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ATEN INTERNATIONAL CO., LTD

2018 Annual Report

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Notice to readers

This English version of annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English version and Chinese version, the Chinese version shall prevail.

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I. Report to Shareholders

Dear Shareholders,

ATEN achieved impressive operational performance in FY2018. Consolidated net sales revenue for the full year was NT\$5,173 million, a record high for the company, and representing year-on-year growth of 4.6%. Gross profit totaled NT\$3,044 million, up 4.1% year-on-year, with a gross profit margin of 58.8%. Benefiting from an increase in non-operating earnings on disposal of investment, consolidated earnings after tax came to NT\$1,588 million, up 115.1% year-on-year, and representing after-tax earnings per share (EPS) of NT\$13.19.

Product Development Strategy and Planning — ATEN has implemented a full-scale roll-out of its C2B (Customer to Business) business model, working actively to collect user feedback and user experience data, and to identify user requirements and issues. ATEN is striving to meet users' needs and resolve sales challenges, adopting a service-centric approach to the creation of value-added, and working to build competitive advantage through differentiation, so that the company can develop new business opportunities in “blue ocean” uncontested market spaces. ATEN's product development plan is outlined below:

- In the Professional Audio/Video (Pro AV) Solutions segment, recognizing the strong demand for corporate videoconferencing solutions and the importance of the collaboration experience, ATEN has launched the new Core Series and Collaborative Series matrix-type Presentation Switch products. These new products integrate multiple systems into a single device, with the capability to control different interfaces, and also incorporate an app for hand-held devices in line with the trend towards a “Bring Your Own Device” (BYOD) approach; they are thus able to provide both convenient switching technology and a first-class user experience. ATEN has also developed an integrated, cloud-based central management and control platform that facilitates simple unified management of multiple matrix-type Audio/Video devices.
- In the IT Infrastructure Access Management segment, ATEN is expanding into the “smart manufacturing” market, providing remote control management (RCM) solutions supported by optical character recognition (OCR) technology to assist with Big Data collection and help customers to implement analysis and forecasting, reducing the incidence of human error and improving yield rates to meet the needs of smart factory automation control. To meet centralized control application needs, ATEN has introduced new high-end KVM-over-IP matrix-type system management solutions that feature more powerful centralized control and remote management functions.
- In the green energy management solutions segment, ATEN has been addressing market demand for both basic and smart power distribution units (PDUs), focusing on data center management solutions and providing flexible customization to enhance users' electric power usage monitoring capabilities and power use efficiency, and to facilitate the achievement of energy saving

goals. In the consumer products segment, ATEN has adopted a human-centric design approach, focusing on customer needs and customer behavior to deliver highly-practical products that integrate the latest technology trends with streamlined, aesthetically-pleasing design and high productivity to successfully appeal to the target customer groups.

Expansion and Management of Overseas Business Locations — ATEN has been working steadily to expand its global network of business locations, providing comprehensive, localized service and establishing channels for direct communication to win customers' trust. ATEN is actively developing emerging markets with significant growth potential by establishing local sales locations, including local subsidiaries and showrooms. There are currently a total of 24 ATEN showrooms around the world, six of which were established in 2018. Besides expanding its sales network, ATEN has also adopted a proactive approach towards developing the VAR and system integrator market, implementing a marketing strategy that emphasizes the concept of "From distribution to system integration." In the area of logistics management, ATEN has been expanding its regional supply networks, improving inventory turnover and strengthening dispatching flexibility so as to achieve deep-rooted competitiveness. At the same time, ATEN has been rolling out a unified, Group-wide digital management and approvals platform across all of its sales offices, optimizing processes and striving for more transparent data flows in order to improve the quality and efficiency of decision-making and ensure the operation of rigorous internal controls.

R&D Strategy — ATEN has achieved impressive results in its development of new technologies and products. New products that have been launched recently include: the 4K HDMI KVM-over-IP extender, the Secure KVM Switch series, the DisplayPort KVM Switch series, multi-function collaborative working space control system products, the Presentation Switch series, the USB Type-C 10-in-1 docking stations, the Thunderbolt 3 8-in-1 docking stations, etc. ATEN has won a number of awards for its innovative products. For example, ATEN's industry-leading short depth dual-rail, wide-screen LCD console and its 4K HDMI-over-IP video extender have both been awarded the Taiwan Excellence Award from the Taiwan External Trade Development Council (TAITRA). ATEN's 4K HDMI-over-IP extender also won the 2018 Computex Best Choice award and the 2018 Red Dot Award. These prestigious awards represent recognition of ATEN's outstanding technology innovation capabilities.

In regard to ATEN's fulfillment of its corporate social responsibility (CSR) obligations, ATEN has for many years now adopted a systematic approach to CSR implementation based around the company's Corporate Social Responsibility Committee and CSR Group, working constantly to achieve further improvements in the four key areas of corporate governance, corporate commitments, social engagement and environmental sustainability. Besides continuing with its own individual CSR efforts, ATEN also collaborates and interacts proactively with stakeholders, including the public sector, social welfare organizations, suppliers, overseas subsidiaries, employees and their families, and other business enterprises, while using a variety of methods to share ATEN's experience and achievements in the area of CSR, with the aim of exerting a

beneficial influence and maximizing positive spillover effects. In August 2018, ATEN placed first in the Medium-sized Enterprises section of Common Wealth magazine's Corporate Citizenship Award, marking the tenth time that ATEN has won this award, which represents valued external recognition of ATEN's CSR efforts. In the future, ATEN will maintain its commitment to the principles of sustainable corporate development and of realizing a mutually-beneficial relationship with stakeholders. While developing its core business areas to achieve outstanding operational performance, ATEN will also continue to implement CSR measures so as to bring about the ongoing extension of this "virtuous cycle," and to help build a better future for the global community.

In the current era of rapid evolution of information technology and of the Internet, besides continuing to grow its core business and develop innovative new products and technologies, ATEN is also constantly monitoring political and economic developments, both domestic and international. Through its involvement in industry associations, attendance at trade fairs and exhibitions, and participation in conferences and seminars, ATEN is able to stay up-to-date with the latest industry news and keep pace with market trends. This in turn makes it possible for ATEN to respond appropriately to changes in the legal and regulatory environment and in the overall business environment, while also taking concrete steps to combat intellectual property piracy so as to protect ATEN's rights in relation to the sale of its patented products.

