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Senao International Co., Ltd.

2017 Annual Report

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<http://mops.twse.com.tw>
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Prepared by Senao International Cox, Ltd.

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I. Message to Shareholders

Dear Shareholders:

In 2017, Senao International Co., Ltd. Reported consolidated operating revenue of NT\$ 35.738 billion, net income of NT\$ 823 million, net profit attributable to owners of the parent of NT\$ 826 million, and earnings per share of NT\$ 3.3. In comparison to 2016, the operating revenue grew by 4.8%. The Company has risen to the challenge for Omnichannel services in the market and launched the “Senaonline” platform on January 3, 2017, as well as the Senaonline O2O virtual/physical integration service in June. Through the twenty-four seven “Omnichannel” shopping experience on Senaonline website and its APP, we anticipate enhanced customer adhesiveness and loyalty. In addition, following the official commencement of the mobile device insurance, the Company established the “Sen Young Insurance Agent Co., Ltd.” to officially include the property insurance and mobile device insurance businesses into its portfolio, thereby expand its customer base, increase customer adhesiveness and create added value.

Whereas the 4G market development has entered the mature stage in Taiwan, The smartphones remain an important role in the play of the wearable devices and Internet of Things applications. Through the connection between the smartphones and smart terminal device, the IoT ecosystem is hence completed. This will be the major direction for many international smartphone companies. Thus, the Company will also keep focusing on such development and any change of industrial trend and seek for innovation.

While demonstrating an outstanding performance in its main

I. Message to Shareholders

businesses, Senao International has never abandoned its belief of giving back to the community. In order to raise people's awareness of the land and culture, the Senao Technology Education Foundation has organized and held the "Home Discovery Documentary Competition", encouraging to record scenes of our land using the 3C products since 2009. Meanwhile, the "Senao creative reading and digital application learning plan" was launched to educate students a better understanding of their hometown via digital recording technology. In 2017, the Senao Technology Education Foundation took a step forward and works with rural communities to hold film tours. We hope to convey the concept of "Hometown Discovery" via panel discussion after the screening and outdoor filming activities, and enhance the community's awareness of hometown and its natural ecosystem.

In terms of ecosystem protection, Senao International strives to promote the concept of non-toxic agriculture domestically. Along with the regular farmers' markets and employee group buying of products from small farmers, we support the farmers who apply non-toxic and environmental friendly farming and assist them with sales and customer education to boost farmers' confidence in non-toxic agriculture and environmental protection as well as increase their competitiveness. Meanwhile, we also launched the "Lovely Little Farm" program to promote environmental education through practice and plant the seeds of non-toxic agriculture in the mind of younger generation.

Looking ahead in 2018, Senao International will place focuses on a sound foundation, integration and innovation. Based on the combination of channel transformation, product strategy and customer relationship

I. Message to Shareholders

management, we will develop a business structure for new generation and new channel. By centering on the customer demands, we will also integrate the products, services and resources from both Online and Offline channels to create a new “O2O New Retail” business model. Senao International not only endeavors to obtain exclusive distribution rights for the existing brands, but also continuously to bring the potential or innovative products to the market. Coping with the aging society and raising health awareness, Senao International officially joins the health care industry and wish to create a “Simpler, Smarter and Happier” brand image, thereby becoming the best brand in our customers’ lives. The management team will endeavor to achieve the goals so as to boost the overall operating revenue and profit growth, and maximize shareholders’ interests. We would like to express our deep gratitude for all shareholders’ continuous support.

Finally, we wish all shareholders
good health and success

Chairman Jin-Lin Lai

President Pao-Yung Lin

I. Message to Shareholders

1. 2017 Operating Result

(1) Operating Result

Annual consolidated operating income reached NT\$35.738 billion; profit before tax was NT\$965 million; net income was NT\$823 million; net income attributable to owners of parent was NT\$826 million; earnings per share was NT\$3.30.

(2) Profitability Analysis

Profitability Analysis

Item \ Year	Year 2017	Year 2016
Return on Assets (%)	7.96	9.60
Return on Equity (%)	13.86	16.96
Net Profit Margin (%)	2.30	2.91
Earnings per Share (NT\$)	3.30	4.02

Note: Amounts in the table are data from the consolidated financial statements of the Company and its subsidiaries.

(3) Research and Development

In 2017, the evolution of communication products remained steady without any dramatic technical innovations in comparison to the past years. Large-scale phone makers focused on the differentiated design of appearance making full screen display design a must for the high-end smartphones. Those companies also started to equip the mid-range and low-end smartphones with such full screen display designs. The direction of the hardware design also reached another turning point, for example: wireless charging, slow-motion video, and front and rear dual-lens camera.

Whereas the 4G environment becomes sophisticated and the number of subscribers grows continuously, the overall market development has entered the mature stage, and the average

I. Message to Shareholders

product price is dropping. However, the smartphones, in a long-term, remain an important role in the play of the wearable devices and Internet of Things (IoT) applications. To integrate devices, cloud services, applications, and service through the connection between the smartphones and smart terminal device and thus to create linkages among the entire IoT ecosystem are now an important strategic orientation for the large smartphone companies and will push the development of the digital convergence industry one step forward.

Development Trend of Smartphones:

1. In terms of operating system:

- Apple focuses deeply on the Artificial Intelligence (AI), and its HomePod to be marketed soon will further facilitate the integration between the Apple software and hardware. In the future, it is expected that the elevation of AI functions such as Siri, iOS, MacOS, tvOS and Carplay will provide a more convenient user experience and make iPhone a necessity in everyday life and such functions to be extended to other Apple-related hardware devices.
- On the Google I/O 2017, we saw that AI First has already replaced Mobile First and become a future trend. Two key points were brought to the company's attention: 1. AI will be added onto all of Google's products. 2. Voice and vision will become the main communication methods for Google AI, so it is clear that the focal point that orients the Google operating system design will be on AI instead of the devices.

2. In terms of hardware specification:

- Processors: With the rapid development of AI, the experience

I. Message to Shareholders

for the integration between smartphones and AI will become more comprehensive this year. To place an AI chip in a processor will be the development trend for this year. Both Apple's A11 processor and Huawei's Kirin 970 processor have the AI chip inside which can bring numerous AI experiences to the consumers, for example, record and analysis of exercise, image translation and voice control. In addition, Qualcomm announced the new generation Snapdragon 845 processor in December 2017, which, besides its capacity of great performance, is equipped with the AI-calculation-enabled CPU, GPU and DSP. This processor will be a standard for all flagship smartphones in 2018.

- Screen: The full screen display era has come in 2018. The penetration rate of full screen display has showed a leaping growth in the second half of 2017 and brought up the trend of new cellphone appearance design. By the encouragement of new device appearance design from Apple and Samsung in 2017 and the response from the OLED, LTPS or A-Si Panel manufacturers, the number of smartphones featured full screen displays in 2018 will be extremely popular, and the penetration rate will increase to 36% from less than 10% this year. Besides the high-end models, full screen display design will be introduced to the mid-range and low-end smartphones.
- 5G LTE: 5G, as the next-generation of communication technology, features high-speed, high-volume, low power consumption and low-latency performance, and can be widely applied in the fields of industrial control, robot control, autopilot or safe-driving systems. Meanwhile, the Massive

I. Message to Shareholders

Internet of Things, which has become possible in the LTE era, will eventually come true in the 5G era. It is expected that the 5G will first be put onto service in Korea, Japan, USA and China, and the total number of users globally will reach 500 million at the end of 2022.

-Camera: In addition to the development of high-end specs such as high-pixel, optical anti-shake(OIS), the popularity of dual-lens camera has caught the market's attention. According to the research, the smartphone dual-lens camera penetration rate in 2018 will increase to 40% from 20% in 2017. The dual-lens camera development is relatively mature, and it has been applied widely. The mainstream dual-lens camera can be categorized into four types: type one is to use the second lens to measure the distance and depth of field in order to capture 3D image or depth of field effect. Type two is to feature the black and white filter on the second lens offering finer black and white images taken by a cellphone. Type three is to install an additional ultra wide-angle lens offering a wider view taken by a cellphone. The final type is to add a 2x optical zoom telephoto lens, with which long-distance photography by a cellphone is made possible.

-Biometric: The smartphone biometric technology has advanced in 2017, where iPhone X now features facial recognition to replace the fingerprint scanner in previous models. Besides the support of mobile payment, it is also extend its use in the AR-related applications. In 2018, the non-Apple products are just around the corner to fuel up the biometric technology in the smartphone market again. Apart

I. Message to Shareholders

from facial recognition, in-screen fingerprint scanner will be the R&D focus area for many smartphone makers, for example, Vivo plans to unveil the first phone with in-screen fingerprint scanner in 2018.

- Wireless Charging: the technology of wireless charging has been on the development for many years, and Samsung has supported wireless charging since its Galaxy S6 edge. From the market feedback, such technology has yet widely spread. However, Apple's application of wireless charging on its iPhone 8/8 Plus/X has revealed such technology to the public again. Apple uses the Qi(Chee) wireless charging standard, which bumped the charge rate of iPhone 8/8 Plus/X upto 7.5W, and dramatically increased the charging speed. Perhaps, we will see many phones and accessories that support Qi technology and high-speed wireless charging on the market next year.
- 4x4 MIMO antenna design: Via such a design, mobiles will carry more antennas, which not only possess better reception, but also faster data transmission speed. Although many Android flagship models have featured such designs, the Apple products and most Android mid-range phones have yet to join the group. But, according to some research, such a design will become as popular as the NFC in the future. Apple is also expected to support the 4x4 MIMO on its new model in 2018 due to the upgrade of Intel communication chips.

In conclusion, in 2017, the smartphone market showed no surprises and lacked innovation. Even though there were some innovations in the 3D sensing technology and OLED

I. Message to Shareholders

display, smartphones were commercialized and short of the “next big thing” to attract consumers to buy a new phone. Nonetheless, there were still some new technologies in such a seemingly plain year of 2017 so as to hopefully start a whole new innovation cycle of smartphones in 2018. Among those new technologies, the sophistication and integration of AI, AR, 5G and new display panel technology will be the biggest drives whereby the future smartphone will be capable of self-learning, planning and solving the users’ problems via AI which makes smartphone become smarter. Together with the 5G high-speed data transmission technology, the Internet of Things and Smart Homes will become true in the future.

In terms of cellphone prices, as a result of shifting concentrations to intelligence software R&D by the phone makers and the more expensive phone components and the raise of hardware costs, a price hike for flagship models is foreseeable, e.g. iPhone X and NOTE8 in 2017. On the other hand, as the development of smartphones is maturing, the features on a flagship phone are usually passed down to the mid-to-high-range products resulting the phenomena of “Mid-range price, high-end specs” in the market. According to Samsung’s research, the passing down of high-end specs drives the sales growth of phones priced between NT\$13,000 and NT\$18,000 (mid-to-high-range market). Whether such a phenomena will lead to the shift of high-end flagship product users or even affect the profitability will be a significant issue for the phone makers.

I. Message to Shareholders

2. 2018 Business Plan

(1) Business Policy

1. Senao applies the “new products, bestsellers, and clearance” three-stage product management model pairing with the sales channels of retail, dealership, and e-commerce. The new O2O retail model, which combines the physical stores and e-commerce virtual channel, creates more room and enhances the whole process for product management from the time that a product is introduced to when the product is retired. Such a model can also bring more product selections, through multiple channels, to the customers and maximize the sales.
2. Supporting the dealership with retail. By combining the business models of new retail and dealerships, taking advantage of our resources in the new retail and EC and pairing with the O2O tools, we will be able to compete for more exclusive dealerships for new phone models.
3. Taking the advantage of new retail channel, we can request the phone makers for exclusive packaging and continuously to offer the Senao special promotional package. By such a differentiated packaging, we will attract more customer groups.
4. We integrate Senao’s huge membership database and social network followers into the brand and product marketing campaigns. In which, we can more precisely segment our customers and analyze their behaviors to enhance customer adhesiveness, and according to these member segments, we can provide different levels of product promotion to deepen member loyalty.

(2) Business Objectives:

I. Message to Shareholders

1. Senaonline was officially launched on January 3, 2017, and until now, it has been running for one (1) year with the outstanding sales growth. In this year, we will truly connect the online and offline channels, through the product promotion planning, media traffic referral, topic creation, O2O tool building and perfection, and hardware and software upgrade to provide our customers a more convenient and more comprehensive O2O shopping experience.
2. We take all services provided in our Senao stores seriously, including product inspection, screen protector installation and titanium member service, to strengthen our advantage in physical retail and build a brand image of high quality for our customers.
3. Via the decoration of the retail stores, we want to break the stereotype in our customers about Senao's brand image and business and lead them to pay more attention on products and promotion plans on full-price phone Senao has to offer.
4. Bundle Service are no longer applied just to communication products. Senao will introduce the more comprehensive plan for fine home appliances or digital products with a Chunghwa Telecom monthly payment plan contract to provide customers the most suitable products and rate options in the future.
5. Through Senao's establishment of an internal process virtual warehouse, we will be able to minimize the frequency of product shortage, improve the opportunities for sales and reduce the chance of customers leaving empty-handed from the store. In addition, we shall ceaselessly improve our inventory management to maintain the inventory level to

I. Message to Shareholders

satisfy frontline demands and main (regional) warehouse safety stock.

6. In response to changes to the customer characteristics and increase of non-bundle phone market share, we have to increase employees' understanding of product promotion plan and execution power. By pairing a reasonable KPI sales system and boosting employees' sales skills and professional knowledge about new technology, we wish to satisfy our customers with great product experience and in-store services.

(3) Sales Policy:

1. As the 3C market trend turns to consumer-oriented, Senao will focus on introducing popular and well-known brand communication and information products, appliance and accessories. Moreover, we will provide our customers more popular and top quality product selections and packages to create a win-win situation among Senao, phone makers and customers.
2. In terms of distribution rights, we will work on the dealership of top brands' competitive products, and ceaselessly look for second-tier brands' products with high potential and price-to-performance ratio. Our distribution strategy will be changed from quantity-oriented to quality-oriented. For products that Senao has distribution rights or even exclusive distribution rights, we shall utilize all of our resources, including support from phone makers, channels, and marketing, and make consumers really feel the benefits of Senao's exclusive products, by which we will have better bargaining power in a negotiation with phone makers in the future.

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3. The Company's Future Development Strategy

As Senao launches the new, customer-oriented retail model which provides customers with “Omnichannel” services, we connect the products, customers and services through our online store “Senaonline” and link online and offline businesses to achieve the goal of twenty-four comprehensive customer service, and provide more convenient sales and services. In terms of new brand of communication handheld devices development and distribution rights, Senao not only endeavors to obtain exclusive distribution rights for the existing brands, but also continuously to find the potential brands and introduce IoT related innovative product such as home appliance, wearable devices, VR and etc. Via flexible product packaging, diverse marketing campaigns, dense distribution network and warm services from our professional employees, Senao wishes to become the top reseller of digital products in consumers' mind and discover more hidden business opportunities.

Finally, Senao will ceaselessly promote all kinds of social welfare events through the Senao Technology Education Foundation to pursue our corporate social responsibilities.

4. Effect of External Competition, the Legal Environment, and the Overall Business Environment

According to the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the forecast economic growth rate in 2018 is 2.42%, which increased by 0.13% in comparison to 2.29% forecasted in November 2017. However, as a result of slowdown of mobile device market growth in Taiwan, the 2018 overall Taiwan communication market will remain the same or even

I. Message to Shareholders

slightly decline.

Looking ahead in 2018, Taiwan's macroeconomics will show a slow recovery and as full-screen display was already the main selling point in 2017. In 2018, we will see more mid-to-low priced full-screen display products on the market as the supply chain's screen technology gets mature. The overall average product unit price will drop due to the market share of high price-performance products, which are equipped with high specs and low price (high-specs and mid-price), expands.

The number of Chunghwa Telecom's, Senao's parent company, 4G subscribers reached 7.987 million, and this number is expected to reach 10.5 million 4G subscribers in 2018. In response to the expiration of 3G licenses at the end of 2018 according to the laws. As per NCC's statistics, the number of 4G subscribers in Taiwan has reached 22 million, but as of the end of last year, there were still 6.43 million 3G subscribers. It is expected that such conversions will lead to the growth of sales of cheap 4G cellphones. The Company will continue to work with its parent company, Chunghwa Telecom, to initiate diverse rate plans and wide-range product selections together with all kinds of marketing strategies to strengthen and improve the sales of existing products and react to a more competitive business environment.

Following the official commencement of the "mobile device insurance", Senao International Co., Ltd. officially steps into the property insurance agency business via its subsidiary, Sen Young Insurance Agent Co., Ltd.

Moreover, Apple announced that Apple Pay was launched in Taiwan on March 29, 2017, and Senao International became the one of the first channels to carry the service. Many telecom companies, messaging software companies or phone makers have launched mobile payment services, and the war for mobile payment in Taiwan has begun. A large growth of mobile payment in

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Taiwan in 2018 is foreseeable, and consumer behavior will thus change. The new era of money flow has started. In 2018, it is possible to see the launch of many related services, and Senao is prepared and ready to implement the mobile payment communication devices.

III. Corporate Governance Report

1. Date of establishment

Date of establishment : May 18, 1979.

2. Company history

1979

- Senao Enterprise Development Company was incorporated in May with paid-in capital of NT\$5 million. The major business was retail and installation of telephones and telecommunication devices.

1994

- The Company was renamed as Senao International Co., Ltd. in August.

1995

- The Company invested NT\$80.5 million in All Oriented Services Int. Co., Ltd. in April.

1996

- The Company acquired the major assets and equipment of All Oriented Services Int. Co., Ltd. and Engenius Technologies Co., Ltd., Combined the manufacturing and sales functions of both company and introduced a lean management team.
- The Taichung factory was established, and two SMT production lines were purchased.
- Taipei factory received the ISO9002 certification from RWTUV Germany.
- Securities and Exchange Commission approved the public offering in July.

1997

- The cordless telephone SN-525 was granted the Good Design

III. Corporate Governance Report

Award by the Taiwan External Trade Development Council in May.

- Taichung factory received the ISO9002 certification from Bureau of Commodity Inspection & Quarantine in August.
- The Company signed the sales agent agreement with Chunghwa Telecom for its type I telecommunication service in November.

1998

- The Company was ranked the top 302nd enterprise in Taiwan by CommonWealth Magazine in 1997.
- Oracle ERP system was introduced in October.
- The EnGenius SN-900 Ultra was awarded the “1999 Best of innovation” by the U.S. Consumer Electronics Association in November.

1999

- The U.S. subsidiary was established in order to enter the U.S. and Canadian markets.
- The Company received the ISO 9001 certification by RWTUV.
- The Company was selected as the top 84th service enterprise of the year in Taiwan by CommonWealth Magazine.
- The Company was selected as the top 154th manufacturing enterprise of the year in Taiwan by the Business Weekly.

2000

- The EnGenius SN-920 Ultra was granted the “2000 Workstyle” award in the Wireless Category by the U.S. Consumer Electronics Association in January.
- The new leading product development plan “Wireless PABX” was subsidized by the Industrial Development Bureau, MOEA.

III. Corporate Governance Report

- The Company was selected as the top 75th service enterprise in 1999 in Taiwan by Business Weekly.
- The Company's public listing application was approved by the Taiwan Stock Exchange review committee and Securities and Futures Commission, Ministry of Finance in December.

2001

- The Company was granted Certificate of Completion for Important Technology Based Enterprise in March.
- The Company's shares were listed in May
- The Company was selected as the top 54th service enterprise in 2000 in Taiwan by Business Weekly.

2002

- The Company successfully received an order of 125,000 sets of Wireless LAN products from Korea Telecom in July.
- Industrial Ethernet Switches EN-208D and Longest Range Cordless Phone System EN/SN-436 were granted the "Taiwan Excellence Award" and the wireless device was awarded the "Good Design Award" and the "Taiwan Excellence Award".

2003

- 300MHz Cordless Telephone SN-458RU was recognized by the "Good Design Product" award.
- The Company signed the 2004 Strategic Alliance Agreement with ChungHwa Telecom Mobile Business Group in December.

2004

- In January, Senao International's "Digital 4-line Wireless Phone System SR-436S", the first 2.4GHz high-frequency wireless phone system recognized by the Directorate General of Telecommunications in Taiwan, was chosen by the 2004 Taiwan Flower Expo.

III. Corporate Governance Report

- Oracle 11i ERP system was introduced to the Company in January.
- The Company was selected as the top 48th service enterprise in Taiwan by Business Weekly.
- SI-7800H SIP Phone received the Wi-Fi certification in July.
- WTA-5002 Multimedia Video Adapter and SI-7800H Wireless SIP Phone received the “Good Design Award”.

2005

- The Company was selected as the top 52th service enterprise in Taiwan by Business Weekly.
- Huaya Factory was put into operation in the second quarter.

2006

- The Company was ranked 62nd among the top 500 service enterprises CommonWealth Magazine.
- The Company signed the “Chunghwa Telecom Agreement for Mobile Telephone Business Terminal Equipment Supply and Telephone Numbers Agency” in April.
- The Shareholders’ Meeting passed separation of the wireless communication unit in June.
- The wireless communication unit was separated and became the newly established Senao Networks, Inc. in October with paid-in capital of NT\$175 million.
- Chunghwa Telecom announced to buy 30% of Senao International’s shares through a public tender offer in December.
- The total number of Chunghwa Telecom Authorized Stores reached 82 stores nationwide.

2007

- Chunghwa Telecom completed the public tender offer and

III. Corporate Governance Report

became the largest in January.

- Senao International became the exclusive distributor of Chunghwa Telecom cellphones in April.
- The total number of Chunghwa Telecom Authorized Stores reached 148 stores nationwide as at the end of December.

2008

- The Company renewed its corporate identity system in January.
- The total number of Chunghwa Telecom Authorized Stores reached 210 stores nationwide.
- The Company was recognized by the SGS QualiCert Certification.

2009

- 30th anniversary of the Company in January.
- The total number of Authorized Stores reached 215 stores nationwide in March.
- The Company was selected as the 10th among the “2009 Taiwan Top 100 Technology Companies” by Business Next Magazine in June.
- The Company launched the differentiated “Drop Off at One Location and Pick Up from Another” cellphone repair service in October to enhance customer satisfaction.
- The Authorized Stores has worked with Microsoft to hang the round shaped signboard of Windows 7 and Windows Phone at all stores, and set up the experience area for Windows 7 and Windows phone at 10 most popular stores in northern, middle and southern Taiwan since November.
- In December, the subsidiary, Senao International (SAMOA) Holding LTD., was established in Samoa, and through which, the subsubsidiary, Senao International HK Limited, was

III. Corporate Governance Report

established in Hong Kong.

2010

- The Company held the charity event, “Love Farm Fair.”
- The total number of Authorized Stores reached 222 stores nationwide.

2011

- The Company held the charity event, “Charity Carnival-Formosa Taiwan”
- The subsidiaries were established in FuJian, Shanghai and JiangSu, China in January for the entry of Chinese Market.
- In May, the first WoSenao store in China was opened in Shanghai.
- The first Senao digital convergence store was officially opened in Taipei in August.
- The annual consolidated operating revenue reached NT\$27.5 billion, exceeding NT\$20 billion for the first time.

2012

- The Company held the charity event, “Bravo Taiwan-Senao International Charity Carnival.”
- The annual consolidated operating revenue reached NT\$35 billion, hit the record high.
- The Company launched the differentiated “Twenty-Four Seven” cellphone repair service in October to enhance customer satisfaction.

2013

- The Company held the charity carnival event “Book Sweet-Play and Read.”
- The total number of Authorized Stores reached 274 stores nationwide.

III. Corporate Governance Report

- The subsidiary, Senao Networks, Inc. was publicly listed on the over-the-counter GreTai Securities Market. (TWSE #3558)

2014

- The Company held the charity carnival event, “Good Agriculture Practice in Taiwan, Sustainable Growth.”
- The Company launched the Titanium Member Service.

2015

- The Company held the charity carnival event, “Rolling with Senao- Young and New”
- The Company received the “Personal Information Management(BSI10012)” certification from the British Standards Institution(BSI), and was the first in the retail industry to receive such a certificate.
- Investment in Youth Co., Ltd. was made in September.
- Aval Technologies Co., Ltd. was established in October.
- 4 Apple Authorized Service Centers were opened in Taipei, Taoyuan, Taichung and Kaohsiung in December.

2016

- The Company held the charity carnival event, “Great Power of Senao- Great Luck in the Year of Monkey.”
- The Company collaborated with Chunghwa Telecom to launch the “Miracle Reappearance” cellphone/tablet protection service.

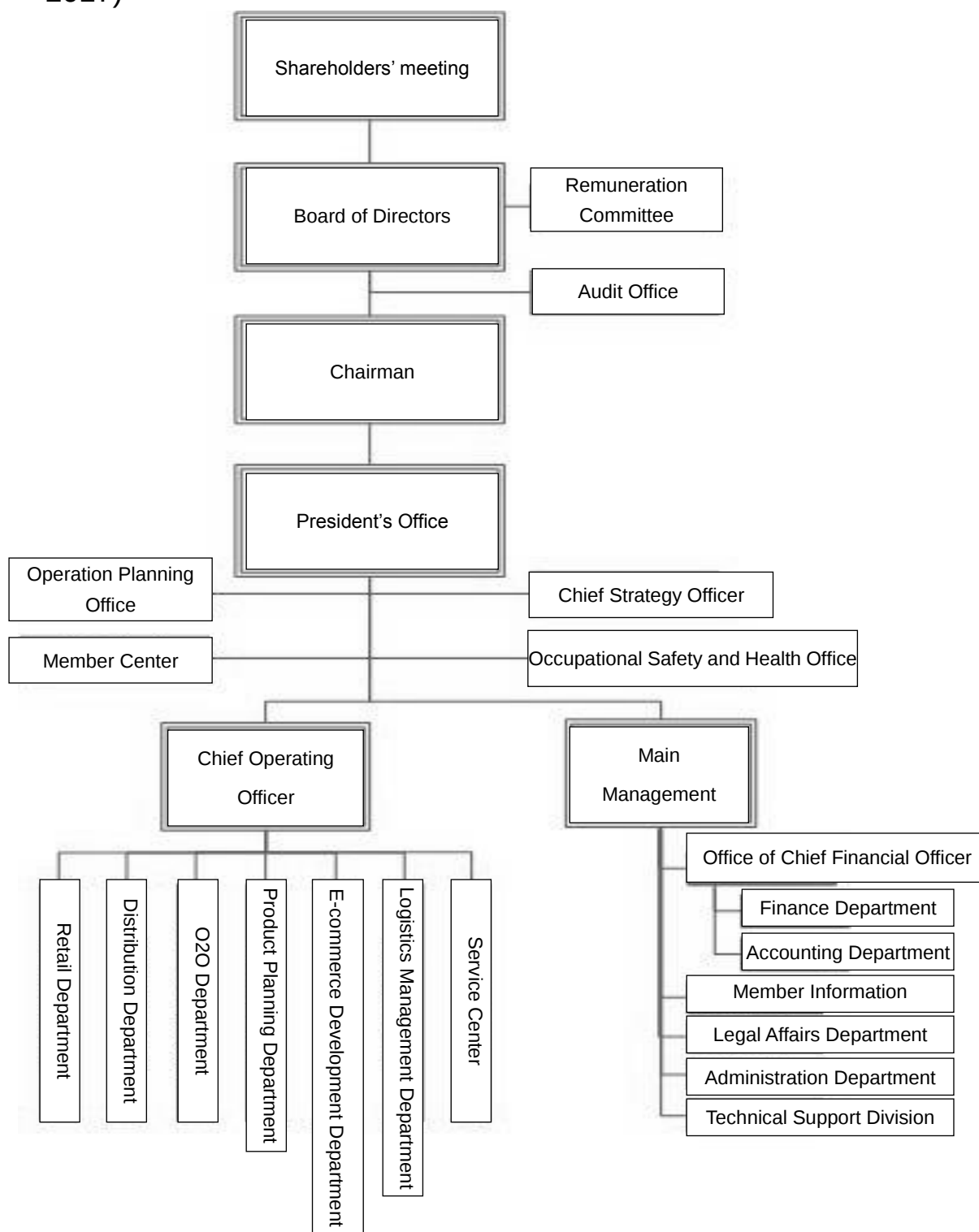
2017

- Senaonline was officially launched in January.
- The Company held the charity carnival event, “Good Prosperity with Senao - Have Fun with Peaches.”
- Sen Young Insurance Agent Co., Ltd. was established representing the official inclusion of property insurance business.

III. Corporate Governance Report

1. Organization

(1) Organizational structure of the Company (As of December 31, 2017)



III. Corporate Governance Report

(2) Departments and responsibilities

Department	Responsibilities
Chairman's office/ President's office	● Implements resolutions of the Board of Directors' meeting and oversees the Company's operation ● Responsible for the planning, execution, control and management of the Company's annual objectives and business strategies.
Audit Office	● In assistance of the Board of Directors and management department, responsible for the inspection and evaluation of the design and implementation of the internal control system, measurement of operational effectiveness and efficiency and providing timely suggestions for improvement, so as to ensure that the internal control system functions effectively and to assist the Board and management department in fulfilling their responsibilities.
Operation Planning Office	● Responsible for the Company organizational planning; setting, control and analysis of major operational objectives; conducting feasibility test for new business opportunity; risk management and process improvement.
Occupational Safety and Health Office	● Responsible for the management of occupational safety and health
Member Center	● Responsible for Senao membership recruitment of omnichannels; ● Membership marketing events planning and managing relationship with Senao members.
Office of Chief Financial Officer	● Responsible for planning and managing financial and accounting system and objectives.
Finance Department	● Responsible for the management of funding, investment and foreign exchange; ● Stock affairs
Accounting Department	● Responsible for the planning and managing financial accounting, taxes and operational accounting
Human Resource	● Responsible for managing human resource and planning training and career development; ● Liaising employee relation and planning employee welfare

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Legal Affairs Department	● Responsible for reviewing contracts, maintaining and managing patents and trademarks; investigating credit records and processing and managing legal matters.
Administration Division	● Responsible for maintaining work environment and making procurement of office equipment and supplies.
Technical Support Division	● Responsible for renovating of retail stores and controlling quality
Retail Department	● Responsible for planning and monitoring operational policies and business development for omnichannel including direct stores/ retail counters at telecom offices/new retail stores; ● Planning and executing annual marketing events and promotions; ● Formulating standard operating procedures for all telecommunication services; ● Planning and examining counters at Chunghwa Telecom offices and direct stores; examining standardization of personnel qualification
Distribution Department	● Responsible for developing distribution, service providers, cross-industry alliance, special projects, Chunghwa Telecom phone numbers and new customers; promoting marketing initiatives. ● Planning and executing annual marketing events and promotions; ● Building distribution website, conducting business on the platform, planning strategies and developing business
Logistics Management Department	● Responsible for the planning and execution of processing, storage, logistics and delivery of products ● Logistics management of e-commerce and 080 customer service.
O2O Department	● Responsible for the strategic planning, business development and operation management of e-commerce; ● Planning of digital marketing and business innovation development
Product Planning Department	● Responsible for introduction, procurement, sales and marketing of communication/digital/home appliance/accessory products.

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E-commerce Development Department	● Responsible for the construction and process design of the operating system; ● Assessment of information security, system stability and risk.
Service Center	● Responsible for after-sales service and management of the service centers nationwide; ● After-sales service for Apple products and management of the Apple authorized service centers.

2. Background information of Directors, Supervisors, President, Vice Presidents, Assistant Vice Presidents, and heads of departments and branch offices:

(1) Background of Directors and Supervisors (As of March 31, 2018)

Title	Nationality or Place of registration	Name	Gender	On-Board Date	Term of office Expiry date	Date first Elected	Shareholding when elected		Current Shareholding		Spouse's and Minor's Shareholding		Shareholding through nominees		Major Education and Experience	Current Positions at the Company and Other Companies	Who are Spouses or a Second-degree Relative of Consanguinity to Each Other		
							Number of Shares	Percentage of Shareholding	Number of Shares	Percentage of Shareholding	Number of Shares	Percentage of Shareholding	Number of Shares	Percentage of Shareholding			Title	Name	Relation
Director	R.O.C.	Chunghwa Telecom Co., Ltd.		2016.06.27	2019.06.26	2007.04.12	71,773,155	27.79%	71,773,155	27.79%	0	0	0	0	—	—	—	—	—
Chairman (Note 1)	R.O.C.	Jin-Lin Lai	Male	2016.11.14	2019.06.26	2016.11.14	0	0	0	0	0	0	0	0	President, Association of Service Industries, Taiwan MBA, National Taiwan University	Director, L'elan Enterprise Co., Ltd.; Chairman, J&V Energy Technology Co., Ltd.; Chairman, Ho Tung Yi Co., Ltd.; Chairman, Wei Xing Co., Ltd.; Chairman, In-Change Public Relations & Consultant Co., Ltd.	None	None	None
Director (Note 1)	R.O.C.	Yuan-Kuang Tu	Male	217.04.10	2019.06.26	2012.03.22	0	0	0	0	0	0	0	0	President, Chunghwa Telecom Co., Ltd. Mobile Business Group Doctor of Electrical Engineering, National Taiwan University	President, Chunghwa Telecom Northern Taiwan Business Group; Chairman, Chunghwa Telecom Japan Co., Ltd.; Director, HongHwa International Corp.	None	None	None

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Director (Note 1)	R.O.C.	Ming-Shih Chen	Male	2017.04.10	2019. 06.26	2017. 04.10	0	0	0	0	0	0	0	0	Doctor of Electrical Engineering, National Tsing Hua University	President, Chunghwa Telecom Co., Ltd. Mobile Business Group	None	None	None
Director (Note 1)	R.O.C.	Chien-Chih Chen	Male	2018.03.26	2019. 06.26	2018. 03.26	0	0	0	0	0	0	0	0	MBA, Strayer University, Washing D.C., U.S.A. Citibank Taiwan Public Relations & Corporate Banking 、 Nike Taiwan Sports Marketing Nokia Taiwan Product Line Manageme nt 、 HTC Global Product Marketing Acer: Regional Product Marketing and Business Developme nt	Assistant Vice Presidents, Chunghwa Telecom Co., Ltd. Marketing Department	None	None	None
Director	R.O.C.	Cheng Kang Investment Co., Ltd.		2016.06.27	2019. 06.26	2000.06. 04	14,820, 975	5.74%	14,820, 975	5.74%	0	0	0	0	—	—	—	—	—

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Vice Chairman (Note 2)	R.O.C.	Pao-Yung Lin	Male	2016.06.27	2019.06.26	1994.06.20	6,532,345	2.53%	4,892,345	1.89%	5,549,777	2.15%	0	0	Chairman, Senao International Co., Ltd. Tungshih High School	Director, Senao Networks, Inc.; Chairman, Senao Trading (Fujian) Co., Ltd.; Chairman, Senao International Trading (Shanghai) Co., Ltd.; Chairman, Senao International Trading (Jiangsu) Co., Ltd.; Chairman, Senao Trading (Shanghai) Co., Ltd.; Independent director, Ichia Technologies, Inc.; Independent director, Wiwynn Corporation.	Director/ Special Assistant	Cheng-Feng Lin	Father and son
																	Director	Cheng-Kang, Lin	Father and son
																	Super-visor	Chun-Chien Chen	First-degree relative
Director (Note 2)	R.O.C.	Cheng-Feng Lin	Male	2016.06.27	2019.06.26	2013.05.22	153,420	0.06%	253,420	0.10%	0	0	0	0	Special Assistant, Senao International Co., Ltd. EMBA, National Chengchi University	Director, E-life Mall Corporation; Director, Tsann Kuen Enterprise Co Ltd.	Vice Chairman / President	Pao-Yung Lin	Father and son
																	Super-visor	Chun-Chien Chen	Spouses
																	Director	Cheng-Kang Lin	Brothers
Director (Note 2)	R.O.C.	Cheng-Kang, Lin	Male	2016.06.27	2019.06.26	2013.12.16	98,091	0.04%	158,091	0.06%	0	0	0	0	Project Manager, Senao International Co., Ltd. New	Director, E-life Mall Corporation; Director, Aval Technologies Co., Ltd.	Vice Chairman / President	Pao-Yung Lin	Father and son
																	Director/ Special Assistant	Cheng-Feng Lin	Brothers

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															Product Strategy Center IMBA, National Chengchi University Japanese, the University of British Columbia		Supervisor	Chun-Chien Chen	Second-degree relative
Independent Director	R.O.C.	Kung-Liang Yeh	Male	2016.06.27	2019.06.26	2016.06.27	0	0	0	0	162	0	0	0	Chairman, Fubon Financial Holdings Co. EMBA, Finance, National Taiwan University	Director, Casetek Holdings Limited; Member of Remuneration Committee, Senao International Co., Ltd.	None	None	None
Independent Director	R.O.C.	Chung-Ming Su	Male	2016.06.27	2019.06.26	2016.06.27	0	0	0	0	0	0	0	0	Finance Manager, Northern Telecom Limited, Japan, Asia Headquarters MBA, University of Iowa, Concentration in Finance	Chairman, President International Development Corp.; President, President International Development Corp.; Spokesperson/Vice President, Uni-President Enterprises Corp.	None	None	None

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Supervisor	R.O.C.	Sheng-Chen Li	Male	2016.06.27	2019.06.26	2016.06.27	0	0	0	0	0	0	0	0	Partner, Yuan, Chen & Partners Attorneys-at-law Master's Degree, Institute of Mainland China Studies, National Sun-Yat-Sen University	Supervisor, Taiwan Styrene Monomer Corp., Independent Director, Taiwan Tea Corp., Director, Bank of Kaohsiung	None	None	None
Supervisor	R.O.C.	Cheng Feng Investment Co., Ltd.		2016.06.27	2019.06.26	2007.04.12	17,176,436	6.65%	17,176,436	6.65%	0	0	0	0	—	—	—	—	—
Supervisor (Note 3)	R.O.C.	Hsueh-Feng Chien	Female	2016.06.27	2019.06.26	2016.06.27	0	0	0	0	0	0	0	0	Accounting Assistant Manager, Senao International Co., Ltd. National Taipei College of Business	Accounting Assistant Manager, Cheng Feng Investment Co., Ltd.	None	None	None
Supervisor (Note 3)	R.O.C.	Chun-Chien Chen	Female	2016.06.27	2019.06.26	2007.06.05	0	0	0	0	153,420	0.06%	0	0	Hua Shun Investment Co., Ltd. University of Western Ontario Social Science in Economics	Hua Shun Investment Co., Ltd.	Vice Chairman / President	Pao-Yung Lin	First-degree relative
																	Director/Special Assistant	Cheng-Feng Lin	Spouses
																	Director	Cheng-Kang Lin	Second-degree relative

Note 1: The corporate shareholder representative of Chunghwa Telecom Co., Ltd.

Note 2: The corporate shareholder representative of Cheng Kang Investment Co., Ltd.

Note 3: The corporate shareholder representative of Cheng Feng Investment Co., Ltd.

(2) Corporate shareholder's major owners

Name of corporate shareholder	Corporate shareholder's major owners	Percentage of Shareholding
Chunghwa Telecom Co., Ltd.	Ministry of Transportation and Communications	35.29%
	Fubon Life Insurance Co. Ltd	5.02%
	JP Morgan Chase Bank, N.A., acting as depositary and representative of CHT ADRS	3.78%
	Nan Shan Life Insurance Co., Ltd.	3.63%
	CTBC Bank Trust Account - CHT Employee Stock Ownership Trust Plan	3.58%
	Chunghwa Post Co., Ltd.	1.70%
	Cathay Life Insurance Co., Ltd.	1.26%
	Labor Insurance Fund, R.O.C.	0.95%
	Labor Pension Fund of the New Labor Pension System, R.O.C.	0.67%
	Citibank (Taiwan) as Directed Trustee For GIC-Government of Singapore	0.66%
Cheng Kang Investment Co., Ltd.	Global Solution Malaysia Co., Ltd.	83.92%
	Cheng Feng Investment Company	13.99%
Cheng Feng Investment Company	Pao-Yung Lin	57.81%
	Yung-Ming Liu	33.59%
	Cheng-Feng Lin	0.09%
	Cheng-Kang Lin	0.09%

Note: Source of information was the 2016 annual report of the TWSE/TPEX listed company or the company registration information provided by the Ministry of Economic Affairs, Department of Commerce.

(3) Names of major shareholders of corporate shareholder's major owners who are corporate shareholders

Name of corporate shareholder	Major shareholders of corporate shareholder	Percentage of Shareholding
Cathay Life Insurance Co., Ltd.	Cathay Financial Holdings Co., Ltd.	100%
Fubon Life Insurance Co. Ltd	Fubon Financial Holdings Co., Ltd.	100%
Nan Shan Life Insurance Co., Ltd.	First Commercial Bank Trustee Account For Representative of Ruen Chen Investment Holding Co., Ltd.	76.46%
	Ruen Chen Investment Holding Co., Ltd.	14.16%
	Ying-Tsong Du	3.25%
	Ruen Hua Dyeing & Weaving Co., Ltd.	0.28%
	Ruentex Leasing Co., Ltd.	0.15%
	Wen-de Guo	0.11%
	Chi Pin Investment Co., Ltd.	0.11%
	Pao Chih Investment Co., Ltd.	0.05%
	Pao Yi Investment Co., Ltd.	0.05%
	Pao Hui Investment Co., Ltd.	0.05%
	Pao Huang Investment Co., Ltd.	0.05%
Chunghwa Post Co., Ltd.	Ministry of Transportation and Communications	100%
Cheng Feng Investment Company	Pao-Yung Lin	57.81%
	Yung-Ming Liu	33.59%
	Cheng-Feng Lin	0.09%
	Cheng-Kang, Lin	0.09%
Global Solution Malaysia Co., Ltd.	Global Solution Investment Co., Ltd.	100%

Note: Source of information was the 2016 annual report of the TWSE/OTC listed company or the company registration information provided by the Ministry of Economic Affairs, Department of Commerce.

