were approved by the Company's board of directors on March 20, 2019 and March 27, 2018, respectively, were as follows:

| | For the Year Ended December 31 | |
|---------------------------|---------------------------------------|------------------|
| | 2018 | 2017 |
| Employees' compensation | <u>\$ 27,100</u> | <u>\$ 23,000</u> |
| Remuneration of directors | <u>\$ 12,238</u> | <u>\$ 13,000</u> |

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016.

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

26. INCOME TAXES RELATING TO CONTINUING OPERATIONS

- a. Major components of income tax expense recognized in profit or loss:

| | For the Year Ended December 31 | |
|-------------------------------------------------|---------------------------------------|-------------------|
| | 2018 | 2017 |
| Current tax | | |
| In respect of the current year | \$ 212,311 | \$ 327,955 |
| Adjustments for the prior years | <u>1,487</u> | <u>(20,454)</u> |
| | <u>213,798</u> | <u>307,501</u> |
| Deferred tax | | |
| In respect of the current year | 384,431 | (38,519) |
| Effect of tax rate changes | <u>(31,037)</u> | <u>136,731</u> |
| | <u>353,394</u> | <u>98,212</u> |
| Income tax expense recognized in profit or loss | <u>\$ 567,192</u> | <u>\$ 405,713</u> |

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

| | For the Year Ended December 31 | |
|-------------------------------------------------------------------------------------------------|---------------------------------------|---------------------|
| | 2018 | 2017 |
| Income before income tax from continuing operations | <u>\$ 3,259,268</u> | <u>\$ 3,338,011</u> |
| Income tax expense calculated at the statutory rate (20% in 2018 and 17% in 2017, respectively) | \$ 651,854 | \$ 567,462 |
| Nondeductible expenses in determining taxable income | 77,763 | 120,071 |
| Tax-exempt income | (42,975) | (23,676) |
| Unrecognized loss carryforwards, deductible temporary differences and investment credits | (257,931) | (564,184) |
| Effect of tax rate changes | (31,037) | 136,731 |
| Effect of different tax rates of group entities operating in other jurisdictions | 61,941 | 63,934 |
| Adjustments for the prior years | 1,487 | (20,454) |
| Others | <u>106,090</u> | <u>125,829</u> |
| Income tax expense recognized in profit or loss | <u>\$ 567,192</u> | <u>\$ 405,713</u> |

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. Furthermore, in December 2017, the US amended the Income Tax Law, which reduces a profit-seeking enterprise's income tax rate from 35% to 21%, effective in 2018.

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

| | For the Year Ended December 31 | |
|-------------------------------------------------------------|---------------------------------------|-------------------|
| | 2018 | 2017 |
| Current tax - in respect of the current year | \$ (2,014) | \$ (1,165) |
| Deferred tax - effect of tax rate changes | <u>(2,212)</u> | <u>-</u> |
| Income tax benefit recognized in other comprehensive income | <u>\$ (4,226)</u> | <u>\$ (1,165)</u> |

c. Current tax assets and liabilities

| | December 31 | |
|-------------------------|--------------------|-------------------|
| | 2018 | 2017 |
| Current tax assets | | |
| Prepaid income tax | \$ 34,597 | \$ 309,128 |
| Tax refund receivable | <u>10,253</u> | <u>6,101</u> |
| | <u>\$ 44,850</u> | <u>\$ 315,229</u> |
| Current tax liabilities | | |
| Income tax payable | <u>\$ 128,343</u> | <u>\$ 153,649</u> |

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities (included in other non-current liabilities) were as follows:

For the year ended December 31, 2018

| | Opening Balance | Effect of Initial Application of IFRS 15 | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Exchange Differences | Closing Balance |
|---------------------------------|---------------------|------------------------------------------------|---------------------------------|---------------------------------------------------|-------------------------|---------------------|
| <u>Deferred tax assets</u> | | | | | | |
| Temporary differences | | | | | | |
| Property, plant and equipment | \$ 241,833 | \$ - | \$ (26,792) | \$ - | \$ 2,546 | \$ 217,587 |
| Other payables | 222,941 | - | (136,963) | - | 1,056 | 87,034 |
| Inventories | 148,247 | - | 49,673 | - | 885 | 198,805 |
| Deferred revenue | 43,380 | - | (9,557) | - | 101 | 33,924 |
| Defined benefit plans | 11,413 | - | - | 4,226 | - | 15,639 |
| Prepayments | - | - | 17,639 | - | - | 17,639 |
| Others | <u>19,355</u> | <u>-</u> | <u>13,560</u> | <u>-</u> | <u>21</u> | <u>32,936</u> |
| | 687,169 | - | (92,440) | 4,226 | 4,609 | 603,564 |
| Loss carryforwards | 505,023 | - | (236,286) | - | (2,688) | 266,049 |
| Investment credits | <u>233,057</u> | <u>-</u> | <u>(37,555)</u> | <u>-</u> | <u>6,773</u> | <u>202,275</u> |
| | <u>\$ 1,425,249</u> | <u>\$ -</u> | <u>\$ (366,281)</u> | <u>\$ 4,226</u> | <u>\$ 8,694</u> | <u>\$ 1,071,888</u> |
| <u>Deferred tax liabilities</u> | | | | | | |
| Temporary differences | | | | | | |
| Contract liabilities | \$ - | \$ 94,843 | \$ (6,410) | \$ - | \$ 23 | \$ 88,456 |
| Others | <u>28,330</u> | <u>-</u> | <u>(6,477)</u> | <u>-</u> | <u>(10)</u> | <u>21,843</u> |
| | <u>\$ 28,330</u> | <u>\$ 94,843</u> | <u>\$ (12,887)</u> | <u>\$ -</u> | <u>\$ 13</u> | <u>\$ 110,299</u> |

For the year ended December 31, 2017

| | Opening Balance | Recognized in Profit or Loss | Recognized in Discontinuing Operations | Recognized in Other Comprehensive Income | Exchange Differences | Closing Balance |
|---------------------------------|---------------------|------------------------------|----------------------------------------|------------------------------------------|----------------------|---------------------|
| <u>Deferred tax assets</u> | | | | | | |
| Temporary differences | | | | | | |
| Property, plant and equipment | \$ 424,892 | \$ 122,388 | \$ (305,239) | \$ - | \$ (208) | \$ 241,833 |
| Other payables | 266,902 | (82,012) | 45,306 | - | (7,255) | 222,941 |
| Inventories | 276,429 | (122,459) | - | - | (5,723) | 148,247 |
| Deferred revenue | 4,246 | 38,944 | - | - | 190 | 43,380 |
| Defined benefit plans | 10,248 | - | - | 1,165 | - | 11,413 |
| Others | 32,373 | (12,926) | - | - | (92) | 19,355 |
| | 1,015,090 | (56,065) | (259,933) | 1,165 | (13,088) | 687,169 |
| Loss carryforwards | 494,294 | (98,518) | 105,700 | - | 3,547 | 505,023 |
| Investment credits | 179,894 | 68,566 | - | - | (15,403) | 233,057 |
| | <u>\$ 1,689,278</u> | <u>\$ (86,017)</u> | <u>\$ (154,233)</u> | <u>\$ 1,165</u> | <u>\$ (24,944)</u> | <u>\$ 1,425,249</u> |
| <u>Deferred tax liabilities</u> | | | | | | |
| Temporary differences | | | | | | |
| Others | \$ 16,135 | \$ 12,195 | \$ - | \$ - | \$ - | \$ 28,330 |

- e. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

| | <u>December 31</u> | |
|----------------------------------|---------------------|---------------------|
| | 2018 | 2017 |
| Loss carryforwards | | |
| Expire in 2018 | \$ - | \$ 120,247 |
| Expire in 2019 | 84,399 | 85,894 |
| Expire in 2020 | 1,080,637 | 1,079,321 |
| Expire in 2021 | 52,244 | 53,159 |
| Expire in 2022 | 1,035,450 | 976,666 |
| Expire in 2023 | 370 | 461,982 |
| Expire in 2024 | 290 | 12,087 |
| Expire in 2025 | 761,124 | 1,060,500 |
| Expire in 2026 | 17,262 | 23,137 |
| Expire in 2027 | 495,540 | 499,442 |
| Expire in 2028 | 351 | - |
| Expire in 2029 | 460 | 446 |
| Expire in 2030 | 26,984 | 26,145 |
| | <u>\$ 3,555,111</u> | <u>\$ 4,399,026</u> |
| Deductible temporary differences | <u>\$ 2,529,529</u> | <u>\$ 2,523,786</u> |

f. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2018 comprised:

| Unused Amount | Expiry Year |
|-------------------------|--------------------|
| \$ 128,146 | 2019 |
| 1,143,391 | 2020 |
| 95,991 | 2021 |
| 1,079,198 | 2022 |
| 162,182 | 2023 |
| 44,037 | 2024 |
| 1,818,044 | 2025 |
| 44,246 | 2026 |
| 522,524 | 2027 |
| 27,335 | 2028 |
| 26,984 | 2029 |
| <u>26,984</u> | 2030 |
| <u>\$ 5,119,062</u> | |

g. The aggregate amount of temporary difference associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2018 and 2017, the taxable temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognized were \$8,328,762 thousand and \$6,466,056 thousand, respectively.

h. Income tax assessments

Income tax assessments of the Group were as follows:

| Company | Latest Assessment Year |
|------------------------------|-------------------------------|
| The Company | 2015 |
| Yuen Yu Investment Co., Ltd. | 2016 |
| New Field e-Paper Co., Ltd. | 2016 |
| SiPix Technology Inc. | 2016 |

27. EARNINGS PER SHARE

Unit: NT\$ Per Share

| | For the Year Ended December 31 | |
|-----------------------------|---------------------------------------|----------------|
| | 2018 | 2017 |
| Basic earnings per share | | |
| For continuing operations | \$ 2.32 | \$ 2.57 |
| For discontinued operations | <u>-</u> | <u>(0.72)</u> |
| | <u>\$ 2.32</u> | <u>\$ 1.85</u> |
| Diluted earnings per share | | |
| For continuing operations | \$ 2.31 | \$ 2.56 |
| For discontinued operations | <u>-</u> | <u>(0.71)</u> |
| | <u>\$ 2.31</u> | <u>\$ 1.85</u> |

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

Net Income (Loss) for the Year

| | For the Year Ended December 31 | |
|-----------------------------------------------------------------------------|---------------------------------------|---------------------|
| | 2018 | 2017 |
| Net income from continuing operations attributable to owners of the Company | \$ 2,613,673 | \$ 2,883,240 |
| Net loss from discontinued operations attributable to owners of the Company | <u>-</u> | <u>(805,175)</u> |
| Net income attributable to owners of the Company | <u>\$ 2,613,673</u> | <u>\$ 2,078,065</u> |

Number of Shares

Unit: Shares in Thousands

| | For the Year Ended December 31 | |
|--------------------------------------------------------------------------------------------------|---------------------------------------|------------------|
| | 2018 | 2017 |
| Weighted average number of ordinary shares used in the computation of basic earnings per share | 1,126,786 | 1,121,916 |
| Effect of potentially dilutive ordinary shares | | |
| Employees' compensation | 1,010 | 656 |
| Share-based payment arrangements | <u>4,141</u> | <u>1,660</u> |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | <u>1,131,937</u> | <u>1,124,232</u> |

If the Group offered to settle compensation paid to employees in cash or shares, the Group assumed the entire amount of the compensation will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

28. SHARE-BASED PAYMENT ARRANGEMENTS

The board of directors resolved on August 14, 2018, May 8, 2018 and March 22, 2017 to transfer treasury shares of 5,885 thousand shares, 8,097 thousand shares and 7,289 thousand shares, respectively, to qualified employees of the Company and its subsidiaries. In compliance with the Company's Regulations Governing Share Repurchase and Transfer to Employees, the transfer price for each arrangements is the average of the actual acquisition price of the treasury shares.

Information about treasury shares transferred to employees is as follows:

For the year ended December 31, 2018

| Grant Date | Unit: Shares in Thousands | | | | |
|-----------------|---------------------------|---------------------------------|--------------------------------|----------------|-----------------------|
| | Transferable Shares | Shares Transferred for the Year | Accumulated Shares Transferred | Expired Shares | Shares at December 31 |
| August 14, 2018 | <u>5,885</u> | <u>-</u> | <u>-</u> | <u>16</u> | <u>5,869</u> |
| May 8, 2018 | <u>8,097</u> | <u>4,024</u> | <u>4,024</u> | <u>28</u> | <u>4,045</u> |
| March 22, 2017 | <u>7,289</u> | <u>2,821</u> | <u>5,717</u> | <u>1,372</u> | <u>200</u> |

For the year ended December 31, 2017

| Grant Date | Transferable Shares | Shares Transferred for the Year | Accumulated Shares Transferred | Expired Shares | Shares at December 31 |
|----------------|---------------------|---------------------------------|--------------------------------|----------------|-----------------------|
| March 22, 2017 | <u>7,289</u> | <u>2,896</u> | <u>2,896</u> | <u>238</u> | <u>4,155</u> |

Treasury shares transferred to employees were priced using a Black-Scholes pricing model. Compensation costs recognized were \$135,552 thousand and \$38,825 thousand for the years ended December 31, 2018 and 2017, respectively. The inputs to the models are as follows:

| | August 2018 | May 2018 | March 2017 |
|-------------------------------------------------------|-------------|--------------|--------------|
| Grant date share price (NT\$) | \$36.85 | \$31.55 | \$25.20 |
| Exercise price (NT\$) | \$18.02 | \$18.02 | \$18.02 |
| Expected volatility | 53.23% | 48.31-49.82% | 30.53-40.29% |
| Expected life | 0-1 years | 0-1 years | 0-2 years |
| Expected dividend yield | 2.46% | 2.46% | 2.34% |
| Risk-free interest rate | 0.91% | 0.6-1.04% | 0.63-1.08% |
| Weighted-average fair value of options granted (NT\$) | \$18.80 | \$13.55 | \$7.48 |

29. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

The Group acquired the remaining 24.19% of outstanding shares of Yangzhou Huaxia Integrated O/E System Co., Ltd. and increased its continuing interest from 75.81% to 100%.

The above transaction was accounted for as an equity transaction since the Group did not cease to have control over this subsidiary.

| | For the Year Ended December 31, 2017 |
|-----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
| Cash consideration paid | \$ 66,411 |
| The proportionate share of the carrying amount of the net assets of the subsidiary transferred to non-controlling interests | <u>191,413</u> |
| Differences recognized from equity transactions | <u>\$ 257,824</u> |
| <u>Line items adjusted for equity transactions</u> | |
| Capital surplus - difference between actual consideration paid and carrying amount of subsidiaries acquired | \$ 2,223 |
| Retained earnings | <u>255,601</u> |
| | <u>\$ 257,824</u> |

30. NON-CASH TRANSACTIONS

For the years ended December 31, 2018 and 2017, the Group entered into the following non-cash investing activities:

| | <u>For the Year Ended December 31</u> | |
|----------------------------------------------------------------------------------|---------------------------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| Acquisition of property, plant and equipment | | |
| Increase in property, plant and equipment | \$ 615,485 | \$ 383,957 |
| Increase in payables for construction and equipment (recorded as other payables) | <u>(40,424)</u> | <u>(51,890)</u> |
| Cash paid | <u>\$ 575,061</u> | <u>\$ 332,067</u> |

31. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged in the future.

The Group's risk management committee reviews the capital structure on an annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Based on the committee's recommendations, the Group expects to balance its capital structure through the payment of dividends, the issue of new shares and private ordinary shares or the payment of old debt.

32. FINANCIAL INSTRUMENTS

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

The consolidated financial statements include unlisted shares measured at cost as of December 31, 2017. Since the range of fair values of these equity investments estimated by valuation techniques varied significantly, management believed that the unlisted equity investments held by the Group had fair values which could not be reliably measured. Therefore, they were measured at cost. Such investments were classified as financial assets at FVTOCI under IFRS 9 as of December 31, 2018. Please refer to Notes 3 and 11 for information relating to their reclassification and comparative information for 2017.

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

1) Fair value hierarchy

December 31, 2018

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------------------------------------------------|---------------------|-----------------|-------------------|---------------------|
| <u>Financial assets at FVTPL</u> | | | | |
| Non-derivative financial assets - mutual funds | <u>\$ 1,840,835</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,840,835</u> |
| <u>Financial assets at FVTOCI</u> | | | | |
| Investments in equity instruments | | | | |
| Domestic and overseas listed shares and emerging market shares | \$ 2,923,732 | \$ - | \$ 462,545 | \$ 3,386,277 |
| Domestic and overseas unlisted shares | <u>-</u> | <u>-</u> | <u>45,459</u> | <u>45,459</u> |
| Total | <u>\$ 2,923,732</u> | <u>\$ -</u> | <u>\$ 508,004</u> | <u>\$ 3,431,736</u> |
| <u>Financial liabilities at FVTPL</u> | | | | |
| Derivative financial liabilities - foreign exchange forward contracts | <u>\$ -</u> | <u>\$ 4,678</u> | <u>\$ -</u> | <u>\$ 4,678</u> |

December 31, 2017

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------------|---------------------|-------------|-------------|---------------------|
| <u>Available-for-sale financial assets</u> | | | | |
| Domestic listed shares | <u>\$ 2,749,317</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,749,317</u> |

There were no transfers between Levels 1 and 2 in the current and prior years.

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

For the year ended December 31, 2018

| | Financial Assets at FVTOCI Equity Instruments |
|---------------------------------------------------------------------------------------|------------------------------------------------------------------|
| Balance at January 1 | <u>\$ 264,501</u> |
| Recognized in other comprehensive loss | |
| Unrealized loss on equity instruments | (534,558) |
| Exchange differences on translating the financial statements of foreign operations | (5,977) |
| Purchases | 968,590 |
| Disposals | <u>(184,552)</u> |
| Balance at December 31 | <u>\$ 508,004</u> |

For the year ended December 31, 2017

| | Financial Assets at FVTPL Exchangeable Bonds |
|----------------------------------------|-----------------------------------------------------------------|
| Balance at January 1 | \$ 289,860 |
| Recognized in gain | 101,268 |
| Recognized in other comprehensive loss | (17,083) |
| Redeemed | <u>(374,045)</u> |
| Balance at December 31 | <u>\$ -</u> |

3) Valuation techniques and inputs applied for Level 2 fair value measurement

Derivatives - foreign exchange forward contracts were evaluated by to the discounted cash flow method. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting year and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

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

- a) Fair value of derivatives - exchangeable bonds were determined according to the calculation of the evaluation model and relevant value analysis report by financial institutions. Significant unobservable input changes are as follows: When net value per share increases, volatility decreases, risk-free interest rate decreases, risk premium decreases or discount for lack of marketability decreases, fair value of such investment will increase.
- b) Fair value of domestic and overseas unlisted shares were evaluated using the market approach, which referred to share prices and market conditions of companies with similar operating activities to the Group. Unobservable inputs used by the Group were discount for lack of marketability of 20% as of December 31, 2018. If the discount for lack of marketability increased by 1% while all other variables were held constant, the fair value would have decreased \$126 thousand.

- c) Fair value of overseas listed private shares were evaluated using the market approach, which referred to the closing prices at the end of the reporting years with consideration of discount for lack of marketability. Unobservable inputs used by the Group were discount for lack of marketability of 16.6% as of December 31, 2018. If the discount for lack of marketability increased by 1% while all other variables were held constant, the fair value would have decreased \$5,546 thousand.

c. Categories of financial instruments

| | <u>December 31</u> | |
|----------------------------------------------|--------------------|------------|
| | 2018 | 2017 |
| <u>Financial assets</u> | | |
| FVTPL | \$ 1,840,835 | \$ - |
| Loans and receivables (Note 1) | - | 14,932,789 |
| Available-for-sale financial assets (Note 2) | - | 3,017,298 |
| Amortized cost (Note 3) | 14,022,905 | - |
| Equity instruments at FVTOCI | 3,431,736 | - |
| <u>Financial liabilities</u> | | |
| FVTPL | 4,678 | - |
| Amortized cost (Note 4) | 4,788,909 | 4,383,674 |

Note 1: The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, accounts receivable, other receivables and other financial assets.

Note 2: The balances include the carrying amount of available-for-sale financial assets measured at cost.

Note 3: The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, accounts receivable and other receivables.

Note 4: The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, notes and accounts payable, other payables and long-term borrowings (current portion included).

d. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, accounts receivable, notes and accounts payable and borrowings. The Group's Corporate Treasury function provides services to the business, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and other prices.

There have been no changes to the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

Several subsidiaries of the Company had foreign-currency-denominated sales and purchases, which exposed the Group to foreign currency risk. Exchange rate exposures were managed within approved policy by utilizing foreign exchange forward contracts.

The carrying amounts of the Group's foreign-currency-denominated monetary assets and monetary liabilities (including those eliminated on consolidation) at the end of the reporting years are set out in Note 36.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar (USD).

The following table details the Group's sensitivity to a 1% increase and decrease in the New Taiwan dollar (NTD), Renminbi (RMB) and South Korean Won (KRW) against USD. The sensitivity analysis included only outstanding foreign-currency-denominated monetary items and adjusts their translation at the end of the reporting years for a 1% change in foreign currency rates. For a 1% strengthening of NTD, RMB and KRW against USD, pre-tax income would increase (decrease) as follows:

| | <u>NTD to USD</u> | | <u>RMB to USD</u> | | <u>KRW to USD</u> | |
|----------------|---------------------------|-----------------|---------------------------|-------------------|---------------------------|--------------------|
| | <u>For the Year Ended</u> | | <u>For the Year Ended</u> | | <u>For the Year Ended</u> | |
| | <u>December 31</u> | | <u>December 31</u> | | <u>December 31</u> | |
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Profit or loss | <u>\$ (12,681)</u> | <u>\$ 5,529</u> | <u>\$ (12,874)</u> | <u>\$ (1,576)</u> | <u>\$ (58,358)</u> | <u>\$ (66,889)</u> |

b) Interest rate risk

The carrying amount of the Group's financial assets with exposure to interest rates at the end of the reporting years were as follows:

| | <u>December 31</u> | |
|------------------------------|---------------------|---------------------|
| | <u>2018</u> | <u>2017</u> |
| Cash flow interest rate risk | | |
| Financial assets | <u>\$ 2,003,246</u> | <u>\$ 7,967,839</u> |

Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting years. A 50 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. When the market rate of floating rate financial assets change from the effective rate, the estimated future cash flows also change with it.

If interest rates had been 50 basis points higher, the Group's pre-tax cash inflows for the years ended December 31, 2018 and 2017 would increase \$10,016 thousand and \$39,839 thousand, respectively, because of the Group's exposure to interest rates on its floating rate financial assets. If interest rates had been 50 basis points lower, there would be an equal and opposite impact on pre-tax cash inflows.

c) Other price risk

The Group was exposed to price risk through its investments in mutual funds and equity securities. The equity investments are held for strategic rather than trading purposes, the Group does not actively trade these investments.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to price risk of mutual funds and equity securities at the end of the reporting years.

If the price in mutual funds and equity securities had been 5% higher/lower, the income before income tax for the year ended December 31, 2018 would have increased/decreased by \$92,042 thousand, respectively, due to the increase/decrease in fair value of financial assets at FVTPL; the other comprehensive income before income tax for the year ended December 31, 2018 would have increased/decreased by \$171,587 thousand, respectively, due to the increase/decrease in fair value of financial assets at FVTOCI.

If equity prices had been 5% higher/lower, the other comprehensive income before income tax for the year ended December 31, 2017 would have increased/decreased by \$137,466 thousand, respectively, due to the increase/decrease in fair value of available-for-sale financial assets.

The Group's sensitivity to investments in mutual funds and equity securities has not changed significantly from the prior year.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting years, the Group's maximum exposure to credit risk, which would cause a financial loss to the Group due to failure of counterparties to discharge an obligation and financial guarantees provided by the Group, could arise from:

- a) The carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets; and
- b) The amount of contingent liabilities in relation to financial guarantees issued by the Group.

The Group adopted a policy of only dealing with creditworthy counterparties, evaluated potential customers through an internal credit rating system and set the credit limit of customers to grasp the credit status of the counterparties and effectively control the credit exposure.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2018 and 2017, the Group's unutilized short-term bank borrowing facilities were \$3,221,445 thousand and \$2,939,890 thousand, respectively.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay, including principal and estimated interest. Therefore, bank borrowings with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights.