Looking ahead to 2019, ATEN will continue to further enhance its management efficiency and financial performance, while also focusing on environmental sustainability and CSR. Last year, ATEN ranked first in the Medium-sized Enterprises section of Common Wealth magazine's Corporate Citizenship Award. This constituted important recognition of the efforts that ATEN has made in terms of both economic responsibility and corporate social responsibility; at the same time, this recognition will also spur us on to achieve even more progress in this area. We will be constantly challenging ourselves, retaining our firm belief in the importance of feedback and sharing, and moving forward together with society as a whole as we strive to create the maximum possible value for all stakeholders and to realize our sustainable business objectives.

Chairman and President: Sun-Chung Chen

II. Company Profile

1. Date of Incorporation: July 6th, 1979

2. Key Milestone in the Company History:

1979

- Initial establishment and registration of the Company as HOZN Automation Co. Ltd.

1982

- Introduced the first product – a central control series for home appliances to monitor and operate security sensors, lighting and power switches remotely.

1984

- Introduced DATA Switch BOX products.

1986

- Introduced MP series Auto Switch and Converter Series.

1987

- Introduced INDATA industrial Computer Series.

1988

- HOZN Automation Co. Ltd. renamed as ATEN International Co. Ltd.
- Started manufacturing of power supplies for computers.

1991

- Introduced ATEN Brand Products.
- Introduced ATEN ASIC CHIP.

1992

- Launched world's smallest printer buffer.
- Launched the first ATEN product AS251P.
- Launched AS-248 product series, printer switch - controlled via LAN.

1995

- Implemented Free Flow to increase the product capacity.

1996

- Obtained the ISO-9002 quality certification.
- Established U.S. subsidiary "ATEN TECHNOLOGY INC."

1999

- Registered as a public company.
- Invested in Topmost International Co., Ltd., a British Cayman Islands entity.
- Invested in Expand International Co., Ltd, a Niue entity, through subsidiary Topmost International Co., Ltd.
- Construction of factory in Shenzhen.

2000

- CS182/124/1016 received "Taiwan Excellence" award from the Ministry of Economic Affairs.
- Developed the first 4-port USB 2.0 hub, and received the world's first USB 2.0 hub certification. USB Association uses ATEN's creation as USB testing standard.
- Moved the Company's headquarters to 3rd floor, No. 125 Section 2, Datung Road, Sijhih City, Taipei, R.O.C.
- Established Belgium subsidiary "ATEN INFOTECH N.V."

2001

- CS428/9138 Matrix KVM Switch received "Taiwan Excellence" award from Ministry of Economic Affairs.
- Established Ching-Tang Education Foundation.
- Construction of new factory in Sijhih was completed and factory commenced operations.

2002

- ACS1714 and ACS1808 received "Taiwan Excellence" award from the Ministry of Economic Affairs.
- Obtained the ISO-9001 quality certification.
- GreTai Securities Market approved the registration of the Company's shares under the classification of "Emerging Stock".

2003

- Listed in the Taiwan Stock Exchange.
- CEO Mr. Kevin Chen was recognized through the 2003 "Golden Merchant Award" given by the Ministry of Economic Affairs.

2004

- ATEN received "Industrial Technology Advancement" award from the Ministry of Economic Affairs.
- The Company was conferred the 2nd "Golden Root Award" by the Taiwan Industrial Technology Association.
- Established Japan subsidiary "ATEN JAPAN Co., Ltd."

2005

- KM0432 received "Taiwan Excellence" award from the Ministry of Economic Affairs.
- Acquired "Wellsyn Technology Inc." and obtained the key IPMI technology, enabling ATEN to enter the embedded solutions market.
- Launched the first wireless KVM solution – KW1000.

2006

- KL1116, KM0832 and KA9233 received "2006 Good Design Product Mark Award" (GD-Mark Award) from the Ministry of Economics.
- ATEN Named One of Asia's Best 200 under a Billion by Forbes.
- SMART magazine chose ATEN's CEO for inclusion in its "Three CEOs who will be Making Waves Over the Next Three Years."
- KL1116, KN2116 and CS1774 received "Taiwan Excellence" award from the Ministry of Economic Affairs.
- Implemented ROHS production process.
- Awarded ISO-14001 certification.
- Established ATEN Europe Ltd.
- Established U.K. subsidiary "ATEN UK Ltd."
- Established New Jersey - U.S. subsidiary "ATEN New Jersey Inc."
- Established ATEN US Holdings Inc.

2007

- ATEN received "2007 Taiwan's Excellence in Corporate Social Responsibility" award from Common Wealth magazine.

- Established Korea subsidiary “ATEN ADVANCE CO.,LTD.”, later renamed “ATEN KOREA CO., LTD.” in 2009.
- KH98, KL9108/9116, CS52 Series and CS62DU & CS62D received "Taiwan Excellence" award from the Ministry of Economic Affairs.
- ATEN Opened New R&D Headquarters, Expanded its R&D Team Scale.
- The KVM Switches CS62D/CS62DU and CS52 Series received ”2006 Good Design Product Mark Award” (GD-Mark Award) from the Ministry of Economics.
- Launched world’s first KVM Switch with IPMI-enabled function – KH98.
- The product KVM Switch KL9116 was given the "iF China Award".
- Launched world’s first DVI cable KVM Switch with audio - CS62DU/CS62D.
- Launched world's first 19-inch CAT5 Dual Rail Integrated LCD KVM Switch - KL1508 / KL1516.
- Established Foremost International Co., Ltd.
- Established Beijing - China subsidiary “ATEN China Co., Ltd.”

2008

- KE8220, CL5708/5716 and CS1782/1784 received "Taiwan Excellence" award from the Ministry of Economic Affairs.
- Launched the first USB KVM Switch for Notebooks – CS661.
- Promote enterprise core value – Integrity, Caring, Ambition and Novelty.
- Established manufacturing factory in China “ATEN Foremost Co., Ltd”.

2009

- HDMI KVMP CS1792/CS1794 received ”2009 Good Design Product Mark Award” (GD-Mark Award) from the Ministry of Economics.
- Cat 5 video/audio splitter VS1504/1508 received "Taiwan Excellence" award from the Ministry of Economic Affairs.
- ATEN’s global patent portfolio grew to 668 patents and patent applications, of which 244 patents have already been granted. This puts ATEN in 86th place in the 2008 rankings of the Top 100 companies and research institutions in Taiwan with the largest number of patents, ahead of leading hi-tech enterprises such as TSMC and Lite-On.
- KN4140v won Computex 2009 “Best Choice Award” and Japan “Interop Tokyo Best Show Award”.
- ATEN Chairman Mr. Kevin Chen received an award from the King of Belgium in recognition of ATEN’s outstanding contribution to business development and the company’s technological achievements.
- ATEN received the “National Innovation and Creation Award” from the Ministry of Economic Affairs.
- Manager Today magazine ranked ATEN Chairman Kevin Chen as one of the 100 most outstanding managers in Taiwan.
- ATEN received the “2009 Taiwan's Excellence in Corporate Social Responsibility” award from Common Wealth magazine.
- ATEN built a new European Operations Center in Belgium as ATEN logistics center in Europe to expand business opportunities throughout the continent.