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(4) Background of Directors and Supervisors

Qualification	Whether he/she has at least five (5) years of work experience and meet one of the following professional qualifications			Independence Status (Note 2)										Number of public companies also serving as independent directors for
	An instructor at a public or private college, in a department of commerce, law, finance, accounting, or other academic departments related to the business of the Company.	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist, in a profession necessary for the business of the Company, who has passed a national examination and been awarded a certificate.	Have work experience in the area of commerce, law, finance, accounting, or work experience needed by the Company	1	2	3	4	5	6	7	8	9	10	
Name (Note 1)														
Jin-Lin Lai			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Pao-Yung Lin			✓							✓		✓		2
Yuan-Kuang Tu			✓			✓	✓			✓	✓	✓		0
Ming-Shih Chen			✓			✓	✓			✓	✓	✓		0
Chien-Chih Chen			✓			✓	✓			✓	✓	✓		0
Cheng-Feng Lin			✓			✓				✓		✓		0
Cheng-Kang Lin			✓			✓				✓		✓		0
Kung-Liang Yeh	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chung-Ming Su		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Sheng-Chen Li		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Chun-Chien Chen			✓	✓		✓				✓		✓		0
Hsueh-Feng Chien			✓	✓		✓	✓			✓	✓	✓		0

Note 1: Number of Columns may be adjusted if needed.

Note 2: Check in each box with "✓", if the director or supervisor meets the condition during the two years prior to being appointed as director or supervisor and during the term of office.

- (1) The director or supervisor is not an employee of the Company or any of its affiliated enterprises.
- (2) The director or supervisor is not a director or supervisor any of the Company's affiliated enterprises. (The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the Securities and Exchange Act or with the laws of the country of the parent or subsidiary).
- (3) The director or supervisor is not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person through nominees, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranking in the top 10 in holdings.
- (4) The director or supervisor is not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) The director or supervisor is not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the Company or that holds shares ranking in the top five in holdings.
- (6) The director or supervisor is not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the Company.
- (7) The director or supervisor is not a professional individual who, or an owner, partner, director, supervisor, officer, or a spouse thereof, of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliated enterprises of the Company. However, the same does not apply to the Remuneration Committee members as specified in Article 7 of Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the

Stock Exchange or Traded Over the Counter.

- (8) The director or supervisor is not a spouse or relative within the second degree of kinship of other directors.
- (9) The director or supervisor doesn't have any of the circumstances set forth in Article 30 of the Company Act.
- (10) The member is not a government agency or a juristic person or its authorized representative elected as provided under Article 27 of the Company Act.

(5)Background of the Management Team (As of March 31, 2018)

Title	Nationality	Name	Gender	On-Board Date	Shareholding		Spouse's and Minor' Children's Shareholding		Shareholding through nominees		Major Education and Experience	Concurrent positions in other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares	Percentage of Shareholding	Shares	Percentage of Shareholding	Shares	Percentage of Shareholding			Title	Name	Relation
President	R.O.C.	Pao-Yung Lin	Male	2007.04.12	4,892,345	1.89%	5,549,777	2.15%	0	0	Chairman, Senao International Co., Ltd. Tungshih High School	Director, Senao Networks, Inc.; Chairman, Senao Trading (Fujian) Co., Ltd.; Chairman, Senao International Trading (Shanghai) Co., Ltd.; Chairman, Senao International Trading (Jiangsu) Co., Ltd.; Chairman, Senao Trading (Shanghai) Co., Ltd.; Independent director, Ichia Technologies, Inc.; Independent director, Wiyynn Corporation.	Special Assistant	Cheng-Feng Lin	Father and son
Chief Strategy Officer	R.O.C.	Chih-Chung Chiu	Male	2006.05.05	48,422	0.02%	0	0	0	0	Head of Communication Department, AURORA Corp. Department of Mechanical, Da-Hu Senior High School	—	None	None	None
Chief Operating Officer	R.O.C.	Shao-Ti Shan	Male	2015.08.01	0	0	0	0	0	0	President of E-Commerce Department, Yahoo! Taiwan Holdings Limited, Taiwan Branch (H.K.) St. Ignatius High School	—	None	None	None
Chief Financial Officer	R.O.C.	Ching-Shou Lin	Male	2017.06.30	0	0	0	0	0	0	Head of Accounting Division, Chunghwa Telecom Data Communications Business Group; Vice President, HongHwa International Corp. Economics, Feng Chia University	—	None	None	None
Vice President	R.O.C.	Ching-Lang Chang	Male	1985.03.16	447,591	0.17%	0	0	0	0	Manager, Central Branch, Senao International Co., Ltd. MBA, National Taipei University	—	None	None	None
Vice President	R.O.C.	Wu-Hsiung Huang	Male	2010.07.01	10,000	0.00%	0	0	0	0	President, AURORA Telecom Corp. Civil Engineering, Tamkang University	—	None	None	None
Vice President	R.O.C.	Chi-Hung Liao	Male	2014.01.01	140,162	0.05%	0	0	0	0	Sales Manager, Samsung Electronics Co., Ltd. MBA, National Cheng Kung University	Director, Youth Co., Ltd.; Director, Sen Young Insurance Agent Co., Ltd.	None	None	None
Vice President	R.O.C.	Tien-Hung Chang	Male	2017.05.05	95,000	0.04%	0	0	0	0	COO, Yaodian 100 Master of Engineering Management, University of	Director, NTU Innovation & Incubation Co., Ltd.; Director, UUPON Inc.	None	None	None

											Ottawa, Canada				
Senior Assistant Vice President	R.O.C.	Chun-Wei Kuo	Male	2006.03.01	30,000	0.01%	0	0	0	0	Senior Assistant Vice President, Northern Branch, Senao International Co., Ltd. Business Administration, Aletheia University	—	None	None	None
Senior Assistant Vice President	R.O.C.	Po-Shuo, Yu	Male	2016.04.18	27,000	0.01%	0	0	0	0	Director of E-Commerce Operational Management Department, Yahoo! Taiwan Holdings Limited, Taiwan Branch (H.K.) Civil Engineering, Ryerson University	—	None	None	None
Senior Assistant Vice President	R.O.C.	Chen-San Chou	Male	2017.10.01	30,000	0.01%	0	0	0	0	Assistant Vice President, Southern Branch, Senao International Co., Ltd. Master's Degree, Department of Shipping & Transportation Management	—	None	None	None
Assistant Vice President	R.O.C.	Sheng-Kai Chen	Male	2008.01.01	19,045	0.01%	78	0.00%	0	0	Product Service Manager, Siemens Telecommunication Systems Ltd. Electronic and Computer Engineering, National Taiwan University of Science and Technology	—	None	None	None
Assistant Vice President	R.O.C.	Chih-Hsiang Kuo	Male	2014.01.01	0	0	0	0	0	0	Assistant Vice President, Storage and Logistics Division, Senao International Co., Ltd. Shipping Management, National Keelung Maritime Vocational High School	—	None	None	None
Assistant Vice President	R.O.C.	Chung-Yuan Huang	Male	2014.07.01	40,000	0.02%	0	0	0	0	Director, Far Eastern New Century Information Technology (Beijing) Limited MBA, National Chung Hsing University	—	None	None	None
Assistant Vice President (Accounting Manager)	R.O.C.	Tsai-Hung Yu	Female	2014.08.05	72,546	0.03%	0	0	0	0	Auditor-in-charge, C.H Chang & Co. CPA Master in Accounting, Soochow University	Supervisor, Youth Co., Ltd.	None	None	None
Assistant Vice President	R.O.C.	Chung-Ju Tsai	Male	2015.11.01	12,000	0.00%	0	0	0	0	Product Manager and Key Account Manager(Sales), Philips Taiwan Ltd. Industrial Engineering and Management, National Chiao Tung University	—	None	None	None
Assistant Vice President	R.O.C.	Feng-Chang Huang	Male	2017.01.06	26,000	0.01%	1,000	0.00%	0	0	Vice President, Jkos Network Co., Ltd. Master in Environmental Engineering and Management	—	None	None	None

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Assistant Vice President	R.O.C.	Wen-Kai Lai	Male	2017.04.01	20,000	0.01%	0	0	0	0	Manager, Northern Retail Division, Senao International Co., Ltd. IMBA, Chinese Culture University	—	None	None	None
Manager (Finance Department Manager)	R.O.C.	Kuan-Heng Lai	Male	2017.11.02	20,000	0.01%	0	0	0	0	Manager, Senao International Co., Ltd. Accounting, National Taiwan University	Director, Youth Co., Ltd; Supervisor, Aval Technologies Co., Ltd.; Supervisor, Sen Young Insurance Agent Co., Ltd.	None	None	None
Special Assistant	R.O.C.	Cheng-Feng Lin	Male	2013.06.01	253,420	0.10%	0	0	0	0	Manager, Senao International Co., Ltd. IMBA, National Chengchi University	Director, E-life Mall Corporation; Director, Tsann Kuen Enterprise Co Ltd.	President	Pao-Yung Lin	Father and son

(6) Remuneration paid to directors (including independent directors), supervisors, President and Vice Presidents during the most recent year

i. Remuneration paid to directors

Year 2017 Unit: thousand shares/ NT\$ thousand/%

Year 2017 Unit: thousand shares/ NT\$ thousand/ %																						
Title	Name	Directors' remuneration								The sum of A, B, C and D as a percentage of after-tax profit (%)		Compensation as company employee								The sum of A, B, C, D, E, F, and G as a percentage of after-tax profit(%)		Compensation from investments other than subsidiaries
		Compensation (A)		Pension(B)		Director Remuneration (C)(Note 4)		Fees for services rendered (D) (Note 5)				Salaries, bonuses, special allowances etc. (E) (Note 6)		Pension(F)		Employee remuneration(G) (Note 7)						
		The Company	All Companies included in the financial statements	The Company	All Companies included in the financial statements	The Company	All Companies included in the financial statements	The Company	All Companies included in the financial statements	The Company	All Companies included in the financial statements	The Company	All Companies included in the financial statements	The Company	All Companies included in the financial statements	The Company		All Companies included in the financial statements		The Company	All Companies included in the financial statements	
Chairman	Jin-Lin Lai (Note 1)	0	0	0	0	10,752	10,752	750	750	1.39	1.39	13,166	13,166	0	0	4,100	0	4,100	0	3.48	3.48	50
Director	Wen-Chih Lin (Note 1)																					
Director	Ming-Shih Chen (Note 1) (Note 3)																					
Director	Yuan-Kuang Tu (Note 1) (Note 3)																					
Director	Po-Yung Chen (Note 1) (Note 3)																					
Director	Fu-Kuei Chung (Note1) (Note 3)																					
Vice Chairman	Pao-Yung Lin (Note 2)																					
Director	Cheng-Feng Lin (Note 2)																					
Director	Cheng-Kang Lin (Note 2)																					
Independent Director	Chung-Ming Su																					
Independent Director	Kung-Liang Yeh																					

Note 1: The corporate shareholder representative of Chunghwa Telecom Co., Ltd..

Note 2: The corporate shareholder representative of Cheng Kang Investment Co., Ltd..

Note 3: Director Po-Yung Chen and Fu-Kuei Chung left the office on April 10, 2017, and Ming-Shih Chen and Yuan-Kuang Tu took over the office as appointed by Chunghwa Telecom Co., Ltd..

Note 4: The directors' remuneration for the 2017 earnings distribution is a proposed amount and has not been approved by the shareholders' meeting.

Note 5: It is director's transportation fee for the service rendered in 2017.

Note 6: It is compensation paid to director who is concurrently an employee of the Company in 2017, including salaries, allowance, bonuses, special allowances, and etc.

Note 7: It is the proposed employee remuneration to be paid to the director as company employee in 2017, and the amount for the year 2017 is proposed and yet passed by the shareholders' meeting.

Remuneration brackets table

Ranges of remuneration paid to the Company's directors	Name of director			
	Sum of the first 4 items (A+B+C+D)		Sum of the first 7 items (A+B+C+D+E+F+G)	
	The Company	All Companies included in the financial statements	The Company	All investee companies
Less than NT\$2,000,000	Wen-Chih Lin, Ming-Shih Chen, Yuan-Kuang Tu, Po-Yung Chen, Fu-Kuei Chung, Pao-Yung Lin, Cheng-Feng Lin, Cheng-Kang Lin, Chung-Ming Su, Kung-Liang Yeh	Wen-Chih Lin, Ming-Shih Chen, Yuan-Kuang Tu, Po-Yung Chen, Fu-Kuei Chung, Pao-Yung Lin, Cheng-Feng Lin, Cheng-Kang Lin, Chung-Ming Su, Kung-Liang Yeh	Wen-Chih Lin, Ming-Shih Chen, Yuan-Kuang Tu, Po-Yung Chen, Fu-Kuei Chung, Cheng-Feng Lin, Cheng-Kang Lin, Chung-Ming Su, Kung-Liang Yeh	Wen-Chih Lin, Ming-Shih Chen, Yuan-Kuang Tu, Po-Yung Chen, Fu-Kuei Chung, Cheng-Feng Lin, Cheng-Kang Lin, Chung-Ming Su, Kung-Liang Yeh
NT\$2,000,000 (inclusive) ~ NT\$ 5,000,000 (exclusive)	Jin-Lin Lai, Cheng Kang Investment Co., Ltd.	Jin-Lin Lai, Cheng Kang Investment Co., Ltd.	Jin-Lin Lai, Cheng Kang Investment Co., Ltd.	Jin-Lin Lai, Cheng Kang Investment Co., Ltd.
NT\$5,000,000 (inclusive) ~ NT\$ 10,000,000 (exclusive)	Chunghwa Telecom Co., Ltd.	Chunghwa Telecom Co., Ltd.	Chunghwa Telecom Co., Ltd.	Chunghwa Telecom Co., Ltd.
NT\$ 10,000,000 (inclusive) ~ NT\$ 15,000,000 (exclusive)	0	0	Pao-Yung Lin	Pao-Yung Lin
NT\$ 15,000,000 (inclusive) ~ NT\$ 30,000,000 (exclusive)	0	0	0	0
NT\$ 30,000,000 (inclusive) ~ NT\$ 50,000,000 (exclusive)	0	0	0	0
NT\$ 50,000,000 (inclusive) ~ NT\$ 100,000,000 (exclusive)	0	0	0	0
NT\$ 100,000,000 and above	0	0	0	0
Total	13	13	13	13

ii. Remuneration paid to supervisors

Year 2017 Unit: NT\$ thousand/%

Title	Name	Supervisors' remuneration						The sum of A, B and C as a percentage of after-tax profit (%)		Compensation from investments other than subsidiaries
		Compensation(A)		Remuneration(B) (Note 2)		Fees for services rendered(C) (Note 3)				
		The Company	All Companies included in the financial statements	The Company	All Companies included in the financial statements	The Company	All Companies included in the financial statements	The Company	All Companies included in the financial statements	
Supervisor	Sheng-Chen Li	0	0	4,608	4,608	270	270	0.59	0.59	0
Supervisor	Chun-Chien Chen (Note 1)									
Supervisor	Hsueh-Feng Chien (Note 1)									

Note 1: The corporate shareholder representative of Cheng Feng Investment Co., Ltd.

Note 2: The supervisors' remuneration for the 2017 earnings distribution is a proposed amount and has not been approved by the shareholders' meeting.

Note 3: It is supervisor's transportation fee for the service rendered in 2017.

Remuneration brackets table

Ranges of remuneration paid to the Company's supervisors	Name of supervisor	
	Sum of the first 3 items (A+B+C)	
	The Company	All Companies included in the financial statements
Less than NT\$2,000,000	Sheng-Chen Li 、 Chun-Chien Chen 、 Hsueh-Feng Chien	Sheng-Chen Li 、 Chun-Chien Chen 、 Hsueh-Feng Chien
NT\$2,000,000 (inclusive) ~ NT\$ 5,000,000 (exclusive)	Cheng Feng Investment Co., Ltd.	Cheng Feng Investment Co., Ltd.
NT\$ 5,000,000 (inclusive) ~ NT\$ 10,000,000 (exclusive)	0	0
NT\$ 10,000,000 (inclusive) ~ NT\$ 15,000,000 (exclusive)	0	0
NT\$ 15,000,000 (inclusive) ~ NT\$ 30,000,000 (exclusive)	0	0
NT\$ 30,000,000 (inclusive) ~ NT\$ 50,000,000 (exclusive)	0	0
NT\$ 50,000,000 (inclusive) ~ NT\$ 100,000,000 (exclusive)	0	0
NT\$ 100,000,000 and above	0	0
Total	4	4

iii. Remuneration paid to the President and Vice Presidents

Year 2017 Unit: NT\$thousand/ thousand shares/%

Title	Name	Salary(A) (Note 6)		Pension(B)		Bonus Special allowance and etc.(C) (Note 7)		Employee remuneration (D)				The sum of A, B, C and D as a percentage of after-tax profit (%)		Compensation from investments other than subsidiaries
		The Company	All Companies included in the financial statements	The Company	All Companies included in the financial statements	The Company	All Companies included in the financial statements	The Company		All Companies included in the financial statements		The Company	All Companies included in the financial statements	
								Amount paid in cash	Amount paid in shares	Amount paid in cash	Amount paid in shares			
President	Pao-Yung Lin	39,627	40,706	0	0	12,487	12,739	8,950	0	8,950	0	7.4	7.56	50
Chief Strategy Officer	Chih-Chung Chiu													
Chief Operating Officer	Shao-Ti Shan													
Business group President	Shu-En Hsieh (Note 1)													
Business group President	Wen-Hsiang Huang (Note 2)													
Vice President	Ching-Lang Chang													
Vice President	Chi-Hung Liao													
Vice President	Yi-Hsien Feng (Note 3)													
Vice President	Wu-Hsiung Huang													
Vice President	Tien-Hung Chang													
Chief Financial Officer	Shu-Ling Chen (Note 4)													
Chief Financial Officer	Ching-Shou Lin (Note 5)													

Note 1: Business group President Shu-En Hsieh resigned on February 28, 2017.

Note 2: Business group President Wen Hsiang Huang resigned on September 30, 2017.

Note 3: Vice President Yi-Hsien Feng resigned on October 31, 2017.

Note 4: CFO Shu-Ling Chen left the office on June 29, 2017.

Note 5: CFO Ching-Shou Lin took the office on June 30, 2017.

Note 6: It is the salary and allowance paid to President and Vice Presidents in 2017.

Note 7: It is the bonuses, allowances and other benefits paid to President and Vice Presidents in 2017.

Remuneration brackets table

Ranges of remuneration paid to the Company's President and Vice Presidents	Name of President and Vice Presidents	
	The Company	All Companies included in the financial statements
Less than NT\$2,000,000	Shu-En Hsieh, Shu-Ling Chen, Ching-Shou Lin	Shu-En Hsieh, Shu-Ling Chen, Ching-Shou Lin
NT\$ 2,000,000 (inclusive) ~ NT\$ 5,000,000 (exclusive)	Wen Hsiang Huang, Ching-Lang Chang, Chi-Hung Liao, Wu-Hsiung Huang, Tien-Hung Chang, Yi-Hsien Feng	Wen Hsiang Huang, Ching-Lang Chang, Chi-Hung Liao, Wu-Hsiung Huang, Tien-Hung Chang, Yi-Hsien Feng
NT\$ 5,000,000 (inclusive) ~ NT\$ 10,000,000 (exclusive)	Chih-Chung Chiu	Chih-Chung Chiu
NT\$ 10,000,000 (inclusive) ~ NT\$ 15,000,000 (exclusive)	Pao-Yung Lin, Shao-Ti Shan	Pao-Yung Lin, Shao-Ti Shan
NT\$ 15,000,000 (inclusive) ~ NT\$ 30,000,000 (exclusive)	0	0
NT\$ 30,000,000 (inclusive) ~ NT\$ 50,000,000 (exclusive)	0	0
NT\$ 50,000,000 (inclusive) ~ NT\$ 100,000,000 (exclusive)	0	0
NT\$ 100,000,000 and above	0	0
Total	12	12

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iv. Names of managers entitled to employee remuneration and amount entitled:

December 31, 2017 Unit: NT\$ thousand/%

	Title	Name	Amount paid in shares	Amount paid in cash	Total	Total as a percentage of after-tax profit (%)
Manager:	President	Pao-Yung Lin	0	11,760	11,760	1.42
	Chief Strategy Officer	Chih-Chung Chiu				
	Chief Operating Officer	Shao-Ti Shan				
	Vice President	Ching-Lang Chang				
	Vice President	Chi-Hung Liao				
	Vice President	Wu-Hsiung Huang				
	Vice President	Tien-Hung Chang				
	Chief Financial Officer	Ching-Shou Lin				
	Senior Assistant Vice President	Chun-Wei Kuo				
	Senior Assistant Vice President	Chen-San Chou				
	Senior Assistant Vice President	Po-Shuo, Yu				
	Assistant Vice President	Tsai-Hung Yu				
	Assistant Vice President	Chung-Ju Tsai				
	Assistant Vice President	Chih-Hsiang Kuo				
	Assistant Vice President	Sheng-Kai Chen				
	Assistant Vice President	Wen-Kai Lai				
	Assistant Vice President	Chung-Yuan Huang				
	Assistant Vice President	Feng-Chang Huang				
	Special Assistant	Cheng-Feng Lin				

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- (7) Separately compare and describe total remuneration, as a percentage of net income stated in the parent company only financial reports or individual financial reports, as paid by the Company and by all companies included in the consolidated financial statements during the past 2 fiscal years to directors, supervisors, President, and Vice Presidents, and analyze and describe remuneration policies, standards, and packages, the procedure for determining remuneration, and its linkage to operating performance and future risk exposure.

	Total remuneration paid in 2017 as a percentage of after-tax profit (Note 1)	Total remuneration paid in 2016 as a percentage of after-tax profit
The Company	9.76%	8.38%
All Companies included in the financial statements	9.92%	8.62%

1. The directors' remuneration and supervisors' remuneration were the remuneration from the annual earnings distribution passed by the shareholders' meeting and transportation fees for attending the board of directors' meeting. The remuneration from the annual earnings distribution was calculated in accordance with the Articles of Incorporation and, after being reviewed by the remuneration committee, submitted to the board of directors' meeting and shareholders' meeting for resolution. The remuneration was calculated based on a fixed percentage of the annual earnings, so it is highly correlated to the Company's performance.
2. The salary for Chairman, President and Vice Presidents can be categorized into fixed salary and floating salary. The fixed

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salary is calculated according to the Company's "Rules for Remuneration and Benefits", and the floating salary includes year-end bonus, based on the Company's annual performance, and employee remuneration, a fixed percentage of annual earnings. The salary is submitted to the board of directors' meeting for resolution, and thereafter, the employee remuneration is also submitted to the shareholders' meeting for resolution. The management team's remuneration is highly correlated to the operational performance and future risk.

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3. Information on the operations of corporate governance

(1) Operation of the board of directors

A total of 6 board of director's meetings were held in 2017, and the attendance records of directors and supervisors are listed below:

Title	Name (Note 1)	Actual attendance	Proxy attendance	Percentage of actual attendance (%) (Note 2)	Remark
Chairman	Jin-Lin Lai (Note 3)	6	—	100%	—
Vice Chairman	Pao-Yung Lin (Note 4)	6	—	100%	—
Director	Chi-Mao Hsieh (Note 3)	—	—	—	Departed on January 24, 2017. Required attendance: 0.
Director	Fu-Kuei Chung (Note 3)	1	—	100%	On-boarded on January 24, 2017 and departed on April 10, 2017. Required attendance: 1
Director	Po-Yung Chen (Note 3)	1	—	100%	Departed on April 10, 2017. Required attendance: 1.
Director	Yuan-Kuang Tu (Note 3)	4	1		On-boarded on April 10, 2017. Required attendance: 5.
Director	Ming-Shih Chen (Note 3)	5	—	100%	On-boarded on April 10, 2017. Required attendance: 5.
Director	Wen-Chih Lin (Note 3)	6	—	100%	—
Director	Cheng-Feng Lin (Note 4)	5	1	100%	—
Director	Cheng-Kang Lin (Note 4)	6	—	77.78%	—
Independent Director	Kung-Liang Yeh	5	1	83.33%	—
Independent Director	Chung-Ming Su	5	1	83.33%	—
Supervisor	Sheng-Chen Li	6	—	100%	—
Supervisor	Chun-Chien Chen (Note 5)	6	—	100%	—
Supervisor	Hsueh-Feng Chien (Note 5)	6	—	100%	—
Other matters that shall be recorded:					
1) For board of directors meetings that meet conditions described in Article 14-3 of the Securities and Exchange Act or are subject to any other documented objections or qualified opinions raised by independent director against board resolution, the date, session, the agenda, independent directors' opinions and how the company has responded to such opinions shall be stated: Refer to page 241.					
2) Disclosure regarding avoidance of interest-conflicting agendas, including the names of directors concerned, the agendas, the nature of conflicting interests, and the voting process: In the 9th meeting of the 9th board of directors dated December 28, 2017, discussion matter: Agenda: 2017 Chairman's and managers' performance appraisal and year-end bonus disbursement. (Chairman Jin-Lin Lai and Vice Chairman Pao-Yung Lin had avoided the discussion and voting due to conflict of interests.) Resolution: Except Chairman Jin-Lin Lai and Vice Chairman Pao-Yung Lin had avoided the discussion and voting due to conflict of interests, the agenda was passed as proposed unanimously by remaining directors present at the meeting.					
3) Measures taken to strengthen the functionality of the Board of Directors for the present year and the most recent year and assessment on the implementation: None.					

Note 1: If the directors and supervisors are corporations, the names of the corporate shareholders and the names of their representatives should be disclosed.

Note 2: (1) The date of resignation is specified for Directors or Supervisors who had resigned prior to the close of the financial year. The percentage of actual attendance (%) is calculated based on the number of board of directors meetings held and the number of

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actual attendance during active duty.

(2) If a re-election of Directors or Supervisors had taken place prior to the close of the financial year, Directors/Supervisors of both the previous and the current term are listed; in which case, the remarks column would specify the re-election date and whether the Director/Supervisor was elected in the previous term, the new term, or both. The percentage of actual attendance (%) is calculated based on the number of board of directors meetings held and the number of actual attendance during active duty.

Note 3: The corporate shareholder representative of Chunghwa Telecom Co., Ltd..

Note 4: The corporate shareholder representative of Cheng Kang Investment Co., Ltd..

Note 5: The corporate shareholder representative of Cheng Feng Investment Co., Ltd..

The attendance records of independent directors for the board meetings held in 2017 are listed below:

⊙ Attendance in person

☆ Attendance by proxy

	2017.03.02	2017.05.05	2017.06.29	2017.08.04	2017.11.02	2017.12.28
	The 5th meeting of the 9th board of directors	The 6th meeting of the 9th board of directors	The 3th meeting of the 9th board of directors (extraordinary)	The 7th meeting of the 9th board of directors	The 8th meeting of the 9th board of directors	The 9th meeting of the 9th board of directors
Kung-Liang Yeh	⊙	⊙	⊙	⊙	☆	⊙
Chung-Ming Su	⊙	⊙	☆	⊙	⊙	⊙

(2) Operation of the audit committee or participation in board meetings by the supervisors:

i. Operation of the audit committee : The Company did not establish the audit committee.

ii. Participation in board meetings by the supervisors

A total of 6 board of director's meetings were held in 2017, and the attendance records are listed below:

Title	Name	Actual attendance	Percentage of actual attendance (%)	Remark
Supervisor	Sheng-Chen Li	6	100%	—
Supervisor	Chun-Chien Chen (Note)	6	100%	—
Supervisor	Hsueh-Feng Chien (Note)	6	100%	—

Other matters that shall be recorded:

1. Composition and duties of supervisors:

(1) The communications between the supervisors, company employees and shareholders: The "Shareholders Service" section was established on the Company's website, and the "Employee Suggestion Mailbox" was available in the Company. The messages from these channels are processed by a dedicated personnel, so employees or shareholders may communicate with the supervisors via these channels.

(2) The communications between the supervisors, the internal auditors, and the independent auditors : (For example, matters, methods and

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results regarding the Company's financial status or business development)

3. The communications between the independent directors and the internal auditors are listed below:

Meeting date	Major meeting agendas
March 2, 2017	Report of the result of 2016 fourth quarter internal audit to the supervisors and directors by internal auditors, including quarterly audit items and the follow-up of corrective actions for the annual audit items: (1).Sale and receipt cycle (2).Audit on derivatives (3).Fourth quarter audit on loaning of funds and making of endorsements and guarantees
May 5, 2017	Report of the result of 2017 first quarter internal audit to the supervisors and directors by internal auditors, including quarterly audit items and the follow-up of corrective actions for the annual audit items: (1).Related party transactions and supervision and management of subsidiaries. (2).Controls for acquisition or disposal of assets (3).Controls for derivatives transactions
August 4, 2017	Report of the result of 2017 second quarter internal audit to the supervisors and directors by internal auditors, including quarterly audit items and the follow-up of corrective actions for the annual audit items: (1).Purchase and payment cycle (2).Audit on subsidiaries (3).Controls for derivatives transactions (4).Loans to others and endorsements and guarantees for the first half year
November 2,2017	Report of the result of 2017 three quarter internal audit to the supervisors and directors by internal auditors, including quarterly audit items and the follow-up of corrective actions for the annual audit items: (1).Retail sales and receipt cycle (2).Inventory cycle (3).Compliance of Personal Information Protection Act (4).Financial statements cycle and management of application of International Financial Reporting Standards, procedures for professional accounting judgments, and processes for making changes in accounting policies and estimates. (5).Controls on derivatives transactions
December 28, 2017	Report of the result of 2017 fourth quarter internal audit to the supervisors and directors by internal auditors, including quarterly audit items and the follow-up of corrective actions for the annual audit items: (1).Management of the operations of the remuneration committee and Labor and wage cycle (2).E-commerce sales and receipt cycle (3).Controls on derivatives transactions (4).Information flow security inspection and information technology cycle (5).Loans to others and endorsements and guarantees for the second half year

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	Monthly	Prepare the monthly internal auditor's report in accordance with the annual audit plan and submit to the supervisors and independent directors for review. For any questions regarding the report raised by supervisors or independent directors, the internal audit manager shall make further explanation and communicate to the supervisors and independent directors for supervision with a clear understanding of the audit result and consequent control measures.
2.	For board of directors meetings subject to any opinions raised by independent director, the date, session, the agenda, the resolution and how the Company has responded to such opinions shall be stated: None of the preceding condition occurred during this year.	

Note: The corporate shareholder representative of Cheng Feng Investment Co., Ltd..

(3) Deviation and causes of deviation of the Company's actual governance from the Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies

Assessment criteria	Implementation status			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Explanation	
1. Does Company follow the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" to establish and disclose its corporate governance practices?	V		60 articles of the "Senao International Co., Ltd. Corporate Governance Best Practice Principles" were passed by the resolution of the board's meeting, in accordance with the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" set by the TWSE and TPEX. The Principles were uploaded to the Company's website on Internal Policies page of Investors Section for shareholders' inquiry.	No major deviation
2. The shareholding structure and shareholders' equity of the Company				
(1) Does the Company have the internal procedures regulated to handle shareholders' proposals, doubts, disputes, and litigation matters; in addition, have the procedures implemented accordingly?	V		(1) The Company has appointed the spokesperson, acting spokesperson and share affairs unit for handling matters related to shareholders, and the share affairs were handled in accordance with relevant internal procedures for share affairs.	No major deviation
(2) Is the Company constantly informed of the identities of its major shareholders and the ultimate controller?	V		(2) The Company is constantly informed of the shareholding of its directors, supervisors, managers and major shareholders individually holding 10 percent or more of the Company's shares, and makes monthly reports on the Market Observation Post System as required by the competent authority in accordance with Article 25 of the Securities and Exchange Act.	The major shareholder prescribed in article 19 refers to those who owns 5 percent or more of the outstanding shares of the company or the shareholding stake thereof is on the top 10 list; The share register is available to the Company during

				the closure period, and based on the register, the Company may be informed of the list of top shareholders.
(3) Has the company established and implemented risk management practices and firewalls for companies it is affiliated with?	√		(3) The Company has adopted the “Guidelines for Related Party Transactions”, built and implemented the risk management practices and firewalls for companies it is affiliated with.	No major deviation
(4) Has the company established internal policies that prevent insiders from trading securities against non-public information?	√		(4) The Company has adopted the “Procedures for Preventing Insider Trading and Handling Material Inside Information” and constantly organized annual information session of insider trading prevention and material insider information handling for the insiders to prevent insiders from trading securities against non-public information.	No major deviation
1、Composition and duties of the board of directors:				
(1) Does the Board of Directors have diversified policies regulated and implemented substantively according to the composition of the members?	√		(1) The Company has implemented the “Corporate Governance Best Practice Principles” that set forth the diversity among the board members in Article 20 (Abilities possessed by the board members). In addition to that directors concurrently serving as company officers shall not exceed one-third of the total number of the board members, an appropriate policy on diversity based on the company's business operations, operating dynamics, and development shall be formulated. The following is an evaluation of professional background (e.g., law, accounting, industry, finance, marketing, technology) of current board members, including independent directors, as well as the review of their comprehensive abilities, such as ability to make operational judgments, ability to perform accounting and financial analysis, ability to conduct management administration, ability to conduct crisis management, knowledge of the industry, an international market perspective, ability to lead and ability to make policy decisions.	No major deviation

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			The abilities possessed by the board members											
			Director/Independent Director Name	Gender	1	2	3	5	6	7	8	9		10
					Professional background	Ability to make operational judgments	Ability to perform accounting and financial analysis	Ability to conduct management administration.	Ability to conduct crisis management.	Knowledge of the industry.	An international market perspective.	Ability to lead.		Ability to make policy decisions.
			Jin-Lin Lai	Male	V	V		V	V	V	V	V	V	
			Yuan-Kuang Tu	Male	V	V		V	V	V	V	V	V	
			Ming-Shih Chen	Male	V	V		V	V	V	V	V	V	
			Chien-Chih Chen	Male	V	V		V	V	V	V	V	V	
			Pao-Yung Lin	Male	V	V		V	V	V	V	V	V	
			Cheng-Kang, Lin	Male	V	V		V	V	V	V	V	V	
			Cheng-Feng Lin	Male	V	V		V	V	V	V	V	V	
			Kung-Liang Yeh	Male	V	V	V	V	V	V	V	V	V	
			Chung-Ming Su	Male	V	V	V	V	V	V	V	V	V	
(2) Apart from the Remuneration Committee and Audit Committee, has the Company assembled other functional committees at its own discretion?		V	(2) Apart from the Remuneration Committee, the board of directors has passed the Articles of Association of Special Committee on Mergers and Acquisitions to assemble the Special Committee on Mergers and Acquisitions. The Special Committee on Mergers and Acquisitions consists of the independent directors. In the event of a merger or acquisition, the Committee may call for a meeting to evaluate the fairness and reasonableness of such a transaction.										No major deviation	
(3) Has the Company established a set of policies and assessment tools to evaluate the board's performance? Is performance evaluated regularly at least on an annual basis?		V	(3) The Company has not yet established a set of policies to evaluate the board's performance.										No major deviation	
(4) Are external auditors' independence assessed on a regular basis?	V		(4) The Company's external auditors' independence are assessed on a yearly basis (once a year) based on the following criteria, and the evaluation result is reported to the most recent board meeting: 1. External auditors' declaration of independence.										No major deviation	

			2. Annual competency assessment survey of the external auditors for the evaluation of external auditors' independence. 3. None of the auditors has provided audit service to the Company for more than seven consecutive years.	
4. Has the company designated a department or personnel that specializes (or is involved) in corporate governance affairs (including but not limited to providing directors/supervisors with the information needed to perform their duties, convention of board meetings and shareholder meetings, company registration and changes, preparation of board meeting and shareholder meeting minutes etc)?	V		The Company's Finance Department Manager is responsible for the corporate governance affairs (including but not limited to providing directors/supervisors with the information needed to perform their duties, convention of board meetings and shareholder meetings, company registration and changes, preparation of board meeting and shareholder meeting minutes etc) and reporting to the board meeting on a regular basis.	No major deviation
5. Has the Company provided proper communication channels and created dedicated sections on its website to address corporate social responsibility issues that are of significant concern to stakeholders (including but not limited to shareholders, employees, customers and suppliers)?	V		In order to emphasize on the stakeholders' interests, the Company has set up the stakeholders' section on the Company's website (https://www.senao.com.tw/invest16.php). At the meantime, the Company has also provided the communication channels such as customer service hotline, retail stores and emails to various stakeholders, thereby stakeholders can provide the feedback regarding relevant issues or thoughts to Senao International via the most convenient method for them.	No major deviation
6. Does the Company engage a share administration agency to handle shareholder meeting affairs?	V		The Company has signed the share affairs agency contract with Stock Affairs Department, Taishin International Bank and engage it to handle shareholder meeting affairs.	No major deviation
7. Information disclosure				
(1) Has the Company established a website that discloses financial, business, and corporate governance-related information?	V		(1) i. Financial information disclosure: the Company's financial information is disclosed under the investors section on the website and is updated on a regular basis for investors' reference. ii. Business information disclosure: the Company's product information is placed on the front page of the website; the service information such as warranty inquiry and maintenance progress inquiry can be found on the maintenance service page. iii. Corporate governance information: The Operation of Internal Audit, Endorsement and Guarantee Procedures, and Procedures Governing the Acquisition or Disposal of Assets were disclosed on the Company's website; the material resolutions of the board meetings were disclosed on the annual report.	No major deviation

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(2) Has the Company adopted other means to disclose information (e.g. English website, assignment of specific personnel to collect and disclose corporate information, implementation of a spokesperson system, broadcasting of investor conferences via the company website)?	V	(2) i. Assignment of specific personnel to collect and disclose corporate information: the related departments or divisions of the Company have assigned specific personnel to collect and disclose information. ii. Implementation of a spokesperson system: The Company has assigned the spokesperson and acting spokesperson as specified by relevant rules to implement the spokesperson system. iii. Broadcasting of investor conferences via the company website: The Company has uploaded the investor conference videos under events information section of the investors page for reference; the financial and operational information provided in an investor conference has been submitted, in addition to the investors section on the website, to the Market Observation Post System as required by TWSE.	No major deviation
8. Does the Company have other information that enables a better understanding of the Company's corporate governance practices (including but not limited to employee rights, employee care, investor relations, supplier relations, stakeholders' interests, continuing education of directors/supervisors, implementation of risk management policies and risk measurements, implementation of customer policy, and insuring against liabilities of company directors and supervisors)?	V	(1) Employee rights, employee care: the Work Rules has been established in compliance with relevant labor regulations and disclosed publicly. Meanwhile, the intra-net counseling platform and hotline are available for employee consultation and communication. In addition, the Company's Employee Welfare Committee is responsible for employee welfare, and please refer to page 123 of the report for further information. (2) Investor relations: Protecting shareholders' interests is the Company's ultimate goal. It treats all of its shareholders equally and publish relevant material information such as financial and operational information or shareholding of insiders on a timely basis and in compliance with relevant rules and regulations. The meeting minutes of ordinary shareholders' meetings were handled in accordance with the Company Act and relevant rules and regulation and published on the Company's website. (3) Supplier relations: The Company has maintained good relations with its suppliers for a long time and implemented a prudent review process for a supplier's qualification, capability, credit. Both parties act based solely on the contract. Before signing the contract and during conducting the business, the Company identifies and examines the protection measures based on the operational risk of different suppliers. The Company also provides complete, timely	No major deviation No major deviation No major deviation

			and correct financial information for suppliers' reference.	
		(4)	Stakeholders' interests: Through the Company's detailed rules and policies, adjusted in accordance with local laws and regulations, the interests of various stakeholders are fully covered. For major stakeholders, we have set up the stakeholder section for timely feedback of important rights and material information, and the corresponding complaint channel is provided for any unfair treatment or impairment of stakeholders' rights, thereby the Company may response immediately and effectively.	No major deviation
		(5)	Continuing education of directors/supervisors : The Company will arrange proper training courses for directors and supervisors to comply with the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies" regulated by TWSE.	No major deviation
		(6)	Implementation of risk management policies and risk measurements: Please refer to page 221 of the report for risk management information.	No major deviation
		(7)	Implementation of customer policy: The Company has the retail stores and customer service units nationwide, as well as the customer service hotline and specialists, to provide services and solutions for customer inquiries and complaints.	No major deviation
		(8)	Insuring against liabilities of company directors and supervisors: The Company has insured against liabilities of company directors and supervisors with liability limit of US\$ 5 million and reported to the board of directors' meeting.	No major deviation
		(9)	Qualification of personnel involved in financial transparency: 1 Certified Public Accountant and 2 Certified Internal Auditors.	No major deviation
9. Please explain the improvements made, based on the latest Corporate Governance Evaluation results published by TWSE Corporate Governance Center, and propose enhancement measures for any issues that are yet to be rectified. (Not applicable if the company is not one of the evaluated subjects) The Company has made the following improvements based on the latest Corporate Governance Evaluation results: (1) The annual report is submitted 14 days prior to the ordinary shareholders' meeting. The list of major shareholders and structure of corporate governance is published on the Company's website. (2) The information disclosed on the Company's website has been extended, for example: the list of major shareholders, structure of corporate governance, Corporate Governance Best Practice Principles, Ethical Corporate Management Best Practice, policies for diversity of board members, communications with independent directors, compliant channel for non-investor.				

Enhancement measures are as follows:

Given that the foreign investments is giving a rise to increasing market value in the Taiwanese stock markets during the last decade, in order to further improve foreign investors' willingness to invest in Taiwan, information transparency and international reputation, the Company has proposed enhancement measures on relevant information discloses in English (e.g. Annual Report, Meeting Handbook, meeting notice, annual financial statements and material information). Meanwhile, the Company will also place focus on the enhancement of the preparation of Corporate Social Responsibility report and certification of ISO14064-1、14001、50001 that are aimed to be completed as soon as possible.