December 31, 2018

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months to 1 Year | 1-5 Years | 5+ Years |
|-------------------------------------------------|-----------------------------------------------|-------------------|-------------------------------|------------------|------------------|
| <u>Non-derivative financial liabilities</u> | | | | | |
| Fixed interest rate liabilities | \$ 1,916,151 | \$ 130,321 | \$ - | \$ - | \$ - |
| Non-interest bearing liabilities | - | - | - | - | 44,752 |
| | <u>\$ 1,916,151</u> | <u>\$ 130,321</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 44,752</u> |

December 31, 2017

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months to 1 Year | 1-5 Years | 5+ Years |
|-------------------------------------------------|-----------------------------------------------|-------------------|-------------------------------|------------------|------------------|
| <u>Non-derivative financial liabilities</u> | | | | | |
| Fixed interest rate liabilities | \$ 229,097 | \$ - | \$ 150,347 | \$ - | \$ - |
| Non-interest bearing liabilities | - | - | 117,993 | - | 45,545 |
| | <u>\$ 229,097</u> | <u>\$ -</u> | <u>\$ 268,340</u> | <u>\$ -</u> | <u>\$ 45,545</u> |

33. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, 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 party name and category

| <u>Name</u> | <u>Related Party Category</u> |
|----------------------------------------|------------------------------------------------------------------|
| NTX Electronics Yangzhou Co., Ltd. | Associate |
| Dihao Electronics (Yangzhou) Co., Ltd. | Associate |
| Yuen Foong Yu Biotech Co., Ltd. | Associate |
| YFY Inc. | Investor with significant influence over the Group |
| YFY Investment Co., Ltd. | Subsidiary of investor with significant influence over the Group |

(Continued)

| Name | Related-party Categories |
|---------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| Eihoyo Shoji Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| Yuen Foong Paper Co., Ltd. (Nanjing) | Subsidiary of investor with significant influence over the Group |
| Yuen Foong Yu Paper Mfg. Co., Ltd. (Yangzhou) | Subsidiary of investor with significant influence over the Group |
| Arizon RFID Technology (Yangzhou) Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| YFY Packaging Inc. | Subsidiary of investor with significant influence over the Group |
| Yuen Foong Yu Consumer Products Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| YFY Holding Management Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| Chung Hwa Pulp Corporation | Subsidiary of investor with significant influence over the Group |
| Yuen Foong Yu Consumer Products (Yangzhou) Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| Yuen Foong Yu Blue Economy Natural Resources (Yangzhou) Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| Yeon Technologies (Yangzhou) Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| China Color Printing Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| Yuen Foong Shop Co., Ltd. | Subsidiary of investor with significant influence over the Group |
| YFY Jupiter Limited | Subsidiary of investor with significant influence over the Group |
| LiVEBRiCKS Inc. | Subsidiary of investor with significant influence over the Group |
| Syntax Communication (H.K.) Limited | Subsidiary of investor with significant influence over the Group |
| YFY Jupiter US, Inc. | Subsidiary of investor with significant influence over the Group |
| Jupiter Prestige Group North America Inc. | Subsidiary of investor with significant influence over the Group |
| Spectiv Brands, LLC | Subsidiary of investor with significant influence over the Group |
| Johnson Lee | Key management personnel |
| Yuen Foong Yu Biotech (Kunshan) Co., Ltd. | Substantive related party |
| Yuen Foong Paper Co., Ltd. | Substantive related party |
| SinoPac Securities Corp. | Substantive related party |
| Bank SinoPac | Substantive related party |
| Hsin Yi Enterprise Co., Ltd. | Substantive related party |
| TGKW Management Limited | Substantive related party |
| Hsin Fan Precision Electronics (Yangzhou) Co., Ltd. (Originally named Yuen Foong Precision Electronics (Yangzhou) Co., Ltd.) | Substantive related party |
| Foongtone Technology Co., Ltd. | Substantive related party |
| Shen's Art Print Co., Ltd. | Substantive related party |

(Concluded)

b. Sales of goods

| Related Party Category | For the Year Ended December 31 | |
|------------------------------------------------------------------|---------------------------------------|-----------------|
| | 2018 | 2017 |
| Associate | \$ 7,327 | \$ - |
| Subsidiary of investor with significant influence over the Group | <u>37</u> | <u>1,106</u> |
| | <u>\$ 7,364</u> | <u>\$ 1,106</u> |

c. Purchases of goods

| Related Party Category | For the Year Ended December 31 | |
|-------------------------------------------------------------------------|---------------------------------------|-------------------|
| | 2018 | 2017 |
| Associate | \$ 833,327 | \$ 534,123 |
| Investor and its subsidiaries with significant influence over the Group | 8,413 | 7,348 |
| Substantive related party | <u>31</u> | <u>16</u> |
| | <u>\$ 841,771</u> | <u>\$ 541,487</u> |

d. Manufacturing costs

| Related Party Category | For the Year Ended December 31 | |
|------------------------------------------------------------------|---------------------------------------|------------------|
| | 2018 | 2017 |
| Substantive related party | \$ 55,998 | \$ 64,503 |
| Subsidiary of investor with significant influence over the Group | 67 | 83 |
| Associate | <u>22</u> | <u>155</u> |
| | <u>\$ 56,087</u> | <u>\$ 64,741</u> |

e. Operating expenses

| Related Party Category | For the Year Ended December 31 | |
|-------------------------------------------------------------------------|---------------------------------------|------------------|
| | 2018 | 2017 |
| Substantive related party | \$ 25,198 | \$ 26,996 |
| Associate | 11,741 | 8,076 |
| Investor and its subsidiaries with significant influence over the Group | <u>6,219</u> | <u>16,925</u> |
| | <u>\$ 43,158</u> | <u>\$ 51,997</u> |

f. Non-operating income - other income

| Related Party Category | For the Year Ended December 31 | |
|------------------------------------------------------------------|---------------------------------------|------------------|
| | 2018 | 2017 |
| Subsidiary of investor with significant influence over the Group | \$ 14,407 | \$ 12,387 |
| Associate | 6,781 | 6,529 |
| Substantive related party | <u>299</u> | <u>54</u> |
| | <u>\$ 21,487</u> | <u>\$ 18,970</u> |

g. Accounts receivable from related parties (included in accounts receivable)

| Related Party Category/Name | December 31 | |
|-------------------------------------------------------------------------|-------------------|-------------------|
| | 2018 | 2017 |
| Associate | | |
| NTX Electronics Yangzhou Co., Ltd. | \$ 136,033 | \$ 230,698 |
| Others | <u>-</u> | <u>91</u> |
| | <u>136,033</u> | <u>230,789</u> |
| Investor and its subsidiaries with significant influence over the Group | <u>23,536</u> | <u>17,839</u> |
| Substantive related party | <u>78</u> | <u>57</u> |
| | <u>\$ 159,647</u> | <u>\$ 248,685</u> |

The outstanding accounts receivable from related parties were unsecured. For the years ended December 31, 2018 and 2017, no impairment loss was recognized for accounts receivable from related parties.

h. Loans to related parties

Interest income from loans to a subsidiary of investor with significant influence over the Group was \$409 thousand for the year ended December 31, 2017.

i. Accounts payable to related parties (included in notes and accounts payable)

| Related Party Category | December 31 | |
|-------------------------------------------------------------------------|------------------|-------------------|
| | 2018 | 2017 |
| Associate | \$ 5,962 | \$ 104,978 |
| Substantive related party | 5,439 | 5,894 |
| Investor and its subsidiaries with significant influence over the Group | <u>3,716</u> | <u>4,608</u> |
| | <u>\$ 15,117</u> | <u>\$ 115,480</u> |

The outstanding accounts payable to related parties were unsecured.

j. Prepayments and refundable deposits (included in other non-current assets)

| Related Party Category/Name | December 31 | |
|------------------------------------------------------------------|------------------|------------------|
| | 2018 | 2017 |
| Substantive related party | | |
| Yuen Foong Yu Biotech (Kunshan) Co., Ltd. | \$ 50,480 | \$ 51,374 |
| Subsidiary of investor with significant influence over the Group | <u>482</u> | <u>1,679</u> |
| | <u>\$ 50,962</u> | <u>\$ 53,053</u> |

k. Guarantee deposits received (included in other non-current liabilities)

| Related Party Category | December 31 | |
|------------------------------------------------------------------|--------------------|-----------------|
| | 2018 | 2017 |
| Key management personnel | \$ 1,050 | \$ 1,050 |
| Substantive related party | 67 | 3 |
| Subsidiary of investor with significant influence over the Group | <u>-</u> | <u>215</u> |
| | <u>\$ 1,117</u> | <u>\$ 1,268</u> |

l. Compensation of key management personnel

| | For the Year Ended December 31 | |
|------------------------------|---------------------------------------|-------------------|
| | 2018 | 2017 |
| Short-term employee benefits | \$ 125,917 | \$ 128,766 |
| Post-employment benefits | 1,426 | 1,296 |
| Share-based payments | <u>35,779</u> | <u>10,075</u> |
| | <u>\$ 163,122</u> | <u>\$ 140,137</u> |

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

34. ASSETS PLEDGED AS COLLATERAL

Assets amounting to \$674,334 thousand and \$139,629 thousand included in other current assets and non-current assets as of December 31, 2018 and 2017, respectively, were provided as collateral for transaction lines of credit of financial instruments, guarantees of tariffs of imported goods, tenancy deposits for renting plants and land and deposits for the application for provisional attachment.

35. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Loan note guarantees issued due to long-term and short-term borrowings and transaction lines of credit of financial instruments were \$4,670,000 thousand and \$3,770,000 thousand as of December 31, 2018 and 2017, respectively.

Letters of bank guarantees issued due to guarantees of tariffs of imported goods were \$89,506 thousand and \$91,090 thousand as of December 31, 2018 and 2017, respectively.

36. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2018

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|-------------------------------------|-----------------------|---------------------|----------------------|
| <u>Foreign currency assets</u> | | | |
| Monetary items | | | |
| USD | \$ 189,999 | 1,106.847 (USD:KRW) | \$ 5,835,819 |
| USD | 183,199 | 30.715 (USD:NTD) | 5,626,957 |
| USD | 131,188 | 6.863 (USD:RMB) | 4,029,439 |
| USD | 34,289 | 7.834 (USD:HKD) | <u>1,053,187</u> |
| | | | <u>\$ 16,545,402</u> |
| Non-monetary items | | | |
| Mutual funds | | | |
| USD | 59,932 | 1,106.847 (USD:KRW) | <u>\$ 1,840,835</u> |
| <u>Foreign currency liabilities</u> | | | |
| Monetary items | | | |
| USD | 141,912 | 30.715 (USD:NTD) | \$ 4,358,827 |
| USD | 89,275 | 6.863 (USD:RMB) | 2,742,082 |
| USD | 33,340 | 7.834 (USD:HKD) | <u>1,024,038</u> |
| | | | <u>\$ 8,124,947</u> |

December 31, 2017

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|-------------------------------------|-----------------------|---------------------|----------------------|
| <u>Foreign currency assets</u> | | | |
| Monetary items | | | |
| USD | \$ 224,763 | 1,058.321 (USD:KRW) | \$ 6,688,947 |
| USD | 202,455 | 29.76 (USD:NTD) | 6,025,061 |
| USD | 132,541 | 6.534 (USD:RMB) | 3,944,420 |
| USD | 30,892 | 7.817 (USD:HKD) | <u>919,346</u> |
| | | | <u>\$ 17,577,774</u> |
| <u>Foreign currency liabilities</u> | | | |
| Monetary items | | | |
| USD | 221,034 | 29.76 (USD:NTD) | \$ 6,577,972 |
| USD | 127,244 | 6.534 (USD:RMB) | 3,786,781 |
| USD | 29,951 | 7.817 (USD:HKD) | <u>891,342</u> |
| | | | <u>\$ 11,256,095</u> |

For the years ended December 31, 2018 and 2017, net foreign exchange gains (losses), including both realized and unrealized portion, were \$310,568 thousand and \$(728,477) 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.

37. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others (Table 1)
- 2) Endorsements/guarantees provided (Table 2)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures) (Table 3)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (Table 4)
- 5) Acquisition of individual real estate at costs of at least NT \$300 million or 20% of the paid-in capital (None)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 5)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 6)
- 9) Trading in derivative instruments (Note 7)
- 10) Intercompany relationships and significant intercompany transactions (Table 9)
- 11) Information on investees (Table 7)

b. Information on investments in mainland China (Table 8)

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment income or loss, carrying amount of the investment at the end of the year, repatriations of investment income and limit on the amount of investment in the mainland China area.
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms and unrealized gains or losses:
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the year.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the year.

- c) The amount of property transactions and the amount of the resultant gains or losses.
- d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the year and the purposes.
- e) The highest balance, the end of year balance, the interest rate range and total current year interest with respect to financing of funds.
- f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services.

38. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the geographical areas of goods or services delivered or provided. Specifically, the Group's reportable segments were ROC, Asia and America.

The Group measured segment profit or loss for the purpose of assessment of segment performance. On the other hand, there were no significant differences between the accounting standards applied by the segments and the summary of significant accounting policies as disclosed in Note 4.

a. Segment revenue and results

The following was an analysis of the Group's revenue and results by reportable segment.

| | Segment Revenue | Segment Profit or Loss |
|-----------------------------------------------------------------------------|----------------------------|-----------------------------------|
| <u>For the year ended December 31, 2018</u> | | |
| ROC | \$ 15,333,670 | \$ 1,287,665 |
| Asia | 10,279,307 | (225,489) |
| America | 4,014,081 | (187,704) |
| Adjustment and eliminations | <u>(15,418,397)</u> | <u>-</u> |
| | <u>\$ 14,208,661</u> | 874,472 |
| Central administration cost and remunerations to directors | | (417,307) |
| Interest income | | 176,439 |
| Royalty income | | 2,360,815 |
| Dividend income | | 136,225 |
| Interest expenses | | (28,579) |
| Net gain on disposal of property, plant and equipment | | 796 |
| Net gain on foreign currency exchange | | 310,568 |
| Net gain on fair value changes of financial assets and liabilities at FVTPL | | 6,413 |
| Impairment loss | | (223,627) |
| Other non-operating income and expenses, net | | <u>63,053</u> |
| Income before income tax from continuing operations | | <u>\$ 3,259,268</u> |

| | Segment Revenue | Segment Profit or Loss |
|--------------------------------------------------------------------------------|----------------------------|-----------------------------------|
| <u>For the year ended December 31, 2017</u> | | |
| ROC | \$ 16,678,331 | \$ 2,008,918 |
| Asia | 10,962,090 | (315,107) |
| Americas | 4,356,347 | (173,479) |
| Adjustments and eliminations | <u>(16,793,434)</u> | <u>-</u> |
| | <u>\$ 15,203,334</u> | 1,520,332 |
| Central administration costs and remuneration of directors | | (417,945) |
| Interest income | | 90,819 |
| Royalty income | | 2,606,703 |
| Dividend income | | 100,951 |
| Interest expenses | | (24,895) |
| Net gain on disposal of property, plant and equipment | | 50,317 |
| Net loss on foreign currency exchange | | (728,477) |
| Net gain on fair value changes of financial assets and liabilities at FVTPL | | 101,591 |
| Impairment loss | | (21,672) |
| Other non-operating income and expenses, net | | <u>60,287</u> |
| Income before income tax from continuing operations | | <u>\$ 3,338,011</u> |

Segment profit represented the income before income tax earned by each segment without allocation of central administration costs and remuneration to directors, interest income, royalty income, dividend income, interest expenses, net gain on disposal of property, plant and equipment, net gain (loss) on foreign currency exchange, net gain on fair value changes of financial assets and liabilities at FVTPL, impairment loss, other non-operating income and expenses and income tax expense, etc.

b. Revenue from major products

| Category by Product | <u>For the Year Ended December 31</u> | |
|----------------------------|----------------------------------------------|----------------------|
| | 2018 | 2017 |
| Monitors | \$ 10,546,456 | \$ 11,868,586 |
| Electronic shelf labels | 3,221,182 | 3,055,711 |
| Others | <u>441,023</u> | <u>279,037</u> |
| | <u>\$ 14,208,661</u> | <u>\$ 15,203,334</u> |

c. Geographical information

The Group operates in three principal geographical areas - ROC, Asia and America.

The Group's information about its non-current assets by location of assets is detailed below.

| | Non-current Assets | |
|---------|---------------------------|----------------------|
| | December 31 | |
| | 2018 | 2017 |
| ROC | \$ 1,755,295 | \$ 1,707,310 |
| Asia | 1,841,732 | 2,002,315 |
| America | <u>9,859,730</u> | <u>9,887,252</u> |
| | <u>\$ 13,456,757</u> | <u>\$ 13,596,877</u> |

Non-current assets include property, plant and equipment, goodwill, other intangible assets and other non-current assets and exclude non-current assets classified as held for sale, financial assets and deferred tax assets.

d. Information about major customers

Customers who contributed 10% or more to the Group's revenue, mainly from monitors, were as follows:

| | For the Year Ended December 31 | |
|------------|---------------------------------------|---------------------|
| | 2018 | 2017 |
| Customer A | \$ 4,476,536 | \$ 4,961,278 |
| Customer B | 2,511,470 | 2,902,624 |
| Customer C | <u>814,870</u> | <u>1,698,101</u> |
| | <u>\$ 7,802,876</u> | <u>\$ 9,562,003</u> |

E INK HOLDINGS INC. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| No. | Financing Company | Counterparty | Financial Statement Account | Related Party | Maximum Balance for the Year (Note 1) | Ending Balance (Note 1) | Amount Actually Drawn (Note 1) | Interest Rate | Nature of Financing | Business Transaction Amount | Reasons for Short-term Financing | Allowance for Impairment Loss | Collateral | | Financing Limit for Each Borrowing Company (Note 2) | Aggregate Financing Limit (Note 2) |
|-----|------------------------------------------|----------------------------------------------------------|-----------------------------|---------------|---------------------------------------|--------------------------------------|--------------------------------------|---------------|----------------------|-----------------------------|----------------------------------|-------------------------------|------------------------------------|--------------------------------------|-----------------------------------------------------|----------------------------------------|
| | | | | | | | | | | | | | Item | Value | | |
| 1 | Transcend Optronics (Yangzhou) Co., Ltd. | Yangzhou Huaxia Integrated O/E System Co., Ltd. (Note 3) | Other receivables | Yes | \$ 957,468 (RMB 205,022 thousand) | \$ 917,540 (RMB 205,022 thousand) | \$ 917,540 (RMB 205,022 thousand) | 3.915 | Short-term financing | \$ - | Working capital | \$ - | Buildings and right-of-use of land | \$ 456,888 (RMB 102,090 thousand) | \$ 1,201,628 (RMB 268,501 thousand) | \$ 1,201,628 (RMB 268,501 thousand) |
| 2 | Rich Optronics (Yangzhou) Co., Ltd. | Yuen Foong Yu Paper Mfg. Co., Ltd. (Yangzhou) | Other receivables | Yes | 83,314 (RMB 18,000 thousand) | - | - | - | Short-term financing | - | Working capital | - | - | - | 321,784 (RMB 71,902 thousand) | 321,784 (RMB 71,902 thousand) |
| 3 | Sipix Technology Inc. | E Ink Holdings Inc. | Other receivables | Yes | 250,000 | 250,000 | 250,000 | 1 | Short-term financing | - | Working capital | - | - | - | 500,702 | 500,702 |

Note 1: The amounts are translated at the exchange rate of RMB1=NT\$4.47532 on December 31, 2018, except the maximum balance is translated at the highest exchange rate of the end of each month for the year.

Note 2: The amount shall not exceed 40% of the financing company's net equity per its latest financial statements.

Note 3: All intercompany transactions have been eliminated upon consolidation.

E INK HOLDINGS INC. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| No. | Endorsement/Guarantee Provider | Endorsed/Guaranteed Party | | Limit on Endorsement/Guarantee Amount Provided to Each Endorsed/Guaranteed Party (Note 2) | Maximum Balance for the Year (Note 3) | Ending Balance (Note 3) | Amount Actually Drawn (Note 3) | Amount of Endorsement/Guarantee Collateralized by Properties | Ratio of Accumulated Endorsement/Guarantee to Net Equity per Latest Financial Statements (%) | Maximum Endorsement/Guarantee Amount Allowable (Note 4) | Endorsement/Guarantee Provided by Parent Company | Endorsement/Guarantee Provided by A Subsidiary | Endorsement/Guarantee to Subsidiaries in Mainland China |
|-----|--------------------------------|-----------------------------------|--------------|-------------------------------------------------------------------------------------------|-------------------------------------------|-----------------------------------------|--------------------------------|--------------------------------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------|------------------------------------------------|---------------------------------------------------------|
| | | Name | Relationship | | | | | | | | | | |
| 0 | E Ink Holdings Inc. | E Ink Corporation | (Note 1) | \$ 6,982,161 | \$ 1,138,100 (US\$ 38,000 thousand) | \$ 860,020 (US\$ 28,000 thousand) | \$ - | \$ - | 3.08 | \$ 27,928,645 | Yes | No | No |
| | | Dream Pacific International Corp. | (Note 1) | 6,982,161 | 60,920 (US\$ 2,000 thousand) | - | - | - | - | 27,928,645 | Yes | No | No |
| | | PVI Global Corp. | (Note 1) | 6,982,161 | 60,920 (US\$ 2,000 thousand) | - | - | - | - | 27,928,645 | Yes | No | No |
| | | Yuen Yu Investment Co., Ltd. | (Note 1) | 6,982,161 | 800,000 | 800,000 | 350,000 | - | 2.86 | 27,928,645 | Yes | No | No |
| | | Linfiny Corporation | (Note 1) | 6,982,161 | 360,000 | 360,000 | 65,000 | - | 1.29 | 27,928,645 | Yes | No | No |

Note 1: Subsidiary.

Note 2: The amount shall not exceed 25% of the Company's net equity.

Note 3: The amounts are translated at the exchange rate of US\$1=NT\$30.715 on December 31, 2018, except the maximum balance is translated at the highest exchange rate of the end of each month for the year.

Note 4: The amount shall not exceed the Company's net equity.

TABLE 3

E INK HOLDINGS INC. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2018 | | | | Note |
|------------------------------------------|-------------------------------------------|-------------------------------------------------------------|-----------------------------|--------------------------------|----------------------------|-----------------------------------|----------------------------|------|
| | | | | Shares/Units (In Thousands) | Carrying Amount | Percentage of Ownership (%) | Fair Value | |
| E Ink Holdings Inc. | <u>Ordinary shares</u> | | | | | | | |
| | SinoPac Financial Holding Company Limited | Substantive related party | Financial assets at FVTOCI | 90,451 | \$ 931,650 | 0.80 | \$ 931,650 | |
| | YFY Inc. | Investor with significant influence over the Company | " | 7,814 | 87,908 | 0.47 | 87,908 | |
| | Ultra Chip, Inc. | One of its director | " | 2,863 | 100,622 | 4.51 | 100,622 | |
| | IGNIS INNOVATION INC. | - | Financial assets at FVTPL | 388 | - | 0.20 | - | |
| | New Medical Imaging Co., Ltd. | - | " | 109 | - | 2.37 | - | |
| Yuen Yu Investment Co., Ltd. | <u>Ordinary shares</u> | | | | | | | |
| | SinoPac Financial Holding Company Limited | Substantive related party | Financial assets at FVTOCI | 115,005 | 1,184,554 | 1.02 | 1,184,554 | |
| | YFY Inc. | Investor with significant influence over the parent company | " | 16 | 180 | - | 180 | |
| | Netronix Inc. | One of its director | " | 5,309 | 195,909 | 6.38 | 195,909 | |
| | SES-imagotag | - | " | 867 | 462,545 | 6.03 | 462,545 | |
| | Fitipower Integrated Technology Inc. | - | " | 2,689 | 99,210 | 1.65 | 99,210 | |
| | Formolight Technologies, Inc. | - | " | 2,228 | 16,654 | 10.93 | 16,654 | |
| | Echem Solutions Corp. | - | " | 707 | 13,662 | 1.27 | 13,662 | |
| | eCrowd Media Inc. | - | " | 1,010 | 5,035 | 6.62 | 5,035 | |
| SiPix Technology Inc. | <u>Ordinary shares</u> | | | | | | | |
| | SinoPac Financial Holding Company Limited | Substantive related party | " | 31,427 | 323,699 | 0.28 | 323,699 | |
| Transcend Optronics (Yangzhou) Co., Ltd. | <u>Ordinary shares</u> | | | | | | | |
| | Dalian DKE LCD Co., Ltd. | - | " | 837 | RMB 2,259 thousand | 3.52 | RMB 2,259 thousand | |
| Hydis Technologies Co., Ltd. | <u>Mutual funds</u> | | | | | | | |
| | Term Liquidity Fund | - | Financial assets at FVTPL | 578 | KRW 66,591,956 thousand | - | KRW 66,591,956 thousand | |

Note: Please refer to Tables 7 and 8 for information on investments in subsidiaries and associates.

E INK HOLDINGS INC. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Company Name | Type and Name of Marketable Securities | Financial Statement Account | Counterparty | Relationship | Beginning Balance | | Acquisition | | Disposal | | | | Other Adjustments | Ending Balance | |
|-------------------------------------|------------------------------------------------------------------------------|------------------------------------|------------------|--------------|-------------------|------------------------|------------------------------|----------------------------|------------------|------------------------|------------------------|-----------------------------------|-------------------------------------|------------------------------|----------------------------|
| | | | | | Number of Unites | Amount | Number of Unites | Amount | Number of Unites | Amount | Carrying Amount | Gain on Disposal | | Number of Unites | Amount |
| Yuen Yu Investment Co., Ltd. | Ordinary shares SES-imagotag | Financial assets at FVTOCI | - | - | - | \$ - | 867 (shares in thousands) | \$ 916,630 | - | \$ - | \$ - | \$ - | \$(454,085) (Note 1) | 867 (shares in thousands) | \$ 462,545 |
| Hydis Technologies Co., Ltd. | Mutual funds Term Liquidity Fund | Financial assets at FVTPL | Citibank | - | - | - | 578 (units in thousands) | KRW 66,185,981 thousand | - | - | - | - | KRW 405,975 thousand (Note 2) | 578 (units in thousands) | KRW 66,591,956 thousand |
| Rich Optronics (Yangzhou) Co., Ltd. | Principal guaranteed wealth investment products Ju-Bao Wealth Bao-Yi-Rong | Financial assets at amortized cost | Bank of Jiangsu | - | - | RMB 38,000 thousand | - | RMB 47,400 thousand | - | RMB 86,546 thousand | RMB 85,400 thousand | RMB 1,146 thousand (Note 3) | - | - | - |
| | Su-Yin-Xi structured | Financial assets at amortized cost | Bank of Jiangsu | - | - | - | - | RMB 68,000 thousand | - | - | - | - | - | - | RMB 68,000 thousand |
| | Win-win interest rate structured | Financial assets at amortized cost | China CITIC Bank | - | - | - | - | RMB 75,000 thousand | - | RMB 47,619 thousand | RMB 47,000 thousand | RMB 619 thousand (Note 3) | - | - | RMB 28,000 thousand |

Note 1: Recorded as unrealized loss on financial assets at FVTOCI.

Note 2: Recorded as net gain on financial assets and liabilities at FVTPL.

Note 3: Recorded as interest income.