2010

- CE790, KM0932, PN7212/PN7320 and CS1792/CS1794 received "Taiwan

Excellence" award from the Ministry of Economic Affairs.

- Announced the launch of VanCryst™ video products line to provide professional audio and video solutions to different industries.
- KL3116T received the “2010 Computex Taipei Design and Innovation Award.”
- ATEN received the “2010 Taiwan Superior Brands Award” from the Bureau of Foreign Trade, Ministry of Economic Affairs.
- Subsidiary in Korea moved to an office building in Geumcheon-gu, Seoul with the establishment of a customer service center to step up local support services and strengthen its vantage as a market leader.
- ATEN received the “2010 Taiwan's Excellence in Corporate Social Responsibility” award from Common Wealth magazine.
- Established Moscow office in Russia.

2011

- CM0264 received the "Taiwan Excellence" award from the Ministry of Economic Affairs.
- Japan subsidiary moved to a new building in Tokyo to integrate sales, marketing, technical support/ customer service, warehousing and logistics business services.
- VM0808T won Computex 2011 “Best Choice Award.”

2012

- Announced the launch of NRGence™, a brand new “green energy” line of eco PDUs (Power Distribution Units), eco Sensors, and energy boxes. With the core concept of "Energy Intelligence", a complete green data center solution designed to optimize energy efficiency.
- ATEN released the first "ATEN Corporate Social Responsibility Report" which honestly unveils ATEN's accomplishments with regards to the status and programs on Corporate Social Responsibility.
- ATEN received the “2012 Taiwan's Excellence in Corporate Social Responsibility” award from Common Wealth magazine.
- ATEN won the 2012 Taiwan National Invention and Creation Award with its patented "Industrial Operation Console" technology issued by the Ministry of Taiwan's Economic Affairs.
- ATEN collaborated with National Taiwan University of Science and Technology to develop the "iListen", a software helping hearing-impaired people, has won both the 2012 Red Dot Communication Design Award and the 2012 Samsung Apps Contest championship.

2013

- VM0808H and EC1000 received the "Taiwan Excellence" award from the Ministry of Economic Affairs.
- EC2004 energy box won Computex 2013 “Best Choice Award” gold medal.
- KL1516Ai Over IP LCD KVM won Computex 2013 “d&i Award.”
- ATEN released 2012 "ATEN Corporate Social Responsibility Report"
- ATEN received the “2013 Taiwan's Excellence in Corporate Social Responsibility” award from Common Wealth magazine, placing 3rd among top 50.

2014

- VE892 and CCVSR received the “Taiwan Excellence” award from the Ministry of

Economic Affairs.

- ATEN released 2013 “ATEN Corporate Social Responsibility Report”
- ATEN received a rating of A++ (the highest level) in 2013 Information Disclosure and Transparency Ranking conducted by the Taiwan Stock Exchange (TWSE) and the Taipei Exchange (TPEX)
- Received *CommonWealth* magazine’s “Excellence in Corporate Social Responsibility” award (ranking 1st in the Medium-sized Enterprises section)
- Received a Gold Medal in New Taipei City Government’s “Awards for Best Companies to Work For”
- Received awards as one of the “Top 10 Outstanding Enterprises” and “Top 10 Enterprises for Innovation and R&D” in the 16th Golden Peak Awards
- Received the Corporate Award for Standardization in the 15th National Standardization Awards organized by the Bureau of Standards, Metrology & Inspection, Ministry of Economic Affairs

2015

- Established Australia and New Zealand subsidiary (ATEN ANZ PTY Ltd.) in Sydney, Australia
- KE6940 received “Taiwan Excellence” award from the Ministry of Economic Affairs
- Included in the “2014 Best Taiwan Global Brands” list compiled by Interbrand
- Honored in the 3rd Taiwan Mittelstand Awards organized by the Ministry of Economic Affairs
- Received an A++ rating (the highest level) in the 2014 Information Disclosure and Transparency Ranking compiled by the Taiwan Stock Exchange (TWSE) and the Taipei Exchange (TPEX)
- The ATEN Video Matrix Seamless Switch Series won the Communication Design Award at the Red Dot 2015 design awards
- Received *CommonWealth* magazine’s “Excellence in Corporate Social Responsibility” award (ranking 2nd in the Medium-sized Enterprises section)
- ATEN released 2014 “ATEN Corporate Social Responsibility Report”

2016

- KN8164V and VM6404H received the “Taiwan Excellence” award from the Ministry of Economic Affairs.
- ATEN released the 2015 “ATEN Corporate Social Responsibility Report.”
- The 2015 “ATEN Corporate Social Responsibility Report” was examined and certified by the British Standards Institution (BSI), an independent certification body; this marked the first time that the ATEN CSR Report had received BSI certification.
- ATEN received *CommonWealth* magazine’s “Excellence in Corporate Social Responsibility” award (ranking 4th in the Medium-sized Enterprises section)
- Established Turkey subsidiary (ATEN INFO COMMUNICAION LIMITED LIABILITY COMPANY)

2017

- CS782DP and VK2100 received the “Taiwan Excellence” award from the Ministry of Economic Affairs.
- Released the 2016 ATEN Corporate Social Responsibility Report.
- CS1924 and VM3200 received the Best Choice Award at Computex 2017.
- CV211 and VM3200 both received Best of Show Award at Interop Japan 2017.
- Received the Corporate Citizenship Award from CommonWealth magazine (placing second in the Medium-sized Enterprises category)
- KE8952 received Best of Show Award at IBC 2017 in the Netherlands.
- ATEN was ranked among the 35 most valuable Taiwanese brands in the Interbrand 2017 Taiwan Top Global Brands.
- Established a new subsidiary in Poland, and new representative offices in India.

2018

- CS1924, CV211, US7220 and VM3200 received the "Taiwan Excellence" award from the Ministry of Economic Affairs.
- VE8950 received Germany's Red Dot Design Award
- VE8950 received the Best Choice Award at Computex 2018.
- Received the Corporate Citizenship Award from CommonWealth magazine (placing first in the Medium-sized Enterprises category)
- Received “Fitness-oriented Enterprise” certification from the Sports Administration, Ministry of Education
- ATEN was ranked among the 35 most valuable Taiwanese brands in the Interbrand 2018 Taiwan Top Global Brands.