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(4) Disclosure regarding the composition, responsibilities, and functioning of remuneration committee, if available: The Remuneration Committee was formed upon on the resolution of the board of directors' meeting, where the Committee members were assigned by the board. The Committee is mainly responsible for reviewing regularly the compensation policies, systems, standards and structures, and performance of directors, supervisors and managers and proposing for discussion in the board meeting.

1. Information of the Remuneration Committee members

Identity (Note 1)	Condition	Whether he/she has at least five (5) years of work experience and meet one of the following professional qualifications			Independence Status (Note 2)								Number of positions as Remuneration Committee member in other public companies	Remark (Note 3)
	Name	An instructor at a public or private college, in a department of commerce, law, finance, accounting, or other academic departments related to the business of the Company.	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist, in a profession necessary for the business of the Company, who has passed a national examination and been awarded a certificate.	Have work experience in the area of commerce, law, finance, accounting, or work experience needed by the Company	1	2	3	4	5	6	7	8		
Independent Director	Kung-Liang Yeh			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Other	Yung-Lin Su			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Other	Mao-Wei Hung	✓			✓	✓	✓	✓	✓	✓	✓	✓	2	

Note 1: Please state whether the person is a Director, an Independent Director, or other in the "Status" column.

Note 2: Check in each box with "✓", if the member meets the condition during the two years prior to being appointed and during the term of office.

- (1) The member is not an employee of the Company or any of its affiliated enterprises.
- (2) The member is not a director or supervisor of the Company or any of its affiliated enterprises. Not applicable to the independent director of any company, its parent company, or subsidiaries to which the Company holds more than 50% direct or indirect voting interest
- (3) The member is not a natural-person shareholder who holds shares, together with those held by the person's

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spouse, minor children, or held by the person through nominees, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranking in the top 10 in holdings.

- (4) The member is not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs
- (5) The member is not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the Company or that holds shares ranking in the top five in holdings.
- (6) The member is not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the Company.
- (7) The member is not a professional individual who, or an owner, partner, director, supervisor, officer, or a spouse thereof, of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliated enterprises of the Company.
- (8) The member doesn't have any of the circumstances set forth in Article 30 of the Company Act.

Note 3: For members who have been identified as directors, further explanations are provided with regards to their applicability to Paragraph 5, Article 6 of "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter."

2. Operations of Remuneration Committee

- (1) The Company's Remuneration Committee consists of 3 members.
- (2) Duration of service of the current Committee: from June 27, 2016, to June 26, 2019. The Remuneration Committee held 6 meetings (A) in 2017; details of members' eligibility and attendance are as follows:

Title	Name	Actual attendance (B)	Proxy Attendance	Percentage of actual attendance(%) (B/A) (Note)	Remark
Independent Director	Kung-Liang Yeh	6	—	100%	
Other	Yung-Lin Su	6	—	100%	
Other	Mao-Wei Hung	6	—	100%	
Other matters that shall be recorded:					
1. In the event where the Remuneration Committee's proposal is rejected or amended in a board of directors meeting, please describe the date and session of the meeting, details of the agenda, the board's resolution, and how the company had handled the Remuneration Committee's proposals (describe the differences and reasons, if any, should the board of directors approve a solution that was more favorable than the one proposed by the Remuneration Committee): None. 2. Should any member object or express qualified opinions to the resolution made by the Remuneration Committee, whether on-record or in writing, please describe the date and session of the meeting, details of the agenda, the entire members' opinions, and how their opinions were addressed: None.					

Note:

- (1) Date of resignation is shown for members of the Remuneration Committee who had resigned prior to the close of the financial year. The percentage of actual attendance (%) is calculated based on the number of Remuneration Committee meetings held and the number of meetings actually attended during active duty.
- (2) If a re-election of Remuneration Committee members had taken place prior to the close of the financial year, members of both the previous and the current Remuneration Committee will be listed; in which case, the remarks column will specify whether the committee member was elected in the previous board, the new board, or both. The percentage of actual (proxy) attendance (%) will be calculated based on the number of

Remuneration Committees held during active duty and the number of actual (proxy) attendance.

(5) Fulfillment of social responsibilities:

Assessment criteria	Implementation status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TPEX-Listed Companies
	Yes	No	Explanation	
1. Implement corporate governance.				
(1) Does the Company have a corporate social responsibility policy or system in place? Is progress reviewed on a regular basis?	V		(1) The Company has adopted the corporate social responsibility policy passed in a board of directors' meeting in 2017, and established the Senao Technology Education Foundation in promoting culture, eco-environment protection, social care and humanity to implement social responsibility.	No major deviation
(2) Does the Company organize social responsibility training on a regular basis?	V		(2) The Company organizes charity year-end event annually with the theme of social welfare and non-toxic agriculture and encourages the participation of employees and their family. The Corporate Social Responsibility Best Practice Principles, Corporate Governance Best Practice Principles, Ethical Corporate Management Best Practice and relevant procedures have been established, notified to employees, published on the website and implemented accordingly.	No major deviation
(3) Does the Company have a unit that specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and reports its progress to the board of directors?	V		(3) The Company's Main Management Office is the specialized unit in CSR practices and responsible for the CSR policies, systems or management guideline and the proposal and execution of implementation plan.	No major deviation

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Assessment criteria	Implementation status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TPEX-Listed Companies
	Yes	No	Explanation	
			CSR related matters are handled by senior management authorized by the board, and reported to the board of directors.	
(4) Does the Company have a reasonable salary and remuneration policy setup, have the employee performance evaluation system combined with corporate social responsibility policies, and have a clear and effective reward and punishment system been established?	V		(4) The Company has projected its business performance or result on its employees salary and remuneration policy and has a clear reward and punishment system linked directly to the appraisal score.	No major deviation
2. Foster a sustainable environment.				
(1) Is the Company committed to achieving efficient use of resources, and using renewable materials that produce less impact on the environment?	V		(1) The Company offers the used phones sell and recycle service at the director stores, Chunghwa Telecom counters and the Company's website (https://www.senao.com.tw/SecondHand_Evaluate.php). After the refurbishment, the phones will be sold as refurbished phones (a total of 31,472 refurbished phones in 2017). In addition, the recycle bins were setup at the director stores for the recycle of discarded mobiles and batteries (A total of 7,097 discarded mobile phones and 747 Kg discarded batteries in 2017) to reduce the impact on the environment.	No major deviation
(2) Does the Company have an appropriate environmental	V		(2) The Company is classified in the retail and distribution industry, and relevant	No major deviation

Assessment criteria	Implementation status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TPEX-Listed Companies
	Yes	No	Explanation	
management system established in accordance with its industrial character?			operational procedures are in compliance with corresponding environmental management system.	
(3) Does the Company pay attention to the impact of climate change on the operational activities, implement greenhouse gas check, and form an energy-saving, carbon-reduction, and greenhouse emissions reduction strategy?	V		(3) The Company uses the energy efficient lights in all of its offices and promotes the ideas of “turning off light when leaving” and “energy-saving and carbon-reduction” for energy and water conservation.	No major deviation
3. Preserve public welfare.				
(1) Does the Company have the relevant management policies and procedures stipulated in accordance with the relevant laws and regulations and international conventions on human rights?	V		(1) The Company’s human resource management policy and procedures comply with relevant labor laws to ensure employees’ legal rights. We respect toward the basic labor human right principles recognized internationally, including prohibiting the use of child labor, eliminating employment discrimination and etc., so as to achieve equality and fairness in remuneration, hiring conditions, training and promotion opportunities.	No major deviation
(2) Does the Company have the complaint mechanism and channel established for employees and has it been handled properly?	V		(2) The response mechanism has been enabled at the Company’s website to answer to employees’ request properly. The compliant channel may be found via the mailbox for stakeholders on the investors section of the website.	No major deviation

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Assessment criteria	Implementation status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TPEX-Listed Companies
	Yes	No	Explanation	
			Employees may also send their suggestions or proposals to the Suggestion Area under the Public Relations area at the internal HR web page or Chairman's e-mail.	
(3) Does the Company provide employees with a safe and healthy work environment, and provide safety and health education to employees regularly?	V		(3) The Company's working environment is completely smoke-free and certified with the "Badge of Accredited Healthy Workplace" from the Department of Health, New Taipei City Government in 2013. The first aid kit is available at the workplace. The Company has hired the dedicated nurse to provide health consultation, occupational disease prevention and injury treatment, invited doctors for health talk, conducted working environment inspection, arrange employee health check-up and offer massage service by massager with visual impairment, so as to build the primary health care system. In order to build a good and friendly environment for pregnancy and breastfeeding, the Company has furnished the breastfeeding room to encourage breastfeeding and achieve the goal of work-life balance. In addition, the building management unit was established to arrange courses in firefighting and first aid to ensure work environment and employee physical safety.	No major deviation

Assessment criteria	Implementation status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TPEX-Listed Companies
	Yes	No	Explanation	
(4) Has the Company established a mechanism of periodical communication with employees and have the employee notified in a reasonable manner regarding the potential impact of the operation changes.	V		(4) The Company holds labor-management meeting on a regular basis to provide the communication channel for labor and management, and establishes internal control policies in compliance with relevant laws and regulations.	No major deviation
(5) Does the Company have an effective career capacity development-training program established for the employees?	V		(5) The Company has adopted the Employee Education and Training Policy and the Guidelines for Employee Inservice Education to encourage employees to development professions and skills that are directly linked to personal performance.	No major deviation
(6) Has the Company implemented consumer protection and grievance policies with regards to its research, development, procurement, production, operating and service activities?	V		(6) The Company has adopted the Guidelines for Handling Customer Complaint for the proper handling of customer complaint.	No major deviation
(7) Has the Company complied with laws and international standards with regards to the marketing and labeling of products and services?	V		(7) The Company has complied with laws and international standards with regards to the marketing and labeling of products and services, and included product procurement contract to regulate the suppliers.	No major deviation
(8) Does the Company evaluate suppliers' environmental and social conducts before commencing	V		(8) The Company evaluate and investigate suppliers' record before commencing business relationship.	No major deviation

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Assessment criteria	Implementation status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TPEX-Listed Companies
	Yes	No	Explanation	
business relationships?				
(9) Is the Company entitled to terminate supply agreement at any time with a major supplier, if the supplier is found to have violated its corporate social responsibilities and caused significant impacts on the environment or the society?	V		(9) The Company has specified in the supplier's contract that the suppliers shall not use any conflict minerals (goods made by conflict minerals from Democratic Republic of the Congo and neighboring areas), and products and supplemental documents shall comply with relevant laws and regulations.	No major deviation
4. Enhance information disclosure				
(1) Has the company disclosed relevant and reliable CSR information on its website and at the Market Observation Post System?	V		(1) The Company has establish the CSR section within the Investor Relations section on its website, and via the website and Market Observation Post System, the Company has released information for public reference.	No major deviation
4) For companies which have established corporate social responsibility code of conducts in accordance with the "Corporate Governance Best-Practice Principles for TWSE and TPEX Listed Companies", please describe the current practices and any deviations from the code of conduct: The Company has established corporate social responsibility code of conducts, among which, for the implementation of corporate governance, it also adopted the "Senao International Co., Ltd. Code of Conduct" as the primary guidelines for daily operation. The "Senao International Co., Ltd. Regulations for Board of Directors and Supervisors accepting reports and complaints" was established to provide prudent reporting mechanism allowing employees to give suggestion safely and confidentially. Moreover, the "Senao International Co., Ltd. Ethical Corporate Management Best Practice Principles and Procedures" was adopted for the compliance of all group employees and implementation of ethical operation. In terms of fostering a sustainable environment, the Company has implemented energy-saving policy at its working environment.				
5) Other information useful to the understanding of corporate social responsibilities: Further information regarding CSR operation is available on Senao International Co., Ltd.'s official				

Assessment criteria	Implementation status			Deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TPEX-Listed Companies
	Yes	No	Explanation	
website(https://www.senao.com.tw/invest18.php) and Senao Technology Education Foundation's official website (http://www.senao.org.tw/) for public reference.				
7. Describe the criteria undertaken by any institution to certify the Company's CSR report: None.				

(6) Ethical policies and practices:

Implement ethical policies

Assessment criteria	Implementation status			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TPEX-Listed Companies
	Yes	No	Explanation	
1. Establishing ethical management policies and plans				
(1) Has the Company stated in its Memorandum or external correspondence about the polices and practices it has to maintain business integrity? Are the board of directors and the management committed in fulfilling this commitment?	V		(1) The Company conducts its business with fairness, honesty, integrity and transparency, and in order to implement its ethical operation policy and prevent any unethical actions, it has adopts the “Ethical Corporate Management Best Practice Principles and Procedures” passed by the board of directors to regulate employees’ behavior while performing their duties.	No major deviation
(2) Does the company have any measures against dishonest conducts? Are these measures supported by proper procedures, behavioral guidelines, disciplinary actions and complaint systems?	V		(2) The Company has established the Code of Conduct which details the regulations to be followed by the employees while performing their duties to implement ethical operation policy and prevent unethical actions, and set forth the reward, punishment and complaint policies. Violations are subject to disciplinary action, dismissal or termination of employment, or judicial action depending on the level of severity. The Company is determined in the implementation of ethical operation.	No major deviation

Assessment criteria	Implementation status			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TPEX-Listed Companies
	Yes	No	Explanation	
(3) Has the Company taken steps to prevent occurrences listed in Paragraph 2, Article 7 of “Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies” or business conducts that are prone to integrity risks?	√		(3) The prohibitions of bribery, corruption and any violation of laws for managers and employees are set forth in the employees code of conduct. Violations are subject to disciplinary action, dismissal or termination of employment depending on the level of severity. The Company follows the Political Donations Act and internal procedures for the political contributions. It is prohibited to make such contributions in exchange of business benefits or transactional advantage. All the business contracts are required to include statement of honesty and integrity, and it is mandatory for the counter party to follow those contracts.	No major deviation
2. Implement ethical policies				
(1) Does the Company evaluate the integrity of all counter parties it has business relationships with? Are there any integrity clauses in the agreements it signs with business partners?	√		(1) The Company is prohibited from conducting business with whom has unethical records. All the business contracts are required to include statement of honesty and integrity, and counter party is mandatory to follow.	No major deviation
(2) Does the Company have a unit that specializes (or is involved) in business integrity? Does this unit report its progress to the board of	√		(2) The Company have designated the Legal Affairs Department specialized (or is involved) in amendment, execution, explanation and consultation of the	No major deviation

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Assessment criteria	Implementation status			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TPEX-Listed Companies
	Yes	No	Explanation	
directors on a regular basis?			Principles, as well as documentation and monitoring of any report cases. The specialized unit shall report to the board of directors on a regular basis.	
(3) Does the Company have any policy that prevents conflict of interest, and channels that facilitate the report of conflicting interests?	V		(3) In order to build a corporate culture of ethical operation and support business development, the Company has established the code of conduct, implemented policy that prevents conflict of interest and offered channel that facilitate the report of conflicting interests for its directors, supervisors, managers and employees.	No major deviation
(4) Has the Company implemented effective accounting and internal control systems for the purpose of maintaining ethical operation? Are these systems reviewed by internal or external auditors on a regular basis?	V		(4) The Company has implemented effective accounting system and made any necessary adjustments in accordance with relevant rules and regulations or the operational needs. In addition to the examination of implementation of ethical operation policy by the department heads, the internal auditors conduct audits and follow-ups based on the annual audit plan.	No major deviation
(5) Has the Company provided internal and external training on ethical operation on a regular basis?	V		(5) The Company has promotes the ethical operation policy to directors, supervisors or employees from time to time, so as to strengthen corporate ethics. All employees have to sign the statement for	No major deviation

Assessment criteria	Implementation status			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TPEX-Listed Companies
	Yes	No	Explanation	
			work ethics while on-board, and review and sign the code of conduct afterwards annually.	
3. Reporting of misconducts				
(1) Does the Company provide incentives and means for employees to report misconducts? Does the Company assign dedicated personnel to investigate the reported misconducts?	V		1) The Company has implemented the ethical operation policy and actively prevents any unethical behaviors. Therefore, it has established the following channel for reporting and complaint on the Company's official website < https://www.senao.com.tw/invest17.php >for the use of employees and external stakeholders: Internal stakeholders: Employees' report or complaint to Senao International's board of directors and supervisors : auditing@senao.com.tw Chairman's E-mailbox : senaovoice@senao.com.tw External stakeholders: legal@senao.com.tw	No major deviation
(2) Has the Company implemented any standard procedures or confidentiality measures for handling reported misconducts?	V		(2) The Company has the "Regulations for Board of Directors and Supervisors accepting reports and complaints". Besides the investigation conducted by the Company, all the content of reports are kept confidential to protect the	No major deviation

Assessment criteria	Implementation status			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TPEX-Listed Companies
	Yes	No	Explanation	
			informants and handled in accordance with relevant regulations.	
(3) Has the Company provided proper whistleblower protection?	V		(3) The Company has the “Regulations for Board of Directors and Supervisors accepting reports and complaints” to protect the informants from any form of mistreatment.	No major deviation
4. Enhance information disclosure				
(1) Has the Company disclose the content of the ethical operation guidelines and their implementation results on its website and the Market Observation Post System?	V		1) The Company has disclosed the content of Ethical Corporate Management Best Practice Principles and Procedures on website and MOPS. The path to the information is as follows: Front page> About Senao>Investor relations>Major procedures> Corporate Governance Best Practice Principles { https://www.senao.com.tw/invest10.php }. The Company promotes the Principles on a regular basis and conducts business with integrity and ethics, and no unethical misconducts were found.	No major deviation
5. For the companies which have established corporate social responsibility code of conducts in accordance with the “Corporate Governance Best-Practice Principles for TWSE and TPEX Listed Companies”, please describe the current practices and any deviations from the code of conduct: In order to create a corporate culture of integrity, the Company has established the “Ethical Corporate Management Best Practice Principles and Procedures” in accordance with the “Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies”. No major deviation was found.				
6. Other important information that is helpful in understanding the corporate ethical management operation of the Company.				

Assessment criteria	Implementation status			Deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TPEX-Listed Companies
	Yes	No	Explanation	
(Such as, the Company has the corporate ethical management best practice principles amended, etc.): The Company upholds the ethical operation, focuses on the needs of all stakeholders, wishes to be recognized by our suppliers and customers and ensures sustainable operation.				

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- (7) If the Company has established corporate governance principles or other relevant guidelines, references to such principles must be disclosed:

The Company has established the Corporate Governance Best Practice Principles that has been placed on the Company's website, and the path to the Principles is as follows: Front page> About Senao>Investor relations>Major procedures> Corporate Governance Best Practice Principles (<https://www.senao.com.tw/invest10.php>) for investors' reference.

- (8) Other information material to the understanding of corporate governance within the Company:

The Company's procedures for handling material insider information. The Company has adopted the "Procedures for Preventing Insider Trading and Handling Material Inside Information" stipulating the guidelines for handling material inside information and preventing insider trading in accordance with relevant laws orders and regulations promulgated by TWSE and TPEX, as well as this Procedures. The Procedures are also informed to its affiliates, so as to build measures for the prevention of insider trading and information leakage, and to ensure the timeliness and accuracy of public information, the major contents of the procedures include:

- (i) Applicable target and scope of material Information.
- (ii) Dedicated unit.
- (iii) Procedures for handling material confidential information
- (iv) The Company's procedures for handling material insider information.

- (9) Disclosures relating to the execution of internal control policies:

- i. Declaration of Internal Control Policies: Please refer to page 239.

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- ii. If the internal control policy was reviewed by an external auditor, the result of such review must be disclosed: None.
- (10) Penalties imposed against the Company for regulatory violation, or penalties against employees for violation of internal control policy in the most recent year up till the publication date of this annual report; describe areas of weakness and any corrective actions taken : None.
- (11) Major resolutions made by the Shareholders' Meeting and the Board of Directors during the latest financial year, up till the publication date of this annual report: Please refer to page 241.
- (12) Documented opinions or declarations made by Directors or Supervisors against board resolutions in the most recent year, up till the publication date of this annual report: None.
- (13) Resignation or dismissal of the Chairman, President, head of accounting, head of finance, chief internal auditor, or head of R&D in the most recent year up till the publication date of this annual report:

Resignation Table of Personnel Related to the Company

March 31, 2018

Title	Name	On-board date	Resignation date	Reasons for resignation or discharge
Chief Financial Officer	Shu-Ling Chen	2017.1.1	2017.6.29	Transfer to the parent company
President of Retail Business Group	Wen-Hsiang Huang	2016.4.18	2017.9.30	Personal career plan

Note: Personnel relating to the preparation of financial statements shall include chairman, president, head of accounting, head of finance, chief auditor, head of R&D etc.

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4. Disclosure of auditors' remuneration

Auditors' remuneration brackets table

Name of CPA firm	Name of CPA		Audit period	Remark
Deloitte & Touche	Anya Liao	Hung Peng Lin	First half year of 2017	Internal job rotation
Deloitte & Touche	Dien Sheng Chang	Hung Peng Lin	Second half year of 2017	Internal job rotation

Unit: NT\$ thousand

Remuneration item		Audit fees	Non-audit fees	Total
Ranges of remuneration				
1	Less than NT\$2,000,000	0	0	0
2	NT\$2,000,000 (inclusive) ~ NT\$ 4,000,000	0	0	0
3	NT\$4,000,000 (inclusive) ~ NT\$ 6,000,000	5,089	0	5,089
4	NT\$6,000,000 (inclusive) ~ NT\$ 8,000,000	0	0	0
5	NT\$8,000,000 (inclusive) ~ NT\$ 10,000,000	0	0	0
6	NT\$10,000,000 (inclusive) and above	0	0	0

- (1) Disclosure of audit fees, non-audit fees and details of non-audit services, if the sum of non-audit fees paid to the CPA, CPA's firm and affiliated companies amount to more than one-quarter of total audit fees: the sum of non-audit fees that the Company paid to the CPA, CPA's firm and affiliated companies is not more than one-quarter of total audit fees.
- (2) Change of CPA firm that resulted in the reduction of audit fees from the previous year; disclose audit fees before and after the change and the cause of such change: The Company did not make any change of CPA firm in 2017.
- (3) If the audit remuneration was reduced by more than 15% from the previous year, the actual amount, proportion, and reasons for the reduction must be disclosed: The audit remuneration in 2017 was NT\$5,089,000, decreased by 3.37% as compared to 2016.

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5. Change of auditor

(1) Information relating to the former auditor:

Date of change	Passed by the Board of Directors on August 4, 2017		
Cause of change and explanation	Due to the internal job rotation of the CPA firm, external auditors for the Company's financial statements were changed from Anya Liao CPA and Hung Peng Lin CPA to Dien Sheng Chang CPA and Hung Peng Lin CPA.		
Whether the termination of audit service was initiated by the client or by the auditor	Principal		CPA
	Condition		The client
	Terminated the audit service		Not applicable
The auditor terminated (discontinued) the audit service			
Reasons for issuing opinions other than unqualified opinions in the last 2 years	Not applicable		
Any disagreement with the issuer	Yes		Accounting principles or practices
			Disclosure of financial statements
			Audit coverage or procedures
			Other
	None	V	
	Explanation		
Supplementary disclosure (Disclosures deemed necessary under Item 1-4 to Item 1-7, Subparagraph 6, Article 10 of the Guidelines)	Not applicable		

(2) Information relating to the succeeding CPA

Name of CPA firm	Deloitte & Touche
Name of CPA	Dien Sheng Chang CPA, Hung Peng Lin CPA
Date of appointment	Passed by the Board of Directors on August 4, 2017
Inquiries and replies regarding accounting practices or principles on certain transactions, or any audit opinions the auditors were likely to issue on the financial reports prior to reappointment.	Not applicable
Written disagreements from the succeeding auditor against opinions of the former auditor	Not applicable

(3) Former auditor's reply to item 1 and item 2-3 of Subparagraph 6 of Article 10 of the Regulations Governing Information to be Published in Annual Reports of Public Companies: Not applicable.

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6. The Company's Chairman, President, or any managers involved in financial or accounting affairs being employed by the audit firm or any of its affiliated company within the last year: None.
7. Transfer or pledge of shares owned by directors, supervisors, managers, shareholder with a stake of more than 10 percent during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report.

(1). Transfer of shares

Unit: share

Title	Name	Year 2017		Year-to-date March 31, 2018	
		Shareholding Increase (Decrease) in shares held	Share pledged Increase (Decrease) in shares held	Shareholding Increase (Decrease) in shares held	Share pledged Increase (Decrease) in shares held
Major shareholder	Chunghwa Telecom Co., Ltd.	-	-	-	-
Chairman	Jin-Lin Lai	-	-	-	-
Director	Chi-Mao Hsieh (Note 1) (Discharged on January 24, 2017)	-	-	-	-
Director	Fu-Kuei Chung (Note 1) (On-boarded on January 24, 2017 and discharged on April 10, 2017)	-	-	-	-
Director	Po-Yung Chen (Note 1) (Discharged on April 10, 2017)	-	-	-	-
Director	Yuan-Kuang Tu (Note 1) (On-boarded on April 10, 2017)	-	-	-	-
Director	Ming-Shih Chen (Note 1) (On-boarded on April 10, 2017)	-	-	-	-
Director	Wen-Chih Lin (Note 1) (Discharged on March 26, 2018)	-	-	-	-
Director	Chien-Chih Chen (Note 1) (On-boarded on March 26, 2017)	-	-	-	-
Director	Cheng Kang Investment Co., Ltd.	-	-	-	-
Vice Chairman and President	Pao-Yung Lin (Note 2)	-	-	-	-
Director and special assistant	Cheng-Feng Lin (Note 2)	-	-	-	-
Director	Cheng-Kang Lin (Note 2)	-	-	-	-
Independent Director	Kung-Liang Yeh	-	-	-	-
Independent Director	Chung-Ming Su	-	-	-	-
Supervisor	Sheng-Chen Li	-	-	-	-

III. Corporate Governance Report

Title	Name	Year 2017		Year-to-date March 31, 2018	
		Shareholding Increase (Decrease) in shares held	Share pledged Increase (Decrease) in shares held	Shareholding Increase (Decrease) in shares held	Share pledged Increase (Decrease) in shares held
Supervisor	Cheng Feng Investment Co., Ltd.	-	-	-	-
Supervisor	Chun-Chien Chen (Note 3)	-	-	-	-
Supervisor	Hsueh-Feng Chien (Note 3)	-	-	-	-
Chief Strategy Officer	Chih-Chung Chiu	(145,500)	-	(35,000)	-
Chief Operating Officer	Shao-Ti Shan	-	-	-	-
Vice President	Wen-Hsiang Huang (Discharged on September 30, 2017)	51,000	-	-	-
Vice President	Ching-Lang Chang	89,000	-	(66,000)	-
Vice President	Shu-En Hsieh (Discharged on February 28, 2017)	-	-	-	-
Vice President	Wu-Hsiung Huang	10,000	-	-	-
Vice President	Chi-Hung Liao	140,000	-	-	-
Vice President	Yi-Hsien Feng (Discharged on October 31, 2017)	10,000	-	-	-
Chief Financial Officer	Shu-Ling Chen (On-boarded on January 1, 2017 Discharged on June 29, 2017)	-	-	-	-
Chief Financial Officer	Ching-Shou Lin (On-boarded on June 30, 2017)	-	-	-	-
Senior Assistant Vice President	Chun-Wei Kuo	30,000	-	-	-
Vice President	Tien-Hung Chang	105,000	-	(10,000)	-
Senior Assistant Vice President	Po-Shuo, Yu	66,000	-	(39,000)	-
Assistant Vice President	Sheng-Kai Chen	30,000	-	(26,000)	-
Senior Assistant Vice President	Chen-San Chou	49,506	-	(20,000)	-
Assistant Vice President	Kuo-Hua Yeh (Discharged on February 28, 2017)	-	-	-	-
Assistant Vice President	Po-Tsang Chen (Discharged on February 14, 2018)	-	-	-	-
Assistant Vice President	Chih-Hsiang Kuo	-	-	-	-
Assistant Vice President	Chung-Yuan Huang	40,000	-	-	-
Assistant Vice President (Accounting Manager)	Tsai-Hung Yu	48,000	-	-	-
Assistant Vice President	Ching-Wei Yu (Discharged on March 31, 2017)	-	-	-	-
Assistant Vice President	Chung-Ju Tsai	12,000	-	(12,000)	-
Assistant Vice President	Feng-Chang Huang (On-boarded on January 6,	26,000	-	-	-

III. Corporate Governance Report

Title	Name	Year 2017		Year-to-date March 31, 2018	
		Shareholding Increase (Decrease) in shares held	Share pledged Increase (Decrease) in shares held	Shareholding Increase (Decrease) in shares held	Share pledged Increase (Decrease) in shares held
	2017)				
Assistant Vice President	Wen-Kai Lai (Onboarded on April 1, 2017)	+20,000	-	-	-
Manager (Finance Department Manager)	Kuan-Heng Lai (On-boarded on November 2, 2017)	+20,000	-	-	-

Note 1: The corporate shareholder representative of Chunghwa Telecom Co., Ltd.

Note 2: The corporate shareholder representative of Cheng Kang Investment Co., Ltd.

Note 3: The corporate shareholder representative of Cheng Feng Investment Co., Ltd.

Note: Shares that have been transferred or pledged with a related party: None.

III. Corporate Governance Report

8. Disclosure of relationships among the company's top ten shareholders including any related party as defined in the Statement of Financial Accounting Standards No. 6, spouses and second degree relatives or closer:

Relationships among top ten shareholders:

Name	Relationships among top-10 shareholders:		Spouse's and Minor Children's Shareholding		Shareholding through nominees Shareholding		Relationship characterized as spouse or relative of second degree or closer among the top 10 shareholders.		Remark
	Number of Shares	Percent age of Shareholding Ratio	Number of Shares	Percent age of Shareholding Ratio	Number of Shares	Percent age of Shareholding Ratio	Name	Relation	
Chunghwa Telecom Co., Ltd. Representative: Yu Cheng	71,773,155	27.79%	0	0	0	0	None	None	
Cheng Feng Investment Co., Ltd. Representative : Pao-Yung Lin	17,176,436	6.65%	0	0	0	0	Engenius Technologies Co., Ltd.	Chairman Same individual	
Cheng Kang Investment Co., Ltd. Representative : Cheng-Feng Lin	14,820,975	5.74%	0	0	0	0	Yu Yu Investment Co., Ltd., All Oriented Services Int. Co., Ltd.	Chairman Same individual	
Hua Shun Investment Co., Ltd. Representative : Cheng-Kang Lin	13,533,659	5.24%	0	0	0	0	Engenius Technologies Co., Ltd., Cheng Feng Investment Co., Ltd., Yu Yu Investment Co., Ltd., Cheng Kang Investment Co., Ltd., All Oriented Services Int. Co., Ltd.	First degree relative of representative PaoYung Lin and second degree relative of representative Cheng-Feng Lin.	
Yu Yu Investment Co., Ltd. Representative: Cheng-Feng Lin	13,144,478	5.09%	0	0	0	0	Cheng Kang Investment Co., Ltd., All Oriented Services Int. Co., Ltd.	Chairman Same individual	
Engenius Technologies Co., Ltd. Representative : Pao-Yung Lin	11,209,509	4.34%	0	0	0	0	Cheng Feng Investment Co., Ltd.	Chairman Same individual	
All Oriented Services Int. Co., Ltd. Representative :	8,951,497	3.47%	0	0	0	0	Cheng Kang Investment Co., Ltd., Yu	Chairman Same individual	

III. Corporate Governance Report

Cheng-Feng Lin							Yu Investment Co., Ltd.		
HSBC Bank (Taiwan) Limited as Directed Trustee For EFG Bank	7,918,823	3.07%	0	0	0	0	None	None	
Cheng Han Investment Co., Ltd. Representative : Hung-Ling Lin	7,070,747	2.74%	0	0	0	0	None	None	
Engenius Technologies Co., Ltd. Representative : Pao-Yung Lin	6,900,000	2.67%	0	0	0	0	Cheng Feng Investment Co., Ltd.	Chairman Same individual	

Note: The number and percentage of shares held HSBC Bank (Taiwan) Limited as Directed Trustee For EFG Bank, Standard Chartered as Directed Trustee For Bank Julius Baer, Singapore Branch, Cheng Han Investment Co., Ltd. refer to the share register on the most recent closure date, August 10, 2017; the remaining refers to that on March 31, 2018.

III. Corporate Governance Report

9. Shares jointly held by the Company, the Company's directors, supervisors, managers, and directly/indirectly controlled entities on any single investee. Calculate shareholding percentage in aggregate of the above parties.

As of December 31, 2017 Unit: share

Investee entities (Note)	Held by the Company		Held by Directors, Supervisors, managers, and directly or indirectly controlled entities		Aggregate investment	
	Shares	Percentage of Shareholding	Shares	Percentage of Shareholding	Shares	Percentage of Shareholding
Senao International (Samoa) Holding LTD.	81,175,000	100%	0	0	81,175,000	100%
Senao International HK Limited	80,440,000	100%	0	0	80,440,000	100%
Senao Trading (Fujian) Co., Ltd.	—	100%	0	0	—	100%
Senao International Trading (Shanghai) Co., Ltd.	—	100%	0	0	—	100%
Senao International Trading (Jiangsu) Co., Ltd.	—	100%	0	0	—	100%
Senao Trading (Shanghai) Co., Ltd.	—	100%	0	0	—	100%
Senao Networks, Inc.	16,579,033	33.79%	0	0	16,579,033	33.79%
Hong Da Technology Co., Ltd.	5,240,025	45%	0	0	5,240,025	45%
Youth Co., Ltd.	13,780,000	89.48%	0	0	13,780,000	89.48%
Ispot Co., Ltd.	—	100%	0	0	—	100%
Youyi Co., Ltd.	—	100%	0	0	—	100%
Aval Technologies Co., Ltd.	6,000,000	100%	0	0	6,000,000	100%
Sen Young Insurance Agent Co., Ltd.	1,000,000	100%	0	0	1,000,000	100%

Note: Investment accounted for under the equity method.

IV. Funding

1. Capital and shares

(1) Source of capital

Unit: thousand shares; NT\$ thousand

Year/ Month	Issue price (NT\$)	Paid-in capital		Authorized capital		Remark		
		Number of shares	Amount	Number of shares	Amount	Source of capital	Paid-in properties other than cash	Other
1979.05	10	500	5,000	500	5,000	Initial investment	None	
1993.08	10	6,000	60,000	6,000	60,000	Cash capital increase	None	
1995.03	10	15,000	150,000	15,000	150,000	Cash capital increase	None	
1996.10	10	80,000	800,000	250,000	2,500,000	Cash capital increase	None	Note 1
1997.08	10	88,000	880,000	250,000	2,500,000	Capitalization of earnings	None	Note 2
1998.08	10	99,360	993,600	250,000	2,500,000	Capitalization of 105,600 earnings and 8,000 employee bonus	None	Note 3
1999.08	10	105,821.6	1,058,216	250,000	2,500,000	Capitalization of 59,616 earnings and 5,000 employee bonus	None	Note 4
2000.04	10	117,821.6	1,178,216	250,000	2,500,000	Cash capital increase	None	Note 5
2000.09	10	133,425.2	1,334,251	250,000	2,500,000	Capitalization of 141,386 earnings and 14,650 employee bonus	None	Note 6
2001.08	10	161,585.2	1,615,852	250,000	2,500,000	Capitalization of 133,425 earnings, 133,425 capital surplus and 14,750 employee bonus	None	Note 7
2002.08	10	187,148.1	1,871,481	250,000	2,500,000	Capitalization of NT\$221,319 thousand earnings and NT\$34,310 thousand employee bonus	None	Note 8
2003.08	10	209,780.4	2,097,804	270,000	2,700,000	Capitalization of NT\$183,942 thousand earnings and NT\$42,380 thousand employee bonus	None	Note 9
2004.08	10	226,615.0	2,226,150	320,000	3,200,000	Capitalization of NT\$144,602 thousand earnings and NT\$23,744 thousand employee bonus	None	Note 10
2005.09	10	223,409.2	2,234,092	320,000	3,200,000	Retirement of treasury stock of NT\$32,058 thousand	None	
2007.01	10	223,687.2	2,236,872	320,000	3,200,000	Exercise of employee stock warrants of NT\$2,780 thousand	None	
2007.04	10	225,515.2	2,255,152	320,000	3,200,000	Exercise of employee stock warrants of NT\$18,280 thousand	None	
2007.07	10	230,282.4	2,302,824	320,000	3,200,000	Capitalization of NT\$22,551 thousand earnings and NT\$25,120 thousand employee bonus	None	Note 11
2007.08	10	231,106.2	2,311,062	320,000	3,200,000	Exercise of employee stock warrants of NT\$8,237.5 thousand	None	
2008.04	10	231,914.2	2,319,142	320,000	3,200,000	Exercise of employee stock warrants of NT\$8,080 thousand	None	
2008.06	10	232,570.7	2,325,707	320,000	3,200,000	Exercise of employee stock warrants of NT\$6,565 thousand	None	
2008.08	10	234,508.9	2,345,089	320,000	3,200,000	Exercise of employee stock	None	

IV. Funding

Year/ Month	Issue price (NT\$)	Paid-in capital		Authorized capital		Remark		
		Number of shares	Amount	Number of shares	Amount	Source of capital	Paid-in properties other than cash	Other
						warrants of NT\$19,382 thousand		
2008.09	10	243,412	2,434,120	320,000	3,200,000	Capitalization of NT\$23,191 thousand earnings and NT\$65,839 thousand employee bonus	None	Note 12
2008.11	10	244,863.8	2,448,638	320,000	3,200,000	Exercise of employee stock warrants of NT\$14,518 thousand	None	
2009.03	10	245,116.2	2,451,162	320,000	3,200,000	Exercise of employee stock warrants of NT\$2,524 thousand	None	
2009.06	10	246,534.7	2,465,347	320,000	3,200,000	Exercise of employee stock warrants of NT\$14,185 thousand	None	
2009.08	10	248,566.5	2,485,665	320,000	3,200,000	Exercise of employee stock warrants of NT\$20,318 thousand	None	
2009.11	10	248,713.7	2,487,137	320,000	3,200,000	Exercise of employee stock warrants of NT\$1,472 thousand	None	
2010.03	10	249,126.8	2,491,268	320,000	3,200,000	Exercise of employee stock warrants of NT\$4,131 thousand	None	
2010.05	10	249,867.0	2,498,670	320,000	3,200,000	Exercise of employee stock warrants of NT\$7,402 thousand	None	
2010.09	10	251,949.7	2,519,497	450,000	4,500,000	Exercise of employee stock warrants of NT\$20,827 thousand	None	
2010.12	10	252,575.1	2,525,751	450,000	4,500,000	Exercise of employee stock warrants of NT\$6,254 thousand	None	
2011.03	10	253,196.6	2,531,966	450,000	4,500,000	Exercise of employee stock warrants of NT\$6,215 thousand	None	
2011.05	10	254,478.9	2,544,789	450,000	4,500,000	Exercise of employee stock warrants of NT\$12,823 thousand	None	
2011.08	10	255,082.5	2,550,825	450,000	4,500,000	Exercise of employee stock warrants of NT\$6,036.5 thousand	None	
2011.11	10	255,372.6	2,553,726	450,000	4,500,000	Exercise of employee stock warrants of NT\$2,900.5 thousand	None	
2012.03	10	255,886.9	2,558,869	450,000	4,500,000	Exercise of employee stock warrants of NT\$5,143.5 thousand	None	
2012.05	10	256,878.1	2,568,781	450,000	4,500,000	Exercise of employee stock warrants of NT\$9,912 thousand	None	
2012.08	10	257,126.5	2,571,265	450,000	4,500,000	Exercise of employee stock warrants of NT\$2483.5 thousand	None	
2012.11	10	257,163.7	2,571,637	450,000	4,500,000	Exercise of employee stock warrants of NT\$372.5 thousand	None	
2013.03	10	257,271.5	2,572,715	450,000	4,500,000	Exercise of employee stock warrants of NT\$1,077.5 thousand	None	
2013.05	10	257,755.4	2,577,554	450,000	4,500,000	Exercise of employee stock warrants of NT\$4,839 thousand	None	
2013.08	10	257,784.4	2,577,844	450,000	4,500,000	Exercise of employee stock warrants of NT\$290 thousand	None	
2013.11	10	257,900.1	2,579,001	450,000	4,500,000	Exercise of employee stock	None	

IV. Funding

Year/ Month	Issue price (NT\$)	Paid-in capital		Authorized capital		Remark		
		Number of shares	Amount	Number of shares	Amount	Source of capital	Paid-in properties other than cash	Other
						warrants of NT\$1,157 thousand		
2014.03	10	258,252.7	2,582,527	450,000	4,500,000	Exercise of employee stock warrants of NT\$3,525.5 thousand	None	

Unit: thousand shares

Type of share	Authorized capital			Remark
	Outstanding shares	Unissued shares	Total	
Registered ordinary shares	258,252.7	191,747.3	450,000	

Note 1: Securities Commission, Ministry of Finance Letter No. (85)-Tai-Tsai-Cheng-(I)- 41923 dated July 6, 1996.

Note 2: Securities Commission, Ministry of Finance Letter No. (86)-Tai-Tsai-Cheng-(I)- 51630 dated June 30, 1997.

Note 3: Securities and Futures Commission, Ministry of Finance Letter No. (87)-Tai-Tsai-Cheng-(I)- 44206 dated May 20, 1998.

Note 4: Securities and Futures Commission, Ministry of Finance Letter No. (88)-Tai-Tsai-Cheng-(I)- 64172 dated July 13, 1999.

Note 5: Securities and Futures Commission, Ministry of Finance Letter No. (89)-Tai-Tsai-Cheng-(I)- 112954 dated January 12, 2000.

Note 6: Securities and Futures Commission, Ministry of Finance Letter No. (89)-Tai-Tsai-Cheng-(I)- 65455 dated July 27, 2000.

Note 7: Securities and Futures Commission, Ministry of Finance Letter No. (90)-Tai-Tsai-Cheng-(I)- 140366 dated June 26, 2001.