TABLE 5

E INK HOLDINGS INC. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

| Company Name | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Receivable (Payable) | | Note |
|------------------------------------------|------------------------------------------|------------------------------|---------------------|----------------|------------|---------------|----------------------|---------------|-------------------------------------|---------------------|------|
| | | | Purchase/Sale | Amount | % of Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % of Total (Note 1) | |
| E Ink Holdings Inc. | Prime View Communications Ltd. | Subsidiary | Sale | \$ (4,476,536) | (35) | By agreements | \$ - | - | \$ 1,023,776 | 32 | |
| | PVI International Corp. | Subsidiary | Sale | (1,582,887) | (12) | By agreements | - | - | 136,546 | 4 | |
| | E Ink Corporation | Subsidiary | Purchase | 3,380,747 | 37 | By agreements | - | - | (194,736) | (6) | |
| | E Ink Japan Inc. | Subsidiary | Purchase | 103,064 | 1 | By agreements | - | - | (7,298) | - | |
| | SiPix Technology Inc. | Subsidiary | Sale | (1,139,853) | (9) | By agreements | - | - | 118,426 | 4 | |
| | Transyork Technology Yangzhou Ltd. | Subsidiary | Purchase | 1,442,485 | 16 | By agreements | - | - | (1,107,113) | (35) | |
| | Transcend Optronics (Yangzhou) Co., Ltd. | Subsidiary | Purchase | 898,466 | 10 | By agreements | - | - | (1,166,467) | (37) | |
| | NTX Electronics Yangzhou Co., Ltd. | Associate | Purchase | 627,823 | 7 | By agreements | - | - | - | - | |
| | SiPix Technology Inc. | E Ink Holdings Inc. | Parent company | Purchase | 1,139,853 | 80 | By agreements | - | - | (118,426) | (80) |
| E Ink Corporation | | Same ultimate parent company | Purchase | 279,104 | 19 | By agreements | - | - | (28,891) | (20) | |
| Linfiny Corporation | Linfiny Japan Inc. | Subsidiary | Purchase | 129,094 | 39 | By agreements | - | - | (31,258) | (82) | |
| | NTX Electronics Yangzhou Co., Ltd. | Associate | Purchase | 205,504 | 61 | By agreements | - | - | (5,587) | (15) | |
| Linfiny Japan Inc. | Linfiny Corporation | Parent company | Sale | (129,094) | (100) | By agreements | - | - | 31,258 | 100 | |
| Prime View Communications Ltd. | E Ink Holdings Inc. | Parent company | Purchase | 4,476,536 | 100 | By agreements | - | - | (1,023,776) | (100) | |
| PVI International Corp. | E Ink Holdings Inc. | Parent company | Purchase | 1,582,887 | 100 | By agreements | - | - | (136,546) | (100) | |
| Transcend Optronics (Yangzhou) Co., Ltd. | E Ink Holdings Inc. | Parent company | Sale | (898,466) | (100) | By agreements | - | - | 1,166,467 | 100 | |
| Transyork Technology Yangzhou Ltd. | E Ink Holdings Inc. | Parent company | Sale | (1,442,485) | (100) | By agreements | - | - | 1,107,113 | 100 | |
| E Ink Corporation | E Ink Holdings Inc. | Parent company | Sale | (3,380,747) | (91) | By agreements | - | - | 194,736 | 71 | |
| | SiPix Technology Inc. | Same ultimate parent company | Sale | (279,104) | (8) | By agreements | - | - | 28,891 | 10 | |
| | E Ink California, LLC | Subsidiary | Purchase | 409,983 | 41 | By agreements | - | - | (247,965) | (95) | |
| E Ink California, LLC | E Ink Corporation | Parent company | Sale | (409,983) | (100) | By agreements | - | - | 247,965 | 100 | |
| E Ink Japan Inc. | E Ink Holdings Inc. | Parent company | Sale | (103,064) | (100) | By agreements | - | - | 7,298 | 100 | |

Note 1: The calculation is based on each company's receivables from (payables to) related parties.

Note 2: All intercompany transactions have been eliminated upon consolidation, except NTX Electronics Yangzhou Co., Ltd.

E INK HOLDINGS INC. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

| Company Name | Related Party | Relationship | Ending Balance | Turnover Rate | Overdue | | Amount Received in Subsequent Year | Allowance for Impairment Loss |
|------------------------------------------|------------------------------------------|------------------------------|----------------|---------------|---------|------------------------------|------------------------------------|-------------------------------|
| | | | | | Amount | Actions Taken | | |
| E Ink Holdings Inc. | Prime View Communications Ltd. | Subsidiary | \$ 1,023,776 | 4.68 | \$ - | - | \$ 484,014 | \$ - |
| | PVI International Corp. | Subsidiary | 136,546 | 7.04 | - | - | 55,847 | - |
| | SiPix Technology Inc. | Subsidiary | 118,426 | 4.87 | - | - | 112,476 | - |
| | Transcend Optronics (Yangzhou) Co., Ltd. | Subsidiary | 1,794,006 | (Note 1) | 241,577 | Collected | 1,131,988 | - |
| | NTX Electronics Yangzhou Co., Ltd. | Associate | 135,200 | (Note 1) | 57,591 | Collected | 82,039 | - |
| Tech Smart Logistics Ltd. | E Ink Holdings Inc. | Parent company | 660,143 | (Note 1) | 660,143 | In the process of collection | - | - |
| Dream Pacific International Corp. | Tech Smart Logistics Ltd. | Same ultimate parent company | 176,656 | (Note 1) | 176,656 | In the process of collection | - | - |
| PVI Global Corp. | Dream Pacific International Corp. | Subsidiary | 248,792 | (Note 2) | 248,792 | In the process of collection | - | - |
| Transcend Optronics (Yangzhou) Co., Ltd. | E Ink Holdings Inc. | Parent company | 1,166,467 | (Note 1) | 98,049 | Collected | 1,166,467 | - |
| Transyork Technology Yangzhou Ltd. | E Ink Holdings Inc. | Parent company | 1,107,113 | (Note 1) | - | - | - | - |
| | Transcend Optronics (Yangzhou) Co., Ltd. | Same ultimate parent company | 190,944 | (Note 3) | - | - | - | - |
| E Ink Corporation | E Ink Holdings Inc. | Parent company | 194,736 | 10.22 | 362 | Collected | 194,736 | - |
| E Ink California, LLC | E Ink Corporation | Parent company | 247,965 | 1.58 | 139,958 | In the process of collection | 70,332 | - |

Note 1: Other receivables from materials delivered to subcontractors.

Note 2: Cash dividends receivables.

Note 3: Mainly receivables from disposal of equipment.

Note 4: All intercompany transactions have been eliminated upon consolidation, except NTX Electronics Yangzhou Co., Ltd.

TABLE 7

E INK HOLDINGS INC. AND SUBSIDIARIES

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2018 | | | Net Income (Loss) of the Investee | Share of Profit (Loss) of the Investee | Note |
|-----------------------------------|---------------------------------------|------------------------|---------------------------------------------------------------------------|----------------------------|-----------------------|---------------------------------|--------|-----------------------|-----------------------------------|----------------------------------------|-------------------|
| | | | | December 31, 2018 | December 31, 2017 | Shares (In Thousands) | % | Carrying Amount | | | |
| E Ink Holdings Inc. | PVI Global Corp. | British Virgin Islands | Investment | \$ 3,090,254 | \$ 3,090,254 | 99,413 | 100.00 | \$ 11,109,595 | \$ 1,538,961 | \$ 1,538,961 | (Note) |
| | New Field e-Paper Co., Ltd. | Taoyuan, Taiwan | Wholesale and sale of electronics parts | 6,394,455 | 6,394,455 | 671,032 | 100.00 | 5,701,683 | (78,985) | (78,985) | (Note) |
| | E Ink Corporation | Boston, USA | Manufacture and sale of electronic ink | 4,911,303 | 4,911,303 | 1 | 45.31 | 4,305,677 | 244,874 | (66,177) | (Note) |
| | Yuen Yu Investment Co., Ltd. | Taipei, Taiwan | Investment | 5,015,000 | 5,015,000 | 152,433 | 100.00 | 1,819,546 | (44,249) | (44,249) | (Note) |
| | SiPix Technology Inc. | Taoyuan, Taiwan | Manufacture and sale of electronic ink | 1,405,230 | 1,405,230 | - | 100.00 | 2,010,330 | 757,551 | 757,551 | (Note) |
| | Dream Universe Ltd. | Mauritius | Trading | 128,710 | 128,710 | 4,050 | 100.00 | 371,562 | 12,366 | 12,366 | (Note) |
| | Prime View Communications Ltd. | Hong Kong | Trading | 18,988 | 18,988 | 3,570 | 100.00 | 27,800 | 282 | 282 | (Note) |
| | Entte K Co., Ltd. | Taichung, Taiwan | Manufacture and sale of consumer audio-visual systems | 34,547 | 34,547 | 2,203 | 47.07 | - | - | - | Under liquidation |
| | Tech Smart Logistics Ltd. | British Virgin Islands | Trading | 49,267 | 49,267 | 1,550 | 0.09 | 4,033 | (59,876) | (54) | (Note) |
| | Hot Tracks International Ltd. | British Virgin Islands | Trading | 1,735 | 1,735 | 50 | 100.00 | 35 | 15 | 15 | (Note) |
| New Field e-Paper Co., Ltd. | Tech Smart Logistics Ltd. | British Virgin Islands | Trading | 4,865,850 | 4,865,850 | 1,748,252 | 99.91 | 4,476,738 | (59,876) | (59,822) | (Note) |
| | E Ink Corporation | Boston, USA | Manufacture and sale of electronic ink | 1,618,500 | 1,618,500 | - | 12.88 | 1,223,949 | 244,874 | (18,811) | (Note) |
| Yuen Yu Investment Co., Ltd. | Linfiny Corporation | Taoyuan, Taiwan | Research, development and sale of electronic ink | 323,400 | 323,400 | 32,340 | 77.00 | 135,258 | (93,420) | (71,933) | (Note) |
| | YuanHan Materials Inc. | Taoyuan, Taiwan | Manufacture and sale of electronics parts | 100,000 | 24,000 | 10,000 | 100.00 | 49,364 | (34,666) | (37,263) | (Note) |
| | Lucky Joy Holdings Ltd. | Samoa | Investment | 36,117 | 36,117 | 1,098 | 100.00 | 12 | - | - | (Note) |
| | Yuen Foong Yu Biotech Co., Ltd. | Taipei, Taiwan | Cultivation, processing and sale of agriculture and restaurant management | 36,000 | 36,000 | 3,600 | 36.00 | - | (54,693) | - | - |
| | Kyoritsu Optronics Co., Ltd., | Taipei, Taiwan | Technology development, transfer and licensing of flat panels | 18,860 | 18,860 | 1,050 | 25.65 | - | - | - | - |
| SiPix Technology Inc. | Linfiny Corporation | Taoyuan, Taiwan | Research, development and sale of electronic ink | 16,800 | 16,800 | 1,680 | 4.00 | 7,026 | (93,420) | (3,737) | (Note) |
| Linfiny Corporation | Linfiny Japan Inc. | Tokyo, Japan | Research, development and sale of electronic ink | 11,088 | 11,088 | 4 | 100.00 | 20,218 | 4,184 | 4,184 | (Note) |
| E Ink Corporation | E Ink California, LLC | California, USA | Research, development and sale of electronic ink | US\$ 29,100 thousand | US\$ 29,100 thousand | 27,400 | 100.00 | US\$ 29,158 thousand | US\$ 3,174 thousand | US\$ 1,127 thousand | (Note) |
| | E Ink Japan Inc. | Tokyo, Japan | Development of electronic ink products | US\$ 86 thousand | US\$ 86 thousand | - | 100.00 | US\$ 218 thousand | US\$ 33 thousand | US\$ 33 thousand | (Note) |
| | E Ink Systems, LLC | California, USA | Research and development of application software | US\$ 337 thousand | US\$ 337 thousand | - | 100.00 | US\$ 770 thousand | US\$ 90 thousand | US\$ 90 thousand | (Note) |
| Tech Smart Logistics Ltd. | E Ink Corporation | Boston, USA | Manufacture and sale of electronic ink | US\$ 152,875 thousand | US\$ 152,875 thousand | 1 | 41.81 | US\$ 130,103 thousand | US\$ 7,647 thousand | US\$ (2,097) thousand | (Note) |
| PVI Global Corp. | PVI International Corp. | British Virgin Islands | Trading | US\$ 151,300 thousand | US\$ 151,300 thousand | 151,300 | 100.00 | US\$ 97,997 thousand | US\$ (5,973) thousand | US\$ (5,973) thousand | (Note) |
| | Dream Pacific International Corp. | British Virgin Islands | Sale of LCD monitor products | US\$ 1,000 thousand | US\$ 1,000 thousand | 26,000 | 100.00 | US\$ 192,499 thousand | US\$ 57,078 thousand | US\$ 57,078 thousand | (Note) |
| | Ruby Lustre Ltd. | British Virgin Islands | Investment | US\$ 30,000 thousand | US\$ 30,000 thousand | 30,000 | 100.00 | US\$ 26,190 thousand | US\$ 451 thousand | US\$ 451 thousand | (Note) |
| | North Diamond International Co., Ltd. | British Virgin Islands | Investment | US\$ 1,750 thousand | US\$ 1,750 thousand | 1,750 | 35.00 | - | - | - | - |
| | Rock Pearl International Corp. | British Virgin Islands | Investment | US\$ 1,540 thousand | US\$ 1,540 thousand | 1,540 | 35.00 | - | - | - | - |
| Dream Pacific International Corp. | Hydis Technologies Co., Ltd. | South Korea | Research, development and sale of LCD monitors | US\$ 27,612 thousand | US\$ 27,612 thousand | 3,783 | 94.73 | US\$ 201,774 thousand | US\$ 60,439 thousand | US\$ 58,373 thousand | (Note) |

Note: All intercompany transactions have been eliminated upon consolidation.

E INK HOLDINGS INC. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Investee Company | Main Businesses and Products | Paid-in Capital (Note 1) | Method of Investment | Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018 (Note 1) | Remittance of Funds | | Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018 (Note 1) | Net Income (Loss) of the Investee (Note 2) | Direct or Indirect Percentage of Ownership (%) | Share of Profit (Loss) of the Investee (Notes 2 and 3) | Carrying Amount as of December 31, 2018 (Note 1) | Accumulated Repatriation of Investment Income as of December 31, 2018 |
|------------------------------------------------------------|-------------------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|---------------------|--------|--------------------------------------------------------------------------------------------|--------------------------------------------|------------------------------------------------|--------------------------------------------------------|--------------------------------------------------|-----------------------------------------------------------------------|
| | | | | | Outward | Inward | | | | | | |
| Transcend Optonics (Yangzhou) Co., Ltd. | Assembly of LCD flat panels | \$ 4,647,180 (US\$ 151,300 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | \$ 3,343,174 (US\$ 108,845 thousand) | \$ - | \$ - | \$ 3,343,174 (US\$ 108,845 thousand) | \$ (124,606) (US\$ (4,133) thousand) | 100.00 | \$ (180,653) (US\$ (5,992) thousand) | \$ 3,003,958 (US\$ 97,801 thousand) | \$ - |
| Rich Optonics (Yangzhou) Co., Ltd. | Assembly of LCD flat panels | 921,450 (US\$ 30,000 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | 921,450 (US\$ 30,000 thousand) | - | - | 921,450 (US\$ 30,000 thousand) | 13,597 (US\$ 451 thousand) | 100.00 | 13,597 (US\$ 451 thousand) | 804,426 (US\$ 26,190 thousand) | - |
| Transyork Technology Yangzhou Ltd. | Assembly of LCD flat panels | 2,209,361 (US\$ 71,931 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | - | - | - | - | 13,718 (US\$ 455 thousand) | 100.00 | 3,859 (US\$ 128 thousand) | 1,728,272 (US\$ 56,268 thousand) | - |
| Transyang Electronics (Yangzhou) Ltd. (Under liquidation) | Assembly of LCD flat panels | 122,860 (US\$ 4,000 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | 122,860 (US\$ 4,000 thousand) | - | - | 122,860 (US\$ 4,000 thousand) | 6,995 (US\$ 232 thousand) | 100.00 | 6,995 (US\$ 232 thousand) | 111,956 (US\$ 3,645 thousand) | - |
| Transmart Electronics (Yangzhou) Ltd. | Research, development and sale of LCD monitors | 304,570 (US\$ 9,916 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | 203,026 (US\$ 6,610 thousand) | - | - | 203,026 (US\$ 6,610 thousand) | 21,557 (US\$ 715 thousand) | 100.00 | 21,557 (US\$ 715 thousand) | 46,288 (US\$ 1,507 thousand) | - |
| Yangzhou Huaxia Integrated O/E System Co., Ltd. | Manufacture and sale of LED products | 571,299 (US\$ 18,600 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | 92,145 (US\$ 3,000 thousand) | - | - | 92,145 (US\$ 3,000 thousand) | (48,118) (US\$ (1,596) thousand) | 100.00 | (48,118) (US\$ (1,596) thousand) | (889,506) (US\$ (28,960) thousand) | - |
| Dihao Electronics (Yangzhou) Co., Ltd. (Under liquidation) | Assembly of LCD backlight board display modules | 153,575 (US\$ 5,000 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | 53,751 (US\$ 1,750 thousand) | - | - | 53,751 (US\$ 1,750 thousand) | - | 35.00 | - | - | - |
| NTX Electronics Yangzhou Co., Ltd. | Manufacture and sale of flat panels | 179,013 (RMB 40,000 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | - | - | - | - | (9,170) (RMB (2,011) thousand) | 49.00 | (5,054) (RMB (985) thousand) | 82,798 (RMB 18,502 thousand) | - |

(Continued)

| Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018 | Investment Amount Authorized by Investment Commission, MOEA | Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA |
|-----------------------------------------------------------------------------------------|-------------------------------------------------------------|-----------------------------------------------------------------------------------|
| \$ 4,736,406 (US\$ 154,205 thousand) | \$ 8,293,388 (US\$ 270,011 thousand) | \$ 17,848,914 |

Note 1: The amounts are translated at the exchange rate of US\$1=NT\$30.715 and RMB1=NT\$4.47532 on December 31, 2018.

Note 2: The amounts are translated at the average exchange rate of US\$1=NT\$30.149 and RMB1=NT\$4.55988 for the year ended December 31, 2018.

Note 3: The amounts were calculated based on audited financial statements of the corresponding year.

Note 4: Information on the prices, terms of payment and unrealized profit or loss of significant transactions with investee companies in mainland China are provided in Tables 1, 5 and 6.

Note 5: All intercompany transactions have been eliminated upon consolidation, except NTX Electronics Yangzhou Co., Ltd.

(Concluded)

E INK HOLDINGS INC. AND SUBSIDIARIES

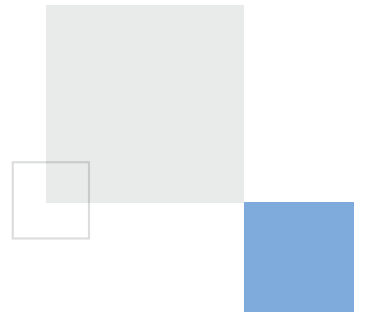
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

| No | Company Name | Related Party | Relationship | Transaction Details | | | |
|----|---------------------|------------------------------------------|------------------------------------------|-------------------------------------------------|--------------|----------------------------------------|----------------------------|
| | | | | Financial Statement Account | Amount | Payment Terms | % of Total Sales or Assets |
| 0 | E Ink Holdings Inc. | Prime View Communications Ltd. | Subsidiary | Accounts receivable from related parties | \$ 1,023,776 | By agreements | 2.8 |
| | | Prime View Communications Ltd. | Subsidiary | Sales | 4,476,536 | By agreements | 31.5 |
| | | PVI International Corp. | Subsidiary | Sales | 1,582,887 | By agreements | 11.1 |
| | | Tech Smart Logistics Ltd. | Subsidiary | Accounts payable to related parties | 660,143 | By agreements | 1.8 |
| | | E Ink Corporation | Subsidiary | Cost of goods sold | 3,380,747 | By agreements | 23.8 |
| | | SiPix Technology Inc. | Subsidiary | Sales | 1,139,853 | By agreements | 8.0 |
| | | Transcend Optronics (Yangzhou) Co., Ltd. | Subsidiary | Accounts receivable from related parties | 1,794,006 | By agreements | 4.9 |
| | | Transcend Optronics (Yangzhou) Co., Ltd. | Subsidiary | Accounts payable to related parties | 1,166,467 | By agreements | 3.2 |
| | | Transcend Optronics (Yangzhou) Co., Ltd. | Subsidiary | Cost of goods sold | 898,466 | By agreements | 6.3 |
| | | Transyork Technology Yangzhou Ltd. | Subsidiary | Accounts payable to related parties | 1,107,113 | By agreements | 3.0 |
| | | Transyork Technology Yangzhou Ltd. | Subsidiary | Cost of goods sold | 1,442,485 | By agreements | 10.2 |
| | | 1 | Transcend Optronics (Yangzhou) Co., Ltd. | Yangzhou Huaxia Integrated O/E System Co., Ltd. | Subsidiary | Other receivables from related parties | 964,062 |

Note 1: All intercompany transactions have been eliminated upon consolidation.

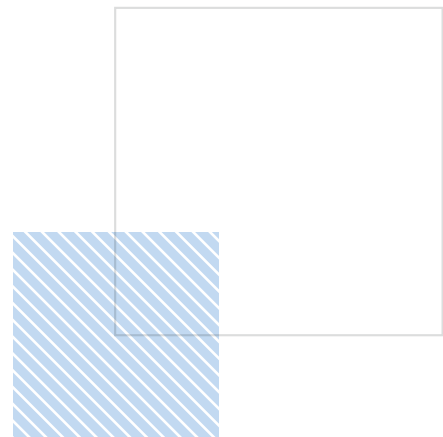
Note 2: Transactions amounts of \$500 million or more are disclosed in this table.



E Ink Holdings Inc.

Financial Statements

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



INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
E Ink Holdings Inc.

Opinion

We have audited the accompanying financial statements of E Ink Holdings Inc. (the "Company"), which comprise the balance sheets as of December 31, 2018 and 2017, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and 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 Financial Statements section of our report. We are independent of the Company 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the financial statements for the year ended December 31, 2018. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

The key audit matter for the Company's financial statements for the year ended December 31, 2018 is stated as follows:

Impairment of Goodwill Included in the Investments in Subsidiaries Accounted for Using the Equity Method

As disclosed in Notes 4 and 11 as well as Table 7 to the financial statements, investments accounted for using the equity method include acquiring subsidiaries to obtain electronic ink research and development and manufacturing centers, as well as to integrate patents of ePaper techniques. Excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities at the date of acquisition was recorded as goodwill, which is material to the overall financial statements,

therefore, management annually assesses the impairment of the excess of the cost in accordance with the IAS 36 “Impairment of Assets”.

Management assesses the excess of the cost for any impairment by comparing the carrying amount with the calculated recoverable amount as assessed based on the financial statements of the subsidiaries. In order to perform the assessment, management needs to estimate future operating cash flows allocated to the subsidiaries and determine their suitable discount rates to calculate the recoverable amount. When determining future operating cash flows, management considers the forecasted growth rate of sales and profit rate, etc. based on future operating perspective of the subsidiaries to calculate weighted average cost of capital as their discount rates. Since the major assumptions are subject to management’s judgement and may be variable to future market or prosperity of economy, which has its uncertainty, the impairment of excess of the cost has been identified as a key audit matter.

Our key audit procedures performed in respective of the above area included the following:

1. We understood the related process and controls that management used to assess the impairment, including basis of assumptions and source of the data used in evaluation.
2. We evaluated whether management has taken into account the Company’s recent operating performance and its industry conditions when estimating future growth of sales and profit rate to assess their achievability.
3. We evaluated the reasonableness of the discount rates that management used and re-performed to check the calculation.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including members of the audit committee, are responsible for overseeing the Company’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 a matter that was of most significance in the audit of the financial statements for the year ended December 31, 2018, and is therefore the key audit matter. We describe this matter 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 Ya-Ling Wong and Chih-Ming Shao.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 20, 2019

Notice to Readers

The accompanying financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying 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 financial statements shall prevail.

E INK HOLDINGS INC.