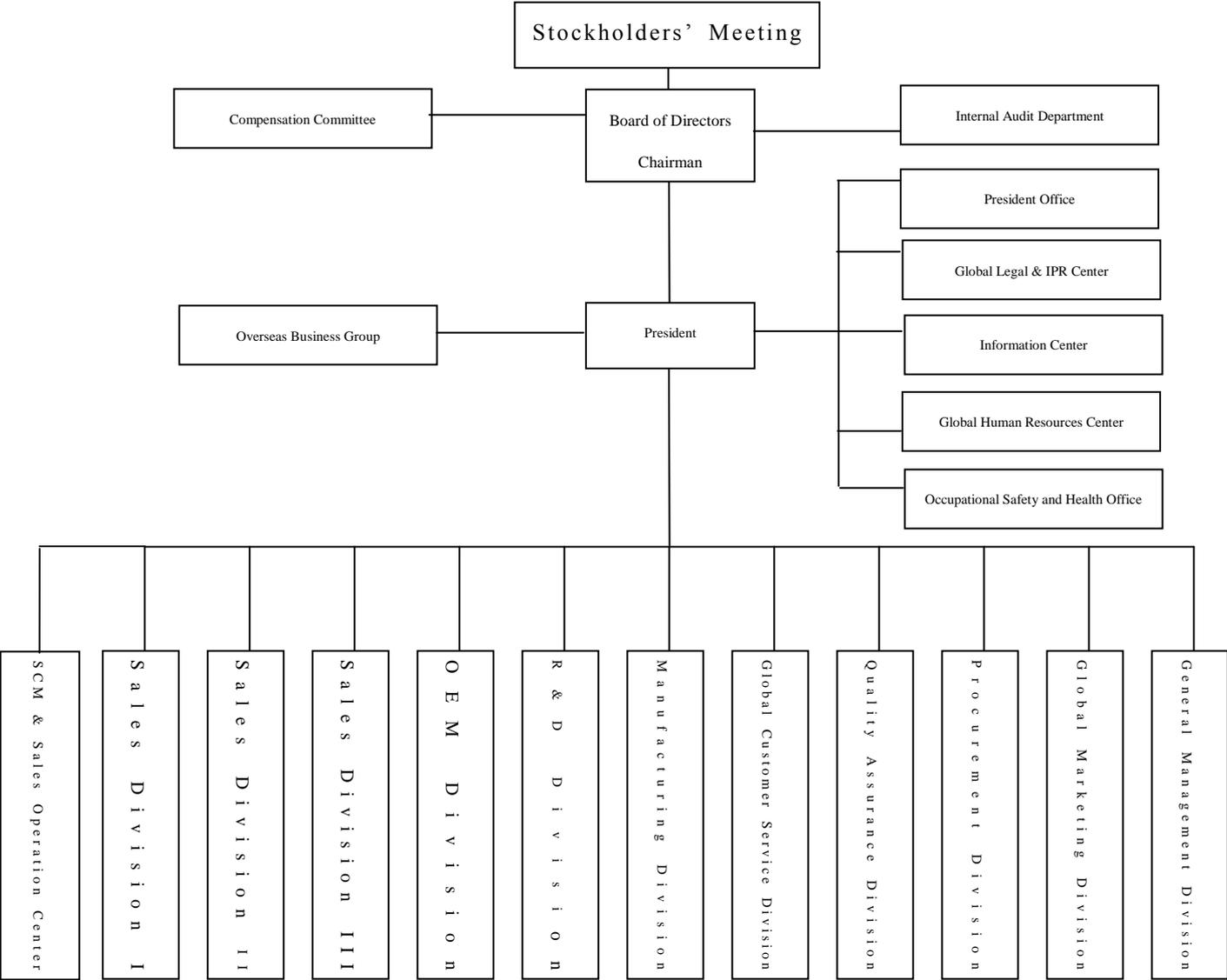
2019

- CL3800 and VE8950 product series received the “Taiwan Excellence” award from the Ministry of Economic Affairs
- UH3234 received the Netherlands’ Hardware.Info Excellent Choice Award
- Established a new subsidiary in Romania

III. Corporate Governance Report

1. Company Organization

(1). Organization Chart



(2). Responsibilities of Individual Divisions and Departments

| Unit | Responsibilities |
|---------------------------------------|--|
| President Office | Business plan implementation and integration; overall business strategy planning for ATEN and its subsidiaries; establishment and implementation of internal control systems. |
| Global Legal & IPR Center | Contract review and management, IP strategy and other legal matters. |
| Information Center | <ul style="list-style-type: none"> • MIS system planning, deployment and management. • Information system program development and maintenance. • Database and information security maintenance and management. • Software and hardware equipment appraisal, deployment and troubleshooting. • Provision of training and guidance for IT personnel. • Document flow management, and data maintenance and management. |
| Global Human Resources Center | <ul style="list-style-type: none"> • Formulation of human resources strategy; personnel system establishment and promotion. • Recruitment, appointments and dismissals, learning and development, compensation and benefit, performance review, promotion and transfer, incentives and punishments, etc. • Implementation and management of employee relationship operations (including labor-management consultative meetings, EAPs employee assistance project, etc.) • Compliance of labor law regulation, industry-wide human resources analysis and formulation of response strategies. |
| Internal Audit Department | Internal control systems and implementation of auditing operations for ATEN and its subsidiaries. |
| Occupational Safety and Health office | <ul style="list-style-type: none"> • Formulation of occupational injury prevention plans and emergency response plans, and provision of guidance to relevant departments with regard to plan implementation. • Employee health examination planning and employee health management. • Implementation of occupational health and safety education and training, supervision of occupational accident investigations, and processing of occupational accident statistics. |
| Overseas Business Group | Supervision of overseas subsidiaries; plan and implementation of overseas sales configuration. |
| Sales Division I | Market development for Pan-Asian markets. |
| Sales Division II | Market development for Eastern European, Russia, and Turkey markets. |
| Sales Division III | Market development for Central America, South America, Australia, New Zealand, and South Africa markets. |
| OEM Division | OEM business development. |
| R&D Division | Hardware and software product design and development, industrial design, coordination of global R&D resources, upgrading of the R&D environment and R&D capability planning. |