Note 8: Securities and Futures Commission, Ministry of Finance Letter No. (91)-Tai-Tsai-Cheng-(I)- 133683 dated June 20, 2002.

Note 9: Securities and Futures Commission, Ministry of Finance Letter No. (92)-Tai-Tsai-Cheng-(I)- 127981 dated June 24, 2003.

Note 10: Securities and Futures Commission, Ministry of Finance Letter No. (93)-Tai-Tsai-Cheng-(I)- 127541 dated June 21, 2004.

Note 11: Financial Supervisory Commission, Executive Yuan, Letter No. Jin-Guan-Cheng-I- 0960019664 dated May 2, 2007.

Note 12: Financial Supervisory Commission, Executive Yuan, Letter No. Jin-Guan-Cheng-I- 0970034672 dated July 10, 2008.

Information relevant to the aggregate reporting policy: None.

Shareholders structure

August 10, 2017 (Note)

Share- holders Structure Quantity	Government agencies	Financial institutions	Other juridical persons	Foreign institutions and foreign individuals	Individuals	Treasury stocks	Total
Number of shareholders	2	13	41	69	11,307	1	11,433
Shares	1,011,000	524,584	170,938,286	26,073,618	50,813,169	8,892,000	258,252,657

IV. Funding

Percentage of Shareholding	0.39%	0.20%	66.19%	10.10%	19.68%	3.44%	100.00%
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Note: the most recent closure date.

IV. Funding

(2) Diversity of ownership

Common shares of NT\$10 face value

August 10, 2017 (Note)

Class of shareholding			Number of shareholders	Changes in shares held	Percentage of Shareholding
1	to	999	2,736	438,489	0.17%
1,000	to	5,000	7,157	14,207,373	5.50%
5,001	to	10,000	862	6,921,544	2.68%
10,001	to	15,000	217	2,757,526	1.07%
15,001	to	20,000	137	2,568,973	0.99%
20,001	to	30,000	114	2,974,833	1.15%
30,001	to	40,000	66	2,331,180	0.90%
40,001	to	50,000	31	1,418,742	1.55%
50,001	to	100,000	44	3,107,264	1.20%
100,001	to	200,000	29	4,117,018	1.59%
200,001	to	400,000	17	4,662,924	0.81%
400,001	to	600,000	2	1,005,138	0.39%
600,001	to	800,000	3	2,017,541	0.78%
800,001	to	1,000,000	1	951,962	0.37%
1,000,001	to	999,999,999	17	208,772,150	80.84%
Total			11,433	258,252,657	100.00 %

Note: the most recent closure date.

(3) List of major shareholders

Shareholder holds five percent or more and top 10 shareholders

August 10, 2017 (Note)

Shareholding	Shares	Percentage of Shareholding
Name of major shareholder		
Chunghwa Telecom Co., Ltd.	71,773,155	27.79%
Cheng Feng Investment Company	17,176,436	6.65%
Cheng Kang Investment Co., Ltd.	14,820,975	5.74%
Hua Shun Investment Co., Ltd.	13,533,659	5.24%
Yu Yu Investment Co., Ltd.	13,144,478	5.09%
Engenius Technologies Co., Ltd.	11,209,509	4.34%
All Oriented Services Int. Co., Ltd.	8,951,497	3.47%
HSBC Bank (Taiwan) Limited as Directed Trustee For EFG Bank	7,918,823	3.07%
Cheng Han Investment Co., Ltd.	7,070,747	2.74%
Engenius Technologies Co., Ltd.	6,900,000	2.67%

Note: the most recent closure date.

IV. Funding

(4) Information relating to market price, net worth, earnings, and dividends per share for the past 2 years

Unit: NT\$; share

Item \ Year		Year 2016	Year 2017	Year-to-date March 31, 2018
Market price per share	High (Note 1)	59.40	59.30	52.90
	Low (Note 1)	37.20	50.00	50.30
	Average (Note 1)	47.18	53.18	51.71
Per share Net worth	Before distribution	23.82	23.45	—
	After distribution	19.82	—	—
Per share Earnings	Weighted average outstanding shares	248,252,657	251,594,657	—
	Earnings	4.02	3.30	—
Per share	Cash dividend	4.0	3.25(Note 2)	—
	Stock dividend	From retained earnings	—	0(Note 2)
		From capital surplus	—	0(Note 2)
	Accumulative undistributed dividend		—	0
Investment Return analysis (Note 3)	Price-earnings ratio	11.74	16.12	—
	Price-dividend ratio	11.80	16.36	—
	Cash dividend yield	8.48%	6.11%	—

- Note:
1. Data was sourced from the TWSE website, and the high and low market prices were obtained by comparing the highs and lows of all trading days. The average price is calculated based on the total trading volume and trading value each year.
 2. The 2017 earnings distribution is pending for the approval of 2018 annual shareholders' ordinary meeting.
 3. Price-earnings ratio = average market price / earnings per share; price-dividend ratio = average market price / cash dividends per share; cash dividend yield = cash dividends per share / average market price (NT\$47.18 in 2016 and NT\$53.18 in 2017)

(5) Dividend policy and implementation

1. Dividend policy:

If the Company records a profit in a year, the Company

IV. Funding

shall appropriate not less than 3% of the profit for employee bonuses, and no more than 3% of the profit for director's and supervisor's compensation. If, however, the Company has accumulated losses, profit shall first be used to offset accumulated losses.

Employees entitled to receive the bonus in the preceding paragraph may include the employees of the Company's controlled companies meeting specific requirements set by the Board.

If after the annual closing of books there is a profit, the Company shall, after having provided for taxes and offset the accumulated losses of previous years, appropriate the 10% legal reserve and recognize or reverse special reserve return earnings in accordance with laws and regulations. The remainder balance, together with the undistributed profits of previous years, shall be retained or distributed upon the resolution of the shareholders' meeting.

In order to align the Securities and Futures Bureau's "Balanced Dividends Policy" with the Company's current business environment and the goals of sustainable operation and long-term development, the earning distribution plan would focus on the stability and growth of the dividends. Every year, the Board shall propose an earnings distribution plan and submit to the Shareholders' meeting for approval before the distribution. The total dividends amount shall be no less than 30% of the total distributable earnings of the year, among which the cash dividend ratio shall be no less than 10% of the total dividends.

IV. Funding

2.Dividend proposed for the resolution of next annual shareholders' ordinary meeting:

The proposal of cash dividend of NT\$3.25 per share has been passed by the board of directors for the 2017 earnings distribution and submitted for the resolution of the annual shareholders' ordinary meeting on June 14, 2018.

(6) Impacts of proposed stock dividends on the Company's business performance and earnings per share:

There is no proposed stock dividends in the next shareholders' meeting.

(7) Employee bonuses and directors' and supervisors' remuneration:

1.Employee bonuses and directors' and supervisors' remuneration set forth in the Articles of Incorporation: If the Company records a profit in a year, the Company shall appropriate not less than 3% of the profit for employee bonuses, and no more than 3% of the profit for director's and supervisor's compensation. If, however, the Company has accumulated losses, profit shall first be used to offset accumulated losses.

2.Any differences difference between the actual amounts paid and amounts estimated for 2017 employee bonuses and directors' and supervisors' remuneration and share-based compensations will be recognized as gains/losses for 2018.

3.Proposed employees' bonuses resolved by the board of directors:

(1) It is proposed to appropriate employees' cash bonuses of NT\$35,840,775 and directors' and supervisors' remuneration of NT\$15,360,333. The board of directors

IV. Funding

has passed the proposed cash employees' bonuses and directors' and supervisors' remuneration without any difference from the estimated amount in 2017.

- (2) Amount of Proposed employee share-based bonuses, and as a percentage of the sum of after-tax profit and employees' total compensation for the current period: The proposal of 2017 earnings distribution has been passed by the board of directors, and there is not employee share-based bonuses to be distributed.

4. Actual amount paid for employees' bonuses, and directors' and supervisors' remuneration in the previous year:

The actual amounts paid for 2016 employees' cash bonuses and directors' and supervisors' remuneration were NT\$43,573,438 and NT\$18,674,331, respectively, without any deviation from the proposed amounts passed by the board of directors.

- (8) Repurchase of the Company's shares: None
2. Issuance of corporate bonds: None
3. Issuance of preferred shares: None
4. Issuance of global depository receipts: None
5. Issuance of Employee stock options:
- (1) Issuance of employee stock options

As of March 31, 2018

Type of employee stock options:	The 7th issuance Employee stock options
Effective date	May 28, 2012
Date of issue	May 7, 2013
Number of options granted	10,000,000

IV. Funding

Percentage of shares exercisable to outstanding common shares	3.87%
Option Duration	6 years
Source of option shares	New common share
Vesting Schedule	2nd year: 50% 3rd year: 75% 4th year: 100%
Shares Exercised	0
Value of Shares Exercised	0
Shares Unexercised	10,000,000
Original grant price per share for shares unexercised	NT\$70.7
Percentage of shares unexercised to outstanding common shares	3.87%
Impact to shareholders' equity	Dilution to shareholders' equity is limited

- (2) Names of managers who have acquired employee stock options and names of employees ranking top ten in exercisable shares: None
- (3) Issuance of employee restricted shares: None
6. Issuance of new shares in connection with mergers or acquisitions or with acquisitions of shares of other companies: None
7. Capital plans and execution: None

1. Content of business

Senao International Co., Ltd.'s main businesses consist of sale and distribution of mobile devices and accessories; repairs of communication products; sale of home appliances, digital products and IoT-related products; agency and sale of Chunghwa Telecom telephone numbers; operation of authorized retail stores; and agency of property insurance.

(1) Business scope:

i. Business activities :

- (i) Operation of authorized retail stores.
- (ii) Distribution, retail and wholesale of mobile devices and accessories.
- (iii) Services for the applications of Chunghwa Telecom telephone numbers, contract mobile phone, value-added service, broadband, and MOD, and collection of bill payments.
- (iv) Sale of mobile phones, tablets, 3C products, home appliances, accessories and screen protectors.
- (v) Agency of digital and IoT-related products and sale of home appliances.
- (vi) Repairs and pick-up service of digital products.
- (vii) 24-Hour Senaonline Web+APP Online shopping service providing Omnichannel service integrating O2O virtual and physical channels.
- (viii) Service for mobile device insurance and recycle of used phones.

ii. Weight of business activities

- (i) (i) Operating revenue by business activities

V. Business Overview

Unit: NT\$ thousand

Product type \ Year	Year 2017	
	Revenue	Weight (%)
Sales revenue	32,269,899	90.30
Service revenue	2,607,315	7.30
Repairs revenue	860,720	2.40
Total	35,737,934	100.00

iii. The Company's existing products (services):

- (i) Sale of mobile devices, digital products, accessories and home appliances; agency of property insurance; promotion of Chunghwa Telecom telephone numbers, broadband service, MOD and value-added services at the Chunghwa Telecom authorized retail stores, as well as the examination and repairs of mobile phones.
- (ii) Sale of mobile devices, digital products, accessories and home appliances and agency of property insurance at the Chunghwa Telecom operating units, as well as the examination and repair of mobile phones.
- (iii) Sale of mobile devices, digital products, accessories, home appliances, and Chunghwa Telecom telephone numbers to distributors and retailers.
- (iv) Sale of mobile devices, digital products, and accessories to 3C superstores and online platforms.
- (v) Sale of mobile devices, digital products, and accessories to other system operators and agents.

iv. The Company takes the advantage of board direct retail store network and the trend of mobile commerce to develop and optimize the Online shopping service and strives to integrate the physical channels and e-commerce for the development of O2O. With the supplement of wireless sensor and interactive tools (S Plus), the Company wishes to provide a full experience

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covering from understanding products to making purchases and increase the frequency of visiting the store.

(2) Industry overview

i. Current and future industry prospects

The global smartphone market is close to saturation with a softened growth. As surveyed by the survey company, the overall sale of smartphones in 2017 was 7.33 million units, which declined by 8.3% in comparison to 2016. Not to mention the saturation of high-end smartphone market, the specifications of a high-end cellphones can now be found on a mid-to-high price range smartphone or via Online or Offline channels in a promotional package, as a result, the sales of high-end iOS/Android smartphones decreased by 500,000 units. Meanwhile, lack of breakthrough applications, nano-updates of the specifications and extended length of mobile phone contract to 30 months all postpone the timing for new mobile phones. Providing the increasing percentage of telecom contracts, declining demands of 4G application and rates (average life cycle was reduced to 2.13 years) and transfer from 3G to 4G network, the expected 2018 smartphone sales in Taiwan are approximately 7.4~7.5 million units with a slight growth in sales value. Since the launch of Apple 4.7-inch iPhone 6 and 5.5-inch iPhone 6 Plus, 5-inch~5.5-inch screen size became a mainstream specification and therefore pushed the market demand for the 7-inch tablets to 8~10-inch tablets. As the mobile phone market has entered the mature stage and lost the growth momentum, and only a breakthrough function may bring up the sales volume. Nowadays, the market focus has been shifted to applications

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such as Augmented Reality products (AR) and 3D facial recognition.

Looking ahead at 2018, the specifications of Apple iPhone X that was introduced in 2017, including the improved Face ID function and screen-to-body ratio, OLED panel, A12 chip and high memory capacity, have set the benchmarks for the future development of high-end smartphone. Moreover, Apple is likely to introduce the second generation of iPhone SE in the second quarter of 2018 targeting the middle market, so as to meet the demand of various customer segments. An increase of Apple's market share in 2018 should be expected. For the Android smartphones, the development in 2018 will focus on user experience enhancement, such as 18:9 full-screen display, dual-lens, wide-angle front camera and application of Artificial Intelligence (AI). In terms of biometrics, the new iPhone is likely to extend its Face ID function, but Android smartphones, restricted by technical development, may continue to carry the current capacitive fingerprint sensor for the first half of 2018. The Android smartphones carrying on-screen fingerprint sensors or 3D sensing will possibly enter mass production in the second half of 2018.

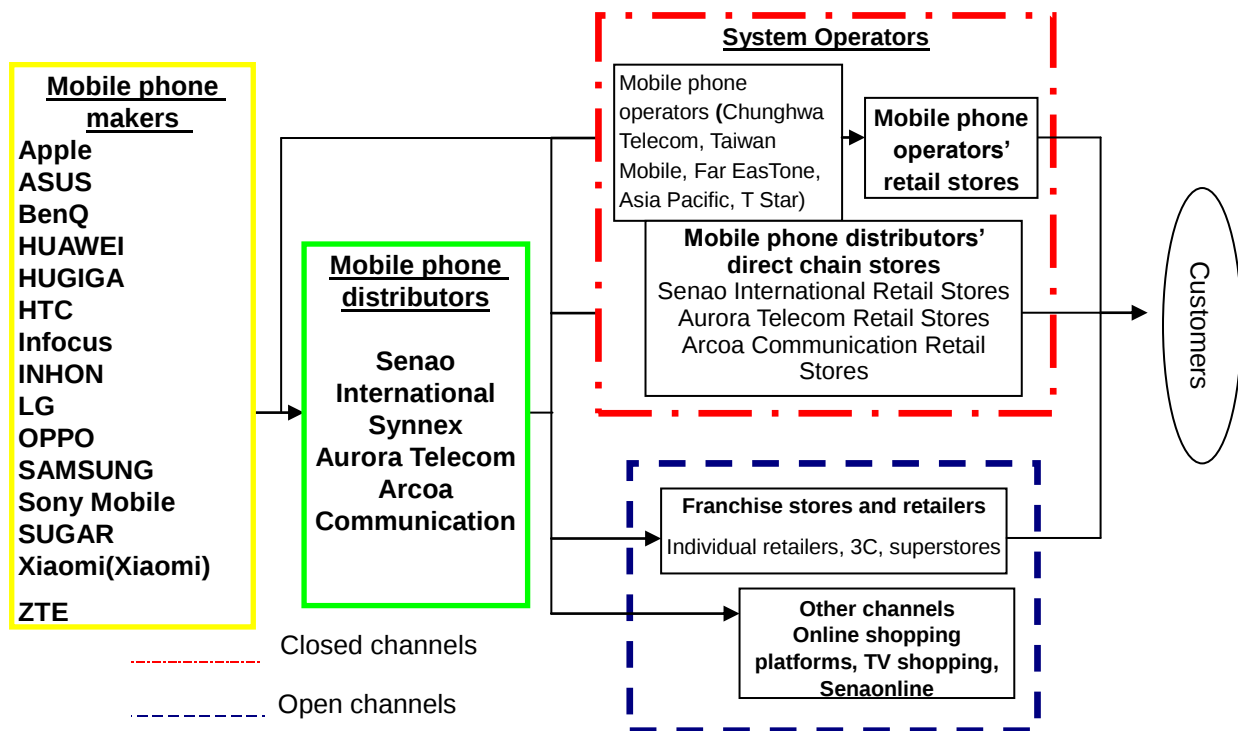
On the other hand, whereas the 3G network and related businesses will be switched off at the end of December 2018, the 6.43 million 3G users will have to upgrade to the 4G network. Therefore, it will be in wartime for the telecom carriers in 2018. In addition to the painless upgrade promotional package to attract new customers, a better and enhanced 4G VoLTE call quality and 4G applications will keep the existing customers and at the same time bring in more new customers

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with their portable numbers. Chunghwa Telecom is likely to offer the promotional package for existing customers switching from 3G to 4G services, thereby, it is anticipated to convert all current 2.73 million 3G users into 4G users with all new 4G cellphones before the end of the year.

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2. Correlation among up-stream, mid-stream, and down-stream participants in the industry



3. Product development trends and competitions

(i) Smartphones:

The mobile phones with 5~5.5-inch screen size are currently the most popular models while the high-end models are equipped with 6-inch screen. The power-saving and high performance processors become mainstream, and the development of processors is aimed towards application of artificial intelligence; high definition is no longer the focus of camera development, but the multiple lens supplemented with waterproof protection for many mid-to-high-end smartphones.

The larger sized phone screens require the enhanced

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battery capacity. The power capability of battery is enhanced after the adoption of USB Type-C connector, and fast charging by greater current and higher voltages is made possible and popular; artificial intelligence technology can now remember user behaviors through sensing and deep learning to provide and suggest relevant services.

The future development of smartphones will focus on bendable display, application of AR or VR and integration of hardware and software, instead of the hardware specifications. The unique applications will be the main topic for the communication with customers.

(ii) Tablets:

In recent years, many phone makers have introduced the smartphones with big screen size, and the 6-inch tablets are hence replaced by these smartphones. Lack of innovations and new product designs results in the shrinkage in market size. Since its first decline in fourth quarter of 2014, the tablet market continued to show negative growth rate in 2016 and 2017, and the trend is likely to continue in 2018.

8-inch LTE tablets are major players in the tablet market. However, the bigger-screen models launched in recent years, emphasized on the application on special occasions and supplemented with optional keyboard and stylus pen are likely to take the market share of business laptop market. Although the size and performance of such tablets are attractive, the high price and low productivity make them less attractive than laptops, especially when

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cheap laptops pack the market. The tablets may only win for the application on special occasions.

Apple launched the 9.7-inch iPad on March 27, 2018 that targets education market and supports Apple Pencil, and it is expected to make certain contributions to sales in the tablet market in 2018.

(iii) Home appliances:

The development of home appliances trends towards internetization and intelligentization; the price of 4K high-definition televisions is more accessible, especially the 50-inch and above models. The price of smart and connected TVs has reached the pricing sweet spot. In the future, the focus will be placed on smart and connected TVs, smart appliances with remote smart control app, appliances needed by all customer segments such as air purifiers and dehumidifiers, cordless vacuum cleaners, sweeping robots, time-saving and home-cooking kitchen appliances, and seasonal appliances such as fans and heaters.

(iv) Laptops:

After four years of decline in the laptop market, the sales have stabilized in 2017. Looking ahead at 2018, the launch of 8th generation of intel CPU is hopefully to lead to a boom in demand. Thin and light, high performance laptops and gaming laptops will be the fuel for recovery in the laptop market. Thin and light laptops, such as ASUS UX series that carry a slim bezel, solid-state drive, and dedicated graphics card, fulfill the needs for mobility and multimedia tasks of the office customers.

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Gaming laptops have become a trend and a lifestyle. The third reading of amendments to “Sports Industry Development Act” were passed by the Legislative Yuan to include the eSports in the sports industry and relax the rules for investment of government and public enterprises in connection with national policy. Currently, the Chinese Taipei e-Sports Association (CTeSA) will lead the whole eSport industry, and with the involvement of government, the Taiwanese computer makers will input more resources and introduce sub-brands focusing on marketing of eSport products, e.g. ASUS’s ROG and Acer’s Predator. During ASUS’s organization restructure in May 2017, a new gaming business unit was launched for such an emerging market.

Among high-end laptops, Apple Macbook stands at its leading position and is expected to be updated to the 8th generation CPU in the second quarter of 2018. Microsoft has introduced the new laptop in March 2017 and launched the Surface Book 2 in addition to its original Surface for the high-end laptop market.

Following the popularity of 4G LTE and needs for “Always Connected”, the newcomer in the laptop market, Qualcomm, has introduced the laptop using Snapdragon 835 as its core processor with the Microsoft Windows 10 operating system, emphasizing on energy-saving and speedy connection in the fourth quarter of 2017. The first wave of OEM partners includes HP, LENOVO and ASUS, more always connected laptop products in 2018 should be expected to fuel the market growth.

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(v) Car accessories:

The market size of Internet of Vehicle (IoV) is about NT\$1.8 billion per year, and Senao International has started to introduce the IoV products and hoped to enter the IoV market at the early stage.

The new product, Autoking, developed by Chunghwa Telecom, KingwayTek(NaviKing) and Senao International was launched in January 2018. It is one of the first generation 4G connected car entertainments system with unlimited 4G data plan. This product has been introduced to the new retail channels and is expected to generate more revenue in the future.

The smart helmet, Jarvish, with dashboard camera built inside, is the first dashboard-camera-inside smart helmet and equipped with WiFi, online streaming, voice command and communication functionalities. It is expected to bring in new business opportunities.

The market size of car accessories is approximately NT\$12.5 billion per year, and the average budget on car accessories is about NT\$8,000 per year for every car owner. Senao International plans to introduce more car accessories through the O2O channels to provide a more comprehensive product portfolio and selection for our customers.

(vi) Navigation system/Dashboard camera:

In 2017, the sales of dashboard cameras were about 380,000 units, amounting NT\$1.4 billion, and the sales of navigation system declined by approximately 40% due to the popularization of smartphones. GARMIN is the leading

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brand for navigation system. The market for automotive dashboard cameras is saturated, and only opportunity exist for replacement of old cameras. Instead, the dashboard camera makers (MIO/PX/PAPAGO) have switched their focuses to the motorcycle dashboard cameras that present a high potential of growth.

(vii) Video game products:

While ensuring the supply of PS4 Pro, Sony has introduced more limited packages and continued to develop games and VR application to motivate customers to buy the PS4 console. Although Microsoft Xbox One X presents the best performance among three game platforms, it is a lack of exclusive games to attract consumers. It is expected that Microsoft will focus on developing online game streaming and VR applications through the integration of the Windows 10 and Xbox platform. Nintendo Switch was launched in Taiwan in December 2017, and more popular games via well-known IP will follow to push the sales of the consoles. More innovative and interesting games combining the game consoles will also be launched, such as the Nintendo Labo soon to be launched in April 2018, to attract more diverse customer segments. The growth in game console market will mainly be fueled by the PS4 Pro and Nintendo Switch in 2018.

(viii) Network products:

As the Internet of Things (IoT) evolves to AIoT (AI + IoT) , more cloud computing and AI applications drive the demand of cloud data centers for computation and data

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storage. The needs to deploy infrastructure of 4G network and WiFi thereby increase. 4G network remains mainstream in 2017, and the infrastructure built by system operators encourages the implementation of intelligent transportation and rural communication. The bandwidth and reliability of 4G network both give rise to the popularity of relevant technology. The demand of WiFi equipment will increase due to the development of smart home appliances. Blindless WiFi coverage and various WiFi devices for different occasions such as business, industrial or home are available to improve customer experience. Through the installation and use of hassle free WiFi routers, customers no longer have to find and test the possible solutions due to the weak WiFi signals. Users in the environment with full WiFi coverage can add devices to the smart home system, such as the smart doorbell, sensor, video recorder, smart voice command speaker and 4K or 8K media streaming device to enhance the quality of living.

(ix) Accessories:

Wearable devices are improved for performance and comfort due to the advance of Bluetooth technology. It also emphasizes on the improved using occasions, especially for exercise and personal health management. Through the could connection, the users may observe his/her fitness level among friends within the social network in addition to daily use. In addition to Sony and SAMSUNG, Senao International also carries the wearable devices of well-known brands such as HUAWEI and continue to

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enlarge the accessories portfolio in order to extend the application of communication products.

(3) Technological research and development:

The Company's businesses consist of retailing and distribution, so technological research and development are not applicable for the Company. However, we focus on research and development on new channels. In addition to transforming traditional retail stores to O2O stores, we also research on any potential new channels. In order to support the transformation of channels, Senao International actively builds the IT innovation team, develops e-commerce platform, and upgrades operating system in traditional retail stores. Moreover, we also work on the process optimization and development of operating system to improve information security, stabilize system and assess risk, so as to build a solid foundation for the development of Senao International's new O2O physical/virtual retail channels.

Being a traditional retailer, the operating systems at Senao International retail stores have been running for years with many technical issues and were not compatible with the e-commerce system. Therefore, the new operating system has been introduced to all the retail stores, optimized and maintained, in order to improve the offline retail store performance and stream with the O2O system.

On the other hand, Senao International has built its own e-commerce platform, "Senaonline" and released it in January 2017 as the "second floor" of the retail stores. Senaonline provides diverse product selection and 24-hour service to eliminate the space and time constraints in a retail store.

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Through the adjustment to internal system structure, information integration and connection with banks or third party payment platforms, the information flow, product flow and money flow are perfectly linked with each other, and the O2O Online and Offline Streaming is completed.

Senao International also developed the sales tool, S Plus, to assist the salespersons in the retail stores. The app can be installed on the mobile phones or tablets allowing the salesperson to access the product information as well as promotional events and introduce to the customers immediately, establishing the O2O consumption pattern.

(4) Long and short-term business plans

1.Short-term business plan

(1)Encountering the decreasing demand in the consumer market, Senao International will continue to introduce unique mobile phones to meet various purchase timing and behaviors of our customers. Therefore, we will work on the agency of products with high cost–performance ratio and request for Senao-only package for our customers.

(2)In recent years, large screen mobile phones have become more welcomed in the market, and hence reduce the sales of tablets. Whereas the tablet market is shrinking, the Company will continue to introduce the top brand and high cost–performance ratio products for our customers.

(3)In response to the evolution of wearable devices and growth of personal applications, Senao International will oriented on the wearable devices and extend to related products as its product strategy. The Company will extend from its core business and compete for the agency right of

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more professional wearable devices for various purposes.

(4)The Company will continue to carry more related communication products of well-know brands, sell high quality and high performance private brand accessories and customized products to increase the revenue generated by related products.

(5)As the climate changes rapidly, seasonal appliances have become the Company's potential source of income. Senao International will continue to introduce all types of living appliances to meet customers' daily needs.

(6)By integrating Senaonline and physical retail stores, we wish to satisfy customers' demands with different timings and behaviors. Through the product display, application, education and online and offline service platform, the physical channels can be transformed to the new retail stores that provide customers with twenty-four seven shopping experience.

(7)In response to the changing environment due to the development of Internet and terminal devices, the Company will increase its product exposure by marketing the popular products on the online media.

(8)The Company will utilize its original 3C customer base for the sale of extended products, home appliance, information products, health care products and other daily necessities. By applying big-data analysis on the member database and precision marketing, customer return rate will increase, and by member relation management, the loyalty of Senao members will increase so as to attract new

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members.

2. Long-term business plan

(1) Collaborating with Chunghwa Telecom 4G service, the Company will be able to supply more dominant handheld devices, well-known fine home appliances, digital product promotions, so as to become the leading brand among 3C product retailers.

(2) Except the collaboration with system operators to provide packages, Senaonline also cooperates with physical retail stores to offer daily necessities in order to completely satisfy customers' needs.

(3) By analyzing the growing and changing customer data, we will be able to master the market dynamics quickly and develop new products for different consumption patterns and needs. We will offer customized service to fulfill customers' needs for individual, family and healthy living.

(4) Via the Financial payments, collaboration with banks and reward point exchange program, we wish to increase the purchase values, revolving discount and referral among members to cumulate reward points and adhere to Senao by utilizing Senao member benefits.

II. Market and sales overview

(1) Market analysis

1. Operating revenue by regions

Unit: NT\$ thousand

Year Region	Year 2017		Year 2016	
	Amount	%	Amount	%
Overseas	234,350	0.66	357,084	1.05
Taiwan	35,503,584	99.34	33,733,664	98.95
Total	35,737,934	100.00	34,090,748	100.00

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2. Market share

The top global smartphone brands, such as SAMSUNG, Sony Mobile, OPPO, HUAWEI, Xiaomi and LG, are still Senao International's priority for agency. However, Senao International also deeply supports the local brands, such as ASUS, HTC, Inhon and BenQ. We also assist Chunghwa Telecom in the sales of Apple iPhone mobile phones in order to increase our market share. Meanwhile, we hold active discussion with other brands such as SUGAR and Nokia to complete the price band and provide a more diverse product portfolio to our customers with the growing market share. Finally, with the advantage of owning three mobile broadbands, Chunghwa Telecom purchased another 5 frequency blocks in the third wave of auction of spectrum for mobile broadband business licenses in November 2017, the most among all bidders. The result of the auction made Chunghwa Telecom own the most frequencies in the 180MHz, top among all 4G system operators. It will endeavor for providing better mobile network and call quality. Chunghwa Telecom's market share remains top among in the telecommunication industry in 2018, and it is expected to maintain the leading position in 2018.

3. Future market supply, demand and growth

Due to the popularity of communication apps (such as Line, WeChat, Whatsapp, etc.), the total Voice call minutes declines year by year. The operators therefore have high expectation for the revenues generated by high mobile data traffic after the popularity of 4G network, however, as the number of subscribers reaches the saturation point, the severe price competition hold the exit of unlimited data plans. The ARPU

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(Average Revenue Per User) presents a downward trend for all system operators, therefore the discounts in the contract plans (including voice call minutes, hotlines, subsidy for phone purchase, etc.) have been eliminated since 2017 to reduce the financial impact.

The decrease of subsidies for phone purchase lowers the price gap between subsidized phone and non-bundle phone, as a result, subscribers become more likely to choose the telecom contracts which offer lower rates (in comparison to the same plan with subsidized phones) and lower fine for termination or withdrawal. The telecom contracts make switch of plans easier for the subscribers. The above situation leads to the drop in the sales of subsidized phones and monthly payment amount, and increasing risk of exiting subscribers. On the contrary, the increasing telecom contracts bring up the sales of non-bundle phones and help the recycle of used phones.

On the other hand, the sales of Apple iPhone still top the chart in Taiwan (according to the survey, the actual market share was 30.6% in December 2017, followed by SAMSUNG's 17.5%). As the market leans towards iPhone sales, the Android phones become less attractive, and the honeymoon period for flagship products slides from 6 months to 2~3 months. The monthly sales of all brands therefore fluctuate, the momentum is hard to maintain.

There is lack of breakthrough innovation for hardware specification of smartphones in 2017, but the “dual-lens” and “full screen display” have presented a paradigm shift in the time difference and filled in all price ranges. As a result, the sales of Android phones rarely ramped up in the fourth quarter of 2017.

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In the 10th anniversary of Apple iPhone, Apple not only released the slightly upgraded iPhone 8 and 8 Plus, but also introduced the “iPhone X” for its 10th anniversary, equipped with the full screen and bezel-less display and no home button design. Its price is drastically set above NT\$40,000. However, the sales of iPhone 8 and 8 Plus for the past three months since the release are lower than that of iPhone 7 and 7 Plus in the previous year, and the sales of iPhone X for the past three months are also lower than expected. In summary, the market of communication products has turned mature in recent years. In 2017, the phone makers added the AI voice assistant function (Artificial Intelligence) to the flagship models to test the market, but the sales did not meet the expectation due to unqualified service. Moreover, in according to the forecast made by IDC, the market survey company, AI will be brought into the development of terminal devices, and its application and growth are especially obvious in smartphones, including voice assistant, videotaping, battery life extension. It is obvious that “AI”, covered by many reports and regarded as the battlefield in the future, will bring new opportunities of demands for many phone makers in 2018.

The sales of VR in 2017 slowed down mainly due to the business applications of VR focused on customized products, but the major market demand centered on games and entertainment (e.g. Sony’s PS4 Pro led the sales of PS VR). The lack of content for games and entertainment was still the main obstacle for market development. Therefore, the VR makers are adjusting their direction in 2018 towards the independent VR devices that can be applied in social network interaction, light entertainment, and Internet services. The

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target customers are limited to general consumers. Google and Facebook are developing their independent VR devices, and HTC has launched the Vive Focus and looked for partners via its Vive Wave platform in order to develop more diverse applications and services. The overall VR market stands at introduction stage, and a noticeable growth is expected after 2020.

Smart devices are no longer limited to the wearable made by mobile phone makers. At the 2018 CES, fashion and luxury companies (e.g. Fossil, Michael Kors, Emporio Armani) had their own smart devices launched to meet the demand in luxury market. Acer even extended the wearable product into the religion market and launched Leap Beads. According to the news report, the first order will be over 10,000 pieces revealing the potential of religious technology products.

Meanwhile, the Apple released its first smart speaker carrying Voice assistant Siri in February 2018 and officially triggered the war among Amazon, Google and Apple. The research company, comScore, states that “smart speakers will be the entrance for smart home”. The number of smart speaker owners will reach 40% of the population in the United States in 2018 according to the research, and it is not sure if Taiwanese market will copy such a trend.

4.Competitive advantage

(1)Agency of communication, digital, accessories and home appliance products of top brands.

As the leader in agency of communication products in Taiwan, Senao International has worked with the most mobile brands, provided the most diverse product portfolio

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and built close relationship with all mobile phone makers.

In addition to current communication and digital products (e.g. Laptops, tablets, game consoles, Car accessories, and network products), Senao International also introduces many smart and connected products (e.g. Smart wearable devices) and selected home appliance (e.g. Connected sweeping robot and air purifier) to satisfy consumers' needs for IoT in the future. Senao International wishes to lead and accompany our customers in the change and experience of digital living.

(2) Deployment of a more comprehensive O2O business model:

Senao International has 284 direct retail stores nationwide, serves local customers, provides services related Chunghwa Telecom mobile business and endeavors for offering the most professional communication and information products and services. For the telecom contract subscribers, we also sell the non-bundle mobile phones and provide related accessories to fulfill various demands. Since the launch of Senaonline, Senao International has transformed from traditional retailer and distributor business model to the new O2O business model and initiated the plan to become an all-channel new retailer.

(3) A complete training system:

Through the complete training system, the online training courses and group consultation trainings will educate the sales personnel how to satisfy customers' needs in addition to selling skills and make them the professional advisors for products and services in order to enhance the professionalism and increase accountability and customer adhesiveness.

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(4) Maintenance of member relations:

After serving our customers for many years, Senao International has built close relationship with Senao members. Through the analysis and management of big data, we can effectively manage current customers' contract renewal cycle; though the O2O, we can achieve the all-day and all-product service. Currently, we are promoting the VIP membership in order to increase customer loyalty.

5. Opportunities and threats

(1) Opportunities

- Up till 2017, it has been 3 years since the launch of 4G network in Taiwan. As of the end of 2017, the number of 4G subscribers has reached 20 million, and the average monthly cellular data usage was 14.2GB, ranked top 1 of the world.
- Senao International is the leader in the agency of mobile devices carrying the most brands with the most comprehensive product portfolio.
- We endeavor for exploring and introducing new related products and marketing accessories of private brands, MEGA KING and EnGenius in order to get close to our customers and fulfill various customer needs.
- We actively introduce more smart home devices, wearable devices and home appliance to build Senao International's image of digital convergence and lead customers to the next generation of IoT.
- Senao International owns 284 direct stores nationwide that allows us to quickly master the market movement and build relations with local businesses and subscribers. Senaonline's product portfolio is increasing in size to

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compete for exposure and attract younger generation's attention, so as to acquire the mind share of younger generation. We have integrated online and offline channels and continue to develop O2O model. The smooth integration of online and offline channels will become the foundation for future development.

(2) Threats

- The market of high-end smartphones has entered the highly mature stage, and the time for a paradigm shift of the flagship specification is reduced. As a result, the product lifespan is shortened and the competition becomes severer. The mobile phone market is saturated and calls for new applications to boost the sales.
- System operators join the team of mobile phone agents, and the phone makers supply directly to these special channels. As a result, Senao International's leading position in agency and distribution is threatened and the revenue generated by retail channels is directly affected.
- Chunghwa Telecom, the parent company of Senao International, has the leading market share of 36.5%, but due to severe competition in last two years, it has declined by 1.6% accumulatively (the market share in 2015 was 38.1%).
- The advantages of e-commerce business model have disappeared. The convenience of mobile devices has fragmented and broken traditional consumer behaviors and thus impacted the sales of physical stores.

(3) Responsive measures against threats

- We will develop a complete customer relationship management system through the past member database

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and shopping records, and provided customized services tailoring to consumers' need to improve return rate.

- We will actively integrate online and offline channels by running the self-owned media and community content (fan page), and through the new 2R recruitment, in order to attract more attention from our suppliers and create topics. In addition, via Senao app's notification, we can target the market precisely and build consumer adhesiveness.
- In terms of smartphones, we will continue to work closely with phone makers and compete for the agency of flagship models and hot-sell models to boost the sales of distribution channels and generate sales for retail channels.

(2) The main purpose of primary products and their production process

Main purpose of	Primary products
Mobile phones	Sale and agency of Chunghwa Telecom mobile phone numbers
Tablets and laptops	Sale and agency of Chunghwa Telecom mobile phone numbers
Information and digital products and home appliances	Providing diverse product selection for our customers
Related products (Accessories)	Providing diverse related product selection for our customers

(3) Supply of major materials

The major suppliers for Senao International's mobile phone products and accessories include: SAMSUNG, Sony Mobile, HTC, OPPO, Apple, LG, ASUS, Xiaomi, Huawei, SUGAR, INHON, Infocus, Hugiga, BenQ, Benten, etc.

The major suppliers for tablets and laptops include: Apple,

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acer, ASUS, Lenovo, etc.

The major suppliers for digital products and home appliances (digital camera, navigation, dashboard camera, game console and large and small home appliance): SONY, Dyson, PANASONIC, LG, Samsung, PHILIPS, SHARP, KOLIN, HERAN, FUJITSU, SAMPO, TECO, CHIMEI, Mio, Garmin, PAPAGO, PX, Local King, Nintendo, Zyxxel, Huawei, D-link, etc.

The major suppliers for related products (accessories) include : Sony Mobile, HTC, SAMSUNG, Apple, LG, ASUS, INHON, Infocus, Acer, Huawei, Hugiga, Benten, OPPO, Xiaomi, MEGA KING, EnGenius, etc.

(4)Name of trade partner representing more than 10% of total purchases (sales) in the previous two years

1.Information of major customers in the previous two years.

Unit: NT\$ thousand

Item	Year 2017				Year 2016			
	Name	Amount	As a percentage to total sales [%]	Relation to the issuer	Name	Amount	As a percentage to total sales [%]	Relation to the issuer
1	Chunghwa Telecom Co., Ltd.	10,520,750	29.44	Parent company of this company	Chunghwa Telecom Co., Ltd.	11,144,171	32.69	Parent company of this company
	Other	25,217,184	70.56		Other	22,946,577	67.31	
	Net sales	35,737,934	100		Net sales	34,090,748	100	

2.Information of major suppliers in the previous two years.

Unit: NT\$ thousand

Item	Year 2017				Year 2016			
	Name	Amount	As a percentage to total purchase [%]	Relation to the issuer	Name	Amount	As a percentage to total purchase [%]	Relation to the issuer
1	SAMSUNG Taiwan	8,293,781	28.40		SAMSUNG Taiwan	8,419,225	30.44	
2	OPPO Taiwan	5,068,775	17.36		Sony Mobile	4,769,271	17.25	
3	Sony Mobile	4,181,609	14.32		HTC	3,940,369	14.25	

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4	ASUS	3,452,487	11.82		ASUS	3,746,418	13.55	
5	HTC	3,174,509	10.87					
	Other	5,031,272	17.23		Other	6,779,434	24.51	
	Net purchase	29,202,433	100		Net purchase	27,654,717	100	

- (5) Production volume and value in the previous two years: The Company is classified in the retail and distribution industry without any production activity, so it is not applicable.

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(6) Sales volume and value in the previous two years:

Unit: thousand units/NT\$ thousand

Year Sales Volume and value Major products (Or by departments)	Year 2017				Year 2016			
	Taiwan		Overseas		Taiwan		Overseas	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Communication products	2,875	27,082,806	17	154,197	2,899	26,054,889	30	263,500
Other	-	5,011,379	-	21,517	-	4,438,985	-	27,206
Service revenue	-	3,409,399	-	58,636	-	3,239,790	-	66,378
Total	2,875	35,503,584	17	234,350	2,899	33,733,664	30	357,084

3. Employee information in the previous two years up until the publication date of this annual report

March 31, 2018

Year		Year-to-date March 31, 2018	Year 2017	Year 2016
Number Employees	Management and staff	774	776	785
	Sales personnel	1,986	2,056	2,088
	Maintenance personnel	167	164	174
	Mobile wrapping engineers	0	0	138
	Operators	288	292	0
	Total	3,215	3,288	3,185
Average age		32.42	32.17	32.38
Average years of service		6.06	5.84	5.64
Education distribution Ratio	Doctoral degree	0.00%	0.00%	0.03%
	Masters Degree	4.91%	4.93%	4.52%
	Bachelors Degree	78.08%	78.23%	82.32%
	High school	16.45%	16.39%	12.50%
	Below high school	0.56%	0.46%	0.66%

4. Expenses Regarding Environmental Protection

- (I) The Company's major business activities are the sale of communication product, and generally, there is no pollution issue.
- (II.) Measures for environmental improvement:
 - 1.The Company has the central air conditioning system to control the temperature and humidity. The system is maintained every month to ensure the air condition of the environment.
 - 2.The working environment is cleaned, organized and disinfected on a regular basis to ensure environmental hygiene.
 - 3. Industrial waste is handled by the professional waste collection company in compliance with relevant regulations, and all waste is sorted.
 - 4.We make efforts in creating and providing our employees a working environment with technology, culture and comfort.
 - 5.We will gradually replace the energy consuming lights for energy conservation.
 - 6.We recycle used mobile phones at all retail stores.