BALANCE SHEETS DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

| ASSETS | 2018 | | 2017 | |
|-----------------------------------------------------------------------------------|----------------------|------------|----------------------|------------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | \$ 1,166,960 | 3 | \$ 639,359 | 2 |
| Accounts receivable (Notes 4 and 9) | 676,905 | 2 | 256,077 | 1 |
| Accounts receivable from related parties (Notes 4 and 24) | 3,210,369 | 9 | 4,262,113 | 12 |
| Inventories (Notes 4 and 10) | 1,676,864 | 5 | 1,913,792 | 6 |
| Prepayments | 114,487 | 1 | 101,863 | - |
| Other current assets (Notes 4, 18, 24 and 25) | 73,796 | - | 86,113 | - |
| Total current assets | <u>6,919,381</u> | <u>20</u> | <u>7,259,317</u> | <u>21</u> |
| NON-CURRENT ASSETS | | | | |
| Financial assets at fair value through other comprehensive income (Notes 4 and 7) | 1,120,180 | 3 | - | - |
| Available-for-sale financial assets (Notes 4 and 8) | - | - | 1,077,878 | 3 |
| Investments accounted for using the equity method (Notes 4 and 11) | 25,350,261 | 72 | 23,992,123 | 70 |
| Property, plant and equipment (Notes 4 and 12) | 1,376,998 | 4 | 1,435,385 | 4 |
| Other intangible assets (Note 4) | 254,224 | - | 209,607 | 1 |
| Deferred tax assets (Notes 4 and 18) | 259,469 | 1 | 204,676 | 1 |
| Other non-current assets (Note 4) | 53,888 | - | 53,218 | - |
| Total non-current assets | <u>28,415,020</u> | <u>80</u> | <u>26,972,887</u> | <u>79</u> |
| TOTAL | <u>\$ 35,334,401</u> | <u>100</u> | <u>\$ 34,232,204</u> | <u>100</u> |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Note 13) | \$ 1,230,000 | 4 | \$ 228,800 | 1 |
| Short-term bills payable (Note 13) | 399,812 | 1 | - | - |
| Contract liabilities (Notes 4 and 16) | 203,605 | 1 | - | - |
| Notes and accounts payable | 1,181,788 | 3 | 1,810,318 | 5 |
| Accounts payable to related parties (Note 24) | 3,173,821 | 9 | 4,074,739 | 12 |
| Other payables (Note 21) | 588,257 | 2 | 604,396 | 2 |
| Other payables to related parties (Notes 21 and 24) | 257,880 | 1 | 14,885 | - |
| Current tax liabilities (Notes 4 and 18) | 93,272 | - | 123,943 | - |
| Receipts in advance (Notes 4 and 24) | 71,185 | - | 301,798 | 1 |
| Other current liabilities | 59,674 | - | 35,776 | - |
| Total current liabilities | <u>7,259,294</u> | <u>21</u> | <u>7,194,655</u> | <u>21</u> |
| NON-CURRENT LIABILITIES | | | | |
| Contract liabilities (Notes 4 and 16) | 65,806 | - | - | - |
| Net defined benefit liabilities (Notes 4 and 14) | 64,818 | - | 55,892 | - |
| Other non-current liabilities (Notes 4, 18 and 24) | 15,838 | - | 49,159 | - |
| Total non-current liabilities | <u>146,462</u> | <u>-</u> | <u>105,051</u> | <u>-</u> |
| Total liabilities | <u>7,405,756</u> | <u>21</u> | <u>7,299,706</u> | <u>21</u> |
| EQUITY (Notes 14, 15 and 20) | | | | |
| Share capital | <u>11,404,677</u> | <u>32</u> | <u>11,404,677</u> | <u>33</u> |
| Capital surplus | <u>10,243,293</u> | <u>29</u> | <u>10,108,119</u> | <u>30</u> |
| Retained earnings | | | | |
| Legal reserve | 1,512,287 | 4 | 1,304,481 | 4 |
| Special reserve | 70,678 | - | 70,678 | - |
| Unappropriated earnings | 5,138,085 | 15 | 4,246,203 | 13 |
| Total retained earnings | <u>6,721,050</u> | <u>19</u> | <u>5,621,362</u> | <u>17</u> |
| Other equity | (255,475) | (1) | 106,609 | - |
| Treasury shares | (184,900) | - | (308,269) | (1) |
| Total equity | <u>27,928,645</u> | <u>79</u> | <u>26,932,498</u> | <u>79</u> |
| TOTAL | <u>\$ 35,334,401</u> | <u>100</u> | <u>\$ 34,232,204</u> | <u>100</u> |

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

E INK HOLDINGS INC.

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 REVENUE (Notes 4, 16 and 24) | \$ 12,773,679 | 100 | \$ 13,905,359 | 100 |
| OPERATING COSTS (Notes 10, 17 and 24) | <u>10,582,105</u> | <u>83</u> | <u>11,256,560</u> | <u>81</u> |
| GROSS PROFIT | <u>2,191,574</u> | <u>17</u> | <u>2,648,799</u> | <u>19</u> |
| UNREALIZED LOSS ON TRANSACTIONS WITH SUBSIDIARIES | <u>(1,492)</u> | <u>-</u> | <u>(2,314)</u> | <u>-</u> |
| REALIZED GROSS PROFIT | <u>2,190,082</u> | <u>17</u> | <u>2,646,485</u> | <u>19</u> |
| OPERATING EXPENSES (Notes 17 and 24) | | | | |
| Selling and marketing expenses | 381,269 | 3 | 264,124 | 2 |
| General and administrative expenses | 757,525 | 6 | 759,309 | 5 |
| Research and development expenses | <u>794,738</u> | <u>6</u> | <u>688,278</u> | <u>5</u> |
| Total operating expenses | <u>1,933,532</u> | <u>15</u> | <u>1,711,711</u> | <u>12</u> |
| INCOME FROM OPERATIONS | <u>256,550</u> | <u>2</u> | <u>934,774</u> | <u>7</u> |
| NON-OPERATING INCOME AND EXPENSES (Note 4) | | | | |
| Interest income | 4,279 | - | 6,499 | - |
| Royalty income (Note 16) | 241,696 | 2 | 201,774 | 2 |
| Dividend income | 51,892 | - | 32,151 | - |
| Other income | 42,744 | - | 45,586 | - |
| Interest expenses (Notes 12 and 24) | (14,688) | - | (9,984) | - |
| Share of profit of subsidiaries accounted for using the equity method | 2,119,710 | 17 | 1,006,612 | 7 |
| Net gain (loss) on disposal of property, plant and equipment | (1,316) | - | 42,842 | - |
| Net gain (loss) on foreign currency exchange (Note 27) | 56,663 | 1 | (28,301) | - |
| Impairment loss (Notes 4 and 12) | (86,805) | (1) | - | - |
| Other expenses | <u>(3,342)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total non-operating income and expenses | <u>2,410,833</u> | <u>19</u> | <u>1,297,179</u> | <u>9</u> |
| INCOME BEFORE INCOME TAX | 2,667,383 | 21 | 2,231,953 | 16 |
| INCOME TAX EXPENSE (Notes 4 and 18) | <u>(53,710)</u> | <u>-</u> | <u>(153,888)</u> | <u>(1)</u> |
| NET INCOME FOR THE YEAR | <u>2,613,673</u> | <u>21</u> | <u>2,078,065</u> | <u>15</u> |

(Continued)

E INK HOLDINGS INC.

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 | % |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans (Notes 4 and 14) | \$ (11,060) | - | \$ (6,853) | - |
| Unrealized gain on investments in equity instruments at fair value through other comprehensive income | 42,302 | 1 | - | - |
| Share of other comprehensive loss of subsidiaries accounted for using the equity method | (474,417) | (4) | (211) | - |
| Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 18) | <u>4,226</u> | <u>-</u> | <u>1,165</u> | <u>-</u> |
| | <u>(438,949)</u> | <u>(3)</u> | <u>(5,899)</u> | <u>-</u> |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Unrealized gain on available-for-sale financial assets | - | - | 97,714 | 1 |
| Share of other comprehensive income (loss) of subsidiaries accounted for using the equity method | <u>61,295</u> | <u>-</u> | <u>(479,725)</u> | <u>(4)</u> |
| | <u>61,295</u> | <u>-</u> | <u>(382,011)</u> | <u>(3)</u> |
| Other comprehensive loss for the year, net of income tax | <u>(377,654)</u> | <u>(3)</u> | <u>(387,910)</u> | <u>(3)</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>\$ 2,236,019</u> | <u>18</u> | <u>\$ 1,690,155</u> | <u>12</u> |
| EARNINGS PER SHARE (Note 19) | | | | |
| Basic | <u>\$ 2.32</u> | | <u>\$ 1.85</u> | |
| Diluted | <u>\$ 2.31</u> | | <u>\$ 1.85</u> | |

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

(Concluded)

E INK HOLDINGS INC.

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

| | Share Capital | | Capital Surplus | Retained Earnings | | | Other Equity | | | Treasury Shares | Total |
|------------------------------------------------------------------------------------------------|--------------------------|---------------|-----------------|-------------------|-----------------|----------------------------|------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|------------------------------------------------------------------|-----------------|---------------|
| | Shares (In Thousands) | Amount | | Legal Reserve | Special Reserve | Unappropriated Earnings | Exchange Differences on Translating the Financial Statements of Foreign Operations | Unrealized Gain (Loss) on Available-for- sale Financial Assets | Unrealized Gain (Loss) on Financial Assets at FVTOCI | | |
| BALANCE AT JANUARY 1, 2017 | 1,140,468 | \$ 11,404,677 | \$ 10,071,683 | \$ 1,113,687 | \$ 70,678 | \$ 4,301,134 | \$ 261,704 | \$ 226,916 | \$ - | \$ (360,464) | \$ 27,090,015 |
| Appropriation of 2016 earnings | | | | | | | | | | | |
| Legal reserve | - | - | - | 190,794 | - | (190,794) | - | - | - | - | - |
| Cash dividends | - | - | - | - | - | (1,680,702) | - | - | - | - | (1,680,702) |
| Net income for the year ended December 31, 2017 | - | - | - | - | - | 2,078,065 | - | - | - | - | 2,078,065 |
| Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax | - | - | - | - | - | (5,899) | (504,327) | 122,316 | - | - | (387,910) |
| Total comprehensive income (loss) for the year ended December 31, 2017 | - | - | - | - | - | 2,072,166 | (504,327) | 122,316 | - | - | 1,690,155 |
| Difference between actual consideration paid and carrying amount of subsidiaries acquired | - | - | (2,223) | - | - | (255,601) | - | - | - | - | (257,824) |
| Share-based payments | - | - | 38,825 | - | - | - | - | - | - | - | 38,825 |
| Treasury shares transferred to employees | - | - | (166) | - | - | - | - | - | - | 52,195 | 52,029 |
| BALANCE AT DECEMBER 31, 2017 | 1,140,468 | 11,404,677 | 10,108,119 | 1,304,481 | 70,678 | 4,246,203 | (242,623) | 349,232 | - | (308,269) | 26,932,498 |
| Effect of retrospective application | - | - | - | - | - | 327,468 | - | (349,232) | 376,899 | - | 355,135 |
| BALANCE AT JANUARY 1, 2018 AS RESTATED | 1,140,468 | 11,404,677 | 10,108,119 | 1,304,481 | 70,678 | 4,573,671 | (242,623) | - | 376,899 | (308,269) | 27,287,633 |
| Appropriation of 2017 earnings | | | | | | | | | | | |
| Legal reserve | - | - | - | 207,806 | - | (207,806) | - | - | - | - | - |
| Cash dividends | - | - | - | - | - | (1,853,550) | - | - | - | - | (1,853,550) |
| Unclaimed dividends extinguished by prescription | - | - | 14 | - | - | - | - | - | - | - | 14 |
| Net income for the year ended December 31, 2018 | - | - | - | - | - | 2,613,673 | - | - | - | - | 2,613,673 |
| Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax | - | - | - | - | - | (6,052) | 61,295 | - | (432,897) | - | (377,654) |
| Total comprehensive income (loss) for the year ended December 31, 2018 | - | - | - | - | - | 2,607,621 | 61,295 | - | (432,897) | - | 2,236,019 |
| Share-based payments | - | - | 135,552 | - | - | - | - | - | - | - | 135,552 |
| Disposal of investments in equity instruments at fair value through other comprehensive income | - | - | - | - | - | 18,149 | - | - | (18,149) | - | - |
| Treasury shares transferred to employees | - | - | (392) | - | - | - | - | - | - | 123,369 | 122,977 |
| BALANCE AT DECEMBER 31, 2018 | 1,140,468 | \$ 11,404,677 | \$ 10,243,293 | \$ 1,512,287 | \$ 70,678 | \$ 5,138,085 | \$ (181,328) | \$ - | \$ (74,147) | \$ (184,900) | \$ 27,928,645 |

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

E INK HOLDINGS INC.

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

| | 2018 | 2017 |
|-----------------------------------------------------------------------|---------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | \$ 2,667,383 | \$ 2,231,953 |
| Adjustments for | | |
| Depreciation expenses | 240,682 | 240,562 |
| Amortization expenses | 39,643 | 25,735 |
| Expected credit loss recognized on accounts receivable | 1,120 | - |
| Interest expenses | 14,688 | 9,984 |
| Interest income | (4,279) | (6,499) |
| Dividend income | (51,892) | (32,151) |
| Compensation costs of share-based payments | 91,454 | 20,257 |
| Share of profit of subsidiaries accounted for using the equity method | (2,119,710) | (1,006,612) |
| Net loss (gain) on disposal of property, plant and equipment | 1,316 | (42,842) |
| Net gain on disposal of investments | - | (2,775) |
| Impairment loss | 86,805 | - |
| Write-downs of (reversal of) inventories | 217,212 | (13,244) |
| Unrealized loss on transactions with subsidiaries | 1,492 | 2,314 |
| Net unrealized loss (gain) on foreign currency exchange | 30,515 | (53,660) |
| Royalty income | (241,696) | (201,774) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (423,076) | 227,144 |
| Accounts receivable from related parties | 1,106,122 | (1,097,866) |
| Inventories | 19,716 | (984,235) |
| Prepayments | (102,474) | (13,335) |
| Other current assets | (12,470) | (10,936) |
| Contract liabilities | 340,470 | - |
| Notes and accounts payable | (638,927) | 852,434 |
| Accounts payable to related parties | (969,117) | 190,578 |
| Other payables | (46,591) | 94,104 |
| Receipts in advance | (90,006) | 458,137 |
| Other current liabilities | 25,409 | 8,918 |
| Net defined benefit liabilities | (2,134) | (2,504) |
| Cash generated from operations | 181,655 | 893,687 |
| Income tax paid | (137,519) | (21,344) |
| Net cash generated from operating activities | <u>44,136</u> | <u>872,343</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of available-for-sale financial assets | - | (279,998) |
| Proceeds from disposal of financial assets measured at cost | - | 25,080 |
| Acquisition of property, plant and equipment | (176,100) | (131,298) |
| Proceeds from disposal of property, plant and equipment | 72 | 48,784 |
| Decrease in other receivables from related parties | 26,481 | 52,946 |
| Acquisition of other intangible assets | (67,646) | (34,290) |
| Increase in other non-current assets | (674) | (977) |

(Continued)

E INK HOLDINGS INC.

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

| | 2018 | 2017 |
|----------------------------------------------------------------|---------------------|--------------------|
| Interest received | \$ 4,171 | \$ 6,531 |
| Dividends received | <u>798,083</u> | <u>613,674</u> |
| Net cash generated from investing activities | <u>584,387</u> | <u>300,452</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term borrowings | 999,900 | 230,100 |
| Increase in short-term bills payable | 399,812 | - |
| Increase in other payables to related parties | 244,802 | - |
| Increase (decrease) in other non-current liabilities | (566) | 1,688 |
| Cash dividends | (1,853,550) | (1,680,702) |
| Proceeds from treasury shares transferred to employees | 122,977 | 52,029 |
| Interest paid | (14,311) | (9,772) |
| Proceeds from unclaimed dividends extinguished by prescription | <u>14</u> | <u>-</u> |
| Net cash used in financing activities | <u>(100,922)</u> | <u>(1,406,657)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 527,601 | (233,862) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | <u>639,359</u> | <u>873,221</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | <u>\$ 1,166,960</u> | <u>\$ 639,359</u> |

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

(Concluded)

E INK HOLDINGS INC.

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

1. GENERAL INFORMATION

E Ink Holdings Inc. (the “Company”) was incorporated in June 1992 in the Hsin-Chu Science-based Industrial Park. The Company’s shares have been listed on the Taipei Exchange (TPEX) mainboard since March 30, 2004. The Company mainly researches, develops, manufactures and sells electronic paper display panels.

The financial statements of the Company are presented in New Taiwan dollars, the functional currency of the Company.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on March 20, 2019.

3. APPLICATION OF NEW 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 referred to as 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 Company’s accounting policies:

- 1) IFRS 9 “Financial Instruments” and related amendment

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 and hedge accounting. Please 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 at January 1, 2018, the Company has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The impact on measurement categories, carrying amount and related reconciliation for each class of the Company's financial assets under IAS 39 and IFRS 9 on January 1, 2018 is detailed below:

| Financial Assets | Measurement Category | | Carrying Amount | | Remark |
|-------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------|-----------------|------------|--------|
| | IAS 39 | IFRS 9 | IAS 39 | IFRS 9 | |
| Cash and cash equivalents | Loans and receivables | Amortized cost | \$ 639,359 | \$ 639,359 | a) |
| Equity securities | Available-for-sale financial assets (including financial assets measured at cost) | Fair value through other comprehensive income | 1,077,878 | 1,077,878 | b) |
| Accounts receivable and other receivables | Loans and receivables | Amortized cost | 4,565,648 | 4,565,648 | 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 | Remark |
|-------------------------------------------------------------------------------|----------------------------------------------|---------------------|------------------|----------------------------------------------|---------------------------------------------|----------------------------------------|--------|
| | | | | | | | |
| Financial assets at fair value through other comprehensive income | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Add: Reclassification from available-for-sale financial assets (IAS 39) | - | 1,077,878 | - | 1,077,878 | - | - | b) |
| | - | 1,077,878 | - | 1,077,878 | - | - | |
| Financial assets at amortized cost | - | - | - | - | - | - | |
| Add: Reclassification from cash and cash equivalents (IAS 39) | - | 639,359 | - | 639,359 | - | - | a) |
| Add: Reclassification from accounts receivable and other receivables (IAS 39) | - | 4,565,648 | - | 4,565,648 | - | - | a) |
| | - | 5,205,007 | - | 5,205,007 | - | - | |
| Investments accounted for using the equity method | 23,992,123 | - | 69,274 | 24,061,397 | 41,607 | 27,667 | b) |
| | <u>\$23,992,123</u> | <u>\$ 6,282,885</u> | <u>\$ 69,274</u> | <u>\$30,344,282</u> | <u>\$ 41,607</u> | <u>\$ 27,667</u> | |

a) Cash and cash equivalents, accounts receivable and other receivables (included in other current assets) that were classified as loans and receivables under IAS 39 are classified as financial assets at amortized cost with an assessment of expected credit loss under IFRS 9.

b) Equity securities investments of \$1,077,878 thousand were classified as available-for-sale financial assets under IAS 39. Because these investments are not held for trading, the Company elected to designate all of these investments as at fair value through other comprehensive income (FVTOCI) under IFRS 9 and reclassified the related other equity - unrealized gain on available-for-sale financial assets of \$349,232 thousand to other equity - unrealized gain on financial assets at FVTOCI.

In addition, the subsidiaries' investments in unlisted shares of \$267,981 thousand were measured at cost under IAS 39. These investments are classified as at FVTOCI under IFRS 9 and required to be remeasured at fair value. Consequently, an increase of \$69,274 thousand was recognized in investments accounted for using the equity method and other equity - unrealized gain on financial assets at FVTOCI on January 1, 2018.

The subsidiaries recognized impairment loss on certain equity securities investments previously measured at cost and the loss was accumulated in retained earnings under IAS 39. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$41,607 thousand in other equity - unrealized gain on financial assets at FVTOCI and an increase of \$41,607 thousand in retained earnings on 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. Please refer to Note 4 for related accounting policies.

Under IFRS 15, certain patented technology licensed by the Company is a right to use the Company's intellectual property as it existed at the point in time at which the license was granted and the revenue should have been recognized when the patented technology is licensed. The Company elected only to retrospectively apply IFRS 15 to contracts that were not complete on

January 1, 2018 and recognized the cumulative effect of the change in the retained earnings on January 1, 2018.

The impact on assets, liabilities and equity as of January 1, 2018 from the initial application of IFRS 15 is set out below:

| | As Originally Stated | Adjustments Arising from Initial Application | Restated |
|-------------------------------------------------------------------------------|---------------------------------|-----------------------------------------------------------------|----------------------|
| Total effect on assets - investments accounted for using the equity method | <u>\$ 23,992,123</u> | <u>\$ 285,861</u> | <u>\$ 24,277,984</u> |
| Contract liabilities - current | \$ - | \$ 140,607 | \$ 140,607 |
| Receipts in advance | 301,798 | (140,607) | 161,191 |
| Contract liabilities - non-current | - | 30,030 | 30,030 |
| Other non-current liabilities | <u>49,159</u> | <u>(30,030)</u> | <u>19,129</u> |
| Total effect on liabilities | <u>\$ 350,957</u> | <u>\$ -</u> | <u>\$ 350,957</u> |
| Total effect on equity - retained earnings | <u>\$ 5,621,362</u> | <u>\$ 285,861</u> | <u>\$ 5,907,223</u> |

Had the Company applied IAS 18 in the current year, the following adjustments should have been made to reflect the line items and balances under IFRS 15:

Impact on assets, liabilities and equity for current year

| | December 31, 2018 |
|------------------------------------------------------------------------|------------------------------|
| Assets - increase in investments accounted for using the equity method | <u>\$ 250,254</u> |
| Increase in contract liabilities - current | \$ 203,605 |
| Decrease in receipts in advance | (203,605) |
| Increase in contract liabilities - non-current | 65,806 |
| Decrease in other non-current liabilities | <u>(65,806)</u> |
| Decrease in liabilities | <u>\$ -</u> |
| Equity - increase in retained earnings | <u>\$ 250,254</u> |

Impact on total comprehensive income for current year

| | For the Year Ended December 31, 2018 |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
| Net income for the year - decrease in share of profit of subsidiaries accounted for using the equity method | <u>\$ (35,607)</u> |
| Impact on earnings per share: | |
| Decrease in basic earnings per share | <u>\$(0.03)</u> |
| Decrease in diluted earnings per share | <u>\$(0.03)</u> |

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

| New, Amended or Revised Standards and Interpretations (the “New IFRSs”) | Effective Date Announced by IASB (Note 1) |
|------------------------------------------------------------------------------------|------------------------------------------------------|
| Annual Improvements to IFRSs 2015-2017 Cycle | January 1, 2019 |
| Amendments to IFRS 9 “Prepayment Features with Negative Compensation” | January 1, 2019 (Note 2) |
| 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 Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

Except for the following, whenever applied, the application of the above New IFRSs will not have any material impact on the Company’s accounting policies:

IFRS 16 “Leases”

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

Definition of a lease

Upon initial application of IFRS 16, the Company 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 Company as lessee

Upon initial application of IFRS 16, the Company will recognize right-of-use assets and lease liabilities for all leases on the 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 statements of comprehensive income, the Company 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 statements of cash flows, cash payments for the principal and interest portion of lease liabilities will be classified within financing 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 statements of cash flows.

The Company anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information will not be restated.

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 Company will apply IAS 36 to all right-of-use assets.

The Company expects to apply the following practical expedients:

- 1) The Company will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Company will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- 3) The Company will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- 4) The Company will use hindsight, such as in determining lease terms, to measure lease liabilities.

The Company as lessor

The Company 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 and liabilities

| | Carrying Amount as of December 31, 2018 | Adjustments Arising from Initial Application | Adjusted Carrying Amount as of January 1, 2019 |
|---------------------------------|------------------------------------------------------------|-----------------------------------------------------------------|-------------------------------------------------------------------|
| Right-of-use assets | \$ - | \$ 867,223 | \$ 867,223 |
| Other non-current assets | <u>53,888</u> | <u>(817)</u> | <u>53,071</u> |
| Total effect on assets | <u>\$ 53,888</u> | <u>\$ 866,406</u> | <u>\$ 920,294</u> |
| Lease liabilities - current | \$ - | \$ 20,616 | \$ 20,616 |
| Lease liabilities - non-current | <u>-</u> | <u>845,790</u> | <u>845,790</u> |
| Total effect on liabilities | <u>\$ -</u> | <u>\$ 866,406</u> | <u>\$ 866,406</u> |

Except for the above impact, as of the date the financial statements were authorized for issue, the Company’s assessment of the application of other standards and interpretations will have no material impact on the Company’s financial position and financial performance.

- c. New IFRSs in issue by IASB 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 Company 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 Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of the above standards and interpretations will have on the Company'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 financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of preparation

The financial statements have been prepared on the historical cost basis except for 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, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, 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 an 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 an asset or liability.

When preparing the financial statements, the Company used the equity method to account for its investments in subsidiaries and associates. In order for the amounts of the net income for the year, other comprehensive income for the year and total equity in its financial statements to be the same as the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries and the share of other comprehensive income of subsidiaries in these financial statements.

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 12 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 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Foreign currencies

In preparing the standalone financial statements of the Company, transactions in currencies other than the Company's functional currency (i.e. 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 year 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 from the retranslation of non-monetary items are included in profit or loss for the year 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 cases, 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 translated using the exchange rate at the date of the transaction and are not retranslated.

For the purposes of presenting financial statements, the assets and liabilities of the Company's foreign operations (including subsidiaries in other countries that use currencies that are different from the currency of the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting year; and income and expense items are translated at the average exchange rates for the year. The resulting currency translation differences are recognized in other comprehensive income or loss.

e. Inventories

Inventories consist of raw materials, semi-finished goods, finished goods and work in progress and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

f. Investment in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income or loss of the subsidiary. The Company also recognizes the changes in the Company's share of other equity of subsidiaries.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary 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 Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit for the year.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in subsequent years.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized in profit or loss for the year. Besides this, the Company accounts for all amounts previously recognized in other comprehensive income or loss in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full in the financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized in the financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

g. Property, plant and equipment

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

Property, plant and equipment in the course of construction are measured at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in estimates 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.

h. Intangible assets

1) Intangible assets acquired separately

Intangible assets 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 lives, residual value, and amortization methods are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

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

Expenditures on research activities are recognized as expenses in the period in which they are 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 expenditures attributable to the intangible asset during its development.

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

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Impairment of tangible and intangible assets

At the end of each reporting period, the Company 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

The 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 corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount (net of amortization or depreciation) 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.

j. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts 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 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 1 year from the date of classification.

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

k. Financial instruments

Financial assets and financial liabilities are recognized when the Company 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 an acquisition or issuance 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 fair value through profit or loss (FVTPL), financial assets at amortized cost and investments in equity instruments at FVTOCI.

i. Financial assets at FVTPL

Financial assets at FVTPL include investments in equity instruments which are not designated as at FVTOCI and are mandatorily measured at fair value subsequently, with any gains or losses arising on remeasurement recognized in profit or loss.

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, accounts receivable and other receivables are measured at amortized cost, which equals to gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Cash equivalents include repurchase agreements collateralized by bonds, 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 Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation 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, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company'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: Available-for-sale financial assets and loans and receivables.

i. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments 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 and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company'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 and derivatives that are linked to and must be settled by delivery of such unquoted equity investments 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 measured at cost. If, in a subsequent year, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

ii. Loans and receivables

Loans and receivables (including cash and cash equivalents, accounts receivable and other receivables) 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.

b) Impairment of financial assets

2018

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable).