| Unit | Responsibilities |
|----------------------------------|---|
| Manufacturing Division | Production and production process planning, continuing improvement, and strengthening of production technology capabilities. |
| Global Customer Service Division | Customer service, RMA maintenance, e-support platform, technique support, technique training and verification and solution consultation and execution. |
| Quality Assurance Division | Handling of quality assurance, quality system etc. |
| SCM & Sales Operation Center | Import/export, logistic, payments and receipts, and inventory management etc. |
| Procurement Division | <ul style="list-style-type: none"> • Purchasing of raw materials and components. • Identification of potential new suppliers, and supplier appraisal. • Purchasing monitoring and documentation management. • Production facility goods inward and billing operations. |
| Global Marketing Division | <ul style="list-style-type: none"> • Corporate image building, product marketing and brand development. • Brand and product strategy planning, market trends analysis and distribution channel strategy planning. |
| General Management Division | <ul style="list-style-type: none"> • General affairs, fixed asset purchasing, etc. • Cash flow management and financing planning, bank transactions, receipts and expenses, and short- and long-term investment management and consultation. • Compilation of managerial reports, compilation and analysis of financial statements, budget planning and analysis, tax and transfer pricing planning and implementation, and provision of advisory and planning support for accounting issues of subsidiaries. • Information disclosure, investor relations management, matters relating to board meetings and shareholders' meetings, and capital market operations. • Overall planning and implementing general affairs of overseas locations and subsidiaries. |

2. Corporate Governance

| Item | Status | | | Any Departure of such Implementation from the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the reason for any such departure |
|---|--------|----|--|---|
| | YES | NO | Summary | |
| (1). Has the Company formulated and disclosed corporate governance principles in accordance with the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies? | ■ | | The Company has formulated Corporate Governance Principles in accordance with the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and has disclosed these Corporate Governance Principles for the benefit of related parties on the Market Observation Post System (MOPS) and on the Company's official website: http://www.aten.com.tw/ . | No significant departure. |
| (2). Shareholder structure and shareholders' rights | | | | |
| A. Has the Company formulated internal operating procedures for handling shareholder suggestions, complaints, disputes and lawsuits, and are such matters handled in accordance with these internal operating procedures? | ■ | | The Company has established a spokesperson system and an investor relations department, which is responsible for handling shareholders' queries and suggestions; the Company's website also has an investor relations contact window which can be used by shareholders to submit queries or search for relevant information. | No significant departure. |
| B. Maintenance of the list of major shareholders who exercise effective control over the | ■ | | Handled by the Company's shareholder affairs personnel. In accordance with the requirements of Article 25 of the Securities and Exchange Act, the Company reports to the Market Observation Post | No significant departure. |

| Item | Status | | | Any Departure of such Implementation from the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the reason for any such departure |
|--|-------------------|----|---|---|
| | YES | NO | Summary | |
| <p>Company, including details of who has final ownership over these major shareholders.</p> <p>C. Establishment by the Company of risk control methods and firewalls with respect to affiliates.</p> <p>D. Has the Company formulated internal rules that prohibit Company personnel from using market information that is not yet in the public domain for the purpose of buying or selling securities?</p> | <p>■</p> <p>■</p> | | <p>System (MOPS) on a monthly basis any changes in the number of shares held by the Company's directors, supervisors, managerial officers and shareholders holding more than ten percent of the total shares of the Company.</p> <p>The Company has drawn up Operational Procedures for Affiliates and Affiliate Transactions, Procedures for the Management of Subsidiaries, along with other relevant procedures and regulations, and has implemented them properly, thereby ensuring effective risk control and firewall function operation with respect to affiliates.</p> <p>The Company has formulated Operational Procedures for the Management of Important Internal Information and the Prevention of Insider Trading, and prohibits Company personnel from using market information that is not yet in the public domain for the purpose of buying or selling securities; the rules in question have been disclosed for the benefit of related parties on the Company's official website: http://www.aten.com.tw/</p> | <p>No significant departure.</p> <p>No significant departure.</p> |
| <p>(3) Organization and responsibilities of the Board of Directors</p> <p>A. Has the Board of Directors</p> | <p>■</p> | | <p>Article 20 of ATEN's Corporate Governance Principles specifies a</p> | <p>No significant departure.</p> |

| Item | Status | | | Any Departure of such Implementation from the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the reason for any such departure |
|--|--------|----|--|---|
| | YES | NO | Summary | |
| formulated a diversity policy regarding its composition, and is this diversity policy being implemented? | | | diversity policy in relation to the members of the Board of Directors, stipulating that the Board should include members with different professional backgrounds, of different genders, and with different work experience, etc. All Board members are required to have a specialist background in different areas, such as finance, accounting, industry-specific expertise, etc. ATEN's Board of Directors consists of seven directors. There are three independent directors, accounting for 43% of all directors. Female directors account for 14% of all directors; there are six directors aged 50 or over, and one director in the 30 - 49 age range. Directors with industry-specific expertise, business management expertise, operational decision-making skills and extensive knowledge of international markets include Chairman Sun-Chung Chen (Kevin Chen), Vice Chairman Shang-Jen Chen, Director Yung-Da Lin and Director Shu-Shan Lin. Independent Director Wei-Jen Chu is a Partner and Honorary Director at Candor Taiwan CPAs, with a strong specialist background in accounting. Independent Director Chung-Jen Chen is a Visiting Professor at the College of Management, National Taiwan University, as well as holding the positions of Director of the Center for Technology Policy | |

| Item | Status | | | Any Departure of such Implementation from the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the reason for any such departure |
|---|-------------------|----|---|---|
| | YES | NO | Summary | |
| <p>B. In addition to the compensation committee and audit committee that are required by law, has the Company voluntarily established any other type of functional committee?</p> <p>C. Has the Company formulated Board of Directors performance appraisal rules and appraisal methods, and is performance</p> | <p>■</p> <p>■</p> | | <p>and Industry Development at National Taiwan University, and Vice President for Research and Development at the Office of Research and Development, National Taiwan University, while Independent Director Chun-Chung Chen is Associate Professor at the Graduate Institute of International Business at National Taiwan University. Both of them have a strong specialist background in business and finance.</p> <p>In April 2012, ATEN's Corporate Social Responsibility (CSR) Policy Statement and Institution and Management System were approved by the Board of Directors, with the Corporate Social Responsibility Management Committee being designated as the highest CSR management body within the company. Every year, project implementation results and future forecasts and plans are submitted to the CSR Management Committee for review, with the CSR Management Committee in turn reporting to the Board of Directors.</p> <p>The Company has formulated Rules Governing the Calculation and Disbursement of Directors' and Supervisors' Compensation, and performance appraisal is implemented regularly every year.</p> | <p>No significant departure.</p> <p>No significant departure.</p> |