5. Labor relations

- (1) Human rights policies:
 - 1.The Company's human resource management policies and procedures have always complied with labor laws and supported and respected relevant international regulations of Human Rights. The policies protect equal employment opportunities, including freedom of discrimination regardless of gender, sexual orientation, race or ethnicity, age, marital status, language, belief, religion, political affiliation, appearance, feature, disability or union member. We have created a

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- respectful, equal, safe and harassment-free work environment.
2. The Company prohibits all forms of forced labor and use of child labor, and follows the working hours and leave standards set forth by relevant labor laws to protect employees' physical and mental health.
 3. We respect that our employees to organize or joint the union recognized by laws for the protection of their rights. We also keep the employee suggestion channels opened to encourage communication and promote a good labor relation.
 4. Any personal information of job seekers and employees are protected in accordance with Personal Information Protection Act and relevant laws. Meanwhile, in order to enhance the Company's personal information protection mechanism and eliminate any risk of loss, damage, unauthorized use or legal handling of personal information, we have developed the personal information security incident management mechanism to ensure in any personal information security incident, the measure will be taken to prevent any further damage.
 5. In order to protect all employees from any physical or mental harassment during performance of duties that results in mental and physical illness and to maintain gender equality in employment and personal dignity, the Company has announced and regularly promoted the statement of preventing workplace violence. The Company has also adopted the "Measures of Prevention, Correction, Complaint and Punishment of Sexual Harassment" in order to provide all of our employees with a work environment free of workplace

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bullying and sexual harassment.

6.The Company provides many domestic job opportunities and collaborate with schools offering internship opportunities for students to implement the corporate social responsibility.

(II) Code of conduct:

1.The Company always conducts its business with fairness, honesty and integrity, and demands all of its managers and employees to comply with the following code of conduct while performance any duties and avoid any misconducts:

(1)Comply with all laws and regulations related to the Company's business activities and follow the Company's policies.

(2)Act in the best interest of the Company. It is prohibited to provide the Company's service based on personal interest in order to prevent any conflict of interests.

(3)Do not directly or indirectly offer, promise to offer, request or accept any improper benefits to establish business relationship or influence commercial transactions.

(4)Do not disclose, inform, deliver or transfer to others or publicly announce any business confidential information and customer information.

(5)Do not take advantage of position to acquire benefits or cause damages to the Company in an improper manner.

(6)Promote the Personal Information Protection Act and protect customer rights.

2.For any misconduct, the punishment or termination of employment will be given commensurate with actual condition.

(3) Work environment and employees' personal safety:

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The Company has established a dedicated occupational safety and health unit comprising dedicated personnel to achieve “legal compliance, risk assessment, employee involvement, continuous improvement, zero injury” and major actions taken are listed as follows:

1. Established dedicated unit (occupational safety and health office) and assigned full-time registered nurse for employees' health management. The unit is responsible for planning employee health management and health promotion. The Company has offered monthly on-site service from the occupational health doctor to offer employee health consultation, education, and operation environment evaluation. We have launched four major plans, including human health hazard prevention, maternal health protection, harassment during performance of duties prevention, disease prevention of abnormal workload) to build a safe and health work environment. The Company has also work together with a professional health care institution to arrange employees' annual health checkup, four cancers screening, flu shots injection and health talk, as well as monitor and handle any abnormality. The Company also offers massage services by masseuse with visual impairments to establish the primary health care system and provide employees a channel to de-stress.
2. In order to build a good and friendly environment for pregnancy and breastfeeding, the Company provides maternity health risk assessment and monitoring of health conditions from pregnancy to a year after the birth. The breastfeeding room

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was certified by the New Taipei Government in 2016 to encourage continuous breastfeeding after giving birth. In response to the promotion of breastfeeding by Health Promotion Administration, Ministry of Health and Welfare and Act of Gender Equality in Employment, the Company has furnished the breastfeeding room in order to achieve the goal of work-life balance.

3. In order to provide employees with a safe, healthy and hygiene work environment, the Company's headquarters are furnished with all-day access control system, and all working environment is smoke-free. In 2013, the Company was certified with the "Badge of Accredited Healthy Workplace" from the Department of Health, New Taipei City Government and adopted the "Safety and Health Regulations" and "Access Control Regulations". The safety and health inspection is conducted on an annual basis accordingly. The Company also organizes courses regarding fire-fighting, first-aid and personal safety protection provided by fire departments. Meanwhile, we also hold the promotional event in occupational safety from time to time, so as to provide a safe work environment and ensure employees' physical safety.

(4) Employee welfare:

1. Remuneration and benefits:

(1) All employees are enrolled in the national labor insurance and health insurance program, in the event that any employee has to claims for insurance reimbursement, we will notify the employee and assist him/her for claim in order to protect employee welfare.

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(2)The Company offers competitive level of salary and sets the guidelines for performance bonus to share the operating result with our employees.

(3)Since 1996, the Company has established the Employees' Welfare Committee in accordance with relevant law and appropriated employee welfare fund for employees' welfare such as employee emergency allowances, wedding/funeral subsidy, festive bonus, and travel subsidy.

(4)We also provide employees free group insurance (including life insurance, accident insurance, cancer insurance and medical insurance) and discounted group insurance to employees' family for a more comprehensive care and protection to employees and their family.

(5)We provides working mothers a friendly working environment for pregnancy and raising children and offer pregnancy leave, maternity leaves, parental leave without pay or any other support for breastfeeding.

2.Employee education and training:

(1)The Company organizes training courses tailoring to the core competencies and professional knowledge required. The Company's training system consists of: A. training by job level: Targeting employees of different job levels, providing training courses in topics of management and general knowledge; B. Training by profession: Tailoring to different competencies required by different job positions, providing training courses in each profession.

(2)Leading brand for service integration: in order to satisfy customers' need for one-stop shopping, in addition to the enhancement of professionalism, management skill and

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core competency, we also strengthen employees ability to integrate service and performance synergy among department. Through the soft skills course and team building events, we will take the advantage of service integration, achieve the goal of lean learning and create a high-quality customer service.

(3)Best Companies to work for, employees are the priority: the average age of the Company is 32 years old, and in order for managers to work well with these young and change seeking Y generation, the Company continues to hold management courses for managers to enhance their leadership while maintaining the prudent but flexible culture.

(4)Development of professional digital experts: In the age of digital convergence, the service personnel at the retail stores are demanded for more knowledge about diverse products. Therefore, the Company continue to provide them trainings in sales and service quality, and more courses in professional knowledge through the e-Learning digital platform, so as to strengthen the retail personnel's knowledge in 3C products and enable them to provide professional advise on digital products.

(5) Retirement policies:

Since 1996, the Company has adopted the “Rules for Employee Retirement” stipulating the conditions for retirement, application for retirement and calculation and payment of pension. For employees applicable to the retirement mechanism in the Labor Standards Act, 2% of the total monthly salary has been appropriated and deposit in the designated account in Bank of Taiwan, and the Supervisory Committee of Labor Retirement

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Reserve was established to monitor the legal use of fund. We also appoints actuary to issue the actuary report on the labor retirement reserve on a regular basis in accordance with the ROC Statement of Financial Accounting Standards No. 18. Since July 2005, the Labor Pension Act has applied. For employees applicable for the Act, 6% of the monthly insurance salary has been appropriated monthly as pension and deposited in the individual labor pension accounts. The employees may also choose to appropriate pension up 6% of their own will.

(6) Labor relations:

The Company takes labor relations seriously, and all the internal regulations are in compliance with Labor Standards Act and relevant rules. We also sign the labor contracts with employees to protect employees' rights. The labor-management meeting is held in accordance with the Regulations for Implementing Labor-Management Meeting for labor relation reconciliation, collaboration between employees and management, efficiency improvement and employees' welfare. The public complaint channels (Chairman's e-mailbox, Company's website) were set up for any employee complaint. The complaint would then be investigated and handled properly to protect employees' rights.

(7) Other material agreements:

1. For prevention of workplace sexual harassment and gender equality in employment, the Company has developed and publicly disclosed its prevention measures and punishments of sexual harassment. It has also stipulated the procedures for sexual harassment complaint and promulgate the written statement of prohibition of sexual harassment in workplace in

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order to regulate employees' behaviors at workplace.

2. In addition to compliance with Work Rules, all employees have to sign the labor contracts and statement for work ethics while on-board for the effectively implementation of work ethics, integrity and code of conduct. Employees are required to sign the code of conduct annually and comply with relevant rules and regulations.

(8) Losses arising as a result of employment disputes in the last year up till the publication date of this annual report: None.

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6. Major contracts

Contract nature	Principal	Beginning and ending date of the contract		Main contents	Restrictive clauses
Mobile phone supply contract	Chunghwa Telecom Co., Ltd. Mobile Business Group	2016/01/01	2018/12/31	Mobile phone supply contract	None
Telephone number agency contract	Chunghwa Telecom Co., Ltd. Mobile Business Group	2016/01/01	2018/12/31	Mobile numbers agency contract	None
Manufacturer Contract	HTC Corporation	2012/01/01	90 days written notice	Agency contract for HTC mobile phones	None
Manufacturer Contract	Sony mobile communications AB	2004/07/15	3 months written notice	Purchase agreement	None
Manufacturer Contract	Samsung Electronics Taiwan Co. Ltd.	2014/01/01	60 days notice	Samsung Agency Contract	None
Manufacturer Contract	LG electronics Taiwan Taipei Co.,Ltd.	2017/01/01	If neither of the parties raises objection, the contract will be automatically renewed.	Product procurement	None
Manufacturer Contract	Taiwan Xiaomi Telecommunications Limited	2017/01/01	2018/12/31	Product procurement	None
Manufacturer Contract	Taiwan SUGAR Mobile Communication Co., Ltd.	2016/12/01	If neither of the parties objects, the contract will be automatically renewed.	Product procurement	None
Manufacturer Contract	ACER Incorporated	2015/01/01	2018/12/31	Product procurement	None
Manufacturer Contract	LENOVO Technology B.V. Taiwan Branch (Netherlands)	2017/12/13	2018/09/30	Product procurement	None

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1. Condensed balance sheets and statements of comprehensive income for the past 5 fiscal years

(1) Individual condensed balance sheets

Unit: NT\$ thousand

Item – accounts		Financial information for the latest 5 years (Note 1)				
		Year 2013	Year 2014	Year 2015	Year 2016	Year 2017
Current Assets		7,433,114	7,134,371	6,580,525	7,015,139	6,885,483
Property, plant and equipment		1,199,465	1,091,320	983,832	959,111	970,385
Intangible assets		11,345	15,289	44,225	35,133	19,076
Other assets		1,802,888	2,127,104	2,361,589	2,202,416	2,167,761
Total assets		10,446,812	10,368,084	9,970,171	10,211,799	10,042,705
Current Liabilities	Before dividend	4,216,874	4,503,101	4,154,931	4,183,852	4,020,631
	After dividend	5,249,884	4,890,480	4,899,689	5,176,863	-
Non-current liabilities		97,114	97,934	93,116	114,007	121,933
Liabilities Total	Before dividend	4,313,988	4,601,035	4,248,047	4,297,859	4,142,564
	After dividend	5,346,998	4,988,414	4,992,805	5,290,870	-
Share capital		2,582,527	2,582,527	2,582,527	2,582,527	2,582,527
Capital surplus		558,286	646,258	677,819	691,119	703,314
Retained earnings	Before dividend	2,956,960	2,470,130	2,885,436	3,118,029	2,941,266
	After dividend	1,923,950	2,082,751	2,140,678	2,125,018	-
Other equity		35,051	68,134	69,112	15,035	1,110
Treasury stocks		-	-	(492,770)	(492,770)	(328,076)
Total Equity	Before dividend	6,132,824	5,767,049	5,722,124	5,913,940	5,900,141
	After dividend	5,099,814	5,379,670	4,977,366	4,920,929	-

Note 1: All financial information above has been audited, and no asset revaluation was done.

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(2) Individual condensed statements of comprehensive income

Unit: NT\$ thousand

Item - accounts	Year	Financial information for the latest 5 years (Note)				
		Year 2013	Year 2014	Year 2015	Year 2016	Year 2017
Operating revenue		41,881,325	40,247,895	34,793,508	33,238,143	34,488,747
Gross profit		6,158,461	5,028,279	4,485,343	4,427,864	4,229,253
Income from operations		1,959,638	940,067	868,595	938,885	763,088
Non-operating income and expenses		(234,189)	(297,968)	73,187	243,823	209,733
Pre-tax profit		1,725,449	642,099	941,782	1,182,708	972,821
Net income (loss)		1,429,966	549,963	803,347	997,309	825,521
Other comprehensive income - current (net, after tax)		41,529	29,300	(3,199)	(74,035)	(23,198)
Total comprehensive income - current		1,471,495	579,263	800,148	923,274	802,323
Earnings per Share (NT\$)		5.55	2.13	3.17	4.02	3.30

Note: All financial information above has been audited.

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(3) Consolidated condensed balance sheets

Unit: NT\$ thousand

Year		Financial information for the latest 5 years (Note 1)				
		Year 2013	Year 2014	Year 2015	Year 2016	Year 2017
Item - accounts						
Current Assets		8,133,924	7,943,537	7,422,739	7,761,962	7,584,225
Property, plant and equipment		1,353,519	1,215,244	1,034,505	1,002,035	1,005,960
Intangible assets		11,511	18,482	356,620	333,902	293,256
Other assets		1,037,621	1,266,771	1,401,403	1,373,000	1,403,692
Total assets		10,536,575	10,444,034	10,215,267	10,470,899	10,287,133
Current liabilities	Before dividend	4,306,192	4,577,435	4,324,620	4,376,279	4,203,944
	After dividend	5,339,202	4,964,814	5,069,378	5,369,290	-
Non-current liabilities		97,559	99,550	137,661	155,028	160,366
Liabilities	Before dividend	4,403,751	4,676,985	4,462,281	4,531,307	4,364,310
	After dividend	5,436,761	5,064,364	5,207,039	5,524,318	-
Equity attributable to stockholders of the parent		6,132,824	5,767,049	5,722,124	5,913,940	5,900,141
Share capital		2,582,527	2,582,527	2,582,527	2,582,527	2,582,527
Capital surplus		558,286	646,258	677,819	691,119	703,314
Retained earnings	Before dividend	2,956,960	2,470,130	2,885,436	3,118,029	2,941,266
	After dividend	1,923,950	2,082,751	2,140,678	2,125,018	-
Other equity		35,051	68,134	69,112	15,035	1,110
Treasury stocks		-	-	(492,770)	(492,770)	(328,076)
Non-controlling interests		-	-	30,862	25,652	22,682
Total Equity	Before dividend	6,132,824	5,767,049	5,752,986	5,939,592	5,922,823
	After dividend	5,099,814	5,379,670	5,008,228	4,946,581	-

Note 1: All financial information above has been audited, and no asset revaluation was done.

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(4) Consolidated condensed statements of comprehensive income Unit: NT\$ thousand

Year Item - accounts	Financial information for the latest 5 years (Note)					
	Year 2013	Year 2014	Year 2015	Year 2016	Year 2017	
Operating Revenue	42,711,163	41,351,759	35,558,124	34,090,748	35,737,934	
Operating gross profit	6,342,883	5,253,683	4,634,726	4,562,001	4,341,967	
Income from operations	1,414,340	275,290	606,001	818,769	689,921	
Non-operating income and expenses	311,109	366,809	329,778	348,965	275,168	
Pre-tax profit	1,725,449	642,099	935,779	1,167,734	965,089	
Net income (loss)	1,429,966	549,963	798,548	992,099	822,551	
Other comprehensive income - current (net, after tax)	41,529	29,300	(3,199)	(74,035)	(23,198)	
Total comprehensive income - current	1,471,495	579,263	795,349	918,064	799,353	
Net profit attributable to owners of the Parent	1,429,966	549,963	803,347	997,309	825,521	
Net profit attributable to non-controlled interests	-	-	(4,799)	(5,210)	(2,970)	
Comprehensive profit (loss) attributable to the owners of the parent company	1,471,495	579,263	800,148	923,274	802,323	
Comprehensive income attributable to non-controlling shareholders	-	-	(4,799)	(5,210)	(2,970)	
Earnings per Share (NT\$)	5.55	2.13	3.17	4.02	3.30	

Note: All financial information above has been audited.

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(5) Names of auditors and audit opinions for the last 5 years:

Year	Name of CPA firm	Name of auditors	Audit opinion
2013	Deloitte & Touche	En-Ming Wu, Anyia Liao	Unqualified opinion
2014	Deloitte & Touche	En-Ming Wu, Anyia Liao	Unqualified opinion
2015	Deloitte & Touche	En-Ming Wu, Anyia Liao	Unqualified opinion
2016	Deloitte & Touche	Anyia Liao, Hung Peng Lin	Unqualified opinion
2017	Deloitte & Touche	Dien Sheng Chang, Hung Peng Lin	Unqualified opinion

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2. Financial analysis for the previous 5 years

(1) International Financial Reporting Standards - Individual

Analysis \ Year		Financial analysis for the previous 5 years (Note1)				
		Year 2013	Year 2014	Year 2015	Year 2016	Year 2017
Financial Structure	Debt to assets ratio (%)	41.29	44.37	42.60	42.08	41.24
	Long-term capital to property, plant & equipment ratio(%)	519.39	537.42	591.08	628.49	620.58
Liquidity	Current ratio(%)	176.27	158.43	158.37	167.67	171.25
	Quick ratio(%)	89.30	89.95	99.65	113.17	114.33
	Times interest earned	186.37	47.64	163.43	893.60	230.11
Operating performance	Receivables turnover ratio(times)	18.73	19.11	17.03	14.91	14.63
	Average collection days	19.48	19.09	21.43	24.48	24.94
	Inventory turnover ratio (times)	12.18	11.37	11.60	12.80	13.64
	Payables turnover ratio (times)	15.87	16.15	12.86	11.65	12.03
	Days sales outstanding	29.96	32.10	31.46	28.51	26.75
	Property, plant and equipment turnover ratio(times)	35.95	35.13	33.53	34.21	35.74
	Total asset turnover (times)	3.97	3.86	3.42	3.29	3.40
Profitability	Return on Assets (%)	13.66	5.39	7.94	9.89	8.18
	Return on Equity (%)	24.71	9.24	13.97	17.14	13.97
	Income before tax to paid-in capital ratio(%)	66.90	24.86	36.46	45.79	37.66
	Net Profit Margin (%)	3.41	1.36	2.30	3.00	2.39
	Earnings per share (\$) (Note 2)	5.55	2.13	3.17	4.02	3.30
Cash flow	Cash flow ratio (%)	7.67	37.46	45.34	15.51	25.92
	Cash flow adequacy ratio (%)	78.50	81.79	98.87	100.51	102.49
	Cash reinvestment ratio (%)	(10.23)	9.80	22.24	(1.36)	0.70
Leverage	Operating leverage	2.44	4.16	4.23	3.86	4.56
	Financial leverage	1	1.01	1	1	1

Note 1: All financial information of 2013~2017 has been audited.

Note 2: Calculated based on current year's weighted average shares outstanding adjusted by the additional weighted average shares outstanding arising from the capitalization of earnings and capital surplus.

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Explanations for the variations of financial ratios in the latest two years

1. Times interest earned was mainly due to the increasing short-term loan balance for business development in 2017.
2. Net profit margin was mainly due to decreased gross margin ratio causing the reduction in net profit.
3. Cash flow was mainly due to increase of net cash flow from operating activities.
4. Cash reinvestment ratio: Mainly due to the net cash flow from operating activities in 2016 increased in comparison to that in 2015, and the cash dividend paid in 2016 was more than that in 2015.

(2) International Financial Reporting Standards - Consolidated

Analysis \ Year		Financial analysis for the previous 5 years (Note1)				
		Year 2013	Year 2014	Year 2015	Year 2016	Year 2017
Financial Structure	Debts ratio (%)	41.79	44.78	43.68	43.27	42.42
	Long-term capital to property, plant & equipment ratio(%)	460.30	482.75	569.41	608.22	604.71
Liquidity	Current ratio(%)	188.88	173.53	171.63	177.36	180.40
	Quick ratio(%)	97.07	100.30	110.25	121.70	120.17
	Times interest earned	186.37	47.64	93.94	628.47	179.65
Operating performance	Receivables turnover ratio(times)	18.79	19.12	16.97	15.01	14.89
	Average collection days	19.42	19.08	21.50	24.31	24.51
	Inventory turnover ratio (times)	12.07	11.31	11.42	12.61	13.71
	Payables turnover ratio (times)	16.10	16.50	12.77	11.55	12.08
	Days sales outstanding	30.24	32.27	31.96	28.94	26.62
	Property, plant and equipment turnover ratio(times)	32.86	32.19	31.61	33.47	35.59
	Total asset turnover (times)	4.02	3.94	3.44	3.29	3.44
Profitability	Return on Assets (%)	13.56	5.35	7.81	9.60	7.96

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	Return on Equity (%)	24.71	9.24	13.85	16.96	13.86
	Income before tax to paid-in capital ratio(%)	66.90	24.86	36.23	45.21	37.36
	Net Profit Margin (%)	3.34	1.32	2.24	2.91	2.30
	Earnings per share (\$)(Note 2)	5.55	2.13	3.17	4.02	3.30
Cash flow	Cash flow ratio (%)	0.00	26.92	40.21	12.12	25.71
	Cash flow adequacy ratio (%)	63.99	60.98	72.79	74.81	80.11
	Cash reinvestment ratio (%)	(14.69)	2.93	19.75	(3.00)	1.23
Leverage	Operating leverage	3.43	14.50	6.11	4.53	5.14
	Financial leverage	1	1.05	1.01	1	1

Note 1: All financial information of 2013~2017 has been audited.

Note 2: Calculated based on current year's weighted average shares outstanding adjusted by the additional weighted average shares outstanding arising from the capitalization of earnings and capital surplus.

Note 3: Financial statements were reviewed by CPA and some financial ratios were annualized for comparison purpose.

Explanations for the variations of financial ratios in the latest two years

1. Times interest earned was mainly due to the increasing short-term loan balance for business development in 2017.
2. Net profit margin was mainly due to decreased gross margin ratio causing the reduction in net profit.
3. Cash flow was mainly due to increase of net cash flow from operating activities.
4. Cash reinvestment ratio: mainly due to the net cash flow from operating activities in 2016 increased in comparison to that in 2015, and the cash dividend paid in 2016 was more than that in 2015.

Calculation formulas:

1. Financial structure

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

(2) Long-term capital to property, plant & equipment ratio = (Total equity + non-current liabilities) / net property, plant & equipment

2. Debt servicing capability

(1) Current ratio = current assets / current liabilities.

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- (2) Quick ratio = (current assets – inventory – prepaid expenses) / current liabilities.
- (3) Interest coverage ratio = net profit before interest and tax / interest expenses for the current period.
- 3. Operating efficiency
 - (1) Receivables (including account receivables and note receivables from operating activities) turnover ratio = net sales/average receivables (including account receivables and note receivables from operating activities) balance.
 - (2) Average collection days = 365 / receivables turnover ratio.
 - (3) Inventory turnover ratio = cost of sales / average inventory
 - (4) Payables (including account payables and note payables from operating activities) turnover ratio = cost of sales / average payables (including account payables and note payables from operating activities) balance.
 - (5) Days sales outstanding = 365 / Inventory turnover ratio.
 - (6) Property, plant and equipment turnover ratio = net sales / average net property, plant and equipment .
 - (7) Total asset turnover = net sales / average total assets.
- 4. Profitability
 - (1) Return on total assets = (net income + interest expenses * (1 - effective tax rate)) / average total assets.
 - (2) Return on equity = net income / average equity.
 - (3) Net margin = net income / net sales
 - (4) Earnings per share = (net income attributable to shareholders of the parent - preferred stock dividend) / weighted average number of shares outstanding
- 5. Cash flow
 - (1) Cash flow ratio = net cash provided by operating activities / current liabilities
 - (2) Cash flow adequacy ratio = five-year sum of cash from operations / five-year (sum of capital expenditures, inventory additions, and cash dividend)
 - (3) Cash flow reinvestment ratio = (cash provided by operating activities - cash dividends)/ (gross property, plant and equipment + long-term investments + other non-current assets + working capital)
- 6. Leverage:
 - (1) Operating leverage = (net sales - variable cost) / income from operations
 - (2) Financial leverage = income from operations / (income from operations - interest expenses)

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3. Supervisors' review report for the most recent year's financial statement

Senao International Co., Ltd.

Supervisor's Audit Report

The Board of Directors has prepared this Company's 2017 financial statements (including consolidated financial statements), which have been audited by external auditors Dien Sheng Change and Hung Peng Lin of Deloitte & Touche, together with the business report and proposal of earning distribution plan. We have examined above statements and reports and found no irregularities. We hereby report as above in accordance with Article 219 of the Company Act. Please kindly approve.

To

The Company's 2018 General Shareholders' Meeting

Senao International Co., Ltd.

Supervisor: Sheng-Chen Li

Cheng Feng Investment Company
Representative: Chun-Chieh Chen

Hsueh-Feng Chien

February 23, 2018

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The entities that are required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2017 are all the same as those included in the consolidated financial statements of Senao International Co., Ltd. and its subsidiaries prepared in conformity with the International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates is included in the consolidated financial statements of Senao International Co., Ltd. and its subsidiaries. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

SENAO INTERNATIONAL CO., LTD.

By

LAI, CHING-LIN
Chairman

February 23, 2018

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Senao International Co., Ltd.

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and 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 Matters

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

The descriptions of the key audit matters of the consolidated financial statements for the year ended December 31, 2017 are as follows:

Sales Revenue Recognition from Dealers

Key audit matter:

The customers of the Group include the general public and dealers. Among all transactions, the amount of a single transaction with dealer is larger. The management takes many pressures under the market's expectation and for the achievement of the operating performance. Under these circumstances, there's a chance the management may inflate the sales revenue from dealers to reach their goal. Therefore, we assume this kind of revenue recognition exists fraud risk in accordance with the auditing standards. Consequently, the sales revenue recognition from dealers is considered to be a key audit matter.

For the accounting policy related to revenue recognition, please see Note 4-n.

Corresponding audit procedures:

We have tested the details of the sales revenue and verified the corresponding bill of sale and the customer's notes of receipt. Moreover, we examined the basic information of the dealers and the dealers' receipt vouchers. We also compared and analyzed the gross profit rate, price and volume of the top ten customers over the past two years.

Valuation of Inventories

Key audit matter:

As described in Note 9, on December 31, 2017, the carrying amount of the Group's inventories was \$2,304,494 thousand, which represented 22% of the consolidated total assets. Because the amount of inventories is significant and the valuation of inventories involved material judgement and estimation of management. Consequently, valuation of inventories is considered to be a key audit matter.

For the accounting policy on inventory and the related material accounting judgement and estimation, please see Notes 4-f. and 5.

Corresponding audit procedures:

We have evaluated the appropriateness of the computation method used to calculate the loss on inventories, verified the basic assumptions used in computation by comparing the related supporting documents and recalculated the final numbers for reasonableness.

Other Matter

We have also audited the parent company only financial statements of Senao International Co., Ltd. as of and for the years ended December 31, 2017 and 2016 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 and 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient 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 those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Mr. Dien Sheng Chang and Mr. Hung Peng Lin.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 23, 2018

Notice to Readers

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

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

SENAO INTERNATIONAL CO., LTD. AND SUBSIDIARIES

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

ASSETS	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	\$ 2,320,253	23	\$ 2,195,323	21
Financial assets at fair value through profit or loss (Note 7)	-	-	217	-
Notes receivable, net (Note 8)	224,971	2	137,352	1
Trade receivables, net (Note 8)	783,467	8	677,613	6
Trade receivables from related parties (Note 32)	1,230,138	12	1,703,506	16
Other receivables (Note 8)	162,684	2	137,751	1
Other receivables from related parties (Note 32)	330,622	3	474,364	5
Inventories (Note 9)	2,304,494	22	2,273,562	22
Other prepaid expenses (Note 32)	42,171	-	53,781	1
Prepayments (Note 10)	57,501	1	74,214	1
Other current assets (Notes 11 and 33)	<u>127,924</u>	<u>1</u>	<u>34,279</u>	<u>-</u>
Total current assets	<u>7,584,225</u>	<u>74</u>	<u>7,761,962</u>	<u>74</u>
NONCURRENT ASSETS				
Financial assets carried at cost (Note 12)	36,000	-	36,000	-
Investments accounted for using equity method (Note 14)	884,847	9	862,288	8
Property, plant and equipment (Notes 15 and 32)	1,005,960	10	1,002,035	10
Goodwill (Note 16)	46,947	-	55,569	-
Intangible assets (Notes 17 and 32)	246,309	2	278,333	3
Deferred income tax assets (Note 26)	375,747	4	372,228	4
Refundable deposits (Note 32)	82,093	1	88,152	1
Other noncurrent assets (Note 33)	<u>25,005</u>	<u>-</u>	<u>14,332</u>	<u>-</u>
Total noncurrent assets	<u>2,702,908</u>	<u>26</u>	<u>2,708,937</u>	<u>26</u>
TOTAL	<u>\$ 10,287,133</u>	<u>100</u>	<u>\$ 10,470,899</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term loans (Notes 18 and 33)	\$ -	-	\$ 68,000	1
Financial liabilities at fair value through profit or loss (Note 7)	484	-	-	-
Notes payable (Note 19)	11,987	-	28,363	-
Notes payable to related parties (Note 32)	18	-	18	-
Trade payables (Note 19)	2,373,905	23	2,547,581	24
Trade payables to related parties (Note 32)	133,917	1	101,371	1
Other payables (Note 20)	958,050	9	964,975	9
Other payables to related parties (Note 32)	502,934	5	426,143	4
Current tax liabilities (Note 26)	62,321	1	120,101	1
Provisions (Note 21)	-	-	10,489	-
Advance receipts (Notes 22 and 32)	91,841	1	67,870	1
Other current liabilities	<u>68,487</u>	<u>1</u>	<u>41,368</u>	<u>1</u>
Total current liabilities	<u>4,203,944</u>	<u>41</u>	<u>4,376,279</u>	<u>42</u>
NONCURRENT LIABILITIES				
Deferred income tax liabilities (Note 26)	38,245	-	40,779	-
Net defined benefit liabilities - noncurrent (Note 23)	94,319	1	86,369	1
Guarantee deposits	<u>27,802</u>	<u>-</u>	<u>27,880</u>	<u>-</u>
Total noncurrent liabilities	<u>160,366</u>	<u>1</u>	<u>155,028</u>	<u>1</u>
Total liabilities	<u>4,364,310</u>	<u>42</u>	<u>4,531,307</u>	<u>43</u>
EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT				
Share capital - ordinary shares	<u>2,582,527</u>	<u>25</u>	<u>2,582,527</u>	<u>25</u>
Capital surplus	<u>703,314</u>	<u>7</u>	<u>691,119</u>	<u>7</u>
Retained earnings				
Legal reserve	1,331,759	13	1,232,028	12
Unappropriated earnings	<u>1,609,507</u>	<u>16</u>	<u>1,886,001</u>	<u>18</u>
Total retained earnings	<u>2,941,266</u>	<u>29</u>	<u>3,118,029</u>	<u>30</u>
Other equity	<u>1,110</u>	<u>-</u>	<u>15,035</u>	<u>-</u>
Treasury shares	<u>(328,076)</u>	<u>(3)</u>	<u>(492,770)</u>	<u>(5)</u>
Total equity attributable to stockholders of the parent	5,900,141	58	5,913,940	57
NONCONTROLLING INTERESTS	<u>22,682</u>	<u>-</u>	<u>25,652</u>	<u>-</u>
Total equity	<u>5,922,823</u>	<u>58</u>	<u>5,939,592</u>	<u>57</u>
TOTAL	<u>\$ 10,287,133</u>	<u>100</u>	<u>\$ 10,470,899</u>	<u>100</u>

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

SENAO INTERNATIONAL CO., LTD. AND SUBSIDIARIES

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

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

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Note 32)				
Sales	\$ 33,410,225	93	\$ 31,873,422	93
Less: Sales returns	311,148	1	580,391	2
Sales discounts and allowances	829,178	2	508,451	1
Net sales	32,269,899	90	30,784,580	90
Service and repairs revenue	3,468,035	10	3,306,168	10
Total operating revenue	35,737,934	100	34,090,748	100
OPERATING COSTS (Notes 9, 25 and 32)				
Cost of goods sold	30,518,590	85	28,796,330	85
Service and repairs costs	877,377	3	732,417	2
Total operating costs	31,395,967	88	29,528,747	87
GROSS PROFIT	4,341,967	12	4,562,001	13
OPERATING EXPENSES (Notes 25 and 32)				
Selling and marketing expenses	3,239,103	9	3,378,975	10
General and administrative expenses	399,042	1	354,125	1
Total operating expenses	3,638,145	10	3,733,100	11
OTHER INCOME AND EXPENSES (Note 25)	(13,901)	-	(10,132)	-
INCOME FROM OPERATIONS	689,921	2	818,769	2
NON-OPERATING INCOME AND EXPENSES (Note 32)				
Share of profit of associates accounted for using equity method	160,629	1	192,049	1
Interest income	14,579	-	10,430	-
Rental income	59,711	-	39,862	-
Dividend income	83	-	540	-
Other income	65,486	-	111,712	-
Gains or losses on foreign currency exchange (Note 25)	(2,517)	-	5,281	-
Valuation gain on financial assets at fair value through profit or loss (Note 7)	-	-	217	-
Interest expense	(5,402)	-	(1,861)	-

(Continued)

SENAO INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2017 AND 2016

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

	2017		2016	
	Amount	%	Amount	%
Miscellaneous disbursements	\$ (16,917)	-	\$ (9,265)	-
Valuation loss on financial liabilities at fair value through profit or loss (Note 7)	(484)	-	-	-
Total non-operating income and expenses	275,168	1	348,965	1
INCOME BEFORE INCOME TAX	965,089	3	1,167,734	3
INCOME TAX EXPENSE (Note 26)	142,538	1	175,635	-
NET INCOME	822,551	2	992,099	3
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans (Note 23)	(10,564)	-	(23,499)	-
Share of remeasurement of defined benefit plans of associates accounted for using equity method	(505)	-	(454)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 26)	1,796	-	3,995	-
	(9,273)	-	(19,958)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	(11,009)	-	(52,802)	-
Share of the other comprehensive loss of associates accounted for using the equity method - exchange differences on translating the financial statements of foreign operations	(2,916)	-	(1,275)	-
	(13,925)	-	(54,077)	-
Total other comprehensive loss, net of income tax	(23,198)	-	(74,035)	-
TOTAL COMPREHENSIVE INCOME	\$ 799,353	2	\$ 918,064	3
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Parent	\$ 825,521	2	\$ 997,309	3
Noncontrolling interests	(2,970)	-	(5,210)	-
	\$ 822,551	2	\$ 992,099	3

(Continued)

SENAO INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2017 AND 2016

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

	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO				
Owners of the Parent	\$ 802,323	2	\$ 923,274	3
Noncontrolling interests	<u>(2,970)</u>	<u>-</u>	<u>(5,210)</u>	<u>-</u>
	<u>\$ 799,353</u>	<u>2</u>	<u>\$ 918,064</u>	<u>3</u>
EARNINGS PER SHARE (Note 27)				
Basic	<u>\$ 3.30</u>		<u>\$ 4.02</u>	
Diluted	<u>\$ 3.29</u>		<u>\$ 4.01</u>	

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

(Concluded)

SENAO INTERNATIONAL CO., LTD. AND SUBSIDIARIES

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

	Equity Attributable to Stockholders of the Parent (Note 24)								
	Share Capital - Ordinary Shares	Capital Surplus	Retained Earnings		Other Equity	Treasury Shares	Total	Noncontrolling Interests (Note 24)	Total Equity
			Legal Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations				
BALANCE, JANUARY 1, 2016	\$ 2,582,527	\$ 677,819	\$ 1,151,693	\$ 1,733,743	\$ 69,112	\$ (492,770)	\$ 5,722,124	\$ 30,862	\$ 5,752,986
Appropriation of 2015 earnings									
Legal reserve	-	-	80,335	(80,335)	-	-	-	-	-
Cash dividends - NT\$3 per share	-	-	-	(744,758)	-	-	(744,758)	-	(744,758)
	-	-	80,335	(825,093)	-	-	(744,758)	-	(744,758)
Other changes in capital surplus									
Changes in capital surplus from investments in associates accounted for using the equity method	-	71	-	-	-	-	71	-	71
Net income for the year ended December 31, 2016	-	-	-	997,309	-	-	997,309	(5,210)	992,099
Other comprehensive loss for the year ended December 31, 2016	-	-	-	(19,958)	(54,077)	-	(74,035)	-	(74,035)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	977,351	(54,077)	-	923,274	(5,210)	918,064
Share-based payment transactions	-	13,229	-	-	-	-	13,229	-	13,229
BALANCE, DECEMBER 31, 2016	2,582,527	691,119	1,232,028	1,886,001	15,035	(492,770)	5,913,940	25,652	5,939,592
Appropriation of 2016 earnings									
Legal reserve	-	-	99,731	(99,731)	-	-	-	-	-
Cash dividends - NT\$4 per share	-	-	-	(993,011)	-	-	(993,011)	-	(993,011)
	-	-	99,731	(1,092,742)	-	-	(993,011)	-	(993,011)
Net income for the year ended December 31, 2017	-	-	-	825,521	-	-	825,521	(2,970)	822,551
Other comprehensive loss for the year ended December 31, 2017	-	-	-	(9,273)	(13,925)	-	(23,198)	-	(23,198)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	816,248	(13,925)	-	802,323	(2,970)	799,353
Share-based payment transactions	-	12,195	-	-	-	164,694	176,889	-	176,889
BALANCE, DECEMBER 31, 2017	\$ 2,582,527	\$ 703,314	\$ 1,331,759	\$ 1,609,507	\$ 1,110	\$ (328,076)	\$ 5,900,141	\$ 22,682	\$ 5,922,823

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

SENAO INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 965,089	\$ 1,167,734
Adjustments to reconcile income before income tax to net cash provided by operating activities:		
Depreciation expenses	85,978	105,967
Amortization expenses	38,823	49,274
Provision for doubtful accounts	835	(388)
Valuation loss (gain) on financial assets and liabilities at fair value through profit or loss	484	(217)
Interest expense	5,402	1,861
Interest income	(14,579)	(10,430)
Dividend income	(83)	(540)
Compensation cost of share-based payment transactions	12,689	13,229
Share of profit of associates accounted for using equity method	(160,629)	(192,049)
Loss on disposal of property, plant and equipment	5,279	10,132
Impairment loss recognized on non-financial assets	8,622	-
Net gain on foreign currency exchange	(5,494)	(31,895)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	217	148
Notes receivable	(87,603)	20,337
Trade receivables	(106,705)	3,431
Trade receivables from related parties	473,368	(563,000)
Other receivables	(23,477)	(28,916)
Other receivables from related parties	143,742	(11,472)
Inventories	(30,932)	135,380
Other prepaid expenses	11,610	(4,658)
Prepayments	16,713	79,169
Other current assets	2,000	(2,000)
Increase (decrease) in:		
Notes payable	(16,376)	(1,695)
Trade payables	(173,676)	276,951
Trade payables to related parties	32,546	(33,248)
Other payables	(6,905)	(209,236)
Other payables to related parties	76,791	14,782
Provisions	(10,489)	(14,138)
Advance receipts	23,971	(121,157)
Other current liabilities	27,119	12,093
Net defined benefit liabilities - noncurrent	(2,614)	(2,856)
Cash generated from operations	1,291,716	662,593
Interest paid	(5,422)	(1,841)
Income tax paid	(205,347)	(129,956)
Net cash generated from operating activities	1,080,947	530,796

(Continued)

SENAO INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	\$ (95,653)	\$ (89,052)
Proceeds from disposal of property, plant and equipment	338	4,191
Decrease in refundable deposits	6,059	10,828
Acquisition of intangible assets	(6,854)	(26,859)
Proceeds from disposal of intangible assets	-	230
Acquisition of time deposits with maturities of more than three months	(233,921)	(143,594)
Proceeds from disposal of time deposits with maturities of more than three months	137,454	156,843
Increase in other noncurrent assets	(10,673)	(7,618)
Interest received	13,895	8,812
Dividends received	<u>132,715</u>	<u>216,067</u>
Net cash generated from (used in) investing activities	<u>(56,640)</u>	<u>129,848</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans	6,556,500	1,365,000
Repayment of short-term loans	(6,624,500)	(1,297,000)
Decrease in guarantee deposits	(78)	(657)
Cash dividends paid	(993,011)	(744,758)
Treasury shares transferred to employees	<u>164,200</u>	<u>-</u>
Net cash used in financing activities	<u>(896,889)</u>	<u>(677,415)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(2,488)</u>	<u>(6,663)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	124,930	(23,434)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>2,195,323</u>	<u>2,218,757</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 2,320,253</u>	<u>\$ 2,195,323</u>

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

(Concluded)

SENAO INTERNATIONAL CO., LTD. AND SUBSIDIARIES

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

1. GENERAL

Senao International Co., Ltd. (“Senao”; Senao and subsidiaries are hereinafter collectively referred to as “the Group”) was incorporated in the Republic of China (“ROC”) on May 18, 1979. On January 12, 2001, Senao received approval from the Securities and Futures Commission (the “SFC”) for a domestic initial public offering and its common stocks were listed and traded on the Taiwan Stock Exchange (the “TWSE”) on May 24, 2001. In need of organizational rebuilding and professional operation of all kinds of businesses, Senao has spun off the wireless communication business segment, including its assets and liabilities and incorporated Senao Networks, Inc. pursuant to the Business Mergers and Acquisitions Act. The spin-off date was October 1, 2006.