The Company always recognizes lifetime Expected Credit Loss (ECL) for accounts receivable. For all other financial instruments, the Company recognizes lifetime ECL 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 Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. The Company 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 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, as a result of one or more events that occurred after the initial recognition of such financial assets, that the estimated future cash flows of the investment have been affected.

For financial assets measured at amortized cost, such as accounts receivable, such 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 Company's past experience with collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets measured at amortized cost, the amount of the impairment loss recognized is the difference between the assets' carrying amount and the present value of its 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 year, 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.

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

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is 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 measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of its 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 years.

The carrying amount of a 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 accounts receivable are considered uncollectible, they are 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 Company 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.

In and before 2017, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. 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 an equity instrument at FVTOCI, the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without reclassifying to profit or loss.

2) Equity instruments

The repurchase of the Company'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 Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

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

b) Derecognition of financial liabilities

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

l. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Provisions for the expected cost of warranty obligations to assure that products comply with agreed-upon specifications are recognized on the date of sale of the relevant products at the best estimate by the management of the Company of the expenditures required to settle the Company's obligations.

m. Revenue recognition

2018

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

1) Revenue from sale of goods

Sales of products are recognized as revenue when the goods are delivered to the customer's specific location because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods. Revenue and accounts receivable are recognized concurrently.

The Company does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2) Licensing revenue

If the patented technology licensed by the Company can remain functional without any updates or technical support and the Company is not obliged to undertake activities that will change the functionality of the licensed patented technology, the licensed patented technology has significant stand-alone functionality and the Company recognizes revenue at the point in time at which the license of patented technology transfers. If the Company is obliged to undertake activities that will change the functionality of the licensed patented technology, the licensed patented technology does not have significant stand-alone functionality and the Company recognizes revenue on a straight-line basis over the life of the agreements. Royalties receivable that the Company does not have a present right to payment of the royalties is recorded as contract assets and reclassified to accounts receivable after the Company fulfills the remainder of the performance obligation. Proceeds of royalties received but which have not met the conditions of revenue recognition are recorded as contract liabilities, current and non-current, respectively, based on the remaining contract periods.

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. Allowance for sales returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Company; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of material ownership.

2) Royalties

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Royalties determined on a time basis are recognized on a straight-line basis over the period of the agreement. Royalty arrangements that are based on sales are recognized by reference to the underlying arrangement. Proceeds of royalties received but having not met the condition of revenue recognition are recognized as receipts in advance - current and other non-current liabilities, respectively, based on the remaining contract periods.

3) Dividend and interest income

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

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

n. Leasing

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

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

o. Borrowing costs

Borrowing costs directly attributable to an acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Other than stated above, all other borrowing costs are recognized in profit or loss in the year in which they are incurred.

p. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and rereasurement) 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 liabilities are recognized as employee benefits expense in the year they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the year in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities represent the actual deficit in the Company's defined benefit plans.

q. Share-based payment arrangements

The fair value at the grant date of share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately. The grant date of treasury shares transferred to employees is the date on which the board of directors approves the transaction.

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

r. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred taxes 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 taxes are also recognized in other comprehensive income.

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 the earnings.

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforwards to the extent that it is probable that taxable profit 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 Company 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 are only recognized to the extent that it is probable that there will be sufficient taxable profit 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 year and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting year 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 year in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner

in which the Company expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Impairment of Investments Accounted for Using the Equity Method

The Company immediately recognizes impairment loss on its investments accounted for using the equity method when there is any indication that an investment may be impaired and the carrying amount may not be recoverable. The Company's management evaluates such impairment based on the estimated future cash flows expected to be generated from the investments accounted for using the equity method. The Company also takes into consideration the market conditions and industry developments when evaluating the appropriateness of the relevant assumptions.

6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|------------------------------------------------------------------|---------------------|-------------------|
| | 2018 | 2017 |
| Cash on hand | \$ 183 | \$ 171 |
| Checking accounts and demand deposits | 792,459 | 639,188 |
| Cash equivalents - repurchase agreements collateralized by bonds | <u>374,318</u> | <u>-</u> |
| | <u>\$ 1,166,960</u> | <u>\$ 639,359</u> |

The market rate intervals of demand deposits and repurchase agreements collateralized by bonds at the end of the reporting years were as follows:

| | December 31 | |
|-----------------------------------------------|--------------------|-------------|
| | 2018 | 2017 |
| Demand deposits | 0.01-0.55% | 0.07-0.65% |
| Repurchase agreements collateralized by bonds | 0.55-2.8% | - |

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

| | December 31, 2018 |
|--------------------------------------------------------|------------------------------|
| <u>Investments in equity instruments - non-current</u> | |
| Domestic listed shares | <u>\$ 1,120,180</u> |

The Company holds the above investments in equity instruments for long-term strategic purposes and expects to gain profit through long-term investments. 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 Company's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Please refer to Notes 3 and 8 for information relating to their reclassification and comparative information for 2017.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

| | December 31, 2017 |
|-----------------------------|------------------------------|
| <u>Domestic investments</u> | |
| Listed shares | <u>\$ 1,077,878</u> |

9. ACCOUNTS RECEIVABLE

| | <u>December 31</u> | |
|----------------------------------------------|--------------------|-------------------|
| | 2018 | 2017 |
| Gross carrying amount of accounts receivable | \$ 678,025 | \$ 256,077 |
| Less: Loss allowance | <u>(1,120)</u> | <u>-</u> |
| | <u>\$ 676,905</u> | <u>\$ 256,077</u> |

For the year ended December 31, 2018

The Company recognizes impairment loss when there is actual credit loss from individual client. In addition, the Company recognizes impairment loss based on the rate of expected credit loss by reference to past default experience of the debtor, an analysis of the debtor's current financial position, general economic conditions of the industry in which the debtors operate and past due status.

The following table details the loss allowance of accounts receivable.

December 31, 2018

| | Not Past Due | Past Due in 1-90 Days | Past Due over 90 Days | Total |
|-----------------------|---------------------|----------------------------------|----------------------------------|-------------------|
| Gross carrying amount | \$ 375,290 | \$ 299,597 | \$ 3,138 | \$ 678,025 |
| Less: Loss allowance | <u>-</u> | <u>-</u> | <u>1,120</u> | <u>1,120</u> |
| Amortized cost | <u>\$ 375,290</u> | <u>\$ 299,597</u> | <u>\$ 2,018</u> | <u>\$ 676,905</u> |

The movements of the loss allowance were as follows:

| | For the year ended December 31, 2018 |
|---------------------------------|---------------------------------------------------------|
| Balance at January 1, 2018 | \$ - |
| Expected credit loss recognized | <u>1,120</u> |
| Balance at December 31, 2018 | <u>\$ 1,120</u> |

For the year ended December 31, 2017

In determining the recoverability of accounts receivable, the Company considered any change in the credit quality of the respective accounts receivable since the date credit was initially granted to the end of the reporting period. An allowance for impairment loss was recognized based on the estimated irrecoverable amounts determined by reference to past default experience with the counterparties and an analysis of their current financial positions.

Before accepting a new customer, the Company evaluates the credit quality of a potential customer through an internal credit rating system or an external credit rating agency and sets the credit line of the customer. The Company checks its customers' credit lines and ratings regularly.

For the accounts receivable balances that were past due at the end of the reporting year, the Company did not recognize an allowance for impairment loss, because there was no significant change in credit quality and the amounts were still considered recoverable.

The aging of accounts receivable was as follows:

| | December 31, 2017 |
|-----------------------|------------------------------|
| Not past due | \$ 252,645 |
| Past due in 1-90 days | 1,667 |
| Past due over 90 days | <u>1,765</u> |
| | <u>\$ 256,077</u> |

The above aging schedule was based on the number of past due days from the end of the credit term.

The aging of accounts receivable that were past due but not impaired was as follows:

| | December 31, 2017 |
|-----------------------|------------------------------|
| Past due in 1-90 days | \$ 1,667 |
| Past due over 90 days | <u>1,765</u> |
| | <u>\$ 3,432</u> |

The above aging schedule was based on the number of past due days from the end of the credit term.

10. INVENTORIES

| | December 31 | |
|---------------------|---------------------|---------------------|
| | 2018 | 2017 |
| Finished goods | \$ 680,395 | \$ 877,724 |
| Semi-finished goods | 286,390 | 204,918 |
| Work in progress | 25,440 | 4,940 |
| Raw materials | <u>684,639</u> | <u>826,210</u> |
| | <u>\$ 1,676,864</u> | <u>\$ 1,913,792</u> |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 included write-downs of inventories of \$217,212 thousand and reversal of write-downs of inventories of \$13,244 thousand, respectively. Previous write-downs were reversed as a result of the disposal of obsolete inventories.

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | December 31 | |
|--------------------------------|----------------------|----------------------|
| | 2018 | 2017 |
| Investments in subsidiaries | <u>\$ 25,350,261</u> | <u>\$ 23,992,123</u> |
| Unlisted companies | | |
| PVI Global Corp. | \$ 11,109,595 | \$ 9,421,361 |
| New Field e-Paper Co., Ltd. | 5,701,683 | 5,614,948 |
| E Ink Corporation | 4,305,677 | 4,322,539 |
| Yuen Yu Investment Co., Ltd. | 1,819,546 | 2,282,800 |
| SiPix Technology Inc. | 2,010,330 | 1,966,524 |
| Dream Universe Ltd. | 371,562 | 353,281 |
| Prime View Communications Ltd. | 27,800 | 26,700 |
| Tech Smart Logistics Ltd. | 4,033 | 3,950 |
| Hot Tracks International Ltd. | <u>35</u> | <u>20</u> |
| | <u>\$ 25,350,261</u> | <u>\$ 23,992,123</u> |

| | Proportion of Ownership and Voting Rights | |
|--------------------------------|------------------------------------------------------|-------------|
| | December 31 | |
| | 2018 | 2017 |
| PVI Global Corp. | 100.00% | 100.00% |
| New Field e-Paper Co., Ltd. | 100.00% | 100.00% |
| E Ink Corporation | 45.31% | 45.31% |
| Yuen Yu Investment Co., Ltd. | 100.00% | 100.00% |
| SiPix Technology Inc. | 100.00% | 100.00% |
| Dream Universe Ltd. | 100.00% | 100.00% |
| Prime View Communications Ltd. | 100.00% | 100.00% |
| Tech Smart Logistics Ltd. | 0.09% | 0.09% |
| Hot Tracks International Ltd. | 100.00% | 100.00% |

Although each of the Company's equity interests in E Ink Corporation and Tech Smart Logistics Ltd. did not exceed 50%, respectively, the combined equity interests of the Company and its subsidiaries in the above companies were 100%. Therefore, E Ink Corporation and Tech Smart Logistics Ltd. are subsidiaries of the Company.

These subsidiaries are included in the consolidated financial statements of the Company as of December 31, 2018 and 2017.

The investments in subsidiaries accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments as of December 31, 2018 and 2017 are based on the subsidiaries' audited financial statements of the corresponding year.

12. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Machinery | Other Equipment | Construction in Progress and Prepayments for Equipment | Total |
|------------------------------------------------|---------------------|---------------------|---------------------|-----------------------------------------------------------------|---------------------|
| <u>Cost</u> | | | | | |
| Balance at January 1, 2017 | \$ 2,188,968 | \$ 6,352,741 | \$ 1,251,857 | \$ 18,813 | \$ 9,812,379 |
| Additions | - | 17,845 | 42,994 | 113,195 | 174,034 |
| Disposals | (218,374) | (1,159,592) | (88,299) | - | (1,466,265) |
| Reclassifications | - | 31,586 | 65,096 | (100,558) | (3,876) |
| Balance at December 31, 2017 | <u>\$ 1,970,594</u> | <u>\$ 5,242,580</u> | <u>\$ 1,271,648</u> | <u>\$ 31,450</u> | <u>\$ 8,516,272</u> |
| <u>Accumulated depreciation and impairment</u> | | | | | |
| Balance at January 1, 2017 | \$ 1,388,709 | \$ 5,996,203 | \$ 915,736 | \$ - | \$ 8,300,648 |
| Depreciation expenses | 37,965 | 98,923 | 103,674 | - | 240,562 |
| Disposals | (218,374) | (1,153,650) | (88,299) | - | (1,460,323) |
| Balance at December 31, 2017 | <u>\$ 1,208,300</u> | <u>\$ 4,941,476</u> | <u>\$ 931,111</u> | <u>\$ -</u> | <u>\$ 7,080,887</u> |
| Carrying amount at December 31, 2017 | <u>\$ 762,294</u> | <u>\$ 301,104</u> | <u>\$ 340,537</u> | <u>\$ 31,450</u> | <u>\$ 1,435,385</u> |
| <u>Cost</u> | | | | | |
| Balance at January 1, 2018 | \$ 1,970,594 | \$ 5,242,580 | \$ 1,271,648 | \$ 31,450 | \$ 8,516,272 |
| Additions | 3,409 | 15,379 | 23,336 | 156,845 | 198,969 |
| Disposals | - | (83,239) | (175,060) | - | (258,299) |
| Reclassifications | 9,936 | 10,321 | 47,761 | (84,692) | (16,674) |
| Balance at December 31, 2018 | <u>\$ 1,983,939</u> | <u>\$ 5,185,041</u> | <u>\$ 1,167,685</u> | <u>\$ 103,603</u> | <u>\$ 8,440,268</u> |
| <u>Accumulated depreciation and impairment</u> | | | | | |
| Balance at January 1, 2018 | \$ 1,208,300 | \$ 4,941,476 | \$ 931,111 | \$ - | \$ 7,080,887 |
| Depreciation expenses | 38,597 | 87,856 | 114,229 | - | 240,682 |
| Reversal of impairment losses | - | - | (1,388) | - | (1,388) |
| Disposals | - | (83,239) | (173,672) | - | (256,911) |
| Balance at December 31, 2018 | <u>\$ 1,246,897</u> | <u>\$ 4,946,093</u> | <u>\$ 870,280</u> | <u>\$ -</u> | <u>\$ 7,063,270</u> |
| Carrying amount at December 31, 2018 | <u>\$ 737,042</u> | <u>\$ 238,948</u> | <u>\$ 297,405</u> | <u>\$ 103,603</u> | <u>\$ 1,376,998</u> |

Information about the capitalized interest is as follows:

| | For the Year Ended December 31 | |
|-------------------------------|---------------------------------------|---------------|
| | 2018 | 2017 |
| Capitalized interest | <u>\$ 497</u> | <u>\$ 307</u> |
| Capitalization rate intervals | 0.91-2.11% | 0.99-1.82% |

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

| | |
|---------------------------------------|-------------|
| Buildings | |
| Main buildings | 56 years |
| Clean rooms and plumbing construction | 25-36 years |
| Others | 2-14 years |
| Machinery | 1-9 years |
| Other equipment | 1-26 years |

13. BORROWINGS

a. Short-term borrowings

| | <u>December 31</u> | |
|-------------------------------------------------|---------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| Line of credit borrowings | <u>\$ 1,230,000</u> | <u>\$ 228,800</u> |
| Foreign currency included (in thousands of USD) | <u>\$ -</u> | <u>\$ 5,000</u> |
| Interest rate intervals | <u>0.98-1.04%</u> | <u>0.98-1.99%</u> |

b. Short-term bills payable

| | <u>December 31</u> | |
|----------------------------------|--------------------|-------------|
| | <u>2018</u> | <u>2017</u> |
| Commercial paper | \$ 400,000 | \$ - |
| Less: Discounts on bills payable | <u>188</u> | <u>-</u> |
| | <u>\$ 399,812</u> | <u>\$ -</u> |
| Interest rate intervals | <u>0.62-0.82%</u> | <u>-</u> |

14. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes 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 Company 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 Company 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 Company has no right to influence the investment policy and strategy.

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

| | December 31 | |
|---------------------------------------------|--------------------|------------------|
| | 2018 | 2017 |
| Present value of defined benefit obligation | \$ 129,123 | \$ 113,743 |
| Fair value of plan assets | <u>(64,305)</u> | <u>(57,851)</u> |
| Net defined benefit liabilities | <u>\$ 64,818</u> | <u>\$ 55,892</u> |

Movements in net defined benefit liabilities were as follows:

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liabilities |
|-----------------------------------------------------------------------|--------------------------------------------------------------------|------------------------------------------|------------------------------------------------|
| Balance at January 1, 2017 | \$ 104,553 | \$ (53,010) | \$ 51,543 |
| Current service cost | 977 | - | 977 |
| Net interest expense (income) | <u>1,438</u> | <u>(762)</u> | <u>676</u> |
| Recognized in profit or loss | <u>2,415</u> | <u>(762)</u> | <u>1,653</u> |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | 78 | 78 |
| Actuarial loss - changes in demographic assumptions | 4,256 | - | 4,256 |
| Actuarial loss - experience adjustments | <u>2,519</u> | <u>-</u> | <u>2,519</u> |
| Recognized in other comprehensive income | <u>6,775</u> | <u>78</u> | <u>6,853</u> |
| Contributions from the employer | <u>-</u> | <u>(4,157)</u> | <u>(4,157)</u> |
| Balance at December 31, 2017 | 113,743 | (57,851) | 55,892 |
| Current service cost | 1,291 | - | 1,291 |
| Net interest expense (income) | <u>1,564</u> | <u>(824)</u> | <u>740</u> |
| Recognized in profit or loss | <u>2,855</u> | <u>(824)</u> | <u>2,031</u> |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (1,465) | (1,465) |
| Actuarial loss - changes in demographic assumptions | 2,705 | - | 2,705 |
| Actuarial loss - changes in financial assumptions | 3,832 | - | 3,832 |
| Actuarial loss - experience adjustments | <u>5,988</u> | <u>-</u> | <u>5,988</u> |
| Recognized in other comprehensive income | <u>12,525</u> | <u>(1,465)</u> | <u>11,060</u> |
| Contributions from the employer | <u>-</u> | <u>(4,165)</u> | <u>(4,165)</u> |
| Balance at December 31, 2018 | <u>\$ 129,123</u> | <u>\$ (64,305)</u> | <u>\$ 64,818</u> |

Through the defined benefit plans under the Labor Standards Law, the Company 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 rates will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' 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 salaries 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:

| | December 31 | |
|-----------------------------------|--------------------|-------------|
| | 2018 | 2017 |
| Discount rates | 1.1% | 1.4% |
| Expected rates of salary increase | 2.8% | 2.8% |

If possible reasonable changes 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:

| | December 31 | |
|-----------------------------------|--------------------|-------------------|
| | 2018 | 2017 |
| Discount rates | | |
| 0.25% increase | <u>\$ (3,897)</u> | <u>\$ (3,567)</u> |
| 0.25% decrease | <u>\$ 4,063</u> | <u>\$ 3,723</u> |
| Expected rates of salary increase | | |
| 0.25% increase | <u>\$ 3,925</u> | <u>\$ 3,604</u> |
| 0.25% decrease | <u>\$ (3,785)</u> | <u>\$ (3,473)</u> |

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

| | December 31 | |
|------------------------------------------------------|--------------------|-----------------|
| | 2018 | 2017 |
| Expected contributions to the plan for the next year | <u>\$ 4,298</u> | <u>\$ 4,134</u> |
| Average duration of the defined benefit obligation | 12 years | 13 years |

15. EQUITY

a. Ordinary shares

| | <u>December 31</u> | |
|-------------------------------------------------------|----------------------|----------------------|
| | <u>2018</u> | <u>2017</u> |
| Number of shares authorized (in thousands) | <u>2,000,000</u> | <u>2,000,000</u> |
| Amount of shares authorized | <u>\$ 20,000,000</u> | <u>\$ 20,000,000</u> |
| Number of shares issued and fully paid (in thousands) | <u>1,140,468</u> | <u>1,140,468</u> |
| Amount of shares issued | <u>\$ 11,404,677</u> | <u>\$ 11,404,677</u> |

b. Capital surplus

| | <u>December 31</u> | |
|----------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| | <u>2018</u> | <u>2017</u> |
| <u>May be used to offset a deficit, distributed as</u> <u>cash dividends, or transferred to share capital (1)</u> | | |
| Issuance of shares | \$ 9,494,322 | \$ 9,494,322 |
| Conversion of bonds | 525,200 | 525,200 |
| Treasury share transactions | 95,922 | 20,106 |
| <u>May only be used to offset a deficit</u> | | |
| Expired employee share options | 49,840 | 49,840 |
| Change in percentage of ownership interests in associates (2) | 105 | 105 |
| Unclaimed dividends extinguished by prescription | 14 | - |
| <u>May not be used for any purpose</u> | | |
| Employee share options | <u>77,890</u> | <u>18,546</u> |
| | <u>\$ 10,243,293</u> | <u>\$ 10,108,119</u> |

- 1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).
- 2) Such capital surplus arises from the effects of changes in ownership interests in associates resulting from equity transactions other than actual disposals or acquisitions, or from changes in capital surplus of associates accounted for using the equity method.

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the Company's amended Articles of Incorporation, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside a legal reserve of 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 at least 50% of any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors after the amendment, refer to Note 17.

The Company's Articles of Incorporation also stipulate a dividends policy that allows previous accumulated undistributed earnings to be distributed. The distribution of dividends to shareholders is allowed to be in cash or by the issuance of shares. In principle, cash dividends should be at least 10% of the total dividends distributed.

The appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficits and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2017 and 2016 approved in the shareholders' meetings on June 22, 2018 and June 20, 2017, respectively, were as follows:

| | <u>Appropriation of Earnings</u> | | <u>Dividends Per Share</u> | |
|----------------|----------------------------------|-------------|----------------------------|----------------|
| | <u>For the Year Ended</u> | | <u>(NT\$)</u> | |
| | <u>December 31</u> | | <u>For the Year Ended</u> | |
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Legal reserve | \$ 207,806 | \$ 190,794 | | |
| Cash dividends | 1,853,550 | 1,680,702 | <u>\$ 1.65</u> | <u>\$ 1.50</u> |

The appropriation of earnings for 2018 were proposed by the Company's board of directors on March 20, 2019. The appropriation and dividends per share were as follows:

| | <u>Appropriation</u> | <u>Dividends Per</u> |
|-----------------|----------------------|----------------------|
| | <u>of Earnings</u> | <u>Share (NT\$)</u> |
| Legal reserve | \$ 261,367 | |
| Special reserve | 184,797 | |
| Cash dividends | 2,373,438 | <u>\$2.10</u> |

The appropriation of earnings for 2018 is subject to resolution in the shareholders' meeting to be held on June 18, 2019.

d. Special reserve

If a special reserve appropriated on the first-time adoption of IFRSs relates to exchange differences on translating the financial statements of foreign operations, the special reserve will be reversed proportionally on the Company's disposal of the foreign operations; on the Company's loss of significant influence, however, the entire special reserve will be reversed. An additional special reserve should be appropriated for the amount equal to the difference between the net debit balance of the reserves and the special reserve appropriated on the first-time adoption of IFRSs. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and may thereafter be distributed.

e. Other equity items

1) Exchange differences on translating the financial statements of foreign operations

| | For the Year Ended December 31 | |
|-------------------------------------------------------------------------------------|---------------------------------------|---------------------|
| | 2018 | 2017 |
| Balance at January 1 | \$ (242,623) | \$ 261,704 |
| Share of exchange differences of subsidiaries accounted for using the equity method | <u>61,295</u> | <u>(504,327)</u> |
| Balance at December 31 | <u>\$ (181,328)</u> | <u>\$ (242,623)</u> |

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

| | For the Year Ended December 31, 2017 |
|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------|
| Balance at January 1, 2017 | \$ 226,916 |
| Unrealized gain on available-for-sale financial assets | 97,714 |
| Share of unrealized gain on available-for-sale financial assets of subsidiaries accounted for using the equity method | <u>24,602</u> |
| Balance at December 31, 2017 (IAS 39) | 349,232 |
| Effect of retrospective application of IFRS 9 | <u>(349,232)</u> |
| Balance at January 1, 2018 (IFRS 9) | <u>\$ -</u> |

3) Unrealized gain (loss) on financial assets at FVTOCI

| | For the Year Ended December 31, 2018 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|
| Balance at January 1 (IAS 39) | \$ - |
| Effect of retrospective application of IFRS 9 | <u>376,899</u> |
| Balance at January 1 (IFRS 9) | 376,899 |
| Unrealized gain on equity instruments | 42,302 |
| Share of subsidiaries accounted for using the equity method | (475,199) |
| Cumulative unrealized loss of equity instruments transferred to retained earnings due to disposal resulting from subsidiaries accounted for using the equity method | <u>(18,149)</u> |
| Balance at December 31 | <u>\$ (74,147)</u> |

f. Treasury shares

Unit: Shares in Thousands

| | For the Year Ended December 31 | |
|---------------------------------|---------------------------------------|----------------|
| | 2018 | 2017 |
| Number of shares at January 1 | 17,104 | 20,000 |
| Transferred to employees | <u>(6,845)</u> | <u>(2,896)</u> |
| Number of shares at December 31 | <u>10,259</u> | <u>17,104</u> |

The board of directors of the Company resolved to repurchase 20,000 thousand shares of treasury shares on June 13, 2016, which was completed in August 2016, for the purpose of transferring to employees. Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

16. REVENUE

a. Revenue from contracts with customers

| Type of Revenue/Category by Product | For the Year Ended December 31, 2018 |
|--------------------------------------------|---------------------------------------------|
| Revenue from sale of goods | |
| Monitors | \$ 10,095,884 |
| Electronic shelf labels | 2,221,692 |
| Others | <u>456,103</u> |
| | <u>\$ 12,773,679</u> |

b. Contract balances

| | December 31, 2018 |
|------------------------------------|--------------------------|
| Accounts receivable (Note 9) | <u>\$ 676,905</u> |
| Contract liabilities | |
| Sale of goods | \$ 116,760 |
| Royalty | <u>86,845</u> |
| Contract liabilities - current | <u>203,605</u> |
| Contract liabilities - non-current | |
| Royalty | <u>65,806</u> |
| | <u>\$ 269,411</u> |