| Item | Status | | | Any Departure of such Implementation from the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the reason for any such departure |
|---|--------|----|--|---|
| | YES | NO | Summary | |
| <p>appraisal implemented on a regular basis every year?</p> <p>D. Regular appraisal of the independence of the Company auditor.</p> | ■ | | <p>ATEN evaluates the level of independence of the company auditor on an annual basis. The evaluation items include: Confirming that the auditor does not have any relationship of financial interest or business relationship with the Company that might affect his or her independence; confirming that the auditor has not, within the last two years, served as a director, supervisor or managerial officer of the Company or in any position that would enable him or her to exercise significant influence over auditing matters; confirming that the auditor has not held a managerial position relating to Company decision-making; confirming that the auditor has not been employed by the Company in another role on a regular basis and in receipt of a fixed salary; confirming that the auditor has not been pressured by the Company's management to make inappropriate decisions in regard to auditing policy or make inappropriate disclosure; confirming that the auditor has no borrower or lender relationship with any of the Company's affiliates; confirming that the auditor has not provided auditing services to the Company for more than seven consecutive</p> | No significant departure. |

| Item | Status | | | Any Departure of such Implementation from the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the reason for any such departure |
|--|--------|----|--|---|
| | YES | NO | Summary | |
| | | | years; confirming that the auditor and the auditing team have submitted an auditor's independence certificate. The auditor's independent appraisal report for FY2018 was approved by the Board of Directors on March 12, 2019. | |
| (4). If the Company is listed on the stock market or an OTC exchange, has the Company designated a department or appointed personnel to be responsible (on either a full-time or part-time basis) for matters relating to corporate governance (including, but not limited to, providing directors and supervisors with the information they need to perform their duties, carrying out matters relating to board meetings and shareholders meetings in accordance with the requirements of the law, implementing company registration | ■ | | The Company has designated the General management division(GMD) to be responsible for matters relating to corporate governance. The convener is the Company's spokesperson as well as the senior assistant vice president of GMD. The convenor is the Company's Finance & Accounting Manager, who has over three years' experience in financial management. The main responsibilities include handling matters relating to the annual general shareholders' meeting, etc.; in regard to the equitable treatment of shareholders, the GMD's key responsibilities include providing directors and supervisors with the information they need to perform their duties, carrying out matters relating to board meetings and shareholders meetings in accordance with the requirements of the law(holding 6 times of BOD meetings and annual general shareholders' meeting in 2018), implementing company registration and change of registration tasks, recording the minutes of board meetings and shareholders | No significant departure. |

| Item | Status | | | Any Departure of such Implementation from the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the reason for any such departure |
|--|--------|----|---|---|
| | YES | NO | Summary | |
| and change of registration tasks, and recording the minutes of board meetings and shareholders meetings, etc.)? | | | meetings, arranging director and supervisor education and training courses(holding 2 times of training courses in 2018), organizing institutional investor conference calls(holding 2 times of online investor conference in 2018), and participating on an occasional basis in investment forums(participating in one-time investment forum in 2018); besides issuing financial information, the GMD also helps investors to develop a better understanding of non-financial information, and works to build diversified channels for communication with investors, etc. | |
| (5). Has the Company established channels for communication with stakeholders, and has the Company established a dedicated section for stakeholders on its corporate website, and does the Company respond appropriately to stakeholders' concerns regarding the Company's CSR activities? | ■ | | The Company has established channels for communication with stakeholders via its corporate website, providing customers, consumers, investors, suppliers and other stakeholders with methods for communicating with the Company, so as to be able to gain a better understanding of stakeholders' expectations and needs; the Company also provides appropriate response mechanisms for handling issues of concern to stakeholders. | No significant departure. |
| (6). Has the Company appointed a | ■ | | The Company has appointed CTBC transfer agency division to | No significant departure. |

| Item | Status | | | Any Departure of such Implementation from the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the reason for any such departure |
|---|------------|----|--|---|
| | YES | NO | Summary | |
| dedicated shareholder affairs agent to handle shareholder affairs? | | | handle shareholder affairs on the Company's behalf. | |
| (7). Information Disclosure A. Establishment of a Company website, and disclosure of financial and corporate governance information. B. Other methods of disclosure adopted by the Company. | ■ ■ | | The Company already discloses relevant information on its website. The Company has appointed dedicated personnel to be responsible for the collection and disclosure of relevant information, and has established a spokesperson system. The information disclosed at investor presentations is also disclosed on the Company website. | No significant departure. |
| (8). Is there any other important information to facilitate a better understanding of the company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and | ■ | | A. Employees' rights: ATEN implements protection of employees' rights in accordance with the provisions of the <i>Labor Standards Law</i> and ATEN's own internal regulations. B. Concern for employees: ATEN is committed to providing its employees with a safe, healthy working environment. Besides providing employees with annual health examinations, ATEN has also established a Medical Office, with a full-time Occupational Health Nurse, and has retained the services of a doctor who visits | No significant departure. |

| Item | Status | | | Any Departure of such Implementation from the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the reason for any such departure |
|---|--------|----|---|---|
| | YES | NO | Summary | |
| supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)? | | | <p>the production facility twice a week for a total of 4 hours to provide consulting services. ATEN organizes health promotion activities and education and training activities on a regular basis, implements health management, and arranges various types of health consulting services, including special clinics.</p> <p>C. Investor relations: Besides making public announcements of the company's important operational and financial information on the Market Observation Post System (MOPS) as required by law, ATEN has also established an Investor Relations Contact Window to handle matters relating to disclosure and investor relations, etc., thereby enhancing overall transparency. The ATEN corporate website also includes an Investor Relations section where information relating to corporate governance, company finances and operations is posted for the reference of investors.</p> <p>D. Supplier relations and stakeholder relations: Supplier relations and stakeholder relations are handled in accordance with the relevant regulations. Purchasing agreements are signed with suppliers, to safeguard the legal rights of both parties. The Company undertakes supplier assessment, and implements occasional supplier audits, as</p> | |

| Item | Status | | | Any Departure of such Implementation from the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the reason for any such departure |
|------|--------|----|--|---|
| | YES | NO | Summary | |
| | | | <p>well as arranging supplier meetings to help build consensus regarding collaboration between the Company and its suppliers. In accordance with customers' requirements and with international regulations, the Company requires that suppliers do not use or manufacture materials that contain restricted, environmentally-harmful substances, and strives to realize "green" production, in line with the principles of environmental protection.</p> <p>E. Development and training for directors, supervisors: Besides encouraging directors and supervisors to undergo training programs provided by relevant organizations, ATEN also proactively arranges lectures, held after the conclusion of board meetings, at which specially invited experts discuss issues relating to corporate governance. Directors' and supervisors' record of attendance at board meetings is made public on MOPS, as are the development and training activities undertaken by directors and supervisors. Details of the development and training activities undertaken by ATEN's directors and supervisors in FY2018 are shown in the appended table.</p> <p>F. Risk management policy and risk measurement criteria</p> | |