After rebuilding the organization, Senao mainly sells cell phones and the peripheral products, and provides the related repairs and maintenance services.

Chunghwa Telecom Co., Ltd. (“Chunghwa”) acquired 31.33% of the shares of Senao on January 15, 2007. Chunghwa has a substantial control over Senao, and it is the ultimate parent entity of Senao. As of December 31, 2017, Senao’s employees exercised the employee share options issued before 2007; in addition, Senao transferred to employees in 2017 the treasury shares which Senao bought back in 2015. Therefore, Chunghwa’s ownership interest in Senao decreased from 31.33% to 28.53%.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on February 23, 2018.

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, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Group’s accounting policies.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed by the FSC for application starting from 2018

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

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

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

After assessment, the issuance and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will not have material impacts on consolidated financial statements.

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

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

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

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

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

Except for the following item, the application of the above new, revised or amended standards and interpretations will not have material impact on the consolidated financial statements:

IFRS 16 “Leases”

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

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

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

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

Except for the abovementioned impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and operating result, 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 noncurrent assets and liabilities

Current assets include assets held primarily for the purpose of trading, assets expected to be realized within 12 months after the reporting period and 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 liabilities held primarily for the purpose of trading, liabilities due to be settled within 12 months after the reporting period and 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 noncurrent.

d. Basis of consolidation

- 1) The consolidated financial statements incorporate the financial statements of Senao and the entities controlled by Senao (i.e. its subsidiaries). Adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by Senao. 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 Senao and to the noncontrolling interests even if this results in the noncontrolling interests having a deficit balance.
- 2) See Note 13, Tables 5 and 6 for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. 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 for the period.

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 period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which 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, which will not be recalculated.

For the purpose of presenting consolidated financial statements, the functional currencies of the Group entities (including subsidiaries and associates in other countries that use currencies which are different from the currency of Senao) are translated into the New Taiwan dollars on the balance sheet date as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

f. Inventories

Inventories 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.

g. Investments in associates

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.

The Group uses the equity method to account for its investments in associates. Under the equity method, investments in an associate 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 associate. The Group also recognizes the changes in the Group's share of the equity of associates.

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

The Group evaluates the carrying amount of investments on the balance sheet date to see if there is objective evidence showing the investments were impaired and impairment loss, if any, is recognized in loss for the period.

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

h. Property, plant and equipment

Property, plant and equipment are stated at cost and subsequently measured at cost less accumulated depreciation.

Depreciation of 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 the 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.

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

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

j. 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. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis. The estimated useful lives of the intangible assets are set to zero except when the Group expects to dispose of the assets before the end of the useful life.

2) 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.

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.

k. Impairment of property, plant and equipment and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any 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. If the recoverable amount is less than the carrying amounts, the difference will be recognized in profit or loss as impairment loss. When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset in prior years.

l. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to 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 (FVTPL) 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 categories

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 equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment losses at the end of each reporting period and presented in a separate line item as financial assets carried at cost.

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

ii. Loans and receivables

Loans and receivables (including cash and cash equivalents, trade receivables, other receivables and refundable deposits) are measured 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 commercial paper and time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

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

For financial assets carried at amortized cost, such as trade receivables and other receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually.

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

For financial assets carried at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss through the use of an allowance account 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 any 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 gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss 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 the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivables and other receivables 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 trade receivables and other receivables that are written off against the allowance account.

c) Derecognition of financial assets

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

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

2) Financial liabilities

The Group only derecognizes a financial liability when the obligation is canceled, expired or fulfilled. 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.

3) Derivative financial instruments

The Group enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risks.

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 at fair value through profit or loss; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability at fair value through profit or loss.

m. Provisions

Post-sales service provisions, which arise from sales contracts, 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 history of post-sales service and recognized when the revenues from related products are recognized.

n. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

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 sale of goods that results in awarded credits for customers under the Group's award scheme is accounted for as a multiple element revenue transaction, and the fair value of the consideration received or receivable is allocated between the goods supplied and the awarded credits granted. The consideration allocated to the awarded credits is measured by reference to their fair value, i.e. the amount for which the awarded credits could be sold separately. Such consideration is not recognized as revenue at the time of the initial sale transaction but is deferred and recognized as revenue when the awarded credits are redeemed and the Group's obligations have been fulfilled.

2) Rendering of services

Service income is recognized when services are provided.

3) Dividend and interest income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established.

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 the applicable effective interest rate.

o. Leasing

1) The Group as lessor

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

2) The Group as lessee

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

p. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related 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 defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liabilities are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period 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.

q. Share-based payment arrangements - employee share options

The equity-settled share-based payments is measured at the fair value at the grant date.

The fair value at the grant date of the equity-settled 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 expected to 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.

At the end of each reporting period, the Group revises its estimate of the number of employee share options 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.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain 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. If a temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized. In addition, a deferred tax liability is not recognized on taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, 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 profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the 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 period in which the liabilities are settled or the assets are realized.

3) Current and deferred taxes for the year

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. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The main assumptions and estimated uncertainties are as follows:

Valuation of inventories

Inventories are measured at lower of cost or net realizable value. The management uses the estimated selling price in the ordinary course of business less the estimated costs of marketing as the net realizable value. The bases of the inventory obsolescence loss are the duration of products-purchasing and the related turnover. The management determines and estimates the net realizable value based on market conditions as of reporting date and historical experience with product sales. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand and petty cash	\$ 181,010	\$ 168,765
Checking accounts and demand deposits	1,025,754	1,031,171
Cash equivalents		
Commercial paper	898,329	715,040
Time deposits	<u>215,160</u>	<u>280,347</u>
	<u>\$ 2,320,253</u>	<u>\$ 2,195,323</u>

The annual yield rates of bank deposits, commercial paper and time deposits as of balance sheet dates were as follows:

	December 31	
	2017	2016
Bank deposits	0.005%-0.35%	0.005%-0.35%
Commercial paper	0.39%-0.40%	0.42%
Time deposits	3.70%-4.05%	1.10%-3.30%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	2016
Financial assets held for trading		
Derivative financial assets		
Forward exchange contracts	<u>\$ -</u>	<u>\$ 217</u>
Financial liabilities held for trading		
Derivative financial liabilities		
Forward exchange contracts	<u>\$ 484</u>	<u>\$ -</u>

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2017</u>			
Forward exchange contracts - buy	NTD/USD	2018.01.02-2018.01.16	NT\$125,481/US\$4,190
<u>December 31, 2016</u>			
Forward exchange contracts - buy	NTD/USD	2017.01.10-2017.01.13	NT\$54,629/US\$1,700

The Group entered into forward exchange contracts to hedge the exchange rate risk arising from assets and liabilities denominated in foreign currencies.

8. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31</u>	
	2017	2016
<u>Notes receivable</u>		
Notes receivable	\$ 225,902	\$ 138,299
Less: Allowance for doubtful notes receivable	<u>(931)</u>	<u>(947)</u>
	<u>\$ 224,971</u>	<u>\$ 137,352</u>
<u>Trade receivables</u>		
Trade receivables	\$ 804,324	\$ 697,619
Less: Allowance for doubtful trade receivables	<u>(20,857)</u>	<u>(20,006)</u>
	<u>\$ 783,467</u>	<u>\$ 677,613</u>
<u>Other receivables</u>		
Manufacturers allowance receivable	\$ 67,158	\$ 105,265
Receivables from China Unicom	10,391	20,053
Others	<u>85,135</u>	<u>12,433</u>
	<u>\$ 162,684</u>	<u>\$ 137,751</u>

a. Notes receivable

The average credit terms range from 30 to 45 days. When determining the recoverability, the Group considered any changes in credit quality from the original credit date to the balance sheet date. If the notes receivable were not collectible as of due date, a 100% allowance for doubtful notes receivable is provided.

The aging of receivable was as follows:

	December 31	
	2017	2016
Non-overdue	\$ 224,971	\$ 137,352
More than 61 days	<u>931</u>	<u>947</u>
	<u>\$ 225,902</u>	<u>\$ 138,299</u>

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

The Group did not have overdue notes receivables that did not provide allowance as of the balance sheet date.

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

	For the Year Ended December 31	
	2017	2016
Balance on January 1	\$ 947	\$ 947
Deduct: Reversal of amounts written off during the year as uncollectible	<u>16</u>	<u>-</u>
Balance on December 31	<u>\$ 931</u>	<u>\$ 947</u>

b. Trade receivables

The average credit terms of sales of goods ranges from 30 to 90 days. When there is evidence of impairment, the Group individually evaluates each trade receivable's impairment amount. When there is no evidence of impairment, the trade receivables will be classified into groups by their credit risk. Then the Group individually evaluated each group's impairment amount. When a debtor has an overdue receivable, allowance for impairment loss is estimated based on the rates of the uncollected trade receivables from the past three years. The aging of receivables was as follows:

	December 31	
	2017	2016
Non-overdue	\$ 777,977	\$ 661,479
1-60 days	273	9,668
61-90 days	21	-
More than 91 days	<u>26,053</u>	<u>26,472</u>
	<u>\$ 804,324</u>	<u>\$ 697,619</u>

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

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

	December 31	
	2017	2016
More than 360 days	<u>\$ 5,203</u>	<u>\$ 6,277</u>

At the balance sheet dates, the receivables that were past due but not impaired were considered recoverable by the management of the Group. Because the credit qualities did not have a material change and the corresponding collateral were acquired.

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

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance on January 1, 2016	\$ 20,219	\$ 175	\$ 20,394
Deduct: Reversal of amounts written off during the year as uncollectible	<u>331</u>	<u>57</u>	<u>388</u>
Balance on December 31, 2016	<u>\$ 19,888</u>	<u>\$ 118</u>	<u>\$ 20,006</u>
Balance on January 1, 2017	\$ 19,888	\$ 118	\$ 20,006
Add: Provision (reversal) for doubtful accounts	<u>939</u>	<u>(88)</u>	<u>851</u>
Balance on December 31, 2017	<u>\$ 20,827</u>	<u>\$ 30</u>	<u>\$ 20,857</u>

c. Other receivables

When there is evidence of impairment, the Group individually evaluates each other receivable's impairment amount. When there is no evidence of impairment, other receivables will be classified into groups by their credit risk. Then the Group individually evaluates each group's impairment amount. When a debtor has an overdue receivable, allowance for impairment loss is estimated based on the rates of the uncollected other receivables in the past three years.

The Group did not have overdue other receivables that did not provide allowance as of the balance sheet date.

9. INVENTORIES

	December 31	
	2017	2016
Merchandise	<u>\$ 2,304,494</u>	<u>\$ 2,273,562</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was \$30,518,590 thousand and \$28,796,330 thousand, respectively. The cost of goods sold included inventory write-downs of \$462 thousand and \$271 thousand, respectively.

10. PREPAYMENTS

	December 31	
	2017	2016
Overpaid tax	\$ 6,628	\$ 16,330
Prepaid purchases	1,888	3,991
Other prepayments	<u>48,985</u>	<u>53,893</u>
	<u>\$ 57,501</u>	<u>\$ 74,214</u>

11. OTHER CURRENT ASSETS

	December 31	
	2017	2016
Time deposits with maturities of more than three months	\$ 127,924	\$ 32,279
Restricted bank deposit	<u>-</u>	<u>2,000</u>
	<u>\$ 127,924</u>	<u>\$ 34,279</u>

a. The annual yield rates of time deposits with maturities of more than three months were as follows:

	December 31	
	2017	2016
Time deposits with maturities of more than three months	0.50%-4.15%	0.50%
Restricted bank deposit	-	0.08%

b. For information about other current assets pledged as collateral, please see Note 33.

12. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2017	2016
Domestic non-listed stocks	<u>\$ 36,000</u>	<u>\$ 36,000</u>

The above non-listed stocks are classified as available-for-sale financial assets based on financial assets categories.

Since the fair value of such non-listed stocks investments cannot be reliably measured due to the fact that the range of reasonable fair value estimates was so significant and the probability of estimates cannot be reasonably estimated, the above non-listed stocks investments owned by the Group are measured at cost less any impairment loss at the balance sheet date.

13. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements were as follows:

Name of Investor	Name of Investee	Nature of Activities	Percentage of Ownership December 31		Remark
			2017	2016	
Senao International Co., Ltd.	Senao International (Samoa) Holding Ltd. ("Senao Samoa")	International investment	100.00	100.00	-
	Youth Co., Ltd. ("Youth")	Sale of information and communication technologies products	89.48	89.48	-
	Aval Technologies Co., Ltd. ("Aval")	Sale of information and communication technologies products	100.00	100.00	-
	Senyoung Insurance Agent Co., Ltd. ("Senyoung")	Property and liability insurance agency	100.00	-	a
Senao International (Samoa) Holding Ltd. (Senao Samoa)	Senao International HK Limited ("Senao HK")	International investment	100.00	100.00	-

(Continued)

Name of Investor	Name of Investee	Nature of Activities	Percentage of Ownership		Remark
			2017	2016	
Youth Co., Ltd.	ISPOT Co., Ltd. (“ISPOT”)	Sale of information and communication technologies products	100.00	100.00	-
	Youyi Co., Ltd. (“Youyi”)	Maintenance of information and communication technologies products	100.00	100.00	-
Senao International HK Limited (Senao HK)	Senao Trading (Fujian) Co., Ltd. (“STF”)	Sale of information and communication technologies products	100.00	100.00	-
	Senao International Trading (Shanghai) Co., Ltd. (“SITS”)	Sale of information and communication technologies products	100.00	100.00	-
	Senao International Trading (Shanghai) Co., Ltd. (“SEITS”)	Maintenance of information and communication technologies products	100.00	100.00	b
	Senao International Trading (Jiangsu) Co., Ltd. (“SITJ”)	Sale of information and communication technologies products	100.00	100.00	-

(Concluded)

Remarks:

- Senao established Senyoung on September 27, 2017 with \$10,000 thousand and completed the establishment registration on November 22, 2017.
- SEITS was approved to end and dissolve its business on March 15, 2017. The liquidation of SEITS is still in process.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2017	2016
<u>Investments in associates</u>		
Material associate		
Senao Networks, Inc. ("SNI")	\$ 862,116	\$ 838,830
Associate that is not individually material		
HopeTech Technologies Limited ("HopeTech")	<u>22,731</u>	<u>23,458</u>
	<u>\$ 884,847</u>	<u>\$ 862,288</u>

- Material associate

	Proportion of Ownership and Voting Rights	
	December 31	
	2017	2016
SNI	33.79%	33.79%

Refer to Table 5 "Names, locations, and other information of investees in which the company exercises significant influence (excluding investment in mainland China)" for the nature of activities, principal places of business and countries of incorporation of the associates.

The investments were accounted for using the equity method, and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2017 and 2016 were based on the associate's financial statements which have been audited for the same period.

Fair values (Level 1) of investments in associates with available published price quotations are summarized as follows:

	December 31	
	2017	2016
SNI	<u>\$ 2,130,406</u>	<u>\$ 2,536,592</u>

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

SNI and its subsidiaries

	December 31	
	2017	2016
Current assets	\$ 5,102,675	\$4,331,809
Noncurrent assets	1,432,656	878,886
Current liabilities	(3,872,898)	(2,602,582)
Noncurrent liabilities	<u>(19,450)</u>	<u>(24,548)</u>
Equity	2,642,983	2,583,565
Noncontrolling interests	<u>(91,798)</u>	<u>(101,106)</u>
	<u>\$ 2,551,185</u>	<u>\$ 2,482,459</u>
Proportion of the Group's ownership	33.79%	33.79%
Equity attributable to the Group	\$ 862,116	\$ 838,892
Unrealized gain or loss with associates	<u>-</u>	<u>(62)</u>
Carrying amount	<u>\$ 862,116</u>	<u>\$ 838,830</u>

	For the Year Ended December 31	
	2017	2016
Operating revenue	<u>\$ 8,461,979</u>	<u>\$ 6,636,546</u>
Profit from continuing operations	\$ 492,158	\$ 578,721
Profit from discontinued operations	<u>-</u>	<u>-</u>
Net profit for the year	492,158	578,721
Other comprehensive loss	<u>(8,629)</u>	<u>(5,114)</u>
Total comprehensive income for the year	<u>\$ 483,529</u>	<u>\$ 573,607</u>

b. Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2017	2016
The Group's share of:		
Profit (loss) from continuing operations	\$ (495)	\$ 3,265
Other comprehensive income (loss)	<u>-</u>	<u>-</u>
Total comprehensive income (loss) for the year	<u>\$ (495)</u>	<u>\$ 3,265</u>

15. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and Equipment	Computer Telecommunications Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
<u>Cost</u>									
Balance on January 1, 2016	\$ 319,284	\$ 813,344	\$ 41,795	\$ 338,814	\$ 32	\$ 103,765	\$ 395,226	\$ 30,390	\$ 2,042,650
Additions	-	4,819	1,170	32,432	-	15,929	34,267	435	89,052
Disposals	-	-	(177)	(42,764)	(11)	(3,954)	(57,825)	(559)	(105,290)
Reclassification	-	-	-	157	-	(157)	-	-	-
Effect of foreign currency exchange differences	-	-	-	(2,286)	(3)	(285)	(3,096)	-	(5,670)
Balance on December 31, 2016	<u>\$ 319,284</u>	<u>\$ 818,163</u>	<u>\$ 42,788</u>	<u>\$ 326,353</u>	<u>\$ 18</u>	<u>\$ 115,298</u>	<u>\$ 368,572</u>	<u>\$ 30,266</u>	<u>\$ 2,020,742</u>
<u>Accumulated depreciation</u>									
Balance on January 1, 2016	\$ -	\$ 266,527	\$ 23,090	\$ 288,445	\$ 21	\$ 69,313	\$ 333,412	\$ 27,337	\$ 1,008,145
Depreciation expenses	-	25,290	4,600	19,950	3	10,731	45,920	(527)	105,967
Disposals	-	-	(122)	(37,384)	(8)	(3,453)	(49,472)	(528)	(90,967)
Reclassification	-	-	-	3	-	(3)	-	-	-
Effect of foreign currency exchange differences	-	-	-	(1,433)	(2)	(142)	(2,862)	1	(4,438)
Balance on December 31, 2016	<u>\$ -</u>	<u>\$ 291,817</u>	<u>\$ 27,568</u>	<u>\$ 269,581</u>	<u>\$ 14</u>	<u>\$ 76,446</u>	<u>\$ 326,998</u>	<u>\$ 26,283</u>	<u>\$ 1,018,707</u>
Carrying amounts on December 31, 2016	<u>\$ 319,284</u>	<u>\$ 526,346</u>	<u>\$ 15,220</u>	<u>\$ 56,772</u>	<u>\$ 4</u>	<u>\$ 38,852</u>	<u>\$ 41,574</u>	<u>\$ 3,983</u>	<u>\$ 1,002,035</u>
<u>Cost</u>									
Balance on January 1, 2017	\$ 319,284	\$ 818,163	\$ 42,788	\$ 326,353	\$ 18	\$ 115,298	\$ 368,572	\$ 30,266	\$ 2,020,742
Additions	-	610	23,162	48,084	-	5,827	17,384	586	95,653
Disposals	-	-	-	(24,989)	(17)	(7,904)	(21,491)	(22,490)	(76,891)
Effect of foreign currency exchange differences	-	-	-	(174)	(1)	(40)	(408)	-	(623)
Balance on December 31, 2017	<u>\$ 319,284</u>	<u>\$ 818,773</u>	<u>\$ 65,950</u>	<u>\$ 349,274</u>	<u>\$ -</u>	<u>\$ 113,181</u>	<u>\$ 364,057</u>	<u>\$ 8,362</u>	<u>\$ 2,038,881</u>
<u>Accumulated depreciation</u>									
Balance on January 1, 2017	\$ -	\$ 291,817	\$ 27,568	\$ 269,581	\$ 14	\$ 76,446	\$ 326,998	\$ 26,283	\$ 1,018,707
Depreciation expenses	-	25,269	5,938	21,223	1	11,916	21,285	346	85,978
Disposals	-	-	-	(24,290)	(15)	(7,294)	(20,267)	(19,408)	(71,274)
Effect of foreign currency exchange differences	-	-	-	(88)	-	(17)	(385)	-	(490)
Balance on December 31, 2017	<u>\$ -</u>	<u>\$ 317,086</u>	<u>\$ 33,506</u>	<u>\$ 266,426</u>	<u>\$ -</u>	<u>\$ 81,051</u>	<u>\$ 327,631</u>	<u>\$ 7,221</u>	<u>\$ 1,032,921</u>
Carrying amounts on December 31, 2017	<u>\$ 319,284</u>	<u>\$ 501,687</u>	<u>\$ 32,444</u>	<u>\$ 82,848</u>	<u>\$ -</u>	<u>\$ 32,130</u>	<u>\$ 36,426</u>	<u>\$ 1,141</u>	<u>\$ 1,005,960</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	50-55 years
Mechatronic construction	15 years
Decoration construction	3-5 years
Machinery and equipment	5-8 years
Computer telecommunications equipment	3-8 years
Transportation equipment	4 years
Office equipment	3-6 years
Leasehold improvements	3-5 years
Other equipment	4-6 years

16. GOODWILL

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Cost</u>		
The beginning and ending balance	<u>\$ 55,569</u>	<u>\$ 55,569</u>
<u>Accumulated impairment losses</u>		
Balance on January 1	\$ -	\$ -
Impairment losses recognized	<u>8,622</u>	<u>-</u>
Balance on December 31	<u>\$ 8,622</u>	<u>\$ -</u>
Carrying amount on December 31	<u>\$ 46,947</u>	<u>\$ 55,569</u>

The Group acquired Youth and its subsidiaries on September 2, 2015 and recognized goodwill relating to Youth's expected benefit from its business value of Apple.

The Group considered the smallest identifiable asset group as a single cash generating unit by classification of businesses.

The recoverable amount of the Group was determined based on a value in use calculation that used the cash flow projections in the financial budgets approved by management covering a 5-year period. The key assumptions and their related calculation methods used in the recoverable amount calculation were as follows:

a. Operating revenue growth rate

The Group calculated the recoverable amount according to the actual selling situation and the average price from the past few years and considered the impact of the high value-added product and wrapping services. Eventually, the Group estimated the future operating revenue based on the operating strategies and the market developing situation in the future.

b. Expected gross profit rate

The Group adjusted the expected gross profit rate based on the average gross profit before the budget period considering the improvement on expected efficiency. In addition to the improvement on expected efficiency, the expected gross profit rate reflected the experience from the past. The management used different products, services and channels of distribution as the bases of estimated profit gross rate.

c. Discount rate

The Group calculated the recoverable amount on the basis of the Weighted Average Cost of Capital (WACC). The discount rates used by the Group were as follows:

	December 31	
	2017	2016
Discount rate	14.80%	14.60%

After the abovementioned estimations, the Group recognized \$8,622 thousand as goodwill impairment loss for the year ended December 31, 2017. No impairment incurred for the year ended December 31, 2016.

17. INTANGIBLE ASSETS

	Computer Software	Licenses and Franchises	Trademark	Total
<u>Cost</u>				
Balance on January 1, 2016	\$ 125,288	\$ 206,000	\$ 53,000	\$ 384,288
Additions	23,554	-	3,305	26,859
Disposals	(5,136)	-	-	(5,136)
Effect of foreign currency exchange differences	(227)	-	-	(227)
Balance on December 31, 2016	<u>\$ 143,479</u>	<u>\$ 206,000</u>	<u>\$ 56,305</u>	<u>\$ 405,784</u>

(Continued)

	Computer Software	Licenses and Franchises	Trademark	Total
<u>Accumulated amortization</u>				
Balance on January 1, 2016	\$ 79,369	\$ 2,575	\$ 1,293	\$ 83,237
Amortization expenses	33,686	10,300	5,288	49,274
Disposals	(4,906)	-	-	(4,906)
Effect of foreign currency exchange differences	<u>(149)</u>	<u>-</u>	<u>(5)</u>	<u>(154)</u>
Balance on December 31, 2016	<u>\$ 108,000</u>	<u>\$ 12,875</u>	<u>\$ 6,576</u>	<u>\$ 127,451</u>
Carrying amounts on December 31, 2016	<u>\$ 35,479</u>	<u>\$ 193,125</u>	<u>\$ 49,729</u>	<u>\$ 278,333</u>
<u>Cost</u>				
Balance on January 1, 2017	\$ 143,479	\$ 206,000	\$ 56,305	\$ 405,784
Additions	6,854	-	-	6,854
Effect of foreign currency exchange differences	<u>(5)</u>	<u>-</u>	<u>(44)</u>	<u>(49)</u>
Balance on December 31, 2017	<u>\$ 150,328</u>	<u>\$ 206,000</u>	<u>\$ 56,261</u>	<u>\$ 412,589</u>
<u>Accumulated amortization</u>				
Balance on January 1, 2017	\$ 108,000	\$ 12,875	\$ 6,576	\$ 127,451
Amortization expenses	23,030	10,300	5,493	38,823
Effect of foreign currency exchange differences	<u>2</u>	<u>-</u>	<u>4</u>	<u>6</u>
Balance on December 31, 2017	<u>\$ 131,032</u>	<u>\$ 23,175</u>	<u>\$ 12,073</u>	<u>\$ 166,280</u>
Carrying amounts on December 31, 2017	<u>\$ 19,296</u>	<u>\$ 182,825</u>	<u>\$ 44,188</u>	<u>\$ 246,309</u> (Concluded)

Intangible assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Computer software	1-3 years
Licenses and franchises	20 years
Trademark	10-11 years

18. SHORT-TERM LOANS

	December 31	
	2017	2016
Unsecured loans	\$ -	\$ 48,000
Secured loans (Note 33)	<u>-</u>	<u>20,000</u>
	<u>\$ -</u>	<u>\$ 68,000</u>

The annual interest rates of loans were as follows:

	December 31	
	2017	2016
Unsecured loans	-	1.95%-1.97%
Secured loans	-	1.98%

19. NOTES PAYABLE AND TRADE PAYABLES

	December 31	
	2017	2016
<u>Notes payable</u>		
Operating	<u>\$ 11,987</u>	<u>\$ 28,363</u>
<u>Trade payables</u>		
Operating	<u>\$ 2,373,905</u>	<u>\$ 2,547,581</u>

a. Notes payable

Notes payable were mainly from the payment for the rent of the offices and the business places.

b. Trade payables

The average credit period is one month. The Group has set up financial risk management policies in place to ensure that all payables will be paid within the pre-agreed credit terms.

20. OTHER PAYABLES

	December 31	
	2017	2016
Payables for bonuses	\$ 281,852	\$ 191,038
Accrued marketing compensation	198,194	197,501
Payables for salaries	186,964	186,818
Accrued compensation to employees and remuneration to directors and supervisors	51,551	62,281
Others	<u>239,489</u>	<u>327,337</u>
	<u>\$ 958,050</u>	<u>\$ 964,975</u>

21. PROVISIONS

	December 31	
	2017	2016
Post-sales service	<u>\$ -</u>	<u>\$ 10,489</u>

22. ADVANCE RECEIPTS

	December 31	
	2017	2016
Advance sales receipts	\$ 32,734	\$ 35,305
Customer loyalty programs	17,700	20,221
Other advance receipts	<u>41,407</u>	<u>12,344</u>
	<u>\$ 91,841</u>	<u>\$ 67,870</u>

23. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

Senao, Youth, ISPO, Youyi, Aval and Senyoung within the Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The employees of the Group's subsidiaries in China are members of a state-managed retirement benefit plan operated by the government of China. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

Senao Samoa did not set up a pension plan.

Senao HK has a defined contribution pension plan. Senao HK did not have any regular employee as of December 31, 2017, therefore, Senao HK did not recognize any pension cost.

b. Defined benefit plans

The defined benefit plans adopted by Senao 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. Senao 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, Senao 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, Senao is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

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

	December 31	
	2017	2016
Present value of funded defined benefit obligation	\$ 255,121	\$ 252,781
Fair value of plan assets	<u>(160,802)</u>	<u>(166,412)</u>
Funded status - deficit	<u>94,319</u>	<u>86,369</u>
Net defined benefit liabilities	<u>\$ 94,319</u>	<u>\$ 86,369</u>

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of Funded Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance on January 1, 2016	<u>\$ 230,980</u>	<u>\$ (165,254)</u>	<u>\$ 65,726</u>
Service cost			
Current service cost	1,298	-	1,298
Net interest expense (income)	<u>4,567</u>	<u>(3,307)</u>	<u>1,260</u>
Recognized in profit or loss	<u>5,865</u>	<u>(3,307)</u>	<u>2,558</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	1,741	1,741
Actuarial loss - changes in demographic assumptions	4,374	-	4,374
Actuarial loss - changes in financial assumptions	14,988	-	14,988
Actuarial loss - experience adjustments	<u>2,396</u>	<u>-</u>	<u>2,396</u>
Recognized in other comprehensive income	<u>21,758</u>	<u>1,741</u>	<u>23,499</u>
Contributions from the employer	-	(5,414)	(5,414)
Benefits paid	<u>(5,822)</u>	<u>5,822</u>	<u>-</u>
Balance on December 31, 2016	<u>\$ 252,781</u>	<u>\$ (166,412)</u>	<u>\$ 86,369</u>
Balance on January 1, 2017	<u>\$ 252,781</u>	<u>\$ (166,412)</u>	<u>\$ 86,369</u>
Service cost			
Current service cost	1,324	-	1,324
Net interest expense (income)	<u>3,791</u>	<u>(2,535)</u>	<u>1,256</u>
Recognized in profit or loss	<u>5,115</u>	<u>(2,535)</u>	<u>2,580</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	1,152	1,152
Actuarial loss - changes in demographic assumptions	13,205	-	13,205
Actuarial gain - experience adjustments	<u>(3,793)</u>	<u>-</u>	<u>(3,793)</u>
Recognized in other comprehensive income	<u>9,412</u>	<u>1,152</u>	<u>10,564</u>
Contributions from the employer	-	(5,194)	(5,194)
Benefits paid	<u>(12,187)</u>	<u>12,187</u>	<u>-</u>
Balance on December 31, 2017	<u>\$ 255,121</u>	<u>\$ (160,802)</u>	<u>\$ 94,319</u>

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	For the Year Ended December 31	
	2017	2016
Operating costs	\$ 242	\$ 242
Selling and marketing expenses	1,924	1,980
General and administrative expenses	<u>414</u>	<u>336</u>
	<u>\$ 2,580</u>	<u>\$ 2,558</u>

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

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

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

	Measurement Date	
	December 31	
	2017	2016
Discount rates	1.5%	1.5%
Expected rates of salary increase	2.0%	2.0%

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	
	2017	2016
Discount rates		
0.25% increase	<u>\$ (7,829)</u>	<u>\$ (7,730)</u>
0.25% decrease	<u>\$ 8,192</u>	<u>\$ 8,100</u>
Expected rates of salary increase		
0.25% increase	<u>\$ 8,017</u>	<u>\$ 7,923</u>
0.25% decrease	<u>\$ (7,702)</u>	<u>\$ (7,600)</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	
	2017	2016
Expected contributions to the plans for the next year	<u>\$ 5,100</u>	<u>\$ 5,197</u>
Average duration of the defined benefit obligation	12.5 years	12.5 years

24. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2017	2016
Number of shares authorized (in thousands)	<u>450,000</u>	<u>450,000</u>
Shares authorized	<u>\$ 4,500,000</u>	<u>\$ 4,500,000</u>
Number of shares issued and fully paid (in thousands)	<u>258,253</u>	<u>258,253</u>
Shares issued	\$ 2,582,527	\$ 2,582,527
Share premium	<u>346,007</u>	<u>346,007</u>
	<u>\$ 2,928,534</u>	<u>\$ 2,928,534</u>

The issued ordinary shares with a par value at \$10 are entitled the right to vote and receive dividends.

The number of employee stock warrants retained in the authorized shares is 20,000 shares (in thousands), which can be issued separately.

b. Capital surplus

The adjustments to capital surplus for the years ended December 31, 2017 and 2016 were as follows:

	Share Premium	Compensation Costs Related to Share-based Payment	Movements of Capital Surplus for Associates Accounted for Using Equity Method	Movements of Capital Surplus due to Transactions of Treasury Shares	Total
Balance on January 1, 2016	\$ 346,007	\$ 198,428	\$ 131,690	\$ 1,694	\$ 677,819
Share-based payment transactions	-	13,229	-	-	13,229
Change in capital surplus from investments in associates accounted for using equity method	<u>-</u>	<u>-</u>	<u>71</u>	<u>-</u>	<u>71</u>
Balance on December 31, 2016	<u>\$ 346,007</u>	<u>\$ 211,657</u>	<u>\$ 131,761</u>	<u>\$ 1,694</u>	<u>\$ 691,119</u>
Balance on January 1, 2017	\$ 346,007	\$ 211,657	\$ 131,761	\$ 1,694	\$ 691,119
Share-based payment transactions	<u>-</u>	<u>3,991</u>	<u>-</u>	<u>8,204</u>	<u>12,195</u>
Balance on December 31, 2017	<u>\$ 346,007</u>	<u>\$ 215,648</u>	<u>\$ 131,761</u>	<u>\$ 9,898</u>	<u>\$ 703,314</u>

Capital surplus from share premium and the premium from disposal of treasury shares may be utilized to offset deficits; furthermore, when Senao has no deficit, it may be distributed in cash or capitalized, which however is limited to a certain percentage of Senao's paid-in capital.

The capital surplus from movements of investments in associates accounted for using equity method and those generated by reclassifying the employee stock options to treasury shares under the share-based payment may only be utilized to offset deficits.

The capital surplus from share-based payment transactions can not be utilized in any conditions.

c. Retained earnings and dividends policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 27, 2016 and, in that meeting, resolved amendments to Senao's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on the distribution of employees' and directors' compensation.

Under the dividends policy as set forth in the amended Articles, where Senao made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by Senao'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 and supervisors after the amendment, refer to Employees' compensation and remuneration of directors and supervisors in Note 25-d.

In order to meet "the balanced dividend policy" to conform with Senao's current operating environment and the goal of sustainability, the policy on the distribution of dividends emphasizes the need for Senao's stability and growth. No less than 30% of the distributable remaining earnings shall be distributed as stockholders' dividends, of which cash dividends to be distributed shall not be less than 10% of the total amount of dividends to be distributed.

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

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

The appropriations of earnings for 2016 and 2015 approved in the shareholders' meetings on June 14, 2017 and June 27, 2016, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2016	For Fiscal Year 2015	For Fiscal Year 2016	For Fiscal Year 2015
Legal reserve	\$ 99,731	\$ 80,335		
Cash dividends	993,011	744,758	\$4.0	\$3.0

The appropriation of earnings for 2017 had been proposed by Senao's board of directors on February 23, 2018. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 82,552	
Cash dividends	817,683	\$3.25

The appropriation of earnings for 2017 is subject to the resolution of the shareholders' meeting to be held on June 14, 2018. Information of the appropriation of Senao's earnings proposed by the board of directors and approved by the stockholders is available at the Market Observation Post System website.

d. Treasury shares

Purpose of Buy-Back	Shares at the Beginning of the Year (In Thousands of Shares)	Addition (In Thousands of Shares)	Reduction (In Thousands of Shares)	Shares at the End of the Year (In Thousands of Shares)
<u>2016</u>				
Buy back shares pursuant to an employee share scheme	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
<u>2017</u>				
Buy back shares pursuant to an employee share scheme	<u>10,000</u>	<u>-</u>	<u>3,342</u>	<u>6,658</u>

The Securities and Exchange Act limits the proportion of the buy-back shares to the outstanding shares; the buy-back shares should not be more than 10% of the total issued shares and the total amount of the buy-back shares should not exceed the retained earnings plus the share premium and the realized paid-in capital.

Under the Securities and Exchange Act, Senao shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as the rights to dividends and to vote.

The board of directors of Senao resolved the transfer of the treasury shares to the qualified employees in May 2017 and November 2017. Senao estimated and recognized the compensation costs, which will be recognized as salary expenses, and "capital surplus - employee stock option" both in the amount of \$8,698 thousand as calculated according to the stock option appraisal model on the grant date. After transferring those treasury stocks, the amount was reclassified to the capital surplus - treasury transaction. As of December 31, 2017, the number of shares transferred to the employees was 3,342 (in thousands) and the amount of which was \$164,200 thousand. The difference between \$164,200 thousand and the carrying amount of \$164,694 thousand was \$494 thousand, which was subtracted from "capital surplus - treasury transaction"

The abovementioned treasury shares transferred to the employees used the Black-Scholes Model for the appraisal. The parameters which the model adopted were as follows:

	The Day the Options Were Given	
	May 23, 2017	November 17, 2017
Exercise price (per share)	\$49.28	\$49.28
Market price on the given day (per share)	\$53.60	\$51.00
Expected price volatility	12.35%	9.94%
Risk-free interest rate	0.59%	0.59%
Expected dividend rate	0.00%	0.00%
Expected duration	0.02 year	0.04 year
Weighted average fair value of the stock option in the current period (per share)	\$4.3258	\$1.7482

The expected price volatility was based on the three months' daily history stock price volatility from the grant date.

e. Noncontrolling interests

	For the Year Ended December 31	
	2017	2016
Beginning balance	\$ 25,652	\$ 30,862
Shares attributed to noncontrolling interests		
Net loss of the year	<u>(2,970)</u>	<u>(5,210)</u>
Ending balance	<u>\$ 22,682</u>	<u>\$ 25,652</u>

25. NET INCOME

Net income consists of the following items:

a. Other income and expenses

	For the Year Ended December 31	
	2017	2016
Loss on disposal of property, plant and equipment	\$ 5,279	\$ 10,132
Impairment loss on goodwill	<u>8,622</u>	<u>-</u>
	<u>\$ 13,901</u>	<u>\$ 10,132</u>

b. Depreciation and amortization expenses

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	\$ 85,978	\$ 105,967
Intangible assets	<u>38,823</u>	<u>49,274</u>
	<u>\$ 124,801</u>	<u>\$ 155,241</u>
An analysis of depreciation by function		
Operating costs	\$ 5,454	\$ 4,329
Operating expenses	<u>80,524</u>	<u>101,638</u>
	<u>\$ 85,978</u>	<u>\$ 105,967</u>
An analysis of amortization by function		
Selling and marketing expenses	\$ 15,793	\$ 16,162
General and administrative expenses	<u>23,030</u>	<u>33,112</u>
	<u>\$ 38,823</u>	<u>\$ 49,274</u>

c. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Post-employment benefits		
Defined contribution plans	\$ 107,436	\$ 104,937
Defined benefit plans (Note 23)	<u>2,580</u>	<u>2,558</u>
	110,016	107,495
Termination benefits	6,129	10,234
Share-based payment		
Equity-settled share-based payment	12,689	13,229
Other employee benefits	<u>2,315,512</u>	<u>2,296,818</u>
Total employee benefits expense	<u>\$ 2,444,346</u>	<u>\$ 2,427,776</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 229,709	\$ 227,432
Operating expenses	<u>2,214,637</u>	<u>2,200,344</u>
	<u>\$ 2,444,346</u>	<u>\$ 2,427,776</u>

d. Employees' compensation and remuneration of directors and supervisors

Senao accrued employees' compensation and remuneration of directors and supervisors at rates of no less than 3% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors.

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

The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2017 and 2016, which have been approved by Senao's board of directors on February 23, 2018 and March 2, 2017, respectively, were as follows:

	For the Year Ended December 31	
	2017	2016
	Cash	Cash
Employees' compensation	\$ 35,841	\$ 43,574
Remuneration of directors and supervisors	15,360	18,674

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2016 and 2015.

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

- e. Gains or losses on foreign currency exchange

	For the Year Ended December 31	
	2017	2016
Foreign exchange gains	\$ 26,797	\$ 35,643
Foreign exchange losses	<u>(29,314)</u>	<u>(30,362)</u>
	<u>\$ (2,517)</u>	<u>\$ 5,281</u>

26. INCOME TAX

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

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	\$ 142,598	\$ 179,939
Income tax on unappropriated earnings	47	-
Adjustments for prior years	4,150	9,473
Deferred tax		
In respect of the current year	(4,035)	(13,777)
Adjustments for prior years	<u>(222)</u>	<u>-</u>
Income tax expense recognized in profit or loss	<u>\$ 142,538</u>	<u>\$ 175,635</u>

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

	For the Year Ended December 31	
	2017	2016
Income before income tax	<u>\$ 965,089</u>	<u>\$ 1,167,734</u>
Income tax expense calculated at the statutory rate	\$ 164,065	\$ 198,515
Nondeductible expenses in determining taxable income	676	620
Tax-exempt income	(14)	(92)
Investment gain not recognized in income	(20,985)	(23,306)
Deferred tax effect of earnings of subsidiaries	(11,701)	(16,630)
Income tax on unappropriated earnings	47	-
Unrecognized deductible temporary differences	(309)	(1,246)
Unrecognized loss carryforwards	9,837	11,636
Effect of different tax rates of group entities operating in other jurisdictions	(3,006)	(3,335)
Adjustments for prior years' tax	<u>3,928</u>	<u>9,473</u>
Income tax expense recognized in profit or loss	<u>\$ 142,538</u>	<u>\$ 175,635</u>

The applicable corporate income tax rate used by the Group entities in the ROC is 17%, while the applicable tax rate used by subsidiaries in China is 25%. Senao Samoa was exempted from income tax and Senao HK did not have any tax to recognize through December 31, 2017.

In January 2018, it was announced that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by \$66,308 thousand and \$6,749 thousand, respectively, in 2018.