The changes in the balances of contract assets and contract liabilities primarily result from the timing difference between the satisfaction of performance obligation and the customer's payment. Revenue recognized for the year from the beginning balance of the contract liabilities is as follows:

| Type of Revenue | For the Year Ended December 31, 2018 |
|----------------------------|---------------------------------------------------------|
| Royalty income | \$ 88,871 |
| Revenue from sale of goods | <u>51,736</u> |
| | <u>\$ 140,607</u> |

17. NET INCOME FOR THE YEAR

Components of net income for the year were as follows:

a. Depreciation and amortization

| | For the Year Ended December 31 | |
|-----------------------------------------|---------------------------------------|-------------------|
| | 2018 | 2017 |
| Property, plant and equipment | \$ 240,682 | \$ 240,562 |
| Other intangible assets | 39,643 | 25,723 |
| Other non-current assets | <u>-</u> | <u>12</u> |
| | <u>\$ 280,325</u> | <u>\$ 266,297</u> |
| An analysis of depreciation by function | | |
| Operating costs | \$ 134,763 | \$ 146,445 |
| Operating expenses | <u>105,919</u> | <u>94,117</u> |
| | <u>\$ 240,682</u> | <u>\$ 240,562</u> |
| An analysis of amortization by function | | |
| Operating expenses | <u>\$ 39,643</u> | <u>\$ 25,735</u> |

b. Employee benefits expense

| | For the Year Ended December 31 | |
|------------------------------------|---------------------------------------|---------------------|
| | 2018 | 2017 |
| Post-employment benefits (Note 14) | | |
| Defined contribution plans | \$ 42,218 | \$ 37,946 |
| Defined benefit plans | <u>2,031</u> | <u>1,653</u> |
| | 44,249 | 39,599 |
| Share-based payments | | |
| Equity-settled | 91,454 | 20,257 |
| Other employee benefits | <u>1,112,700</u> | <u>1,019,507</u> |
| Total employee benefits expense | <u>\$ 1,248,403</u> | <u>\$ 1,079,363</u> |

(Continued)

For the Year Ended December 31
2018 **2017**

An analysis of employee benefits expense by function

| | | |
|--------------------|---------------------|---------------------|
| Operating costs | \$ 198,082 | \$ 163,031 |
| Operating expenses | <u>1,050,321</u> | <u>916,332</u> |
| | <u>\$ 1,248,403</u> | <u>\$ 1,079,363</u> |

(Concluded)

For the Year Ended December 31

| | 2018 | | | 2017 | | |
|---------------------------------|---------------------------------|------------------------------------|---------------------|---------------------------------|------------------------------------|---------------------|
| | Amount of Operating Costs | Amount of Operating Expenses | Total | Amount of Operating Costs | Amount of Operating Expenses | Total |
| Salaries | \$ 165,696 | \$ 909,946 | \$ 1,075,642 | \$ 133,994 | \$ 786,867 | \$ 920,861 |
| Labor and health insurance | 13,794 | 56,103 | 69,897 | 12,891 | 52,825 | 65,716 |
| Pension | 7,241 | 37,008 | 44,249 | 6,689 | 32,910 | 39,599 |
| Director's emoluments | - | 13,273 | 13,273 | - | 14,055 | 14,055 |
| Other employee benefits | <u>11,351</u> | <u>33,991</u> | <u>45,342</u> | <u>9,457</u> | <u>29,675</u> | <u>39,132</u> |
| Total employee benefits expense | <u>\$ 198,082</u> | <u>\$ 1,050,321</u> | <u>\$ 1,248,403</u> | <u>\$ 163,031</u> | <u>\$ 916,332</u> | <u>\$ 1,079,363</u> |

As of December 31, 2018 and 2017, the Company had 932 and 879 employees, respectively, among which were 4 and 5 non-employee directors, and the basis of calculation of their benefits expense was consistent with the employee benefits expense.

c. Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation at the rates of no less than 1% and no higher than 10% as well as remuneration of directors at the rates of no higher than 1%, respectively, of net profit before income tax, employees' compensation and remuneration of directors, net of accumulated deficit, if any. The employees' compensation and remuneration of directors for the years ended December 31, 2018 and 2017, which were approved by the Company's board of directors on March 20, 2019 and March 27, 2018, respectively, were as follows:

For the Year Ended December 31
2018 **2017**

| | | |
|---------------------------|------------------|------------------|
| Employees' compensation | <u>\$ 27,100</u> | <u>\$ 23,000</u> |
| Remuneration of directors | <u>\$ 12,238</u> | <u>\$ 13,000</u> |

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the financial statements for the years ended December 31, 2017 and 2016.

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

18. INCOME TAX

- a. Major components of income tax expense recognized in profit or loss

| | For the Year Ended December 31 | |
|-------------------------------------------------|---------------------------------------|-------------------|
| | 2018 | 2017 |
| Current tax | | |
| In respect of the current year | \$ 106,753 | \$ 143,278 |
| Adjustments for the prior years | <u>249</u> | <u>(26,259)</u> |
| | 107,002 | 117,019 |
| Deferred tax | | |
| In respect of the current year | (22,255) | 36,869 |
| Effect of tax rate changes | <u>(31,037)</u> | <u>-</u> |
| | <u>(53,292)</u> | <u>36,869</u> |
| Income tax expense recognized in profit or loss | <u>\$ 53,710</u> | <u>\$ 153,888</u> |

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

| | For the Year Ended December 31 | |
|-----------------------------------------------------------------------------------------|---------------------------------------|---------------------|
| | 2018 | 2017 |
| Income before income tax | <u>\$ 2,667,383</u> | <u>\$ 2,231,953</u> |
| Income tax expense calculated at the statutory rate | \$ 533,477 | \$ 379,432 |
| Nondeductible expenses in determining taxable income | 5,596 | 4,137 |
| Tax-exempt income | (434,320) | (177,187) |
| Unrecognized loss carryforwards deductible temporary differences and investment credits | (20,255) | (26,235) |
| Effect of tax rate changes | (31,037) | - |
| Adjustments for the prior year | <u>249</u> | <u>(26,259)</u> |
| Income tax expense recognized in profit or loss | <u>\$ 53,710</u> | <u>\$ 153,888</u> |

In 2017, the applicable corporate income tax rate of the Company 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%.

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

| | For the Year Ended December 31 | |
|-------------------------------------------------------------|---------------------------------------|-------------------|
| | 2018 | 2017 |
| Current tax - in respect of the current year | \$ (2,212) | \$ (1,165) |
| Deferred tax - effect of tax rate changes | <u>(2,014)</u> | <u>-</u> |
| Income tax benefit recognized in other comprehensive income | <u>\$ (4,226)</u> | <u>\$ (1,165)</u> |

c. Current tax assets and liabilities

| | December 31 | |
|-------------------------------------------------------|--------------------|-------------------|
| | 2018 | 2017 |
| Current tax assets (included in other current assets) | | |
| Tax refund receivable | <u>\$ 1,775</u> | <u>\$ 1,929</u> |
| Current tax liabilities | | |
| Income tax payable | <u>\$ 93,272</u> | <u>\$ 123,943</u> |

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred income tax liabilities (included in other non-current liabilities) were as follows:

For the year ended December 31, 2018

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---------------------------------|----------------------------|-----------------------------------------|-------------------------------------------------------------|------------------------|
| <u>Deferred tax assets</u> | | | | |
| Temporary differences | | | | |
| Inventories | \$ 126,686 | \$ 38,873 | \$ - | \$ 165,559 |
| Property, plant and equipment | 26,564 | (228) | - | 26,336 |
| Prepayments | - | 17,639 | - | 17,639 |
| Defined benefit plans | 11,413 | - | 4,226 | 15,639 |
| Deferred revenue | 27,706 | (13,171) | - | 14,535 |
| Others | <u>12,307</u> | <u>7,454</u> | <u>-</u> | <u>19,761</u> |
| | <u>\$ 204,676</u> | <u>\$ 50,567</u> | <u>\$ 4,226</u> | <u>\$ 259,469</u> |
| <u>Deferred tax liabilities</u> | | | | |
| Temporary differences | | | | |
| Other | <u>\$ 17,389</u> | <u>\$ (2,725)</u> | <u>\$ -</u> | <u>\$ 14,664</u> |

For the year ended December 31, 2017

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|-------------------------------|----------------------------|-----------------------------------------|-------------------------------------------------------------|------------------------|
| <u>Deferred tax assets</u> | | | | |
| Temporary differences | | | | |
| Inventories | \$ 183,551 | \$ (56,865) | \$ - | \$ 126,686 |
| Deferred revenue | 4,247 | 23,459 | - | 27,706 |
| Property, plant and equipment | 9,988 | 16,576 | - | 26,564 |
| Defined benefit plans | 10,248 | - | 1,165 | 11,413 |
| Others | <u>13,333</u> | <u>(1,026)</u> | <u>-</u> | <u>12,307</u> |
| | 221,367 | (17,856) | 1,165 | 204,676 |
| Loss carryforwards | <u>6,407</u> | <u>(6,407)</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 227,774</u> | <u>\$ (24,263)</u> | <u>\$ 1,165</u> | <u>\$ 204,676</u> |

(Continued)

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---------------------------------|--------------------|---------------------------------|---------------------------------------------------|---------------------------------|
| <u>Deferred tax liabilities</u> | | | | |
| Temporary differences | | | | |
| Other | <u>\$ 4,783</u> | <u>\$ 12,606</u> | <u>\$ -</u> | <u>\$ 17,389</u> (Concluded) |

- e. The aggregate amount of temporary difference associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2018 and 2017, the taxable temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognized were \$8,322,470 thousand and \$6,466,056 thousand, respectively.

- f. Income tax assessments

The income tax returns of the Company through 2015 have been assessed by the tax authorities.

19. EARNINGS PER SHARE

Unit: NT\$ Per Share

| | <u>For the Year Ended December 31</u> | |
|----------------------------|---------------------------------------|----------------|
| | 2018 | 2017 |
| Basic earnings per share | <u>\$ 2.32</u> | <u>\$ 1.85</u> |
| Diluted earnings per share | <u>\$ 2.31</u> | <u>\$ 1.85</u> |

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

| | <u>For the Year Ended December 31</u> | |
|-------------------------|---------------------------------------|---------------------|
| | 2018 | 2017 |
| Net income for the year | <u>\$ 2,613,673</u> | <u>\$ 2,078,065</u> |

Number of Shares

Unit: Shares in Thousands

| | <u>For the Year Ended December 31</u> | |
|--------------------------------------------------------------------------------------------------|---------------------------------------|------------------|
| | 2018 | 2017 |
| Weighted average number of ordinary shares used in the computation of basic earnings per share | 1,126,786 | 1,121,916 |
| Effect of potentially dilutive ordinary shares | | |
| Employees' compensation | 1,010 | 656 |
| Share-based payment arrangements | <u>4,141</u> | <u>1,660</u> |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | <u>1,131,937</u> | <u>1,124,232</u> |

If the Company offered to settle compensation paid to employees in cash or shares, the Company assumed the entire amount of the compensation will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

20. SHARE-BASED PAYMENT ARRANGEMENTS

The board of directors resolved on August 14, 2018, May 8, 2018 and March 22, 2017 to transfer treasury shares of 5,885 thousand shares, 8,097 thousands shares and 7,289 thousand shares, respectively, to qualified employees of the Company and its subsidiaries. In compliance with the Company's Regulations Governing Share Repurchase and Transfer to Employees, the transfer price for each arrangements is the average of the actual acquisition price of the treasury shares.

Information about treasury shares transferred to employees is as follows:

For the year ended December 31, 2018

| Grant Date | Unit: Shares in Thousands | | | | |
|-----------------|---------------------------|---------------------------------|--------------------------------|----------------|-----------------------|
| | Transferable Shares | Shares Transferred for the Year | Accumulated Shares Transferred | Expired Shares | Shares at December 31 |
| August 14, 2018 | <u>5,885</u> | <u>-</u> | <u>-</u> | <u>16</u> | <u>5,869</u> |
| May 8, 2018 | <u>8,097</u> | <u>4,024</u> | <u>4,024</u> | <u>28</u> | <u>4,045</u> |
| March 22, 2017 | <u>7,289</u> | <u>2,821</u> | <u>5,717</u> | <u>1,372</u> | <u>200</u> |

For the year ended December 31, 2017

| Grant Date | Unit: Shares in Thousands | | | | |
|----------------|---------------------------|---------------------------------|--------------------------------|----------------|-----------------------|
| | Transferable Shares | Shares Transferred for the Year | Accumulated Shares Transferred | Expired Shares | Shares at December 31 |
| March 22, 2017 | <u>7,289</u> | <u>2,896</u> | <u>2,896</u> | <u>238</u> | <u>4,155</u> |

Treasury shares transferred to employees were priced using a Black-Scholes pricing model. Compensation costs recognized were \$91,454 thousand and \$20,257 thousand for the years ended December 31, 2018 and 2017, respectively. The inputs to the models are as follows:

| | August 2018 | May 2018 | March 2017 |
|-------------------------------------------------------|-------------|--------------|--------------|
| Grant date share price (NT\$) | \$36.85 | \$31.55 | \$25.20 |
| Exercise price (NT\$) | \$18.02 | \$18.02 | \$18.02 |
| Expected volatility | 53.23% | 48.31-49.82% | 30.53-40.29% |
| Expected life | 0-1 years | 0-1 years | 0-2 years |
| Expected dividend yield | 2.46% | 2.46% | 2.34% |
| Risk-free interest rate | 0.91% | 0.6-1.04% | 0.63-1.08% |
| Weighted-average fair value of options granted (NT\$) | \$18.80 | \$13.55 | \$7.48 |

21. NON-CASH TRANSACTIONS

For the years ended December 31, 2018 and 2017, the Company entered into the following non-cash investing activities:

| | <u>For the Year Ended December 31</u> | |
|------------------------------------------------------------|---------------------------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| Acquisition of property, plant and equipment | | |
| Increase in property, plant and equipment | \$ 198,969 | \$ 174,034 |
| Increase in payables for construction and equipment (Note) | <u>(22,869)</u> | <u>(42,736)</u> |
| Cash paid | <u>\$ 176,100</u> | <u>\$ 131,298</u> |

Note: Recorded as other payables and other payables to related parties.

22. CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged in the future.

The Company's risk management committee reviews the capital structure on an annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Based on the committee's recommendations, the Company expects to balance its capital structure through the payment of dividends, the issue of new shares and private ordinary shares or the payment of old debt.

23. FINANCIAL INSTRUMENTS

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

The financial statements include unlisted shares measured at cost for the year ended December 31, 2017. Since the range of fair values of these equity investments estimated by valuation techniques varied significantly, management believed that the unlisted equity investments held by the Company had fair values which could not be reliably measured. Therefore, they were measured at cost. Such investments were classified as financial assets at FVTPL under IFRS 9 for the year ended December 31, 2018.

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

1) Fair value hierarchy

December 31, 2018

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------------|---------------------|----------------|----------------|---------------------|
| <u>Financial Assets at FVTOCI</u> | | | | |
| Investments in equity instruments | | | | |
| Domestic listed shares | <u>\$ 1,120,180</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,120,180</u> |

December 31, 2017

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------------|--------------|------------|------------|--------------|
| <u>Available-for-sale financial assets</u> | | | | |
| Domestic listed shares | \$ 1,077,878 | \$ _____ - | \$ _____ - | \$ 1,077,878 |

There were no transfers between Levels 1 and 2 in the current and prior years.

c. Categories of financial instruments

| | <u>December 31</u> | |
|----------------------------------------------|--------------------|--------------|
| | 2018 | 2017 |
| <u>Financial assets</u> | | |
| Loans and receivables (Note 1) | \$ - | \$ 5,205,007 |
| Available-for-sale financial assets (Note 2) | - | 1,077,878 |
| Amortized cost (Note 3) | 5,089,339 | - |
| Equity instruments at FVTOCI | 1,120,180 | - |
| <u>Financial liabilities</u> | | |
| Amortized cost (Note 4) | 6,831,558 | 6,733,138 |

Note 1: The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, accounts receivable (including related parties) and other receivables (including related parties) (recorded as other current assets).

Note 2: The balances include the carrying amount of available-for-sale financial assets measured at cost.

Note 3: The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, accounts receivable (including related parties) and other receivables (including related parties) (recorded as other current assets).

Note 4: The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, notes and accounts payable (including related parties) and other payables (including related parties).

d. Financial risk management objectives and policies

The Company's major financial instruments include equity and debt investments, accounts receivable, notes and accounts payable and borrowings. The Company's Corporate Treasury function provides services to the business, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and other market-related factors.

There have been no changes to the Company's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Company had foreign-currency-denominated sales and purchases, which exposed the Company to foreign currency risk.

The carrying amounts of the Company's foreign-currency-denominated monetary assets and monetary liabilities at the end of the reporting years are set out in Note 27.

Sensitivity analysis

The Company was mainly exposed to the U.S. dollar (USD).

The following details the Company's sensitivity to a 1% increase and decrease in the New Taiwan dollar (NTD) against USD. The sensitivity analysis included only outstanding foreign-currency-denominated monetary items and adjusts their translation at the end of the reporting years for a 1% change in foreign currency rates. For a 1% strengthening of NTD against USD, post-tax income for the years ended December 31, 2018 and 2017 would increase by \$4,502 thousand and \$8,786 thousand, respectively. For a 1% weakening of NTD against USD, there would be an equal and opposite impact on post-tax income.

b) Interest rate risk

The carrying amount of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting years were as follows:

| | December 31 | |
|------------------------------|--------------------|-------------------|
| | 2018 | 2017 |
| Cash flow interest rate risk | | |
| Financial assets | <u>\$ 792,459</u> | <u>\$ 639,188</u> |

Sensitivity analysis

The sensitivity analysis below was determined based on the Company's exposure to interest rates for non-derivative instruments at the end of the reporting years. A 50 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. When the market rate of floating rate financial assets change from the effective rate, the estimated future cash flows also change with it.

If interest rates had been 50 basis points higher, the Company's post-tax cash inflows for the years ended December 31, 2018 and 2017 would increase \$3,170 thousand and \$2,653 thousand, respectively, because of the Company's exposure to interest rates on its floating rate financial assets. If interest rates had been 50 basis points lower, there would be an equal and opposite impact on post-tax cash inflows.

c) Other price risk

The Company was exposed to price risk through its investments in equity securities. The equity investments are held for strategic rather than trading purposes, the Company does not actively trade these investments.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to price risk of equity securities at the end of the reporting years.

If the price in equity securities had been 5% higher/lower, the other comprehensive income before income tax for the year ended December 31, 2018 would have increased/decreased by \$56,009 thousand, respectively, due to the increase/decrease in fair value of financial assets at FVTOCI.

If equity prices had been 5% higher/lower, the other comprehensive income before income tax for the year ended December 31, 2017 would have increased/decreased by \$53,894 thousand, respectively, due to the increase/decrease in fair value of available-for-sale financial assets.

The Company's sensitivity to investments in equity securities has not changed significantly from the prior year.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. As of the end of the reporting years, the Company's maximum exposure to credit risk, which would cause a financial loss to the Company due to failure of counterparties to discharge an obligation and financial guarantees provided by the Company, could arise from:

- a) The carrying amount of the respective recognized financial assets as stated in the balance sheets; and
- b) The amount of contingent liabilities in relation to financial guarantees issued by the Company.

The Company adopted a policy of only dealing with creditworthy counterparties, evaluated potential customers through an internal credit rating system and set the credit limit of customers to grasp the credit status of the counterparties and effectively control the credit exposure.

The Company transacts with a large number of unrelated customers, and therefore no concentration of credit risk was observed.

3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2018 and 2017, the Company's unutilized short-term bank borrowing facilities were \$2,945,870 thousand and \$2,700,000 thousand, respectively.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay, including principal and estimated interest. Therefore, bank borrowings with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights.

December 31, 2018

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months to 1 Year | 1-5 Years | 5+ Years |
|-------------------------------------------------|-----------------------------------------------|-------------------|-------------------------------|------------------|-----------------|
| <u>Non-derivative financial liabilities</u> | | | | | |
| Fixed interest rate liabilities | <u>\$ 1,500,907</u> | <u>\$ 130,321</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

December 31, 2017

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months to 1 Year | 1-5 Years | 5+ Years |
|-------------------------------------------------|-----------------------------------------------|-------------------|-------------------------------|------------------|-----------------|
| <u>Non-derivative financial liabilities</u> | | | | | |
| Fixed interest rate liabilities | <u>\$ 229,097</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

24. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in other notes, details of transactions between the Company and other related parties are disclosed below.

a. Related party name and category

| <u>Name</u> | <u>Related party Category</u> |
|------------------------------------------|-------------------------------|
| SiPix Technology Inc. | Subsidiary |
| Yuen Yu Investment Co., Ltd. | Subsidiary |
| New Field e-Paper Co., Ltd. | Subsidiary |
| YuanHan Materials Inc. | Subsidiary |
| Linfiny Corporation | Subsidiary |
| Transyork Technology Yangzhou Ltd. | Subsidiary |
| Transcend Optronics (Yangzhou) Co., Ltd. | Subsidiary |
| Rich Optronics (Yangzhou) Co., Ltd. | Subsidiary |
| Transmart Electronics (Yangzhou) Ltd. | Subsidiary |
| Tech Smart Logistics Ltd. | Subsidiary |
| PVI International Corp. | Subsidiary |
| PVI Global Corp. | Subsidiary |
| Prime View Communications Ltd. | Subsidiary |
| Hydis Technologies Co., Ltd. | Subsidiary |
| Hot Tracks International Ltd. | Subsidiary |
| E Ink Corporation | Subsidiary |
| E Ink California, LLC | Subsidiary |
| E Ink Japan Inc. | Subsidiary |
| Dream Pacific International Corp. | Subsidiary |
| NTX Electronics Yangzhou Co., Ltd. | Associate |
| Yuen Foong Yu Biotech Co., Ltd. | Associate |

(Continued)

| Name | Related party Category |
|-------------------------------------------|--------------------------------------------------------------------|
| YFY Inc. | Investor with significant influence over the Company |
| YFY Jupiter Limited | Subsidiary of investor with significant influence over the Company |
| Yuen Foong Shop Co., Ltd. | Subsidiary of investor with significant influence over the Company |
| LiVEBRiCKS Inc. | Subsidiary of investor with significant influence over the Company |
| YFY Holding Management Co., Ltd. | Subsidiary of investor with significant influence over the Company |
| Eihoyo Shoji Co., Ltd. | Subsidiary of investor with significant influence over the Company |
| Yuen Foong Yu Consumer Products Co., Ltd. | Subsidiary of investor with significant influence over the Company |
| YFY Packaging Inc. | Subsidiary of investor with significant influence over the Company |
| Chung Hwa Pulp Corporation | Subsidiary of investor with significant influence over the Company |
| China Color Printing Co., Ltd. | Subsidiary of investor with significant influence over the Company |
| Johnson Lee | Key management personnel |
| TGKW Management Limited | Substantive related party |
| Hsin Yi Enterprise Co., Ltd. | Substantive related party |
| Shen's Art Print Co., Ltd. | Substantive related party |
| Yuen Foong Paper Co., Ltd. | Substantive related party |
| SinoPac Securities Corp. | Substantive related party |

(Concluded)

b. Sales of goods

| Related Party Category/Name | For the Year Ended December 31 | |
|----------------------------------------------------------------------|---------------------------------------|---------------------|
| | 2018 | 2017 |
| Subsidiary | | |
| Prime View Communications Ltd. | \$ 4,476,536 | \$ 4,962,180 |
| PVI International Corp. | 1,582,887 | 2,929,151 |
| SiPix Technology Inc. | 1,139,853 | 1,501,343 |
| Others | <u>30,357</u> | <u>75,748</u> |
| | 7,229,633 | 9,468,422 |
| Associate | 7,327 | - |
| Subsidiaries of investor with significant influence over the Company | <u>37</u> | <u>526</u> |
| | <u>\$ 7,236,997</u> | <u>\$ 9,468,948</u> |

c. Purchases of goods

| Related Party Category/Name | For the Year Ended December 31 | |
|----------------------------------------------------------------------|--------------------------------|---------------------|
| | 2018 | 2017 |
| Subsidiary | | |
| E Ink Corporation | \$ 3,380,747 | \$ 3,812,117 |
| Transyork Technology Yangzhou Ltd. | 1,442,485 | 1,626,121 |
| Transcend Optronics (Yangzhou) Co., Ltd. | 898,466 | 92,913 |
| Others | <u>22,572</u> | <u>6,216</u> |
| | 5,744,270 | 5,537,367 |
| Associate | 627,823 | 427,035 |
| Subsidiaries of investor with significant influence over the Company | 58 | 24 |
| Substantive related party | <u>31</u> | <u>16</u> |
| | <u>\$ 6,372,182</u> | <u>\$ 5,964,442</u> |

d. Manufacturing cost (recorded as operating costs)

| Related Party Category | For the Year Ended December 31 | |
|------------------------|--------------------------------|-------------------|
| | 2018 | 2017 |
| Subsidiary | <u>\$ 613,702</u> | <u>\$ 282,104</u> |

e. Operating expenses

| Related Party Category | For the Year Ended December 31 | |
|---------------------------------------------------------------------------|--------------------------------|-------------------|
| | 2018 | 2017 |
| Subsidiary | \$ 120,777 | \$ 123,523 |
| Substantive related party | 17,819 | 17,888 |
| Associate | 5,780 | 7,190 |
| Investor and its subsidiaries with significant influence over the Company | <u>1,422</u> | <u>3,465</u> |
| | <u>\$ 145,798</u> | <u>\$ 152,066</u> |

f. Receivables from related parties

| Line Items | Related Party Category/Name | December 31 | |
|---------------------|------------------------------------------|--------------|----------------|
| | | 2018 | 2017 |
| Accounts receivable | Subsidiary | | |
| | Transcend Optronics (Yangzhou) Co., Ltd. | \$ 1,794,006 | \$ - |
| | Prime View Communications Ltd. | 1,023,776 | 891,061 |
| | PVI International Corp. | 136,546 | 313,451 |
| | SiPix Technology Inc. | 118,426 | 350,167 |
| | Transyork Technology Yangzhou Ltd. | - | 2,275,283 |
| | Others | <u>2,391</u> | <u>202,011</u> |
| | | 3,075,145 | 4,031,973 |