| Item | Status | | | Any Departure of such Implementation from the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the reason for any such departure |
|--|--------|----|---|---|
| | YES | NO | Summary | |
| | | | <p>implementation status: ATEN has formulated a risk management policy and risk assessment criteria, and has drawn up relevant systems and control mechanisms with respect to the major types of operational risk, including financial and accounting controls, and risk evaluation and control measures for sales operations, production operations, computerized data management etc., with the aim of strengthening overall risk control capability.</p> <p>G. Customer feedback strategy implementation status: Through global customer satisfaction survey once a year, after-sales service satisfaction survey once a week, quality control, and audit system, ATEN collects customers' responses, analyzes demand, upgrade service quality, and provide excellent solutions. ATEN has also established communication channels like e-support platform into its corporate website and eService APP, to make it easy for customers to submit queries and comments.</p> <p>H. Purchasing of insurance for directors and supervisors: ATEN has purchased liability insurance on behalf of its directors and supervisors.</p> | |
| (9). Please outline the improvements that the Company has made in regard to the most recent Corporate Governance Evaluation Results published by the | | | | |

| Item | Status | | | Summary | Any Departure of such Implementation from the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the reason for any such departure |
|---|--------|----|--|---------|---|
| | YES | NO | | | |
| <p>Taiwan Stock Exchange Corporate Governance Center, along with details of the priority items and measures to implement in regard to areas where improvements have not yet been made.</p> <p>In the FY2018 Corporate Governance Evaluation Results, ATEN ranked in the top 6% - 20% band of TSE-listed companies. Recent improvements implemented include: Adoption of electronic voting, revision of the Company's Articles of Incorporation to introduce a comprehensive candidate proposal system for directors and supervisors, the appointment of the third independent directors, the establishment of a tip-off mailbox for reporting misbehavior by directors and supervisors, the formulation of ethical management procedures and behavioral guidelines, and appraisal by the board of directors of the independence of the Company's auditor and implementation of related disclosure in the annual report; in the future, priority will be given to improvement measures targeting self-assessment by the board of directors of board performance, and targeting the auditing committee.</p> | | | | | |

Continuing Education /Training of Directors and Supervisors in 2018

| Title | Name | Date | Host | Training Title | Duration |
|---------------|----------------|--------|---|--|----------|
| Chairman | Sun-Chung Chen | May 4 | Taiwan Corporate Governance Association | Value and Disclosure of Corporate Non-financial Performance | 3 |
| | | Nov. 7 | Taiwan Securities & Futures Institute | Exploring the Impact of the U.S.-China Trade Dispute on Taiwanese Business Enterprises | 3 |
| Vice Chairman | Shang-Jen Chen | May 4 | Taiwan Corporate Governance Association | Value and Disclosure of Corporate Non-financial Performance | 3 |

| Title | Name | Date | Host | Training Title | Duration |
|---------------------------------------|----------------|---------|---|--|----------|
| | | Nov. 7 | Taiwan Securities & Futures Institute | Exploring the Impact of the U.S.-China Trade Dispute on Taiwanese Business Enterprises | 3 |
| Director | Yung-Da Lin | May 4 | Taiwan Corporate Governance Association | Value and Disclosure of Corporate Non-financial Performance | 3 |
| | | Oct. 15 | Financial Supervisory Commission | 12th Taipei Corporate Governance Forum | 3 |
| | | Nov. 7 | Taiwan Securities & Futures Institute | Exploring the Impact of the U.S.-China Trade Dispute on Taiwanese Business Enterprises | 3 |
| Institutional Director Representative | Shu-Shan Lin | May 4 | Taiwan Corporate Governance Association | Value and Disclosure of Corporate Non-financial Performance | 3 |
| | | Jun. 26 | | Trends in and Analysis of Recent Amendments to the Legal and Regulatory Framework | 3 |
| Independent Director | Wei-Jen Chu | Oct. 3 | Taiwan CPA Association | How Accountants Should Respond to the Enactment of the Money Laundering Control Act | 3 |
| | | Oct. 15 | | Presentation on Accounting for Leases in Accordance with IFRS 16 | 3 |
| | | Oct. 22 | | Key Aspects of the 2018 Amendments to the Company Act | 3 |
| | | Oct. 25 | | CSR Report Assurance Services | 3 |
| Independent Director | Chung-Jen Chen | May 4 | Taiwan Corporate Governance Association | Value and Disclosure of Corporate Non-financial Performance | 3 |

| Title | Name | Date | Host | Training Title | Duration |
|----------------------|-----------------|---------|---|--|----------|
| | | Jul. 24 | | How Firms Can Strengthen Their Strategy Implementation | 3 |
| | | Aug. 3 | | The Secret to Enhancing Corporate Value - Cost Management and Optimization | 3 |
| Independent Director | Chun-Chung Chen | May 4 | Taiwan Corporate Governance Association | Value and Disclosure of Corporate Non-financial Performance | 3 |
| | | Nov. 7 | Taiwan Securities & Futures Institute | Exploring the Impact of the U.S.-China Trade Dispute on Taiwanese Business Enterprises | 3 |
| Supervisor | Chen-Lin Kuo | May 4 | Taiwan Corporate Governance Association | Value and Disclosure of Corporate Non-financial Performance | 3 |
| | | Nov. 7 | Taiwan Securities & Futures Institute | Exploring the Impact of the U.S.-China Trade Dispute on Taiwanese Business Enterprises | 3 |
| Supervisor | Shiu-Ta Liao | May 4 | Taiwan Corporate Governance Association | Value and Disclosure of Corporate Non-financial Performance | 3 |
| | | Nov. 7 | Taiwan Securities & Futures Institute | Exploring the Impact of the U.S.-China Trade Dispute on Taiwanese Business Enterprises | 3 |
| Supervisor | Se-Se Chen | May 4 | Taiwan Corporate Governance Association | Value and Disclosure of Corporate Non-financial Performance | 3 |
| | | Nov. 7 | Taiwan Securities & Futures Institute | Exploring the Impact of the U.S.-China Trade Dispute on Taiwanese Business Enterprises | 3 |

IV. Operational Highlights

1. Business Activities

(1). Scope of Business

A. Main Activities

- a. Designing, manufacturing and selling of IT infrastructure access management solution products.
- b. Designing, manufacturing and selling of professional A/V products.
- c. Designing, manufacturing and selling of intelligence energy management solution products.
- d. Designing, manufacturing and selling of various types of resource sharing devices.
- e. Designing, manufacturing and selling of interface converters, extenders and splitters.