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

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	2016
<u>Deferred tax</u>		
Remeasurement on defined benefit plan	<u>\$ (1,796)</u>	<u>\$ (3,995)</u>

c. Current tax liabilities

	December 31	
	2017	2016
Income tax payable	<u>\$ 62,321</u>	<u>\$ 120,101</u>

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

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				
Investment loss on subsidiaries	\$ 319,027	\$ 6,734	\$ -	\$ 325,761
Defined benefit obligation	14,012	(445)	1,796	15,363
Payables for annual leave	8,583	341	-	8,924
Valuation loss on inventory	6,449	(3,331)	-	3,118
Unrealized sales discounts and allowances	6,471	(1,616)	-	4,855
Unearned reward point revenues	3,438	(429)	-	3,009
Property, plant and equipment	1,850	(88)	-	1,762
FVTPL financial liabilities	-	82	-	82
Provisions	1,783	(1,783)	-	-
Unrealized foreign exchange loss	89	(89)	-	-
Others	<u>1,206</u>	<u>14</u>	<u>-</u>	<u>1,220</u>
	362,908	(610)	1,796	364,094
Loss carryforwards	<u>9,320</u>	<u>2,333</u>	<u>-</u>	<u>11,653</u>
	<u>\$ 372,228</u>	<u>\$ 1,723</u>	<u>\$ 1,796</u>	<u>\$ 375,747</u>

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax liabilities</u>				
Temporary differences				
Intangible assets	\$ 40,742	\$ (2,631)	\$ -	\$ 38,111
Unrealized foreign exchange gain	-	134	-	134
FVTPL financial assets	<u>37</u>	<u>(37)</u>	<u>-</u>	<u>-</u>
	<u>\$ 40,779</u>	<u>\$ (2,534)</u>	<u>\$ -</u>	<u>\$ 38,245</u> (Concluded)

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Investment loss on subsidiaries	\$ 311,436	\$ 7,591	\$ -	\$ 319,027
Defined benefit obligation	10,503	(486)	3,995	14,012
Payables for annual leave	8,157	426	-	8,583
Valuation loss on inventory	8,676	(2,227)	-	6,449
Unrealized sales discounts and allowances	1,915	4,556	-	6,471
Unearned reward point revenues	5,243	(1,805)	-	3,438
Property, plant and equipment	2,027	(177)	-	1,850
Provisions	4,187	(2,404)	-	1,783
Unrealized foreign exchange loss	1,800	(1,711)	-	89
Others	<u>1,538</u>	<u>(332)</u>	<u>-</u>	<u>1,206</u>
	355,482	3,431	3,995	362,908
Loss carryforwards	<u>1,593</u>	<u>7,727</u>	<u>-</u>	<u>9,320</u>
	<u>\$ 357,075</u>	<u>\$ 11,158</u>	<u>\$ 3,995</u>	<u>\$ 372,228</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Intangible assets	\$ 43,373	\$ (2,631)	\$ -	\$ 40,742
FVTPL financial assets	<u>25</u>	<u>12</u>	<u>-</u>	<u>37</u>
	<u>\$ 43,398</u>	<u>\$ (2,619)</u>	<u>\$ -</u>	<u>\$ 40,779</u>

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

	December 31	
	2017	2016
Loss carryforwards		
Expire in 2018	\$ 126,423	\$ 126,423
Expire in 2019	137,604	137,604
Expire in 2020	41,369	41,469
Expire in 2021	9,325	12,795
Expire in 2022	10,933	1,422
Expire in 2023	-	571
Expire in 2025	13,103	13,682
Expire in 2027	<u>2,553</u>	<u>-</u>
	<u>\$ 341,310</u>	<u>\$ 333,966</u>
Deductible temporary differences	<u>\$ 2,107</u>	<u>\$ 2,449</u>

- f. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2017 comprised:

Unused Amount	Expiry Year
\$ 126,423	2018
137,604	2019
41,369	2020
9,325	2021
12,414	2022
571	2023
1,366	2024
13,682	2025
7,136	2026
<u>3,073</u>	2027
<u>\$ 352,963</u>	

- g. Integrated income tax

	December 31	
	2017	2016
Unappropriated earnings		
Generated before January 1, 1998	\$ -	\$ -
Generated on and after January 1, 1998	<u>1,609,507</u>	<u>1,886,001</u>
	<u>\$ 1,609,507</u>	<u>\$ 1,886,001</u>
Shareholder-imputed credits account	<u>\$ 301,906</u>	<u>\$ 366,629</u>

Senao's creditable ratio for distribution of earnings was 26.26% in 2016. Since the amended Income Tax Act announced in January 2018 abolished the imputation tax system, no creditable ratio for distribution of earnings in 2018 is expected.

h. Income tax assessments

The tax returns of Senao through 2015, except 2014, have been assessed by the tax authorities. Income tax returns of Youth, Youyi and Aval have been assessed by the tax authorities through 2015. Income tax returns of ISPOT have been assessed by the tax authorities through 2016.

27. EARNINGS PER SHARE

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

Net Profit for the Year

	For the Year Ended December 31	
	2017	2016
Profit for the period attributable to owners of Senao	<u>\$ 825,521</u>	<u>\$ 997,309</u>

Weighted Average Number of Ordinary Shares Outstanding (In Thousand Shares)

	For the Year Ended December 31	
	2017	2016
Weighted average number of ordinary shares in the computation of basic earnings per share	250,056	248,253
Effect of potentially dilutive ordinary shares:		
Employee compensation	<u>491</u>	<u>529</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>250,547</u>	<u>248,782</u>

Senao may settle the employee compensation in shares or cash, Senao shall presume the entire amount of the compensation will be settled in shares, and the resulting potential shares are 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 is 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.

Since the exercise price of the options issued by Senao as of December 31, 2017 and December 31, 2016 exceeded the average market price of the shares during 2017 and 2016, respectively, they were anti-dilutive and excluded from the computation of diluted earnings per share.

28. SHARE-BASED PAYMENT ARRANGEMENTS

Effective Date for Plan Registration	Resolution Date by SENAO's Board of Directors	Stock Options Units (Thousand)	Exercise Price (NT\$)
2012.05.28	2013.04.29	10,000	\$70.70 (Original price \$93.00)

Each option is eligible to subscribe for one common share when exercisable. The options are granted at an exercise price equal to the closing price of Senao's ordinary shares listed on the TWSE being the higher of closing price or par value. Senao's plan has exercise price adjustment formula in case of changes in ordinary shares equity (including cash capital increase, new share issue through capitalization of earnings and capital surplus, merger, spin-off and new share issue for Global Depositary Shares, and so on) or distribution of cash dividends. The options of Senao's plan are valid for six years and the graded vesting schedule provides 50% of options granted will vest two years after the grant date and another two tranches of 25% each will vest three and four years after the grant date respectively.

The compensation costs of stock options granted on May 7, 2013 were \$3,991 thousand and \$13,229 thousand for the years ended December 31, 2017 and 2016, respectively.

Senao modified the plan terms of the outstanding stock options in July 2017 and the exercise price changed from \$76.10 to \$70.70 per share. The modification did not cause any incremental fair value granted.

Senao modified the plan terms of the outstanding stock options in July 2016 and the exercise price changed from \$81.40 to \$76.10 per share. The modification did not cause any incremental fair value grant.

Information about Senao's outstanding stock options for the years ended December 31, 2017 and 2016 was as follows:

	For the Year Ended December 31			
	2017		2016	
	Granted on May 7, 2013		Granted on May 7, 2013	
	Number of Options (Thousand)	Weighted-average Exercise Price (NT\$)	Number of Options (Thousand)	Weighted-average Exercise Price (NT\$)
Balance on January 1	6,587	\$76.10	7,787	\$81.40
Options exercised	-	-	-	-
Options forfeited	<u>(661)</u>	-	<u>(1,200)</u>	-
Balance on December 31	<u>5,926</u>	70.70	<u>6,587</u>	76.10
Option exercisable at end of the year	<u>5,926</u>	70.70	<u>4,947</u>	76.10

As of December 31, 2017, information about employee stock options outstanding was as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price (NT\$)	Number of Options (Thousand)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (NT\$)	Number of Options (Thousand)	Weighted Average Exercise Price (NT\$)
\$70.70	5,926	1.35	\$70.70	5,926	\$70.70

As of December 31, 2016, information about employee stock options outstanding was as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price (NT\$)	Number of Options (Thousand)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (NT\$)	Number of Options (Thousand)	Weighted Average Exercise Price (NT\$)
\$76.10	6,587	2.35	\$76.10	4,947	\$76.10

Senao used the Black-Scholes model to evaluate the options' fair value on the grant-date. The Black-Scholes model and the related information and the fair value of the options were as follows:

	Stock Options Granted on May 7, 2013
Exercise price (NT\$)	\$93.00
Grant-date share price (NT\$)	\$93.00
Risk-free interest rate	0.91%
Expected dividend rate	0.00%
Expected life	4.375 years
Expected volatility	36.22%
Weighted average fair value of grants (NT\$)	\$28.72

Expected volatility was based on the historical share price volatility of Senao over the period equal to the expected life of Senao's plan.

29. OPERATING LEASE ARRANGEMENTS

a. The Group as lessee

Operating leases relate to leases of offices and places of business with lease terms between 1 and 10 years.

The lease payments recognized in current expense were as follows:

2017	2016
<u>\$ 429,429</u>	<u>\$ 454,456</u>

The future minimum lease payments of non-cancellable operating lease commitments are as follows:

	December 31	
	2017	2016
Not later than 1 year	\$ 358,270	\$ 347,044
Later than 1 year and not later than 5 years	527,423	474,755
Later than 5 years	<u>6,047</u>	<u>9,482</u>
	<u>\$ 891,740</u>	<u>\$ 831,281</u>

b. The Group as lessor

Operating leases relate to leasing of Senao's buildings. If there were no notification about terminations, the operating leases will extend automatically. The lessees do not have bargain purchase options to acquire the properties at the expiry of the lease periods.

The future minimum lease payments of non-cancellable operating leases are as follows:

	December 31	
	2017	2016
Not later than 1 year	\$ 35,700	\$ 41,847
Later than 1 year and not later than 5 years	<u>5,279</u>	<u>8,787</u>
	<u>\$ 40,979</u>	<u>\$ 50,634</u>

30. 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 stakeholders through the optimization of the debt and equity balance.

31. FINANCIAL INSTRUMENTS

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

The carrying amounts of the Group's financial assets and liabilities not measured at fair value approximate their fair values.

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

1) Fair value hierarchy

December 31, 2017

	Level 1	Level 2	Level 3	Total
<u>Financial liabilities at FVTPL</u>				
Derivatives	\$ -	\$ 484	\$ -	\$ 484

December 31, 2016

	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Derivatives	\$ -	\$ 217	\$ -	\$ 217

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

The fair value of derivative financial instruments, including financial assets and financial liabilities, are calculated based on the forward exchange rate on maturity date of each individual forward exchange contract. Exchange rates used are provided by financial institution's quoting system. The estimates and assumptions the Group used for measurement are consistent with other market participants.

c. Categories of financial instruments

	December 31	
	2017	2016
<u>Financial assets</u>		
Measured at FVTPL		
Held for trading	\$ -	\$ 217
Loans and receivables (1)	5,263,042	5,450,002
Available-for-sale financial assets (2)	36,000	36,000
<u>Financial liabilities</u>		
Measured at FVTPL		
Held for trading	484	-
Amortized cost (3)	3,488,246	3,724,194

1) The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables, other receivables, other current assets, refundable deposits and partial other noncurrent assets.

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

3) The balances include financial liabilities measured at amortized cost, which comprise short-term loans, notes payable, trade payables, partial other payables and guarantee deposits.

d. Financial risk management objectives and policies

The Group's major financial instruments include receivables and payables. The Group's Finance Department provides services to the business, coordinates access to domestic and international financial markets, 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 (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, whose purpose was to effectively manage the risks caused by changes in foreign currency rates and interest rates. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's Finance Department reports quarterly to the Group's board of directors, which assesses if the report is consistent with the established operating strategies and risk standards.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group entered into foreign exchange forward contracts to manage its exposure to foreign currency risk.

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

a) Foreign currency risk

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 period are set out in Notes 7 and 35.

Sensitivity analysis

The Group was mainly exposed to the fluctuations of USD.

The following table details the Group's sensitivity to a 5% increase and decrease in the New Taiwan dollars (i.e. the functional currency) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 5%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign exchange forward contracts, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. The number below indicates the movement in pre-tax profit associated with the New Taiwan dollar strengthening 5% against the relevant currency. For a 5% weakening of the New Taiwan dollars against the relevant currency, the pre-tax profit and the balances below would be an equal and negative change.

	USD Impact	
	For the Year Ended December 31	
	2017	2016
Profit or loss	\$ (1,281)	\$ (2,853)

The abovementioned table was mainly attributable to the exposure outstanding on USD bank deposits, receivables, payables and foreign exchange forward contracts. For details, please see Notes 7 and 35.

b) Interest rate risk

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

	December 31	
	2017	2016
Fair value interest rate risk		
Financial assets	\$ 1,243,113	\$ 1,029,366
Cash flow interest rate risk		
Financial assets	983,428	990,356
Financial liabilities	-	68,000

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 period. A 25 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.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2017 and 2016 would decrease/increase by \$2,459 thousand and \$2,306 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its demand deposits and floating-rate borrowings.

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 period, the Group's maximum exposure to credit risk, which would cause a financial loss to the Group due to the failure of counterparties to discharge an obligation and financial guarantees provided by the Group, could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group's main credit risk concentrated on the Group's major clients. The receivables from the major clients composed 56% and 69% of the total trade receivables as of December 31, 2017 and 2016, respectively. Because the clients have good credit records, no material default risk was assessed; material credit risk did not exist.

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.

a) Liquidity and interest rate risk table

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.

December 31, 2017

	Weighted Average Effective Interest Rate (%)	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	-	\$ 3,460,444	\$ -	\$ -	\$ 27,802

December 31, 2016

	Weighted Average Effective Interest Rate (%)	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	-	\$ 3,628,314	\$ -	\$ -	\$ 27,880
Floating interest rate instruments	1.95%-1.98%	<u>8,292</u>	<u>30,541</u>	<u>30,275</u>	<u>-</u>
		<u>\$ 3,636,606</u>	<u>\$ 30,541</u>	<u>\$ 30,275</u>	<u>\$ 27,880</u>

The following table detailed the Group's liquidity analysis for its derivative financial instruments. The table was based on the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

December 31, 2017

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years
<u>Gross settled</u>				
Foreign exchange forward contracts				
Inflows	\$ 124,997	\$ -	\$ -	\$ -
Outflows	<u>125,481</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ (484)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2016

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years
<u>Gross settled</u>				
Foreign exchange forward contracts				
Inflows	\$ 54,846	\$ -	\$ -	\$ -
Outflows	<u>54,629</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 217</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

b) Financing facilities

	December 31	
	2017	2016
Unsecured bank loan facility		
Amount used	\$ -	\$ 48,000
Amount unused	<u>3,740,000</u>	<u>4,382,000</u>
	<u>\$ 3,740,000</u>	<u>\$ 4,430,000</u>
Secured bank loan facility		
Amount used	\$ -	\$ 20,000
Amount unused	<u>40,000</u>	<u>-</u>
	<u>\$ 40,000</u>	<u>\$ 20,000</u>

32. TRANSACTIONS WITH RELATED PARTIES

- a. The Group engages in business transactions with the following related parties:

Company	Relationship
Chunghwa Telecom Co., Ltd. (“Chunghwa Telecom”)	Ultimate parent entity
Fellow subsidiary	
CHYP Multimedia Marketing & Communications Co., Ltd.	Chunghwa Telecom’s subsidiary
CHIEF Telecom Inc.	Chunghwa Telecom’s subsidiary
Chunghwa System Integration Co., Ltd.	Chunghwa Telecom’s subsidiary
Spring House Entertainment Tech. Inc.	Chunghwa Telecom’s subsidiary
Light Era Development Co., Ltd.	Chunghwa Telecom’s subsidiary
Smartfun Digital Co., Ltd.	Chunghwa Telecom’s subsidiary
Associate	
HopeTech Technologies Limited	Senao Samoa’s investee using the equity method
Senao Networks, Inc.	Senao’s investee using the equity method
EnGenius Tech. Co., Ltd.	Senao Networks’s subsidiary
Other related party	
Senao Technical and Cultural Foundation	A nonprofit organization of which the funds donated by SENAO exceeds one third of its total funds
E-Life Mall Co., Ltd.	Substantial related party
Engenius Technologies Co., Ltd.	Substantial related party
International Integrated System, Inc.	Chunghwa Telecom’s investee using the equity method
Chunghwa Benefit One Co., Ltd.	Chunghwa Telecom’s joint venture

- b. Balances and transactions between Senao and subsidiaries have been eliminated on consolidation and not disclosed in this note. For the information on endorsements and guarantees Senao made for its subsidiaries, please see attached Table 1. Terms of each transaction between the parent company and subsidiaries are made separately. Details of transactions between the Group and other related parties are disclosed below.

1) Operating revenues

Line Item	Related Party Category	For the Year Ended December 31	
		2017	2016
Sales	Ultimate parent entity	\$ 8,145,828	\$ 8,757,575
	Fellow subsidiaries	1,684	429
	Associates	1,423	1,847
	Other related parties	<u>36,541</u>	<u>35,192</u>
		<u>\$ 8,185,476</u>	<u>\$ 8,795,043</u>
Service	Ultimate parent entity	\$ 2,374,779	\$ 2,296,684
	Fellow subsidiaries	1,874	597
	Associates	<u>62,527</u>	<u>-</u>
		<u>\$ 2,439,180</u>	<u>\$ 2,297,281</u>
Repairs and maintenance	Ultimate parent entity	\$ 143	\$ 89,912
	Other related parties	<u>404</u>	<u>61</u>
		<u>\$ 547</u>	<u>\$ 89,973</u>

2) Purchases of goods

Related Party Category	For the Year Ended December 31	
	2017	2016
Ultimate parent entity	\$ 1,420,740	\$ 541,530
Fellow subsidiaries	23,501	-
Associates	<u>29,474</u>	<u>250,176</u>
	<u>\$ 1,473,715</u>	<u>\$ 791,706</u>

3) Operating expenses

Line Item	Related Party Category	For the Year Ended December 31	
		2017	2016
Selling and marketing	Ultimate parent entity	\$ 263,817	\$ 294,020
	Fellow subsidiaries	286	398
	Associates	<u>3,613</u>	<u>4,028</u>
		<u>\$ 267,716</u>	<u>\$ 298,446</u>
General and administrative	Ultimate parent entity	\$ 2,604	\$ 2,311
	Other related parties	<u>17,238</u>	<u>16,628</u>
		<u>\$ 19,842</u>	<u>\$ 18,939</u>

Selling and marketing expenses were mainly the marketing expense - commission on goods sold by the ultimate parent entity for Senao, and the rentals for counters rented from the ultimate parent entity. The rental rates were determined by the general market price and paid monthly.

General and administrative expenses were mainly donations to related parties.

4) Non-operating transactions

Line Item	Related Party Category	For the Year Ended December 31	
		2017	2016
Non-operating income	Ultimate parent entity	\$ 588	\$ 111
	Associates	31,491	34,587
	Other related parties	<u>2</u>	<u>12</u>
		<u>\$ 32,081</u>	<u>\$ 34,710</u>

Non-operating income mainly came from the rentals for Hwa Ya's plants paid to Senao by Senao Networks. The rentals were collected monthly or quarterly.

5) Receivables from related parties

Line Item	Related Party Category	December 31	
		2017	2016
Accounts receivable from related parties	Ultimate parent entity	\$ 1,211,732	\$ 1,698,367
	Fellow subsidiaries	443	332
	Associates	11,929	-
	Other related parties	<u>6,034</u>	<u>4,807</u>
		<u>\$ 1,230,138</u>	<u>\$ 1,703,506</u>

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2017 and 2016, no bad debt expense was recognized for trade receivables from related parties.

6) Other receivables from related parties

Line Item	Related Party Category	December 31	
		2017	2016
Other receivables from related parties	Ultimate parent entity	\$ 330,597	\$ 474,364
	Fellow subsidiaries	<u>25</u>	<u>-</u>
		<u>\$ 330,622</u>	<u>\$ 474,364</u>

Other receivables were mainly balances of sales proceeds of goods sold by the ultimate parent entity for Senao.

7) Other prepaid expenses

Line Item	Related Party Category	December 31	
		2017	2016
Prepaid rents	Ultimate parent entity	\$ 231	\$ 352
	Associates	<u>300</u>	<u>300</u>
		<u>\$ 531</u>	<u>\$ 652</u>

8) Refundable deposits

Line Item	Related Party Category	December 31	
		2017	2016
Refundable deposits	Ultimate parent entity	\$ 2,768	\$ 3,122

9) Notes payable to related parties

Line Item	Related Party Category	December 31	
		2017	2016
Notes payable to related parties	Ultimate parent entity	\$ 18	\$ 18

10) Trade payables to related parties

Line Item	Related Party Category	December 31	
		2017	2016
Trade payables to related parties	Ultimate parent entity	\$ 133,917	\$ 87,438
	Associates	-	13,933
		<u>\$ 133,917</u>	<u>\$ 101,371</u>

The trade payables to related parties were unsecured.

11) Other payables to related parties

Line Item	Related Party Category	December 31	
		2017	2016
Other payables to related parties	Ultimate parent entity	\$ 497,183	\$ 420,665
	Fellow subsidiaries	25	-
	Associates	1,386	1,290
	Other related parties	<u>4,340</u>	<u>4,188</u>
		<u>\$ 502,934</u>	<u>\$ 426,143</u>

Proceeds of goods sold by the ultimate parent entity for Senao and the collection of monthly fees and bills. The associates paid daily subsistence allowance in Hwa Ya's plants for Senao. The transactions with other related parties were donations to related parties.

12) Advance receipts

Line Item	Related Party Category	December 31	
		2017	2016
Other advance receipts	Associates	\$ 2,730	\$ 2,730

13) Acquisitions of property, plant and equipment and intangible assets

Related Party Category	Purchase Price For the Year Ended December 31	
	2017	2016
Ultimate parent entity	\$ -	\$ 7,498
Fellow subsidiaries	7,619	7,619
Associates	22,629	200
Other related parties	<u>46</u>	<u>-</u>
	<u>\$ 30,294</u>	<u>\$ 15,317</u>

Senao purchased office equipment and computer software from the ultimate parent entity, computer software from the fellow subsidiary, and machinery and equipment from associate - SNI.

c. Compensation of key management personnel

The remuneration of directors and members of key management personnel for the years ended December 31, 2017 and 2016 was as follows:

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	\$ 59,721	\$ 74,053
Share-based payment	731	933
Post-employment benefits	<u>709</u>	<u>709</u>
	<u>\$ 61,161</u>	<u>\$ 75,695</u>

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

33. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for borrowings from banks and suppliers and the import of goods:

	December 31	
	2017	2016
Restricted bank deposits - current	\$ -	\$ 2,000
Restricted bank deposits - noncurrent	<u>1,700</u>	<u>1,700</u>
	<u>\$ 1,700</u>	<u>\$ 3,700</u>

34. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments of the Group as of December 31, 2017 and 2016 were as follows:

The Group applied for post-release duty payment to the customs. As of December 31, 2017 and 2016, the bank guarantees for the application were both \$50,000 thousand.

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 216	29.848 (USD:NTD)	\$ 6,449
USD	1,326	6.5062 (USD:RMB)	39,591
Non-monetary items			
Investments accounted for using the equity method			
USD	762	29.848 (USD:NTD)	22,731
<u>Financial liabilities</u>			
Monetary items			
USD	4,874	29.848 (USD:NTD)	145,480

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 897	32.279 (USD:NTD)	\$ 28,958
USD	1,321	6.9429 (USD:RMB)	42,647
Non-monetary items			
Investments accounted for using the equity method			
USD	782	32.279 (USD:NTD)	25,243
<u>Financial liabilities</u>			
Monetary items			
USD	2,150	32.279 (USD:NTD)	69,409

The significant unrealized foreign exchange gains (losses) were as follows:

For the Year Ended December 31				
Foreign Currencies	2017		2016	
	Exchange Rate	Net Foreign Exchange Gains (Losses)	Exchange Rate	Net Foreign Exchange Gains (Losses)
USD	29.848 (USD:NTD)	\$ 786	32.279 (USD:NTD)	\$ (524)
USD	6.5062 (USD:RMB)	<u>(625)</u>	6.9429 (USD:RMB)	<u>317</u>
		<u>\$ 161</u>		<u>\$ (207)</u>

36. ADDITIONAL DISCLOSURES

a. Information about significant transactions and investees:

- 1) Financing provided to others: None
- 2) Endorsements/guarantees provided: Please see Table 1
- 3) Marketable securities held (excluding investments in subsidiaries and associates): Please see Table 2
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None.
- 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: Please see Table 3
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 4
- 9) Names, locations, and other information of investees in which the company exercises significant influence (excluding investment in mainland China): Please see Table 5
- 10) Trading in derivative instruments: Please see Note 7

b. Information on investments in mainland China

- 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, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: Please see Table 6

- 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 period: None.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period: None.
 - c) The amount of property transactions and the amount of the resultant gains or losses: None.
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes: None.
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds: None.
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position: None.
- c. Intercompany relationships and significant intercompany transactions: Please see Table 7

37. SEGMENT INFORMATION

The Group's reportable segments were sales department and other departments.

Sales department - selling information and communication products and the peripheral products in Taiwan.

Other departments - other unreported operating activities and departments. These departments provide services to support the sales department. Also, the sales made by the subsidiaries was part of other departments.

a. Segment revenues and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segments.

	Sales	Others	Total
<u>For the year ended December 31, 2017</u>			
Revenue from external customers	<u>\$ 33,477,759</u>	<u>\$ 2,260,175</u>	<u>\$ 35,737,934</u>
Segment income	<u>\$ 1,415,726</u>	<u>\$ (264,293)</u>	1,151,433
Share of profit of associates accounted for using the equity method			160,629
Rental income			59,711
Interest income			14,579
Dividend income			83
Valuation loss on financial liabilities at fair value through profit or loss			(484)
			(Continued)

	Sales	Others	Total
Exchange losses			\$ (2,517)
Loss on disposal of property, plant and equipment			(5,279)
Interest expense			(5,402)
Goodwill impairment loss			(8,622)
Central administration costs and directors' salaries			<u>(399,042)</u>
Profit before tax			<u>\$ 965,089</u>

For the year ended December 31, 2016

Revenue from external customers	<u>\$ 33,241,839</u>	<u>\$ 848,909</u>	<u>\$ 34,090,748</u>
Segment income	<u>\$ 1,196,587</u>	<u>\$ 88,886</u>	1,285,473
Share of profit of associates accounted for using the equity method			192,049
Rental income			39,862
Interest income			10,430
Dividend income			540
Interest expense			(1,861)
Valuation gain on financial assets at fair value through profit or loss			217
Exchange gain			5,281
Loss on disposal of property, plant and equipment			(10,132)
Central administration costs and directors' salaries			<u>(354,125)</u>
Profit before tax			<u>\$ 1,167,734</u> (Concluded)

The segment revenues reported above all came from transactions with external customers. There were no intersegment sales in 2017 and 2016.

Segment profit represented the profit before tax earned by each segment without share of profit of associates accounted for using the equity method, rental income, interest income, dividend income, gains or losses on financial assets (liabilities) at fair value through profit or loss, exchange gains or losses, losses on disposal of property, plant and equipment, interest expense, goodwill impairment loss and central administration costs and directors' salaries. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets and liabilities

The measures of segment total assets and liabilities are not reported to the chief operating decision maker. Therefore, the information is not disclosed.

c. Revenue from major products and services

The following is an analysis of the Group's revenue by its products and services.

	For the Year Ended December 31	
	2017	2016
Sales revenue	\$ 32,269,899	\$ 30,784,580
Service revenue	2,607,315	2,360,448
Repairs and maintenance revenue	<u>860,720</u>	<u>945,720</u>
	<u>\$ 35,737,934</u>	<u>\$ 34,090,748</u>

d. Geographical information

The Group operates in two principal geographical areas - Taiwan and China.

The Group's revenue from external customers by location of operations and information about its noncurrent assets by location of assets are detailed below.

The Group's revenue from external customers by location of operations was as follows:

	Revenue from External Customers	
	For the Year Ended December 31	
	2017	2016
Taiwan	\$ 35,503,584	\$ 33,733,664
China	<u>234,350</u>	<u>357,084</u>
	<u>\$ 35,737,934</u>	<u>\$ 34,090,748</u>

The Group's information about its noncurrent assets by location of assets was as follows:

	Noncurrent Assets	
	December 31	
	2017	2016
Taiwan	\$ 1,316,379	\$ 1,339,637
China	<u>7,842</u>	<u>10,632</u>
	<u>\$ 1,324,221</u>	<u>\$ 1,350,269</u>

Noncurrent assets exclude financial instruments, investments using the equity method and deferred tax assets.

e. Information about major customers

Major customer's contributions to the Group's revenue were as follows:

	<u>For the Year Ended December 31</u>	
	2017	2016
Customer from channel business department	<u>\$ 10,520,750</u>	<u>\$ 11,144,171</u>

For the years ended December 31, 2017 and 2016, except the abovementioned major customer, the Group did not have any other single customer who contributed 10% or more of the total revenues.

TABLE 1

SENAO INTERNATIONAL CO., LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands of New Taiwan Dollars)

No. (Note 1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 3)	Maximum Balance for the Period (Note 4)	Ending Balance (Note 4)	Actual Borrowing Amount	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 3)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries (Note 5)	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent (Note 5)	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China (Note 5)	Note
		Name	Nature of Relationship (Note 2)											
0	Senao International Co., Ltd.	Youth Co., Ltd.	b	\$ 590,014	\$ 200,000	\$ 200,000	\$ -	\$ -	3.39	\$ 2,950,071	Yes	-	-	-
		ISPOT Co., Ltd.	c	590,014	150,000	150,000	150,000	-	2.54	2,950,071	Yes	-	-	-
		Aval Technologies Co., Ltd.	b	590,014	300,000	300,000	300,000	-	5.08	2,950,071	Yes	-	-	-

Note 1: Significant transactions between the parent and its subsidiaries or among subsidiaries are numbered as follows:

- a. “0” for the parent.
- b. Subsidiaries are numbered from “1”.

Note 2: Relationships between the endorsement/guarantee provider and the guaranteed party:

- a. Trading partner.
- b. Majority owned subsidiary.
- c. The parent and subsidiary owns over 50% ownership of the investee company.
- d. A subsidiary jointly owned by the parent and the parent’s directly-owned subsidiary.
- e. Guaranteed by the parent according to the construction contract.
- f. An investee company. The guarantees were provided based on the parent’s proportionate share in the investee company.

Note 3: The total amount of endorsement or guarantee that the parent is allowed to provide is up to 50% of the net equity of the parent. The limits on endorsement or guarantee amount provided to each guaranteed party is up to 10% of the net equity of the parent.

Note 4: The maximum balance for the period and the ending balance are quota approved by the board of directors.

Note 5: The following circumstances represent “Y”:

- a. Endorsement/Guarantee given by parent on behalf of subsidiaries.
- b. Endorsement/Guarantee given by subsidiaries on behalf of parent.
- c. Endorsement/Guarantee given on behalf of companies in mainland China.

TABLE 2

SENAO INTERNATIONAL CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (DO NOT INCLUDE SUBSIDIARY AND RELATED PARTY)
DECEMBER 31, 2017
(Amounts in Thousands of New Taiwan Dollars)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2017				Note
				Shares (Thousands/ Thousand Units)	Carrying Value (Note)	Percentage of Ownership	Fair Value	
Senao International Co., Ltd.	<u>Stocks</u>							
	N.T.U. Innovation Incubation Corporation	-	Financial assets carried at cost	1,200	\$ 12,000	9.41	\$ -	-
	Dian Zuan Integrating Marketing Co., Ltd.	-	Financial assets carried at cost	2,400	24,000	6.69	-	-

Note: The related information about subsidiaries and associates are referred to in Tables 5 and 6.

TABLE 3

SENAO INTERNATIONAL CO., LTD. AND SUBSIDIARIES

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands of New Taiwan Dollars)**

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction (Notes 2)		Notes/Accounts Payable or Receivable	
			Purchase/ Sales (Note 1)	Amount	% to Total	Payment Terms	Units Price	Payment Terms	Ending Balance	% to Total
Senao International Co., Ltd.	Chunghwa Telecom Co., Ltd.	Ultimate parent entity	Sales	\$ 10,491,376	29	30-90 days	-	-	\$ 1,210,974	54
			Purchase	1,420,740	5	30 days	-	-	(133,101)	(5)
	Aval Technologies Co., Ltd.	Subsidiary	Purchase	114,719	-	30 days	-	-	-	-

Note 1: The sales from Chunghwa Telecom Co., Ltd. include sales revenue, service revenue and repairs and maintenance revenue.

Note 2: The related transaction terms are determined separately.

TABLE 4

SENAO INTERNATIONAL CO., LTD. AND SUBSIDIARIES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2017
(Amounts in Thousands of New Taiwan Dollars)**

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate (Note 1)	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amounts	Action Taken		
Senao International Co., Ltd.	Chunghwa Telecom Co., Ltd.	Ultimate parent entity	\$ 1,541,571 (Note 1)	7.22 (Note 2)	\$ -	-	\$ 771,680	\$ -

Note 1: The receivables from related parties included \$330,597 thousand which is the amount of products sold by Chunghwa Telecom Co., Ltd. for Senao, but not yet collected.

Note 2: The computation of the turnover of average receivables balance had already subtracted the receivables from Chunghwa Telecom Co., Ltd. for products sold for Senao.

TABLE 5

SENAO INTERNATIONAL CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEs IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INVESTMENT IN MAINLAND CHINA)
YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2017			Net Income (Loss) of the Investee	Recognized Gain (Loss)	Note
				December 31, 2017	December 31, 2016	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value			
Senao International Co., Ltd.	Senao Networks, Inc.	Taiwan	Telecommunication facilities manufacturing and sales	\$ 202,758	\$ 202,758	16,579	33.79	\$ 862,116	\$ 471,335	\$ 159,339	Note 1
	Senao International (Samoa) Holding Ltd.	Samoa Islands	International investment	2,416,645 (US\$ 81,175)	2,416,645 (US\$ 81,175)	81,175	100.00	506,275 (US\$ 16,962)	(41,392) (US\$ -1,360)	(39,607) (US\$ -1,305)	Notes 1, 2 and 7
	Youth Co., Ltd.	Taiwan	Sale of information and communication technologies products	335,450	335,450	13,780	89.48	239,869	(15,817)	(33,883)	Notes 1, 3 and 7
	Aval Technologies Co., Ltd.	Taiwan	Sale of information and communication technologies products	60,000	60,000	6,000	100.00	65,831	5,311	5,311	Notes 1 and 7
	Senyoung Insurance Agent Co., Ltd.	Taiwan	Property and liability insurance agency	10,000	-	1,000	100.00	9,516	(484)	(484)	Notes 1, 4 and 7
Senao International (Samoa) Holding Ltd.	Senao International HK Limited	Hong Kong	International investment	2,393,646 (US\$ 80,440)	2,393,646 (US\$ 80,440)	80,440	100.00	468,862 (US\$ 15,708)	(40,944) (US\$ -1,345)	(40,944) (US\$ -1,345)	Notes 1 and 7
	HopeTech Technologies Limited	Hong Kong	Sale of information and communication technologies products	21,177 (US\$ 675)	21,177 (US\$ 675)	5,240	45.00	22,731 (US\$ 762)	(1,101) (US\$ -36)	(495) (US\$ -16)	Note 1
Youth Co., Ltd.	ISPOT Co., Ltd.	Taiwan	Sale of information and communication technologies products	53,021	53,021	-	100.00	19,214	(4,901)	(5,371)	Notes 1, 5 and 7
	Youyi Co., Ltd.	Taiwan	Maintenance of information and communication technologies products	21,354	6,920	-	100.00	15,744	(1,272)	(1,475)	Notes 1, 6 and 7

Note 1: Calculated by the same period of audited financial statements.

Note 2: An investment loss of \$41,392 thousand and reversal of unrealized transaction profit of \$1,785 thousand of last period.

Note 3: An investment loss of \$14,153 thousand included amortization of premium of \$11,108 thousand, and impairment loss on goodwill of \$8,622 thousand.

Note 4: Senao established Senyoung Insurance Agent Co., Ltd. by \$10,000 thousand on September 27, 2017. The registration was set up on November 22, 2017.

Note 5: An investment loss of \$4,901 thousand included amortization of premium of \$470 thousand.

Note 6: An investment loss of \$1,272 thousand included amortization of premium of \$203 thousand.

Note 7: The amount was eliminated upon consolidation.

Note 8: Information on investees in China, please see Table 6.

TABLE 6

SENAO INTERNATIONAL CO., LTD. AND SUBSIDIARIES

INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands of New Taiwan Dollars)

Investee	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Notes 2 and 4)	Carrying Value as of December 31, 2017 (Notes 2 and 4)	Accumulated Inward Remittance of Earnings as of December 31, 2017	Note
					Outflow	Inflow							
Senao Trading (Fujian) Co., Ltd.	Sale of information and communication technologies products	\$ 1,073,170 (US\$ 36,000)	b	\$ 1,073,170 (US\$ 36,000)	\$ -	\$ -	\$ 1,073,170 (US\$ 36,000)	\$ 1,976 (US\$ 65)	100	\$ 1,976 (US\$ 65)	\$ 192,707 (US\$ 6,456)	\$ -	-
Senao International Trading (Shanghai) Co., Ltd.	Sale of information and communication technologies products	955,838 (US\$ 32,000)	b	955,838 (US\$ 32,000)	-	-	955,838 (US\$ 32,000)	(40,607) (US\$ -1,334)	100	(40,607) (US\$ -1,334)	116,606 (US\$ 3,907)	-	-
Senao International Trading (Shanghai) Co., Ltd. (Note 5)	Maintenance of information and communication technologies products	87,540 (US\$ 3,000)	b	87,540 (US\$ 3,000)	-	-	87,540 (US\$ 3,000)	(5,026) (US\$ -165)	100	(5,026) (US\$ -165)	67,277 (US\$ 2,254)	-	-
Senao International Trading (Jiangsu) Co., Ltd.	Sale of information and communication technologies products	263,736 (US\$ 9,000)	b	263,736 (US\$ 9,000)	-	-	263,736 (US\$ 9,000)	2,852 (US\$ 94)	100	2,852 (US\$ 94)	89,389 (US\$ 2,995)	-	-

Accumulated Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Stipulated by Investment Commission, MOEA (Note 3)
\$2,380,284 (US\$80,000)	\$2,380,284 (US\$80,000)	\$3,553,694

Note 1: Investments are divided into three categories as follows:

- a. Direct investment.
- b. Investments through a holding company, which means Senao International (Samoa) Holding Ltd. here, registered in a third region.
- c. Others.

Note 2: Calculated by the same period of audited financial statements.

Note 3: We calculated the upper limit on investment in accordance with the “Regulations Governing Permission for Investment or Technical Cooperation in the Mainland Area”.

Note 4: The amount was eliminated upon consolidation.

Note 5: The English name is the same as the above entity; however, the Chinese name included in the respective Articles of Incorporations is different from the above entity name.

TABLE 7

SENAO INTERNATIONAL CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counterparty	Relationship (Note 2)	Transactions Details			
				Financial Statement Accounts	Amount (Note 3)	Payment Terms (Note 4)	% of Total Sales or Assets (Note 5)
0	Senao International Co., Ltd.	Aval Technologies Co., Ltd.	a	Sales revenue	\$ 31,956	-	-
				Cost of goods sold	114,720	-	-
				Trade receivables from related parties	10,757	-	-
				Other receivables from related parties	71	-	-
				Rent revenue	542	-	-
		Youth Co., Ltd.	a	Sales revenue	54,874	-	-
				Cost of goods sold	51,702	-	-
				Property, plant and equipment	675	-	-
				Trade receivables from related parties	38,963	-	-
				Trade payables from related parties	496	-	-
		ISPOT Co., Ltd.	a	Other receivables from related parties	30	-	-
				Rent revenue	488	-	-
				Sales revenue	7,057	-	-
				Cost of goods sold	15,389	-	-
				Property, plant and equipment	422	-	-
		Youyi Co., Ltd.	a	Trade receivables from related parties	317	-	-
				Other receivables from related parties	17	-	-
				Sales revenue	6	-	-
				Repairs and maintenance revenue	50	-	-
				Maintenance costs	59	-	-
		Senyoung Insurance Agent Co., Ltd.	a	Other payables to related parties	21	-	-
				Rent revenue	34	-	-
				Other receivables from related parties	36	-	-
1	Youth Co., Ltd.	ISPOT Co., Ltd.	c	Sales revenue	5,875	-	-
				Cost of goods sold	25,096	-	-
				Trade receivables from related parties	2,663	-	-
				Trade payables to related parties	2,270	-	-
				Other receivables from related parties	12,919	-	-
		Youyi Co., Ltd.	c	Rent revenue	72	-	-
				Sales revenue	166	-	-
				Other receivables from related parties	4,484	-	-
				Rent revenue	1,714	-	-
		Aval Technologies Co., Ltd.	c	Sales revenue	144	-	-
				Cost of goods sold	68,240	-	-
				Trade payables to related parties	13,132	-	-
				Rent revenue	21	-	-

(Continued)

No. (Note 1)	Company Name	Counterparty	Relationship (Note 2)	Transactions Details			
				Financial Statement Accounts	Amount (Note 3)	Payment Terms (Note 4)	% of Total Sales or Assets (Note 5)
2	ISPOT Co., Ltd.	Youyi Co., Ltd. Aval Technologies Co., Ltd.	c c	Sales revenue	\$ 30	-	-
				Sales revenue	623	-	-
				Cost of goods sold	63,677	-	-
				Trade receivables from related parties	33	-	-
				Trade payables from related parties	24,746	-	-

Note 1: Significant transactions between Senao and its subsidiaries or among subsidiaries are numbered as follows:

- a. “0” for the parent.
- b. Subsidiaries are numbered from “1”.