(Continued)

| Line Items | Related Party Category/Name | December 31 | |
|-----------------------------------------------------|----------------------------------------------------------------------|---------------------|---------------------|
| | | 2018 | 2017 |
| Accounts receivable | Associate | \$ 135,200 | \$ 229,618 |
| | Subsidiaries of investor with significant influence over the Company | <u>24</u> | <u>522</u> |
| | | <u>\$ 3,210,369</u> | <u>\$ 4,262,113</u> |
| Other receivables (include in other current assets) | Subsidiary | | |
| | E Ink Corporation | \$ 3,257 | \$ 17,980 |
| | Linfiny Corporation | 1,144 | 10,679 |
| | Others | <u>314</u> | <u>310</u> |
| | | 4,715 | 28,969 |
| | Subsidiaries of investor with significant influence over the Company | <u>-</u> | <u>557</u> |
| | | <u>\$ 4,715</u> | <u>\$ 29,526</u> |

(Concluded)

The outstanding receivables from related parties were unsecured. For the years ended December 31, 2018 and 2017, no impairment loss was recognized for receivables from related parties.

g. Payables to related parties

| Line Items | Related Party Category/Name | December 31 | |
|------------------|---------------------------------------------------------------------------|---------------------|---------------------|
| | | 2018 | 2017 |
| Accounts payable | Subsidiary | | |
| | Transcend Optronics (Yangzhou) Co., Ltd. | \$ 1,166,467 | \$ 23,904 |
| | Transyork Technology Yangzhou Ltd. | 1,107,113 | 2,810,857 |
| | Tech Smart Logistics Ltd. | 660,143 | 731,646 |
| | E Ink Corporation | 194,736 | 467,067 |
| | Others | <u>44,785</u> | <u>40,528</u> |
| | | 3,173,244 | 4,074,002 |
| | Investor and its subsidiaries with significant influence over the Company | 325 | 721 |
| | Associate | <u>252</u> | <u>16</u> |
| | | <u>\$ 3,173,821</u> | <u>\$ 4,074,739</u> |
| Other payables | Subsidiary | | |
| | E Ink Japan Inc. | \$ 7,298 | \$ 11,711 |
| | E Ink Corporation | <u>-</u> | <u>1,887</u> |
| | | 7,298 | 13,598 |
| | Substantive related party | 580 | 905 |
| | Subsidiaries of investor with significant influence over the Company | <u>2</u> | <u>382</u> |
| | | <u>\$ 7,880</u> | <u>\$ 14,885</u> |

The outstanding payables to related parties were unsecured.

h. Receipts in advance

| Related Party Category/Name | December 31 | |
|------------------------------------------|------------------|-------------------|
| | 2018 | 2017 |
| Subsidiary | | |
| Transcend Optronics (Yangzhou) Co., Ltd. | \$ 56,078 | \$ - |
| Transyork Technology Yangzhou Ltd. | 15,107 | 162,977 |
| Others | <u>-</u> | <u>2</u> |
| | <u>\$ 71,185</u> | <u>\$ 162,979</u> |

i. Guarantee deposits received (included in other non-current liabilities)

| Related Party Category | December 31 | |
|--------------------------|-----------------|-----------------|
| | 2018 | 2017 |
| Key management personnel | <u>\$ 1,050</u> | <u>\$ 1,050</u> |

j. Loan from related parties (include in other payables to related parties)

| Related Party Category/Name | December 31 | |
|-----------------------------|-------------------|-------------|
| | 2018 | 2017 |
| Subsidiary | | |
| SiPix Technology Inc. | <u>\$ 250,000</u> | <u>\$ -</u> |

Interest expense

| Related Party Category | For the Year Ended December 31 | |
|------------------------|--------------------------------|-------------|
| | 2018 | 2017 |
| Subsidiary | <u>\$ 267</u> | <u>\$ -</u> |

The Company obtained loans at rates comparable to market interest rates for the loans from related parties.

k. Endorsements and guarantees provided by related parties

| Related Party Category/Name | December 31 | |
|-----------------------------------|---------------------|---------------------|
| | 2018 | 2017 |
| Subsidiary | | |
| E Ink Corporation | \$ 860,020 | \$ 1,279,680 |
| Yuen Yu Investment Co., Ltd. | 800,000 | - |
| Linfiny Corporation | 360,000 | - |
| PVI Global Corp. | - | 59,520 |
| Dream Pacific International Corp. | <u>-</u> | <u>59,520</u> |
| | <u>\$ 2,020,020</u> | <u>\$ 1,398,720</u> |

1. Compensation of key management personnel

| | For the Year Ended December 31 | |
|------------------------------|---------------------------------------|-------------------|
| | 2018 | 2017 |
| Short-term employee benefits | \$ 103,764 | \$ 109,495 |
| Post-employment benefits | 1,318 | 1,188 |
| Share-based payments | <u>29,728</u> | <u>7,007</u> |
| | <u>\$ 134,810</u> | <u>\$ 117,690</u> |

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

25. ASSETS PLEDGED AS COLLATERAL

Assets amounting to \$36,835 thousand and \$36,679 thousand (included in other current assets) as of December 31, 2018 and 2017, respectively, were provided as tenancy deposits for renting plants and land and as guarantees of tariffs of imported goods.

26. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Loan note guarantees issued due to long-term and short-term borrowings and transaction lines of credit of financial instruments were \$4,370,000 thousand and \$3,530,000 thousand as of December 31, 2018 and 2017, respectively.

27. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company, and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2018

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|--------------------------------------------------|-------------------------------|----------------------|----------------------------|
| <u>Foreign currency assets</u> | | | |
| Monetary items | | | |
| USD | \$ 154,954 | 30.715 | <u>\$ 4,759,412</u> |
| Non-monetary items | | | |
| Investments accounted for using equity method | | | |
| USD | 413,088 | 30.715 | <u>\$ 12,687,988</u> |
| <u>Foreign currency liabilities</u> | | | |
| Monetary items | | | |
| USD | 136,632 | 30.715 | <u>\$ 4,196,652</u> |

December 31, 2017

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|--------------------------------------------------|-------------------------------|----------------------|----------------------------|
| <u>Foreign currency assets</u> | | | |
| Monetary items | | | |
| USD | \$ 167,595 | 29.76 | <u>\$ 4,987,627</u> |
| Non-monetary items | | | |
| Investments accounted for using equity method | | | |
| USD | 365,217 | 29.76 | <u>\$ 10,868,872</u> |
| <u>Foreign currency liabilities</u> | | | |
| Monetary items | | | |
| USD | 203,164 | 29.76 | <u>\$ 6,046,161</u> |

For the years ended December 31, 2018 and 2017, net foreign exchange gains (losses), including both realized and unrealized portion, were \$56,663 thousand and \$(28,301) 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.

28. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others (Table 1)
- 2) Endorsements/guarantees provided (Table 2)
- 3) Marketable securities held (excluding investment in subsidiaries) (Table 3)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (Table 4)
- 5) Acquisitions of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital (None)
- 6) Disposals of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 5)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 6)
- 9) Trading in derivative instruments (None)
- 10) Information on investees (Table 7)

b. Information on investments in mainland China (Table 8)

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment income or loss, carrying amount of the investment at the end of the year, repatriations of investment income and limit on the amount of investment in the mainland China area
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses:
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the year
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the year
 - c) The amount of property transactions and the amount of the resultant gains or losses
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the year and the purposes
 - e) The highest year balance, the end of year balance, the interest rate range, and total current year interest with respect to financing of funds
 - f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services

E INK HOLDINGS INC. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| No. | Financing Company | Counterparty | Financial Statement Account | Related Party | Maximum Balance for the Year (Note 1) | Ending Balance (Note 1) | Amount Actually Drawn (Note 1) | Interest Rate | Nature of Financing | Business Transaction Amount | Reasons for Short-term Financing | Allowance for Impairment Loss | Collateral | | Financing Limit for Each Borrowing Company (Note 2) | Aggregate Financing Limit (Note 2) |
|-----|------------------------------------------|----------------------------------------------------------|-----------------------------|---------------|---------------------------------------|--------------------------------------|--------------------------------------|---------------|----------------------|-----------------------------|----------------------------------|-------------------------------|------------------------------------|--------------------------------------|-----------------------------------------------------|----------------------------------------|
| | | | | | | | | | | | | | Item | Value | | |
| 1 | Transcend Optronics (Yangzhou) Co., Ltd. | Yangzhou Huaxia Integrated O/E System Co., Ltd. (Note 3) | Other receivables | Yes | \$ 957,468 (RMB 205,022 thousand) | \$ 917,540 (RMB 205,022 thousand) | \$ 917,540 (RMB 205,022 thousand) | 3.915 | Short-term financing | \$ - | Working capital | \$ - | Buildings and right-of-use of land | \$ 456,888 (RMB 102,090 thousand) | \$ 1,201,628 (RMB 268,501 thousand) | \$ 1,201,628 (RMB 268,501 thousand) |
| 2 | Rich Optronics (Yangzhou) Co., Ltd. | Yuen Foong Yu Paper Mfg. Co., Ltd. (Yangzhou) | Other receivables | Yes | 83,314 (RMB 18,000 thousand) | - | - | - | Short-term financing | - | Working capital | - | - | - | 321,784 (RMB 71,902 thousand) | 321,784 (RMB 71,902 thousand) |
| 3 | Sipix Technology Inc. | E Ink Holdings Inc. | Other receivables | Yes | 250,000 | 250,000 | 250,000 | 1 | Short-term financing | - | Working capital | - | - | - | 500,702 | 500,702 |

Note 1: The amounts are translated at the exchange rate of RMB1=NT\$4.47532 on December 31, 2018, except the maximum balance is translated at the highest exchange rate of the end of each month for the year.

Note 2: The amount shall not exceed 40% of the financing company's net equity per its latest financial statements.

E INK HOLDINGS INC. AND SUBSIDIARIES

TABLE 2

**ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| No. | Endorsement/Guarantee Provider | Endorsed/Guaranteed Party | | Limit on Endorsement/Guarantee Amount Provided to Each Endorsed/Guaranteed Party (Note 2) | Maximum Balance for the Year (Note 3) | Ending Balance (Note 3) | Amount Actually Drawn (Note 3) | Amount of Endorsement/Guarantee Collateralized by Properties | Ratio of Accumulated Endorsement/Guarantee to Net Equity per Latest Financial Statements (%) | Maximum Endorsement/Guarantee Amount Allowable (Note 4) | Endorsement/Guarantee Provided by Parent Company | Endorsement/Guarantee Provided by A Subsidiary | Endorsement/Guarantee to Subsidiaries in Mainland China |
|-----|--------------------------------|-----------------------------------|--------------|-------------------------------------------------------------------------------------------|----------------------------------------|--------------------------------------|--------------------------------|--------------------------------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------|------------------------------------------------|---------------------------------------------------------|
| | | Name | Relationship | | | | | | | | | | |
| 0 | E Ink Holdings Inc. | E Ink Corporation | (Note 1) | \$ 6,982,161 | \$ 1,138,100 (US\$ 38,000 thousand) | \$ 860,020 (US\$ 28,000 thousand) | \$ - | \$ - | 3.08 | \$ 27,928,645 | Yes | No | No |
| | | Dream Pacific International Corp. | (Note 1) | 6,982,161 | 60,920 (US\$ 2,000 thousand) | - | - | - | - | 27,928,645 | Yes | No | No |
| | | PVI Global Corp. | (Note 1) | 6,982,161 | 60,920 (US\$ 2,000 thousand) | - | - | - | - | 27,928,645 | Yes | No | No |
| | | Yuen Yu Investment Co., Ltd. | (Note 1) | 6,982,161 | 800,000 | 800,000 | 350,000 | - | 2.86 | 27,928,645 | Yes | No | No |
| | | Linfiny Corporation | (Note 1) | 6,982,161 | 360,000 | 360,000 | 65,000 | - | 1.29 | 27,928,645 | Yes | No | No |

Note 1: Subsidiary.

Note 2: The amount shall not exceed 25% of the Company's net equity.

Note 3: The amounts are translated at the exchange rate of US\$1=NT\$30.715 on December 31, 2018, except the maximum balance is translated at the highest exchange rate of the end of each month for the year.

Note 4: The amount shall not exceed the Company's net equity.

TABLE 3

E INK HOLDINGS INC. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2018 | | | | Note |
|------------------------------------------|-------------------------------------------|-------------------------------------------------------------|-----------------------------|--------------------------------|----------------------------|-----------------------------------|----------------------------|------|
| | | | | Shares/Units (In Thousands) | Carrying Amount | Percentage of Ownership (%) | Fair Value | |
| E Ink Holdings Inc. | <u>Ordinary shares</u> | | | | | | | |
| | SinoPac Financial Holding Company Limited | Substantive related party | Financial assets at FVTOCI | 90,451 | \$ 931,650 | 0.80 | \$ 931,650 | |
| | YFY Inc. | Investor with significant influence over the Company | " | 7,814 | 87,908 | 0.47 | 87,908 | |
| | Ultra Chip, Inc. | One of its director | " | 2,863 | 100,622 | 4.51 | 100,622 | |
| | IGNIS INNOVATION INC. | - | Financial assets at FVTPL | 388 | - | 0.20 | - | |
| | New Medical Imaging Co., Ltd. | - | " | 109 | - | 2.37 | - | |
| Yuen Yu Investment Co., Ltd. | <u>Ordinary shares</u> | | | | | | | |
| | SinoPac Financial Holding Company Limited | Substantive related party | Financial assets at FVTOCI | 115,005 | 1,184,554 | 1.02 | 1,184,554 | |
| | YFY Inc. | Investor with significant influence over the parent company | " | 16 | 180 | - | 180 | |
| | Netronix Inc. | One of its director | " | 5,309 | 195,909 | 6.38 | 195,909 | |
| | SES-imagotag | - | " | 867 | 462,545 | 6.03 | 462,545 | |
| | Fitipower Integrated Technology Inc. | - | " | 2,689 | 99,210 | 1.65 | 99,210 | |
| | Formolight Technologies, Inc. | - | " | 2,228 | 16,654 | 10.93 | 16,654 | |
| | Echem Solutions Corp. | - | " | 707 | 13,662 | 1.27 | 13,662 | |
| | eCrowd Media Inc. | - | " | 1,010 | 5,035 | 6.62 | 5,035 | |
| SiPix Technology Inc. | <u>Ordinary shares</u> | | | | | | | |
| | SinoPac Financial Holding Company Limited | Substantive related party | " | 31,427 | 323,699 | 0.28 | 323,699 | |
| Transcend Optronics (Yangzhou) Co., Ltd. | <u>Ordinary shares</u> | | | | | | | |
| | Dalian DKE LCD Co., Ltd. | - | " | 837 | RMB 2,259 thousand | 3.52 | RMB 2,259 thousand | |
| Hydis Technologies Co., Ltd. | <u>Mutual funds</u> | | | | | | | |
| | Term Liquidity Fund | - | Financial assets at FVTPL | 578 | KRW 66,591,956 thousand | - | KRW 66,591,956 thousand | |

Note: Please refer to Tables 7 and 8 for information on investments in subsidiaries and associates.

E INK HOLDINGS INC. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Company Name | Type and Name of Marketable Securities | Financial Statement Account | Counterparty | Relationship | Beginning Balance | | Acquisition | | Disposal | | | | Other Adjustments | Ending Balance | |
|-------------------------------------|-------------------------------------------------------|------------------------------------|---------------------|--------------|-------------------|--------|------------------------------|----------------------------|------------------|------------------------|------------------------|-----------------------------------|-------------------------------------|------------------------------|----------------------------|
| | | | | | Number of Unites | Amount | Number of Unites | Amount | Number of Unites | Amount | Carrying Amount | Gain on Disposal | | Number of Unites | Amount |
| Yuen Yu Investment Co., Ltd. | Ordinary shares SES-imagotag | Financial assets at FVTOCI | - | - | - | \$ - | 867 (shares in thousands) | \$ 916,630 | - | \$ - | \$ - | \$ - | \$(454,085) (Note 1) | 867 (shares in thousands) | \$ 462,545 |
| Hydis Technologies Co., Ltd. | Mutual funds Term Liquidity Fund | Financial assets at FVTPL | Citibank | - | - | - | 578 (units in thousands) | KRW 66,185,981 thousand | - | - | - | - | KRW 405,975 thousand (Note 2) | 578 (units in thousands) | KRW 66,591,956 thousand |
| Rich Optronics (Yangzhou) Co., Ltd. | Principal guaranteed wealth investment products | Financial assets at amortized cost | Bank of Jiangsu | - | - | - | - | RMB 47,400 thousand | - | RMB 86,546 thousand | RMB 85,400 thousand | RMB 1,146 thousand (Note 3) | - | - | - |
| | Ju-Bao Wealth Bao-Yi-Rong | | | | | | | RMB 38,000 thousand | | - | - | - | | | |
| | Su-Yin-Xi structured | Financial assets at amortized cost | Bank of Jiangsu | - | - | - | - | RMB 68,000 thousand | - | - | - | - | - | - | RMB 68,000 thousand |
| | Win-win interest rate structured | Financial assets at amortized cost | China CITIC Bank | - | - | - | - | RMB 75,000 thousand | - | RMB 47,619 thousand | RMB 47,000 thousand | RMB 619 thousand (Note 3) | - | - | RMB 28,000 thousand |

Note 1: Recorded as unrealized loss on financial assets at FVTOCI.

Note 2: Recorded as net gain on financial assets and liabilities at FVTPL.

Note 3: Recorded as interest income.

E INK HOLDINGS INC. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

| Company Name | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Receivable (Payable) | | Note |
|------------------------------------------|------------------------------------------|------------------------------|---------------------|----------------|------------|---------------|----------------------|---------------|-------------------------------------|-------------------|------|
| | | | Purchase/Sale | Amount | % of Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % of Total (Note) | |
| E Ink Holdings Inc. | Prime View Communications Ltd. | Subsidiary | Sale | \$ (4,476,536) | (35) | By agreements | \$ - | - | \$ 1,023,776 | 32 | |
| | PVI International Corp. | Subsidiary | Sale | (1,582,887) | (12) | By agreements | - | - | 136,546 | 4 | |
| | E Ink Corporation | Subsidiary | Purchase | 3,380,747 | 37 | By agreements | - | - | (194,736) | (6) | |
| | E Ink Japan Inc. | Subsidiary | Purchase | 103,064 | 1 | By agreements | - | - | (7,298) | - | |
| | SiPix Technology Inc. | Subsidiary | Sale | (1,139,853) | (9) | By agreements | - | - | 118,426 | 4 | |
| | Transyork Technology Yangzhou Ltd. | Subsidiary | Purchase | 1,442,485 | 16 | By agreements | - | - | (1,107,113) | (35) | |
| | Transcend Optronics (Yangzhou) Co., Ltd. | Subsidiary | Purchase | 898,466 | 10 | By agreements | - | - | (1,166,467) | (37) | |
| | NTX Electronics Yangzhou Co., Ltd. | Associate | Purchase | 627,823 | 7 | By agreements | - | - | - | - | |
| | SiPix Technology, Inc. | E Ink Holdings Inc. | Parent company | Purchase | 1,139,853 | 80 | By agreements | - | - | (118,426) | (80) |
| E Ink Corporation | | Same ultimate parent company | Purchase | 279,104 | 19 | By agreements | - | - | (28,891) | (20) | |
| Linfiny Corporation | Linfiny Japan Inc. | Subsidiary | Purchase | 129,094 | 39 | By agreements | - | - | (31,258) | (82) | |
| | NTX Electronics Yangzhou Co., Ltd. | Associate | Purchase | 205,504 | 61 | By agreements | - | - | (5,587) | (15) | |
| Linfiny Japan Inc. | Linfiny Corporation | Parent company | Sale | (129,094) | (100) | By agreements | - | - | 31,258 | 100 | |
| Prime View Communications Ltd. | E Ink Holdings Inc. | Parent company | Purchase | 4,476,536 | 100 | By agreements | - | - | (1,023,776) | (100) | |
| PVI International Corp. | E Ink Holdings Inc. | Parent company | Purchase | 1,582,887 | 100 | By agreements | - | - | (136,546) | (100) | |
| Transcend Optronics (Yangzhou) Co., Ltd. | E Ink Holdings Inc. | Parent company | Sale | (898,466) | (100) | By agreements | - | - | 1,166,467 | 100 | |
| Transyork Technology Yangzhou Ltd. | E Ink Holdings Inc. | Parent company | Sale | (1,442,485) | (100) | By agreements | - | - | 1,107,113 | 100 | |
| E Ink Corporation | E Ink Holdings Inc. | Parent company | Sale | (3,380,747) | (91) | By agreements | - | - | 194,736 | 71 | |
| | SiPix Technology Inc. | Same ultimate parent company | Sale | (279,104) | (8) | By agreements | - | - | 28,891 | 10 | |
| | E Ink California, LLC | Subsidiary | Purchase | 409,983 | 41 | By agreements | - | - | (247,965) | (95) | |
| E Ink California, LLC | E Ink Corporation | Parent company | Sale | (409,983) | (100) | By agreements | - | - | 247,965 | 100 | |
| E Ink Japan Inc. | E Ink Holdings Inc. | Parent company | Sale | (103,064) | (100) | By agreements | - | - | 7,298 | 100 | |

Note: The calculation is based on each company's receivables from (payables to) related parties.

E INK HOLDINGS INC. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

| Company Name | Related Party | Relationship | Ending Balance | Turnover Rate | Overdue | | Amount Received in Subsequent Year | Allowance for Impairment Loss |
|------------------------------------------|------------------------------------------|------------------------------|----------------|---------------|---------|------------------------------|------------------------------------|-------------------------------|
| | | | | | Amount | Actions Taken | | |
| E Ink Holdings Inc. | Prime View Communications Ltd. | Subsidiary | \$ 1,023,776 | 4.68 | \$ - | - | \$ 484,014 | \$ - |
| | PVI International Corp. | Subsidiary | 136,546 | 7.04 | - | - | 55,847 | - |
| | SiPix Technology Inc. | Subsidiary | 118,426 | 4.87 | - | - | 112,476 | - |
| | Transcend Optronics (Yangzhou) Co., Ltd. | Subsidiary | 1,794,006 | (Note 1) | 241,577 | Collected | 1,131,988 | - |
| | NTX Electronics Yangzhou Co., Ltd. | Associate | 135,200 | (Note 1) | 57,591 | Collected | 82,039 | - |
| Tech Smart Logistics Ltd. | E Ink Holdings Inc. | Parent company | 660,143 | (Note 1) | 660,143 | In the process of collection | - | - |
| Dream Pacific International Corp. | Tech Smart Logistics Ltd. | Same ultimate parent company | 176,656 | (Note 1) | 176,656 | In the process of collection | - | - |
| PVI Global Corp. | Dream Pacific International Corp. | Subsidiary | 248,792 | (Note 2) | 248,792 | In the process of collection | - | - |
| Transcend Optronics (Yangzhou) Co., Ltd. | E Ink Holdings Inc. | Parent company | 1,166,467 | (Note 1) | 98,049 | Collected | 1,166,467 | - |
| Transyork Technology Yangzhou Ltd. | E Ink Holdings Inc. | Parent company | 1,107,113 | (Note 1) | - | - | - | - |
| | Transcend Optronics (Yangzhou) Co., Ltd. | Same ultimate parent company | 190,944 | (Note 3) | - | - | - | - |
| E Ink Corporation | E Ink Holdings Inc. | Parent company | 194,736 | 10.22 | 362 | Collected | 194,736 | - |
| E Ink California, LLC | E Ink Corporation | Parent company | 247,965 | 1.58 | 139,958 | In the process of collection | 70,332 | - |

Note 1: Other receivables from materials delivered to subcontractors.

Note 2: Cash dividends receivables.

Note 3: Mainly receivables from disposal of equipment.