Note 2: Related party transactions are divided into three categories as follows (there is no need for repeated disclosure between the entities, i.e., if the parent company discloses a transaction with a subsidiary, the subsidiary does not have to disclose the same information in the financial statements. Also, if a subsidiary discloses a transaction with another subsidiary, the other subsidiary does not have to disclose the same information in the financial statements):

- a. The parent to subsidiaries.
- b. Subsidiaries to the parent.
- c. Subsidiaries to subsidiaries.

Note 3: The amount was eliminated upon consolidation.

Note 4: The transaction terms related to the related parties are determined by both sides.

Note 5: For assets and liabilities, amount is shown as a percentage to consolidated total assets as of December 31, 2017, while revenues, costs and expenses are shown as a percentage to consolidated revenues for the year ended December 31, 2017.

(Concluded)

VII. Review and analysis of financial position and business performance, and risk assessment

1. Financial position

The comparison table of financial positions

Unit: NT\$ thousand

Year Item	December 31, 2017	December 31, 2016	Variation	
			Amount	%
Current assets	7,584,225	7,761,962	(177,737)	(2.29)
Non-current assets	2,702,908	2,708,937	(6,029)	(0.22)
Total assets	10,287,133	10,470,899	(183,766)	(1.76)
Current liabilities	4,203,944	4,376,279	(172,335)	(3.94)
Non-current liabilities	160,366	155,028	5,338	3.44
Total liabilities	4,364,310	4,531,307	(166,997)	(3.69)
Share capital	2,582,527	2,582,527	-	-
Capital surplus	703,314	691,119	12,195	1.76
Retained earnings	2,941,266	3,118,029	(176,763)	(5.67)
Other equity	1,110	15,035	(13,925)	(92.62)
Treasury shares	(328,076)	(492,770)	164,694	33.42
Non-controlling interests	22,682	25,652	(2,970)	(11.58)
Total equity	5,922,823	5,939,592	(16,769)	(0.28)

Analysis of variations exceeding 20%:

1. Decrease in equity was mainly due to the exchange differences resulting from the translation of foreign operations.
2. Decrease in treasury shares was mainly due to transfer of shares to employees.

VII. Review and analysis of financial position and business performance, and risk assessment

2. Financial performance

(1) The comparison table of financial performance

Unit: NT\$ thousand

Year Item	Year 2017	Year 2016	Variation	
			Amount	%
Operating revenue	35,737,934	34,090,748	1,647,186	4.83
Gross profit	4,341,967	4,562,001	(220,034)	(4.82)
Income from operations	689,921	818,769	(128,848)	(15.74)
Non-operating income and expenses	275,168	348,965	(73,797)	(21.15)
Income before income tax	965,089	1,167,734	(202,645)	(17.35)
Net income	822,551	992,099	(169,548)	(17.09)
Total other comprehensive income (loss)	(23,198)	(74,035)	50,837	68.67
Total comprehensive income	799,353	918,064	(118,711)	(12.93)
Net profit attributable to owners of the Parent	825,521	997,309	(171,788)	(17.23)
Net profit attributable to non-controlling interests	(2,970)	(5,210)	2,240	42.99
Comprehensive income attributable to owners of the Parent	802,323	923,274	(120,951)	(13.10)
Comprehensive income attributable to non-controlling interests	(2,970)	(5,210)	2,240	42.99

VII. Review and analysis of financial position and business performance, and risk assessment

1. Analysis of variations:

(1) Decrease in non-operating income and expenses were mainly due to decrease in other income.

(2) Decrease in other comprehensive income was mainly due to the exchange differences resulting from the translation of foreign operations.

2. Cause of change to the Company's major business activities:
There was not major change, so it is not applicable.

3. Projected sales volume and its base for next year. Explain the major factors that keep the Company's projected sales volume to rise: continue to cultivate the retailing of communication products and distribution channels, maintain the leading position in communication products distribution, introduce more competitive smartphones and a more diverse portfolio of information and digital products. Via the Senaonline, the Company will integrate the Online and Offline businesses and receive the synergy from combining virtual and physical channels.

VII. Review and analysis of financial position and business performance, and risk assessment

3. Cash Flow

(1) Liquidity analysis for the last 2 years:

	Year 2017	Year 2016	Amount increased (decreased)	Variation(%)
Beginning cash and cash equivalent balance	2,195,323	2,218,757	(23,434)	(-1.06)
Net cash inflows from operating activities	1,080,947	530,796	550,151	103.65
Net cash inflows (outflows) from investing activities	(56,640)	129,848	(186,488)	(143.62)
Net cash outflows from financing activities	(896,889)	(677,415)	(219,474)	32.40
Ending cash and cash equivalent balance	2,320,253	2,195,323	124,930	5.69

Analysis of variations exceeding 20%:

1. Increase in net cash inflows from operating activities: mainly due to the decrease in trade receivables from related parties in comparison to previous year.
 2. Increase in net cash outflows from investing activities: mainly due to the increase in time deposits and decrease in dividend income in comparison to previous year.
- Increase in net cash outflows from financing activities: mainly due to the increase in cash dividend paid and decrease in proceeds from short-term loans in comparison to previous year.

VII. Review and analysis of financial position and business performance, and risk assessment

(2) Cash liquidity analysis for the next year:

Unit: NT\$ thousand

Beginning cash balance (1)	Annual net cash flows from operating activities (2)(Note)	Annual cash outflows (3)(Note)	Cash surplus (Deficit) (1)+(2)-(3)	Remedies for cash deficit	
				Plan for investing activities	Plan for financing activities
1,926,259	827,597	1,172,580	1,353,270	-	-

Note: the financial information above is the unconsolidated data projected by the Company, and is not reviewed by the CPA.

VII. Review and analysis of financial position and business performance, and risk assessment

1. Analysis of 2018 cash flows:
 - (1) Operating activities: Net income is projected for 2018 that will result in the net cash inflows from operating activities.
 - (2) Investing activities: cash outflows mainly to support the capital expenditure for operating IT system and acquisition of equipment for retail stores.
 - (3) Financing activities: mainly to support short-term capital needs.
2. Remedies and analyses for cash deficit: not applicable.
4. Impacts on financial operations of any major capital expenditures during the most recent fiscal year : None.
5. Investment policy for the most recent fiscal year, main reasons for the profits/losses generated thereby, the plan for improving investment profitability, and investment plans for the coming year
 - (1) Investment policy for the most recent fiscal year: The Company's investment policy is oriented on the core business of sale and operation of the information and communication products and agency of property insurance.
 - (2) Losses or gains from investments: The Company' share of profit of associates accounted for using equity method in 2017 was NT\$90,676 thousand.
 - (3) Investment plans for the coming year: There is no investment plan for the coming year.
 - (4) Improvement plan: Continue to control and reduce the operating expenses in order to improve overall operating performance.
6. Risk assessment for the most recent fiscal year, and during

VII. Review and analysis of financial position and business performance, and risk assessment

the current fiscal year up to the date of publication of the annual report

- (1) Impact of interest rate, exchange rate, and inflation on the Company's earnings, and responsive measures.

1. Interest risk:

The Company upholds the principles of prudence and conservativeness for its capital allocation plan and places emphasis on security. It evaluates currency market interest rate and financial information on a regular basis and, based on costs of fund and the potential return and risk, choose the most beneficial capital allocation plan as well as responsive measures.

2. Impact of change to the foreign exchange rate:

The procurement of mobiles phone involves foreign currency transactions, so when there is a need for foreign currency position, the Company will take position in the foreign exchange forward contract to hedge any potential risk resulted from the volatility of foreign exchange rate. With the effective risk management, the loss from foreign exchange in 2017 was NT\$2,517 thousand which posed a limited impact on the company gains or losses.

3. Inflation risk:

The change of inflation rate does not cause any material impact on the Company's operation and profitability.

- (2) High-risk and highly leveraged investments, loans to third parties, endorsements / guarantees, and derivatives trading

The main causes of any profits or losses incurred and future

VII. Review and analysis of financial position and business performance, and risk assessment

responsive measures:

1. Loans to third parties: Up till the publication date of this annual report, the Company does not have any loans to third parties.
2. Endorsements / guarantees: The Company only provides endorsements and guarantees to subsidiaries in accordance with the Company's Endorsement and Guarantee Procedures.
3. Policy for derivatives trading: The Company places focus on development of core businesses and does not involve in any high-risk and high-leveraged investment or loans to third parties. All the investments were made with prudent evaluations. Loans to third parties, endorsements and guarantees, derivatives trading are conducted in accordance with the Company's "Procedures Governing the Acquisition or Disposal of Assets", "Procedures for Loans to Others", "Endorsement and Guarantee Procedures" and "Guidelines for Derivatives Trading" and relevant responsive measures.

(3) Future research and development plans, and the projected expenses:

Senao International has set the R&D budget of NT\$50 million for the development of e-commerce(retail) and B2B dealer platforms in 2018, and the goal to grow oriented on these two platforms:

- (i) The e-commerce(retail) platform will become the O2O service platform of retail customers that provides diverse product selections and eliminates the space constraint in a retail store, and can be utilized as the joint platform for cross industry

VII. Review and analysis of financial position and business performance, and risk assessment

collaboration.

The B2B dealer platform can connect the Company closely with dealers, convert complicated dealership paperwork into online digital forms, provide more comprehensive services to dealers and improve service efficiency.

- (4) The effect of major policy changes and legal practices, whether domestic or foreign, on the Company's financial operations and responsive actions:
1. Amendments to Labor Standards Act: The amendments to Labor Standards Act passed at the end of 2016 have posted great impact on many industries in terms of manpower arrangement and attendance management, especially on service industry. However, the retail personnel consist of the largest portion of the Company's employees, and their number of working days and hours were already in compliance with the Act. Only the working shift has to be adjusted to the new "one fixed day off and one flexible rest day" standard, and some of the stores' operating hours needs to be adjusted in accommodation of limited overtime hours. Overall, the impact on the salary expenses was minor.
 2. "Mobile device insurance": The Company has launched the "extended scope of free mobile repair service" as first in the industry, and income generated by this service is growing. The Insurance Bureau has thereby deemed such service as "insurance" products which can only be sold by personnel with the Property Insurance Representative certification. Therefore, the Insurance Bureau has set up the category of "mobile

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device insurance” for this kind of insurance that was opened for application in October 2017. Many of the Company’s employees have applied and obtained the certifications, thereby the policy change does not affect the sale of this service. The Company is anticipated to launch the burglary insurance for mobile devices.

- (5) Financial impacts and responsive measures in the event of technological or industrial changes:

The technological or industrial change did not materially impacts the Company’s financial and operational performance in the most recent year.

- (6) Impact on crisis management and responsive measures in the event of a change in corporate image:

The Company owns a good corporate image and does not encounter any change that may cause crisis.

- (7) Expected benefits, risks and responsive measures of planned mergers or acquisitions:

The Company does not have any planned merger or acquisition, so it is not applicable.

- (8) Expected benefits, risks and responsive measures associated with plant expansions:

The Company does not have any plan for plant expansion, so it is not applicable.

- (9) Risks and responsive measures associated with concentrated sales or purchases:

The Company’s suppliers are mainly the well-known international brands; meanwhile, the Company actively expends

VII. Review and analysis of financial position and business performance, and risk assessment

its business lines, so there are no risks associated with concentrated sales or purchases.

(10) Impacts and risks associated with major transfer of shares by directors, supervisors, or major shareholders with more than 10% ownership interest: None.

(11) Effects, risks and responsive measures associated with a change in management: None.

(12) Litigation and non-contentious cases: None.

(13) Other material risks and responsive measures: None.

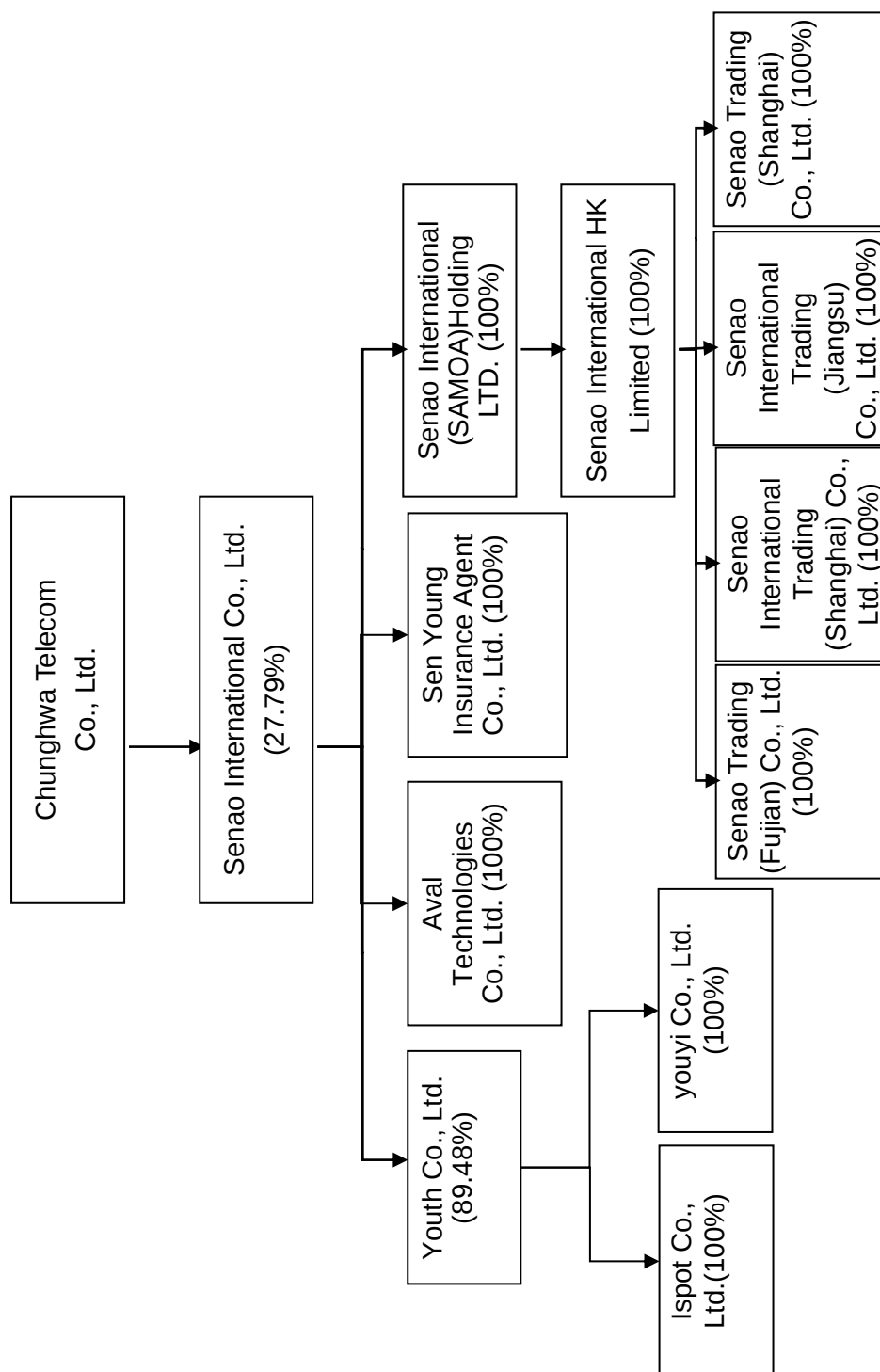
7. Other important matters: None

VIII. Special remarks

1. Information related to the Company's affiliates

(1) Relationship of affiliated entities

1. Organizational chart (As of December 31, 2017)



VIII. Special remarks

2. Backgrounds of affiliated entities

Unit: NT\$ thousand December 31, 2017

Name of entity	Established date	Address	Paid-in capital	Main business activities Or products
Chunghwa Telecom Co., Ltd.	1996.06.15	No.21-3, Sec. 1, Xinyi Rd., Taipei City	NTD77,574,465	Telecommunication /data service
Senao International (SAMOA) Holding LTD.	2009.12.15	Samoa	USD81,175	International investment business
Senao International HK Limited	2009.12.28	Hong Kong	USD80,440	International investment business
Senao Trading (Fujian) Co., Ltd.	2011.01.06	China	USD36,000	Sale of telecommunication products
Senao International Trading (Shanghai) Co., Ltd.	2011.01.12	China	USD32,000	Sale of telecommunication products
Senao International Trading (Jiangsu) Co., Ltd.	2011.01.27	China	USD9,000	Sale of telecommunication products
Senao Trading (Shanghai) Co., Ltd.	2011.03.11	China	USD3,000	Repairs of telecommunication products
Youth Co., Ltd.	1996.10.04	No.13, Sec. 1, Bade Rd., Zhongzheng Dist., Taipei City	NTD154,000	Sale of telecommunication products
Youyi Co., Ltd.	2012.06.12	2F., No.13, Sec. 1, Bade Rd., Zhongzheng Dist., Taipei City	NTD21,354	Repairs of telecommunication products
Ispot Co., Ltd.	2012.09.05	No.13, Sec. 1, Bade Rd., Zhongzheng Dist., Taipei City	NTD53,021	Sale of telecommunication products
Aval Technologies Co., Ltd.	2015.10.05	6F., No.533, Zhongzheng Rd., Xindian Dist., New Taipei City	NTD60,000	Sale of telecommunication products
Sen Young Insurance Agent Co., Ltd.	2017.11.22	2F., No.531, Zhongzheng Rd., Xindian Dist., New Taipei City	NTD10,000	Property insurance agency

VIII. Special remarks

3. Common shareholders in controlling and controlled companies:
None.
4. Businesses covered by affiliated companies: The businesses covered by the Company and its affiliates consist of fixed network telecommunications, mobile telecommunication, Internet, data communication, sale, repairs and process of telecommunication products and property insurance agency.

VIII. Special remarks

5. Details on the directors, supervisors, and president of the affiliated entities:

December 31, 2017

Name of entity	Title	Name or representative	Shareholding	
			Number of Shares	Percentage of Shareholding
Chunghwa Telecom Co., Ltd.	Chairman	Ministry of Transportation and Communications Representative: Yu Cheng	2,737,718,976	35.29%
	Director	Ministry of Transportation and Communications Representative: Mu-Heng Wang	2,737,718,976	35.29%
	Director	Ministry of Transportation and Communications Representative: Wei-Ming Chang	2,737,718,976	35.29%
	Director	Ministry of Transportation and Communications Representative: Yi-Ping Lin	2,737,718,976	35.29%
	Director	Ministry of Transportation and Communications Representative: Chi-Mao Hsieh	2,737,718,976	35.29%
	Director	Ministry of Transportation and Communications Representative: Hsin-Yi Chang	2,737,718,976	35.29%
	Director	Ministry of Transportation and Communications Representative: Chin-Tsai Pan	2,737,718,976	35.29%
	Director	Ministry of Transportation and Communications Representative: Yi-Yu Lei	2,737,718,976	35.29%
	Independent Director	Kuo-Lung Wu	0	0%
	Independent Director	Lou-Yu Yen	0	0%
	Independent Director	Cheng-Jan Chen	0	0%
	Independent Director	Yu-Fen Lin	0	0%
	President	Chi-Mao Hsieh	0	0%
Senao International (SAMOA) Holding LTD.	Director	Senao International Co., Ltd. Representative: Pao-Yung Lin	—	100%
Senao International HK Limited	Director	Senao International (SAMOA) Holding LTD. Representative: Pao-Yung Lin	—	100%

VIII. Special remarks

Name of entity	Title	Name or representative	Shareholding	
			Number of Shares	Percentage of Shareholding
Senao Trading (Fujian) Co., Ltd.	Chairman	Senao International HK Limited Representative: Pao-Yung Lin	—	100%
Senao International Trading (Shanghai) Co., Ltd.	Chairman	Senao International HK Limited Representative: Pao-Yung Lin	—	100%
Senao International Trading (Jiangsu) Co., Ltd.	Chairman	Senao International HK Limited Representative: Pao-Yung Lin	—	100%
Senao Trading (Shanghai) Co., Ltd.	Chairman	Senao International HK Limited Representative: Pao-Yung Lin	—	100%
Youth Co., Ltd.	Chairman	Senao International Co., Ltd. Representative: Yu-Chiang Wu	13,780,000	89.48%
	Director	Senao International Co., Ltd. Representative: Chi-Hung Liao	13,780,000	89.48%
	Director	Senao International Co., Ltd. Representative: Kuan-Heng Lai	13,780,000	89.48%
	Director and President	Senao International Co., Ltd. Representative: Yu-Chiang Wu	13,780,000	89.48%
	Supervisor	Tsai-Hung Yu	—	0%
Youyi Co., Ltd.	Director	Youth Co., Ltd. Representative: Yu-Chiang Wu	—	100%
Ispot Co., Ltd.	Director	Youth Co., Ltd. Representative: Yu-Chiang Wu	—	100%
Aval Technologies Co., Ltd.	Chairman	Senao International Co., Ltd. Representative: Wen-He Tsai	6,000,000	100%
	Director	Senao International Co., Ltd. Representative: Cheng-Kang Lin	6,000,000	100%

VIII. Special remarks

Name of entity	Title	Name or representative	Shareholding	
			Number of Shares	Percentage of Shareholding
	Director	Senao International Co., Ltd. Representative: Chih-Chung Chiu	6,000,000	100%
	Supervisor	Senao International Co., Ltd. Representative: Kuan-Heng Lai	6,000,000	100%
	President	Yu-Chiang Wu	—	0%

VIII. Special remarks

(2) Performance of 2017 affiliated enterprises:

Unit: NT\$ thousand, except earnings per share is expressed in NT\$

Name of entity	Paid-in capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating income (loss)	Net income (loss) (after tax)	Earnings per share (after tax)
Chunghwa Telecom Co., Ltd.	77,574,465	431,945,180	67,241,432	364,703,748	201,636,805	45,782,546	40,067,010	5.16
Senao International (Samoa) Holding Ltd.	2,416,645	506,275	0	506,275	26	(51)	(41,392)	-
Senao International HK Ltd.	2,393,646	468,904	42	468,862	0	(140)	(40,944)	-
Senao Trading (Fujian) Co., Ltd.	1,073,170	192,941	234	192,707	0	(606)	1,976	-
Senao International Trading (Shanghai) Co., Ltd.	955,838	165,630	49,024	116,606	234,324	(35,390)	(40,607)	-
Senao International Trading (Jiangsu) Co., Ltd.	263,736	89,426	37	89,389	0	(181)	2,852	-
Senao Trading (Shanghai) Co., Ltd.	87,540	67,396	119	67,277	0	(322)	(5,026)	-
Youth Co., Ltd.	154,000	111,368	39,847	71,519	182,069	(11,900)	(16,489)	-
Ispot Co., Ltd.	53,021	60,763	50,037	10,726	225,080	(5,066)	(4,901)	-
Youyi Co., Ltd.	21,354	14,619	10,315	4,304	23,046	(4,649)	(1,272)	-
Aval Technologies Co., Ltd.	60,000	191,750	125,919	65,831	1,025,403	6,427	5,311	0.89
Sen Young Insurance Agent Co., Ltd.	10,000	10,154	638	9,516	0	(583)	(484)	-

VIII. Special remarks

Deloitte Audit Letter No.10701833 dated March 16, 2018

To: Senao International Co., Ltd.

Subject: To express opinion on the Company's declaration that there is free of material deviation in the 2017 affiliation report.

Explanation:

1. The Company has prepared the 2017 affiliation report (From January 1, 2017 to December 31, 2017) dated March 16, 2018, and issued the declaration in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" that there is free of material deviation between the disclosed information and that information disclosed in the notes to financial statements of the said period. Please find attachments for the declaration.
2. We have compared the affiliation report prepared by the Company with the notes to the financial statements for the year 2017 in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" and found no material deviation from the aforementioned declaration.

Deloitte & Touche

CPA Dien-Sheng Change

VIII. Special remarks

Declaration for the affiliation report

The Company has prepared the 2017 affiliation report (From January 1, 2017 to December 31, 2017) in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” and declared that there is free of material deviation between the disclosed information and that information disclosed in the notes to financial statements of the said period.

It is hereby declared.

Name of the Company: Senao International Co., Ltd.

Representative: Jin-Lin Lai

March 16, 2018

VIII. Special remarks

Relationship between the controlling and the controlled company

Unit: share; %

Controlling company Name	Means of Control	Shares are Held and Pledged by the Controlling Company			Directors, Supervisors or Managers Appointed by the Controlling Company	
		Shareholding	Percentage of Shareholding	Shares Pledged	Title	Name
Chunghwa Telecom Co., Ltd.	Obtaining more than half of the director's positions in the other company	71,773,155	(27.79%) (As of March 31, 2018)	-	Chairman Director Director Director Chief Financial Officer	Jin-Lin Lai Yuan-Kuang Tu Ming-Shih Chen Chien-Chih Chen Ching-Shou Lin

Sales and purchases information

Unit: NT\$ thousand; %

Trading with controlling company				Trading terms with controlling company		General terms (Note)		Cause of difference (Note 1)	Account and note receivables (payables)		Overdue receivables			Remark
Sales (purchases)	Amount	Percentage to the total sales (purchases)	Sales Gross margin	Unit price (NT\$)	Credit Period	Unit price (NT\$)	Credit period		Balance	Percentage to the total account and note receivables (payables)	Amount	Handling method	Amount of bad loan provision	
Sales	\$10,491,376	29	3,224,323	—	30-90 days	—	—	—	\$1,210,974	54	—	—	—	
Purchases	\$1,420,740	5	—	—	30 days	—	—	—	(133,101)	(5)	—	—	—	

Note: trading terms were agreed individually.

Asset lease

Unit: NT\$ thousand

Type of transaction (tenant or landlord)	Object		Lease Period	Lease period Nature of lease (Note)	Base of lease rate	Receipt (Payment) method	Compared to the average lease rate	Total lease amount for current period	Amount received or paid for current period	Other agreed matters
	Name	Location								
Lease of retail counters	at the Chunghwa Telecom's operating offices	Portion of Chunghwa Telecom's operating offices	-	Operating Lease	Contract	Pay by month or quarter	-	\$46,956	\$46,956	None

Note: An operating lease or a finance lease shall be stated.

Trading of property: None.

Financing: None

Guarantees and endorsements:

VIII. Special remarks

Senao International Co., Ltd. and subsidiaries Guarantees and endorsements January 1, 2017 to December 31, 2017

Unit: NT\$ thousand

Number (Note 1)	Name of entity making the endorsement /guarantee	Entity the endorsement/ guarantee is made to		Amount limit of endorsement /guarantee to one single entity (Note 3)	Maximum balance of endorsement /guarantee for current period	Ending balance of endorsement /guarantee	Actual amount used	Amount of endorsement /guarantee made with property	Percentage of accumulated amount of endorsement/ guarantee to the net worth of the most recent financial statements (%)	Maximum amount limit of endorsement /guarantee (Note 4)	Endorsement/ guarantee made by parent company to the subsidiary	Endorsement /guarantee made by the subsidiary to parent company	Endorsement /guarantee made to entity in China	Remark
		Name of entity	Relation (Note2)											
0	Senao International Co., Ltd.	Youth Co., Ltd.	2	\$590,014	\$200,000	\$200,000	\$-	\$-	3.39	\$2,950,071	Y	-	-	
		Ispot Co., Ltd.	3	590,014	150,000	150,000	\$150,000	\$-	2.54	2,950,071	Y	-	-	
		Aval Technolo gies Co., Ltd.	2	590,014	300,000	300,000	\$300,000	\$-	5.08	2,950,071	Y	-	-	

Note 1: Explanation for the Number Column is as follows:

■ Enter 0 for the Company

■ The investee entities shall be numbered from 1 and follows individually, the same entity shall have the same number.

Note 2: The relationship between the entity makes the endorsement/guarantee and whom the endorsement/guarantee is made as follows:

1. The companies with which it has business relations
2. Subsidiaries in which the Company holds more than 50% of its total outstanding common shares.
3. The companies in which the parent company and the subsidiary together hold more than 50% of its outstanding common shares.
4. The parent company that holds, directly or indirectly through a subsidiary, more than 50% of its outstanding common shares.
5. Companies in same type of business and providing mutual endorsements/ guarantees in favor of each other in accordance with the contractual obligations in order to fulfill the needs of the construction project
6. Shareholders making endorsements and/or guarantees for their mutually invested company in proportion to their shareholding percentage

Note 3 : Amount limit of endorsement/guarantee to one single entity=Equity attributable to the owners of the parent company NT\$5,900,141 thousand ×10%=NT\$590,014 thousand.

Note 4 : Maximum amount limit of endorsement/guarantee =Equity attributable to the owners of the parent company NT\$5,900,141 thousand ×50%= NT\$2,950,071 thousand

Other material transaction: None

VIII. Special remarks

2. Private placement of securities for the most recent fiscal year, and during the current fiscal year up to the date of publication of the annual report: None.
3. Holding or disposal of shares in the company by the company's subsidiaries during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report: None.
4. Other matters that require additional description: None.
5. Occurrence of situations listed in paragraph 3, subparagraph 2 of Article 36 of the Securities and Exchange Act, which might materially affect shareholders' equity or the price of the company's securities during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report: None.

Senao International Co., Ltd.

Declaration of Internal Control Policies

Date: February 23, 2018

The following declaration had been made based on the 2017 self-assessment of the Company's internal control policies:

- I. The Company acknowledges and understands that establishment, implementation and maintenance of the internal control system are the responsibility of the Board and managerial officers, and that such a system has already been established throughout the Company. The purpose of this system is to provide reasonable assurance in terms of business performance, efficiency (including profitability, performance, asset security etc), reliable, timely and transparent financial reporting, and regulatory compliance.
2. There are inherent limitations to even the most well-designed internal control systems. As such, an effective internal control system can only reasonably assure achievement of the three goals mentioned above. Furthermore, changes in the environment and circumstances may all affect the effectiveness of the internal control system. However, self-supervision measures were implemented within the Company's internal control policies to facilitate immediate rectification once procedural flaws have been identified.
3. The Company evaluates the effectiveness of its internal control policy design and execution based on the criteria specified in "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as the "Regulations"). The criteria introduced by the "Regulations" consisted of five major elements, each representing a different stage of internal control: 1.

VIII. Special remarks

Control environment, 2. Risk evaluation and response, 3. Procedural control, 4. Information and communication, 5. Supervision. Each element further contains several items. Please refer to the Regulations for the details.

4. The Company adopted the above-mentioned criteria to evaluate the effectiveness of its internal control policy design and execution.
5. Based on the assessments described above, the Company considers the design and execution of its internal control system to be effective as at December 31, 2017. This system (including the supervision and management of subsidiaries) has provided assurance with regards to the Company's business results, target accomplishments, reliability, timeliness and transparency of reported financial information, and its compliance with relevant laws.
6. This declaration constitutes part of the Company's annual report and prospectus, and shall be disclosed to the public. Any illegal misrepresentation or non-disclosure in the public statement above are subject to legal consequences described in Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
7. This declaration was approved at the Company's board of directors meeting held on February 23, 2018. None of the 9 directors present to the meeting held any objections, and unanimously agreed to the contents of this declaration.

Senao International Co., Ltd.

Chairman: Jin-Lin Lai (Signature)

President: Pao-Yung Lin (Signature)

VIII. Special remarks

Senao International Co., Ltd.

Major resolutions made by the Shareholders' Meeting and the Board of Directors' meetings

Date	Major resolutions made by the Shareholders' Meeting	Status
2017.06.14	1. Recognized 2016 Business Report and Financial Statements. 2. Recognized 2016 earnings distribution plan. 3. Removed restrictions against competing business involvements by the Company's corporate directors' representatives. 4. Amended the Company's "Procedures Governing the Acquisition or Disposal of Assets"	1. Set the ex-dividend date on August 10, 2017, and cash dividends were scheduled to be paid on August 30, 2017 (Cash dividend was NT\$4 per share, totaling NT\$993,010,628) 2. Removed restrictions against competing business involvements by the Company's corporate directors' representatives and released the material information on the MOPS on the same day. 3. Amended the Company's "Procedures Governing the Acquisition or Disposal of Assets" and published on the Company's website

Date	Number of meeting	Discussion Matters	Resolution	Follow-up actions	Items listed in Article 14-3 of the Securities Exchange Act	Objections or qualified opinions raised by independent director
2017.03.02	The 5th meeting of the 9th board of directors' meeting	1. Recognized 2016 Business Report and Financial Statements.	Passed as proposed unanimously by all directors present at the meeting.	1. The management department has handled as passed, and the financial statements were submitted on March 3, 2017.	V	None
		2. Recognized the distribution of Employees' Compensation and Directors' and Supervisors' Remuneration		2. The management department has handled as passed and included it into the agenda of the annual shareholders' meeting on June 14, 2017 as a reporting matter.	V	

VIII. Special remarks

		3. Passed the proposal to issue the "2016 Declaration of domestic and SOX internal control policies"		3. The management department planed to strengthen the education to personnel related to the internal control cycle and follow up the improvement before the self-assessment in 2017.	V	
		4. Passed the 2017 audit fees		4. The management department has handled as passed.	V	
		5. Amended the Company's "Procedures Governing the Acquisition or Disposal of Assets"		5. The management department has handled as passed and included it into the agenda of the annual shareholders' meeting on June 14, 2017 as a discussion matter.	V	
		6. Set the date and relevant matters for the 2017 annual shareholders' meeting		6. The management department has handled as passed, and public announcement was made on March 2, 2017.		
2017.05.05	The 6th meeting of the 9th board of directors' meeting	1. Recognized 2016 Earnings Distribution Plan.	Passed as proposed unanimously by all directors present at the meeting.	1. The management department has handled as passed and the agenda was passed by the annual shareholders' meeting on June 14, 2017. The cash dividend was expected to be paid out on August 30.	V	None
		2. Passed the proposal for applying general credit line and addition and extension of credit line for derivative transactions.		2. The management department has handled as passed.	V	
		3. Removed restrictions against competing business involvements by the Company's corporate		3. The management department has handled as passed and the agenda was passed by the annual shareholders'	V	

VIII. Special remarks

		directors' representatives.		meeting on June 14, 2017.		
		4. Passed the additions to the Company's "Accounting System"		4. The management department has handled as passed.		
		5. Passed the transfer of shares brought back to employees		5. The management department has handled as passed and transferred 1,108,000 shares to employees on June 20, 2017.	V	
		6. Passed the assignment of the Company's Vice President		6. The management department has handled as passed, and the assignment was effective on May 5, 2017.		
2017.06.29	The 3th meeting of the 9th board of directors' meeting (Extraordinary)	Passed the assignment of Chief Financial Officer and change of finance manager	Passed as proposed unanimously by all directors present at the meeting.	The management department has handled as passed, and public announce was made on June 29, 2017	V	None
2017.08.04	The 7th meeting of the 9th board of directors meeting	1. Reviewed the 2016 directors' and supervisors' remuneration and managers' and employees' compensations	Passed as proposed unanimously by all directors present at the meeting.	1. The management department has handled as passed. Directors' and supervisors' remuneration were paid on August 30, 2017, and employees' compensations were paid on September 27, 2017	V	None
		2. Passed the change of CPA		2. The management department has handled as passed.	V	
		3. Amended the Company's "Regulations for Board of Directors Meetings"		3. The management department has handled as passed.		
2017.11.02	The 8th meeting of the 9th board of directors meeting	1. Amended the "Rules for the Fifth Repurchase and Transfer of Shares to Employees"	Passed as proposed unanimously by all directors present at the	1. The management department has handled as passed and submitted on November 2, 2017.		None

VIII. Special remarks

		2. Passed the transfer of shares brought back to employees	meeting.	2. The management department has handled as passed and transferred 2,234,000 shares to employees on December 15, 2017.	V	
		3. Passed the change of finance manager		3. The management department has handled as passed.	V	
		4. Established the Company's "Corporate Governance Best Practice Principles"		4. The management department has handled as passed.		
		5. Established the Company's "Corporate Social Responsibility Best Practice Principles"		5. The management department has handled as passed.		
		6. Amended the "Rules Governing the Scope of Powers of Independent Directors"		6. The management department has handled as passed.		
2017.12.28	The 9th meeting of the 9th board of directors meeting	1. Recognized 2018 Business Plan and budget	Passed as proposed unanimously by all directors present at the meeting.	1. The management department has handled as passed.		None
		2. Recognized 2018 internal audit plan		2. The management department has handled as passed and filed on December 28, 2017 in accordance with relevant laws.	V	
		3. Discussed 2017 Chairman's and managers' performance appraisal and year-end bonus disbursement.		3. The management department has handled as passed.	V	
		4. Discussed the 2018 donation to related parties.		4. The management department has handled as passed and filed on December 28, 2017 in accordance with relevant laws.	V	
		5. Discussed the proposal for cancellation of registration of China subsidiary, Senao International		5. The management department has handled as passed.	V	

VIII. Special remarks

		Trading (Jiangsu) Co., Ltd.				
		6. Amended the Company's "Accounting System"		6. The management department has handled as passed.		
		7. Amended the Company's "Regulations for Board of Directors Meetings"		7. The management department has handled as passed.		
		8. Amended the Company's "Ethical Corporate Management Best Practice Principles and Procedures"		8. The management department has handled as passed.		

VIII. Special remarks

Contact information for the Company's operating offices

Office	Address	Telephone No.
Head Office	2F., No.531, Zhongzheng Rd., Xindian Dist., New Taipei City	(02)2218-3588
Linkou repairs center	2F., No.500, Fuxing 3rd Rd., Guishan Dist., Taoyuan City	(03)328-1852
Taoyuan-Hsinchu branch	4F., No.63, Zhongfeng N. Rd., Zhongli Dist., Taoyuan City	(03)280-5858
Taipei Xinyi Customer Service	1F., No.202, Sec. 3, Xinyi Rd., Da'an Dist., Taipei City	(02)2754-2229
Taipei Shilin Customer Service	1F., No.184, Sec. 4, Chengde Rd., Shilin Dist., Taipei City	(02)2881-0777
Keelung Xinyi Customer Service	1F., No.94, Xin 1st Rd., Xinyi Dist., Keelung City	(02)2429-1329
Banqiao Wenhua Customer Service	1F., No.296, Sec. 1, Wenhua Rd., Banqiao Dist., New Taipei City	(02)2256-2177
Zhongli Zhongyuan Customer Service	No.39, Sec. 2, Zhongshan E. Rd., Zhongli Dist., Taoyuan City	(03)437-2991
Hsinchu Linsen Customer Service	No.22, Linsen Rd., North Dist., Hsinchu City	(03)526-4888
Luodong Zhongzheng Customer Service	2F., No.82, Zhongzheng Rd., Luodong Township, Yilan County	(03)955-9123
Hualien Jianguo Customer Service	No.16, Sec. 1, Jianguo Rd., Ji'an Township, Hualien County	(03)856-7222
Taichung branch	3F., No.8, Huaxin St., North Dist., Taichung City	(04)220-57755
Taichung Repairs Center	1F., No.8, Huaxin St., North Dist., Taichung City	(04)220-73939
Miaoli Zhongzheng Customer Service	No.1053, Zhongzheng Rd., Miaoli City, Miaoli County	(037)736-3188
Fengyuan Nanyang Customer Service	No.352, Nanyang Rd., Fengyuan Dist., Taichung City	(04)2520-9969
Taichung Zhongming Customer Service	No.421, Zhongming S. Rd., West Dist., Taichung City	(04)2375-6366
Taichung Yingcai Customer Service	No.429, Yingcai Rd., West Dist., Taichung City	(04)2305-5288
Douliu Minsheng Customer Service	No.2, Minsheng S. Rd., Douliu City, Yunlin County	(05)537-1599
Chiayi Branch	1F., No.12, Zhongyi St., West Dist., Chiayi City	(05)229-0888
Chiayi Zhongyi Customer Service	No.12, Zhongyi St., West Dist., Chiayi City	(05)229-0052
Tainan Branch	No.6, Dalin Rd., South Dist., Tainan City	(06)216-0799
Tainan Jinhua Customer Service	No.119, Sec. 2, Jinhua Rd., South Dist., Tainan City	(06)292-2020

VIII. Special remarks

Southern Regional Repairs Center	1F., No.972, Minzu 1st Rd., Zuoying Dist., Kaohsiung City	(07)359-6385
Kaohsiung Branch	2F., No.262, Wenxin Rd., Gushan Dist., Kaohsiung City 804	(07)550-0808
Kaohsiung Zhonghua Customer Service	2F., No.222, Zhonghua 3rd Rd., Qianjin Dist., Kaohsiung City	(07)285-3099
Pingtong Minzu Service Center	No.118, Minzu Rd., Pingtung City, Pingtung County	(08)733-8588
Kimmen Jincheng Service Center	2F., No.182, Minquan Rd., Jincheng Township, Kinmen County	(082)311-600
Taipei Xinyi ASP	3F., No.151, Sec. 3, Xinyi Rd., Da'an Dist., Taipei City	(02)2701-5678
Taoyuan Yiwen ASP	2F., No.1200, Zhongzheng Rd., Taoyuan Dist., Taoyuan City	(03)316-7988
Taichung Yizhong ASP	No.148, Sec. 3, Sanmin Rd., North Dist., Taichung City	(04)2225-0335
Taichung Zhonggang ASP	23F.-2, No.925, Sec. 4, Taiwan Blvd., Xitun Dist., Taichung City	(04)2358-2589
Zhanghua Xiaoyang ASP	No.407, Sec. 2, Zhongzheng Rd., Changhua City, Changhua County	(04)727-0979
Kaohsiung Arena ASP	No.682, Bo'ai 2nd Rd., Zuoying Dist., Kaohsiung City	(07)556-2160
Tainan Zhonghua East ASP	No.201, Sec. 3, Zhonghua E. Rd., East Dist., Tainan City	(06)267-0606
Penghu Zhonghua ASP	No.263, Zhonghua Rd., Magong City, Penghu County	(06)927-9595
Kimmen Jincheng ASP	2F., No.182, Minquan Rd., Jincheng Township, Kinmen County	(082)311-600