E INK HOLDINGS INC. AND SUBSIDIARIES

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2018 | | | Net Income (Loss) of the Investee | Share of Profit (Loss) of the Investee | Note |
|-----------------------------------|------------------------------------------------------------------|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-----------------------|---------------------------------|----------------|-----------------------|-----------------------------------|----------------------------------------|-------------------|
| | | | | December 31, 2018 | December 31, 2017 | Shares (In Thousands) | % | Carrying Amount | | | |
| E Ink Holdings Inc. | PVI Global Corp. | British Virgin Islands | Investment | \$ 3,090,254 | \$ 3,090,254 | 99,413 | 100.00 | \$ 11,109,595 | \$ 1,538,961 | \$ 1,538,961 | |
| | New Field e-Paper Co., Ltd. | Taoyuan, Taiwan | Wholesale and sale of electronics parts | 6,394,455 | 6,394,455 | 671,032 | 100.00 | 5,701,683 | (78,985) | (78,985) | |
| | E Ink Corporation | Boston, USA | Manufacture and sale of electronic ink | 4,911,303 | 4,911,303 | 1 | 45.31 | 4,305,677 | 244,874 | (66,177) | |
| | Yuen Yu Investment Co., Ltd. | Taipei, Taiwan | Investment | 5,015,000 | 5,015,000 | 152,433 | 100.00 | 1,819,546 | (44,249) | (44,249) | |
| | SiPix Technology, Inc. | Taoyuan, Taiwan | Manufacture and sale of electronic ink | 1,405,230 | 1,405,230 | - | 100.00 | 2,010,330 | 757,551 | 757,551 | |
| | Dream Universe Ltd. | Mauritius | Trading | 128,710 | 128,710 | 4,050 | 100.00 | 371,562 | 12,366 | 12,366 | |
| | Prime View Communications Ltd. | Hong Kong | Trading | 18,988 | 18,988 | 3,570 | 100.00 | 27,800 | 282 | 282 | |
| | Entte K Co., Ltd. | Taichung, Taiwan | Manufacture and sale of consumer audio-visual systems | 34,547 | 34,547 | 2,203 | 47.07 | - | - | - | Under liquidation |
| | Tech Smart Logistics Ltd. | British Virgin Islands | Trading | 49,267 | 49,267 | 1,550 | 0.09 | 4,033 | (59,876) | (54) | |
| | Hot Tracks International Ltd. | British Virgin Islands | Trading | 1,735 | 1,735 | 50 | 100.00 | 35 | 15 | 15 | |
| New Field e-Paper Co., Ltd. | Tech Smart Logistics Ltd. | British Virgin Islands | Trading | 4,865,850 | 4,865,850 | 1,748,252 | 99.91 | 4,476,738 | (59,876) | (59,822) | |
| | E Ink Corporation | Boston, USA | Manufacture and sale of electronic ink | 1,618,500 | 1,618,500 | - | 12.88 | 1,223,949 | 244,874 | (18,811) | |
| Yuen Yu Investment Co., Ltd. | Linfinity Corporation | Taoyuan, Taiwan | Research, development and sale of electronic ink | 323,400 | 323,400 | 32,340 | 77.00 | 135,258 | (93,420) | (71,933) | |
| | YuanHan Materials Inc. | Taoyuan, Taiwan | Manufacture and sale of electronics parts | 100,000 | 24,000 | 10,000 | 100.00 | 49,364 | (34,666) | (37,263) | |
| | Lucky Joy Holdings Ltd. | Samoa | Investment | 36,117 | 36,117 | 1,098 | 100.00 | 12 | - | - | |
| | Yuen Foong Yu Biotech Co., Ltd. Kyoritsu Optronics Co., Ltd., | Taipei, Taiwan Taipei, Taiwan | Cultivation, processing and sale of agriculture and restaurant management Technology development, transfer and licensing of flat panels | 36,000 18,860 | 36,000 18,860 | 3,600 1,050 | 36.00 25.65 | - - | (54,693) - | - - | |
| SiPix Technology Inc. | Linfinity Corporation | Taoyuan, Taiwan | Research, development and sale of electronic ink | 16,800 | 16,800 | 1,680 | 4.00 | 7,026 | (93,420) | (3,737) | |
| Linfinity Corporation | Linfinity Japan Inc. | Tokyo, Japan | Research, development and sale of electronic ink | 11,088 | 11,088 | 4 | 100.00 | 20,218 | 4,184 | 4,184 | |
| E Ink Corporation | E Ink California, LLC | California, USA | Research, development and sale of electronic ink | US\$ 29,100 thousand | US\$ 29,100 thousand | 27,400 | 100.00 | US\$ 29,158 thousand | US\$ 3,174 thousand | US\$ 1,127 thousand | |
| | E Ink Japan Inc. | Tokyo, Japan | Development of electronic ink products | US\$ 86 thousand | US\$ 86 thousand | - | 100.00 | US\$ 218 thousand | US\$ 33 thousand | US\$ 33 thousand | |
| | E Ink Systems, LLC | California, USA | Research and development of application software | US\$ 337 thousand | US\$ 337 thousand | - | 100.00 | US\$ 770 thousand | US\$ 90 thousand | US\$ 90 thousand | |
| Tech Smart Logistics Ltd. | E Ink Corporation | Boston, USA | Manufacture and sale of electronic ink | US\$ 152,875 thousand | US\$ 152,875 thousand | 1 | 41.81 | US\$ 130,103 thousand | US\$ 7,647 thousand | US\$ (2,097) thousand | |
| PVI Global Corp. | PVI International Corp. | British Virgin Islands | Trading | US\$ 151,300 thousand | US\$ 151,300 thousand | 151,300 | 100.00 | US\$ 97,997 thousand | US\$ (5,973) thousand | US\$ (5,973) thousand | |
| | Dream Pacific International Corp. | British Virgin Islands | Sale of LCD monitor products | US\$ 1,000 thousand | US\$ 1,000 thousand | 26,000 | 100.00 | US\$ 192,499 thousand | US\$ 57,078 thousand | US\$ 57,078 thousand | |
| | Ruby Lustre Ltd. | British Virgin Islands | Investment | US\$ 30,000 thousand | US\$ 30,000 thousand | 30,000 | 100.00 | US\$ 26,190 thousand | US\$ 451 thousand | US\$ 451 thousand | |
| | North Diamond International Co., Ltd. | British Virgin Islands | Investment | US\$ 1,750 thousand | US\$ 1,750 thousand | 1,750 | 35.00 | - | - | - | |
| | Rock Pearl International Corp. | British Virgin Islands | Investment | US\$ 1,540 thousand | US\$ 1,540 thousand | 1,540 | 35.00 | - | - | - | |
| Dream Pacific International Corp. | Hydis Technologies Co., Ltd. | South Korea | Research, development and sale of LCD monitors | US\$ 27,612 thousand | US\$ 27,612 thousand | 3,783 | 94.73 | US\$ 201,774 thousand | US\$ 60,439 thousand | US\$ 58,373 thousand | |

E INK HOLDINGS INC. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Investee Company | Main Businesses and Products | Paid-in Capital (Note 1) | Method of Investment | Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018 (Note 1) | Remittance of Funds | | Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018 (Note 1) | Net Income (Loss) of the Investee (Note 2) | Direct or Indirect Percentage of Ownership (%) | Share of Profit (Loss) of the Investee (Notes 2 and 3) | Carrying Amount as of December 31, 2018 (Note 1) | Accumulated Repatriation of Investment Income as of December 31, 2018 |
|------------------------------------------------------------|-------------------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|---------------------|--------|--------------------------------------------------------------------------------------------|--------------------------------------------|------------------------------------------------|--------------------------------------------------------|--------------------------------------------------|-----------------------------------------------------------------------|
| | | | | | Outward | Inward | | | | | | |
| Transcend Optronics (Yangzhou) Co., Ltd. | Assembly of LCD flat panels | \$ 4,647,180 (US\$ 151,300 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | \$ 3,343,174 (US\$ 108,845 thousand) | \$ - | \$ - | \$ 3,343,174 (US\$ 108,845 thousand) | \$ (124,606) (US\$ (4,133) thousand) | 100.00 | \$ (180,653) (US\$ (5,992) thousand) | \$ 3,003,958 (US\$ 97,801 thousand) | \$ - |
| Rich Optronics (Yangzhou) Co., Ltd. | Assembly of LCD flat panels | 921,450 (US\$ 30,000 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | 921,450 (US\$ 30,000 thousand) | - | - | 921,450 (US\$ 30,000 thousand) | 13,597 (US\$ 451 thousand) | 100.00 | 13,597 (US\$ 451 thousand) | 804,426 (US\$ 26,190 thousand) | - |
| Transyork Technology Yangzhou Ltd. | Assembly of LCD flat panels | 2,209,361 (US\$ 71,931 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | - | - | - | - | 13,718 (US\$ 455 thousand) | 100.00 | 3,859 (US\$ 128 thousand) | 1,728,272 (US\$ 56,268 thousand) | - |
| Transyang Electronics (Yangzhou) Ltd. (Under liquidation) | Assembly of LCD flat panels | 122,860 (US\$ 4,000 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | 122,860 (US\$ 4,000 thousand) | - | - | 122,860 (US\$ 4,000 thousand) | 6,995 (US\$ 232 thousand) | 100.00 | 6,995 (US\$ 232 thousand) | 111,956 (US\$ 3,645 thousand) | - |
| Transmart Electronics (Yangzhou) Ltd. | Research, development and sale of LCD monitors | 304,570 (US\$ 9,916 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | 203,026 (US\$ 6,610 thousand) | - | - | 203,026 (US\$ 6,610 thousand) | 21,557 (US\$ 715 thousand) | 100.00 | 21,557 (US\$ 715 thousand) | 46,288 (US\$ 1,507 thousand) | - |
| Yangzhou Huaxia Integrated O/E System Co., Ltd. | Manufacture and sale of LED products | 571,299 (US\$ 18,600 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | 92,145 (US\$ 3,000 thousand) | - | - | 92,145 (US\$ 3,000 thousand) | (48,118) (US\$ (1,596) thousand) | 100.00 | (48,118) (US\$ (1,596) thousand) | (889,506) (US\$ (28,960) thousand) | - |
| Dihao Electronics (Yangzhou) Co., Ltd. (Under liquidation) | Assembly of LCD backlight board display modules | 153,575 (US\$ 5,000 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | 53,751 (US\$ 1,750 thousand) | - | - | 53,751 (US\$ 1,750 thousand) | - | 35.00 | - | - | - |
| NTX Electronics Yangzhou Co., Ltd. | Manufacture and sale of flat panels | 179,013 (RMB 40,000 thousand) | The Company indirectly owns the investee through an investment company registered in a third region | - | - | - | - | (9,170) (RMB (2,011) thousand) | 49.00 | (5,054) (RMB (985) thousand) | 82,798 (RMB 18,502 thousand) | - |

(Continued)

| Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018 | Investment Amount Authorized by Investment Commission, MOEA | Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA |
|-----------------------------------------------------------------------------------------|-------------------------------------------------------------|-----------------------------------------------------------------------------------|
| \$ 4,736,406 (US\$ 154,205 thousand) | \$ 8,293,388 (US\$ 270,011 thousand) | \$ 17,848,914 |

Note 1: The amounts are translated at the exchange rate of US\$1=NT\$30.715 and RMB1=NT\$4.47532 on December 31, 2018.

Note 2: The amounts are translated at the average exchange rate of US\$1=NT\$30.149 and RMB1=NT\$4.55988 for the year ended December 31, 2018.

Note 3: The amounts were calculated based on audited financial statements of the corresponding year.

Note 4: Information on the prices, terms of payment and unrealized profit or loss of significant transactions with investee companies in mainland China are provided in Tables 1, 5 and 6.

(Concluded)

E INK HOLDINGS INC.

THE CONTENTS OF STATEMENTS OF IMPORTANT ACCOUNTING ITEMS

| <u>Item</u> | <u>Statement Index</u> |
|---------------------------------------------------------------------------|------------------------|
| Major Accounting Items in Assets and Liabilities | |
| Statement of cash and cash equivalents | 1 |
| Statement of inventories | 2 |
| Statement of changes in financial assets at FVTOCI - non-current | 3 |
| Statement of changes in investments accounted for using the equity method | 4 |
| Statement of short-term borrowings | 5 |
| Statement of notes and accounts payable | 6 |
| Major Accounting Items in Profit or Loss | |
| Statement of operating revenue | 7 |
| Statement of operating costs | 8 |
| Statement of operating expenses | 9 |

E INK HOLDINGS INC.**STATEMENT OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Item | Period | Rate | Amount |
|---------------------------------------------------------|--------------------------|-------------|---------------------|
| Cash on hand (Note) | | - | <u>\$ 183</u> |
| Checking accounts and demand deposits (Note) | | | |
| Checking accounts | | - | 35 |
| Demand deposits | | 0.01-0.55% | <u>792,424</u> |
| | | | <u>792,459</u> |
| Repurchase agreements collateralized by bonds (Note) | 2018.12.24- 2019.1.14 | 0.55-2.8% | <u>374,318</u> |
| | | | <u>\$ 1,166,960</u> |

Note: Including US\$28,289 thousand and JPY59,251 thousand, which are translated at the exchange rate of US\$1=NT\$30.715 and JPY1=NT\$0.2782, respectively.

E INK HOLDINGS INC.

STATEMENT OF INVENTORIES

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

| Item | Amount | |
|-------------------------------------------------------|---------------------|----------------------|
| | Cost | Net Realizable Value |
| Finished goods | \$ 924,561 | \$ 1,262,841 |
| Semi-finished goods | 357,900 | 440,530 |
| Work in progress | 27,608 | 31,100 |
| Raw materials | <u>1,074,365</u> | <u>1,213,361</u> |
| | 2,384,434 | <u>\$ 2,947,832</u> |
| Less: Allowance for write-downs of inventories (Note) | <u>(707,570)</u> | |
| | <u>\$ 1,676,864</u> | |

Note: Including allowance for obsolete inventories.

E INK HOLDINGS INC.

STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FVTOCI - NON-CURRENT
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars, Except Unit Price)

| Type and Name of Marketable Securities | Balance, January 1, 2018 | | Increase in 2018 | | Unrealized Gain (Loss) on Financial assets | Fair Value on December 31, 2018 (Note) | | | |
|-------------------------------------------|--------------------------|---------------------|--------------------------|-------------|--------------------------------------------------|----------------------------------------|--------------------------------|------------|---------------------|
| | Shares (In Thousands) | Amount | Shares (In Thousands) | Amount | | Shares (In Thousands) | Percentage of Ownership (%) | Unit Price | Amount |
| Shares | | | | | | | | | |
| SinoPac Financial Holding Company Limited | 88,678 | \$ 857,516 | 1,773 | \$ - | \$ 74,134 | 90,451 | 0.80 | \$ 10.30 | \$ 931,650 |
| YFY Inc. | 7,814 | 109,005 | - | - | (21,097) | 7,814 | 0.47 | 11.25 | 87,908 |
| Ultra Chip, Inc. | 2,863 | <u>111,357</u> | - | - | <u>(10,735)</u> | 2,863 | 4.51 | 35.15 | <u>100,622</u> |
| | | <u>\$ 1,077,878</u> | | <u>\$ -</u> | <u>\$ 42,302</u> | | | | <u>\$ 1,120,180</u> |

Note: Calculated based on the closing price on December 31, 2018.

E INK HOLDINGS INC.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars)

| Investee Company | Balance, January 1, 2018 | | Decrease in 2018 | | Share of Profit (Loss) of Subsidiaries Accounted for Using the Equity Method (Note 1) | Unrealized Loss on Transactions with Subsidiaries | Equity Adjustments (Note 2) | Balance, December 31, 2018 | | |
|---------------------------------------|--------------------------|----------------------|-----------------------|---------------------|---------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------|----------------------------|-----------------------------|----------------------|
| | Shares (In Thousands) | Amount | Shares (In Thousands) | Amount | | | | Shares (In Thousands) | Percentage of Ownership (%) | Amount |
| PVI Global Corp. | 99,413 | \$ 9,421,361 | - | \$ - | \$ 1,538,961 | \$ - | \$ 149,273 | 99,413 | 100.00 | \$ 11,109,595 |
| New Field e-Paper Co., Ltd. | 671,032 | 5,614,948 | - | - | (78,985) | - | 165,720 | 671,032 | 100.00 | 5,701,683 |
| E Ink Corporation | 1 | 4,322,539 | - | - | (66,177) | - | 49,315 | 1 | 45.31 | 4,305,677 |
| Yuen Yu Investment Co., Ltd. | 152,433 | 2,282,800 | - | - | (44,249) | - | (419,005) | 152,433 | 100.00 | 1,819,546 |
| SiPix Technology Inc. (Note 3) | - | 1,966,524 | - | (746,191) | 757,551 | (1,492) | 33,938 | - | 100.00 | 2,010,330 |
| Dream Universe Ltd. | 4,050 | 353,281 | - | - | 12,366 | - | 5,915 | 4,050 | 100.00 | 371,562 |
| Prime View Communications Ltd. | 3,570 | 26,700 | - | - | 282 | - | 818 | 3,570 | 100.00 | 27,800 |
| Tech Smart Logistics Ltd. | 1,550 | 3,950 | - | - | (54) | - | 137 | 1,550 | 0.09 | 4,033 |
| Hot Tracks International Ltd. | 50 | 20 | - | - | 15 | - | - | 50 | 100.00 | 35 |
| Entte K Co., Ltd. (under liquidation) | 2,203 | - | - | - | - | - | - | 2,203 | 47.07 | - |
| | | <u>\$ 23,992,123</u> | | <u>\$ (746,191)</u> | <u>\$ 2,119,710</u> | <u>\$ (1,492)</u> | <u>\$ (13,889)</u> | | | <u>\$ 25,350,261</u> |

Note 1: The amounts were calculated based on audited financial statements of the corresponding year.

Note 2: Equity adjustments included capital surplus, exchange differences on translating the financial statements of foreign operations, unrealized gain or loss on financial assets at FVTOCI and retained earnings.

Note 3: The decrease in 2018 was due to distribution of cash dividends.

E INK HOLDINGS INC.**STATEMENT OF SHORT-TERM BORROWINGS****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars)**

| Type | Contract Period | Interest Rate (%) | Amount | Loan Commitments |
|-------------------------------|------------------------|--------------------------|---------------------|-------------------------|
| <u>Credit borrowings</u> | | | | |
| Citibank Taiwan Ltd. | 2018.12-2019.01 | 0.99 | \$ 530,000 | \$ 552,870 |
| Taishin International Bank | 2018.12-2019.01 | 0.98 | 500,000 | 500,000 |
| Bank of Taiwan | 2018.11-2019.02 | 1.00 | 130,000 | 400,000 |
| KGI Commercial Bank Co., Ltd. | 2018.12-2019.01 | 1.04 | <u>70,000</u> | 300,000 |
| | | | <u>\$ 1,230,000</u> | |

E INK HOLDINGS INC.**STATEMENT OF NOTES AND ACCOUNTS PAYABLE****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars)**

| Vendor Name | Amount |
|--------------------|---------------------|
| Vendor A | \$ 164,460 |
| Vendor B | 123,338 |
| Vendor C | 117,342 |
| Vendor D | 117,120 |
| Vendor E | 70,345 |
| Vendor F | 66,064 |
| Others (Note) | <u>523,119</u> |
| | <u>\$ 1,181,788</u> |

Note: The amount of individual vendor included in "Others" does not exceed 5% of the account balance.

E INK HOLDINGS INC.

**STATEMENT OF OPERATING REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

| Item | Shipping Units (In Thousands) | Amount |
|-----------------------------------|------------------------------------------|----------------------|
| Revenue from sale of goods | | |
| Monitors | 9,661 | \$ 10,160,735 |
| Electronic shelf labels | 9,367 | 2,230,547 |
| Others | 592 | <u>460,508</u> |
| | | 12,851,790 |
| Less: Sales returns and discounts | | <u>(78,111)</u> |
| Operating revenue, net | | <u>\$ 12,773,679</u> |

E INK HOLDINGS INC.**STATEMENT OF OPERATING COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|--------------------------------------------------------------------------|----------------------|
| Raw materials balance, beginning of year | \$ 1,133,839 |
| Add: Raw materials purchased | 9,178,238 |
| Less: Sales of raw materials | (182,638) |
| Transferred to other accounts | (178,306) |
| Raw materials, end of year | <u>(1,074,365)</u> |
| Usage of direct raw materials | 8,876,768 |
| Direct labor | 44,660 |
| Manufacturing expenses | <u>984,726</u> |
| Manufacturing cost | 9,906,154 |
| Add: Work in progress and semi-finished goods balance, beginning of year | 282,479 |
| Semi-finished goods purchased | 572 |
| Less: Sales of semi-finished goods | (527,284) |
| Transferred to other accounts | (142,454) |
| Work in progress and semi-finished goods balance, end of year | <u>(385,508)</u> |
| Cost of finished goods | 9,133,959 |
| Add: Finished goods balance, beginning of year | 987,832 |
| Finished goods purchased | 874 |
| Less: Transferred to other accounts | (42,260) |
| Finished goods balance, end of year | <u>(924,561)</u> |
| Cost of finished goods sold | 9,155,844 |
| Add: Cost of raw materials sold | 182,638 |
| Cost of semi-finished goods sold | 527,284 |
| Loss on idle capacity | 284,279 |
| Loss on scrapped inventories | 214,848 |
| Write-downs of inventories | <u>217,212</u> |
| Total operating costs | <u>\$ 10,582,105</u> |

E INK HOLDINGS INC.
**STATEMENT OF OPERATING EXPENSES
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars)**

| Item | Selling and Marketing Expenses | General and Administrative Expenses | Research and Development Expenses | Total |
|----------------------------------|--------------------------------------|-------------------------------------------|-----------------------------------------|---------------------|
| Employee benefits expense | \$ 192,978 | \$ 471,226 | \$ 386,117 | \$ 1,050,321 |
| Professional service fee | 105,655 | 41,022 | 28,283 | 174,960 |
| Material expense | 11,606 | 16,760 | 117,031 | 145,397 |
| Depreciation expense | 431 | 25,073 | 80,415 | 105,919 |
| Testing and experimental expense | 733 | 631 | 106,513 | 107,877 |
| Travelling expense | 22,893 | 18,249 | 14,305 | 55,447 |
| Commission | 26,396 | - | - | 26,396 |
| Others (Note) | <u>20,577</u> | <u>184,564</u> | <u>62,074</u> | <u>267,215</u> |
| | <u>\$ 381,269</u> | <u>\$ 757,525</u> | <u>\$ 794,738</u> | <u>\$ 1,933,532</u> |

Note: The amount of each item included in "Others" does not exceed 5% of the account balance.

E INK HOLDINGS INC.

2018 Annual Report

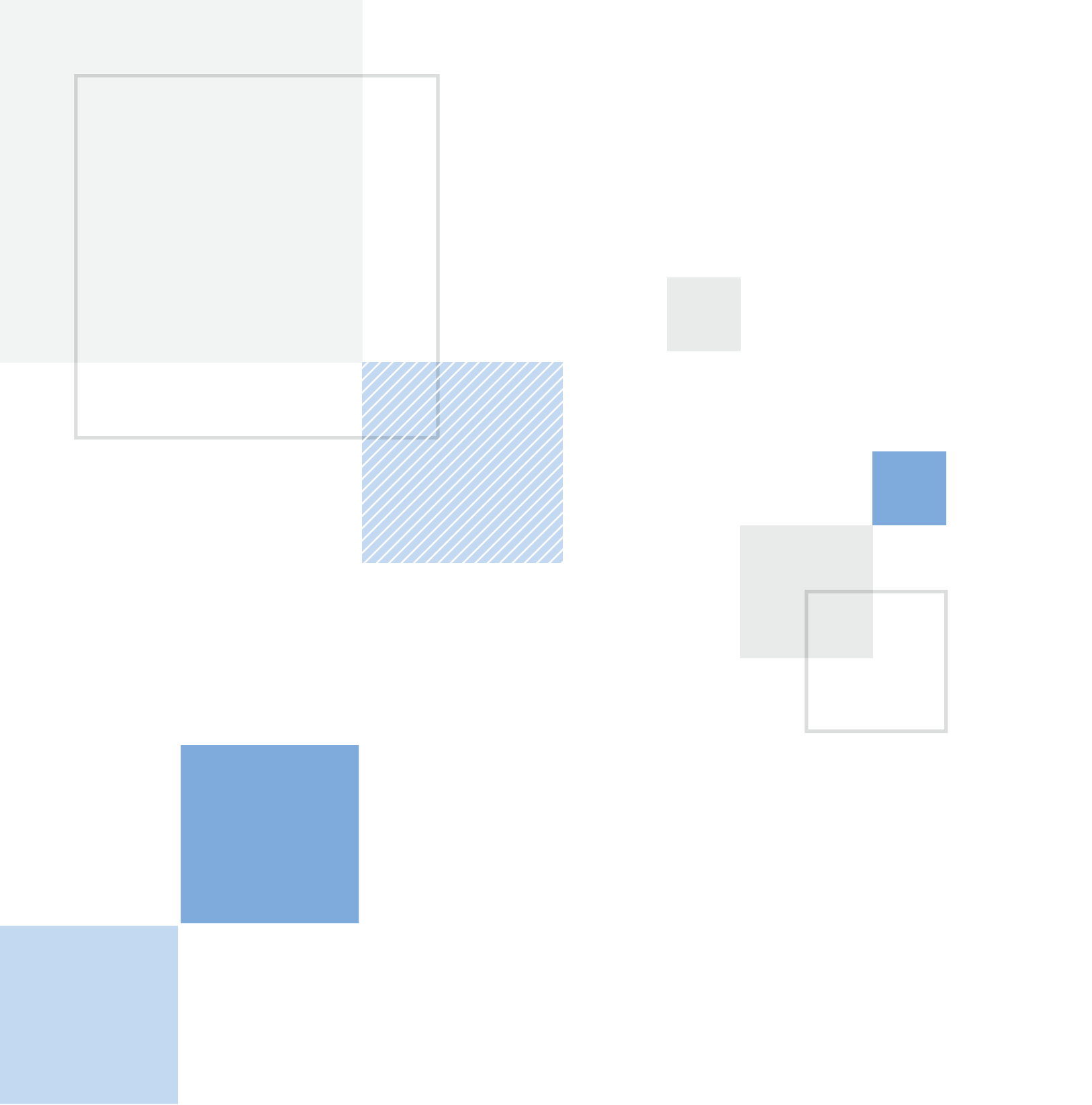
No.3, Lixing 1st Rd., Hsinchu Science Park, Hsinchu 300, Taiwan

Tel: 886 3 5643200 <http://www.eink.com>



Chairman Frank Ko

柯善仁 



E INK HOLDINGS INC.

No.3, Lixing 1st Rd., Hsinchu Science Park, Hsinchu 300, Taiwan

Tel: 886 3 5643200 <http://www.eink.com>

Some of the photo works used in this annual report are owned by Amazon, iFLYTEK, King Jim, Lenovo, Proyk, ViewTag LLC, and Xiaomi Corporation (in alphabetical order). A.I. Note, Digital Luggage Tag, Kindle Oasis, MIJIA, Pomera, Proyk, and Yoga Book C930 are registered trademarks of Amazon, iFLYTEK, King Jim, Lenovo, Proyk, ViewTag LLC, and Xiaomi Corporation, respectively.