B. Major Product Lines and Contributions to Total Consolidated Sales

Unit:NT\$ thousands

| Item | Year | 2018 | | 2017 | |
|---|------|-----------|-----------|-----------|-----------|
| | | Amount | Ratio (%) | Amount | Ratio (%) |
| IT Infrastructure Access Management Solution Products | | 3,146,094 | 60.82% | 3,129,027 | 63.25% |
| Video Products | | 1,004,650 | 19.42% | 895,541 | 18.10% |
| Other Products | | 1,022,266 | 19.76% | 922,753 | 18.65% |
| Total | | 5,173,010 | 100.00% | 4,947,321 | 100.00% |

C. Products and Services Provided by the Company

Since its establishment in 1979, ATEN has dedicated itself to the development of different types of connector, controller and management devices, in line with our vision of “Simply Better Connections” and our goal of creating value for industry and for society as a whole. Thanks to many years of hard work, ATEN is now able to provide a comprehensive range of “total solutions” that encompass IT Infrastructure Access Management Solutions, Professional Audio & Video Product Solutions, and Green Energy Solutions.

In the IT Infrastructure Access Management Solutions segment, ATEN provides comprehensive solutions that help customers to manage PCs, servers, networking equipment, data storage devices, power splitters and other IT equipment more efficiently. Besides our core KVM switch (for simultaneous control of multiple computers from a single or multiple sets of keyboard, video monitor and mouse) product line, ATEN also offers LCD KVM switches, multi-port matrix switch products and video extenders. ATEN is thus able to provide total solutions for the remote, centralized management of large control rooms and data centers. ATEN’s IP based KVM, Over-IP PDU and IP based serial signal management devices are integrated using centralized management software with freeze screen management function; ATEN’s solutions are both powerful and easy to use.

Since 2008, ATEN has been developing its VanCryst professional audio/video systems product line. The VanCryst product range includes video switches, video splitters, video extenders and video converters that support a variety of different interfaces. For large-scale medium- and high-end audio and video applications, the VanCryst range offers multi-port matrix switches and long-range extenders. With superb image quality enhancement function and easy-to-use remote management software, ATEN’s VanCryst products constitute a simple, innovative solution.

In addition, over the past few years ATEN has been working actively to secure participation in international certification and technology alliances, so as to ensure that ATEN products provide a high level of compatibility with other world-leading brands, thereby helping ATEN itself to confirm its position as a leading player in the global professional audio/video solutions market. Having rolled out a series of high-end, modularized matrix solutions and control systems, ATEN has become one of only a handful of Taiwanese companies to establish itself within the high-end professional audio/video solutions segment, competing on an equal footing with leading international corporations.

In 2012, ATEN launched its NRGence™ “green energy” product line, with “Energy Intelligence” as its core vision. NRGence comprises a series of environmentally-friendly control room solutions that help to optimize energy usage.

Other ATEN product lines include USB hubs, USB extenders, and many different types of interface converters, extenders, splitters, switches, etc. ATEN products support the latest interfaces, including USB Type-C and Thunderbolt 3, etc., meeting users' needs for high-speed data transmission.

D. New Products and Services Currently Being Developed

| | |
|--|---|
| <p>Development of a range of high-performance KVM matrix system products for use in the management and integration of KVM equipment for control room applications.</p> | <ol style="list-style-type: none"> (1) Integration of KVM-over-IP extender and matrix management software. (2) Flexible extension and control for independent network computer access, using Cat 5e/6 network cabling or SPF fiberoptic receiver module connection to Ethernet, to support remote management over long distances. (3) Provision of 3840x2160 @ 30 Hz high-resolution imaging supporting up to 36 bits per pixel color depth, ensuring vivid colors and sharp images even with "dense" static images. (4) Intuitive, easy-to-use multifunction video walls. (5) Unique rapid switching technology that is exclusive to ATEN, allowing immediate switching between different resolutions to support video surveillance and other surveillance applications. (6) Provision of powerful user authorization functions and interconnected device centralized management functions for enterprises and government agencies that need high levels of security, along with the provision of long-distance transmission solutions for encrypted data. |
|--|---|

| | |
|--|---|
| <p>Development of the new-generation Prosumer KVM series of products, targeting True 4K resolution, mixed-signal and multi-screen office applications.</p> | <ol style="list-style-type: none"> (1) In-depth and wide-ranging research to support the development of Prosumer KVM series products with True 4K high-resolution, superior image quality and superior sound quality. (2) Coordinated development of mixed-signal solutions for computers using the USB-C interface and computers using the DisplayPort interface. (3) Coordinated development of power delivery technology to support the USB-C interface. (4) Coordinated development of Gen. 1 peripheral devices and audio devices for USB 3.1. (5) In-depth and wide-ranging research on multi-screen output. |
| <p>Integration and applications of New SOHO peripheral products and video game peripheral products.</p> | <ol style="list-style-type: none"> (1). Development of USB 3.0/3.1 products. (2). Development of USB and Bluetooth products. (3). Development of game controller switch products. (4). Coordinated development of DisplayPort/Thunderbolt/Type C products. |
| <p>Integration and applications of Audio/ Video connector management products.</p> | <ol style="list-style-type: none"> (1) Development of 4K ultra high-definition, long-range broadcasting transmission products. (2) Development of 4K fiber-optic interface products. (3) Development of True 4K standard, medium-sized and large modular array products. (4) Development of 4K TV wall processor products. (5) Development of 4K Over IP online video management products. (6) Development of 4K / True 4K / HDBaseT products, including standard and wall plate equipped transmitter products. (7) 4K high-definition image rotation and overlay. (8) Optimization of operating and management software, including Web GUI enhancement and apps. (9) Development of a multi-function presentation matrix switch system. |
| <p>Smart Control System.</p> | <ol style="list-style-type: none"> (1) Development of centralized control boxes. (2) Development of user interface software for control applications. (3) Development of design integration software tools. (4) Development of distributed control extension box products. (5) Development of software modules for environmental control applications. (6) Ongoing establishment of a device control database. (7) Development of wall plate equipped streamlined controller products. (8) Development of a platform for centralized global management of Audio/Video devices. |

| | |
|---|---|
| PE series electric power and green energy integration and applications. | (1) Development of new-generation intelligence PDU and “green energy” sensors. (2) Undertaking R&D work relating to the efficient use of energy. (3) Undertaking R&D work relating to “green data center” overall cooling, ventilation, electric power and energy efficiency. |
| EC series electric power and green energy integration and applications. | Development of data center environment monitoring and measurement tools for improving energy conservation. |

(2). An Overview of the Industry

A. The Current Status and Future Development of the Industry

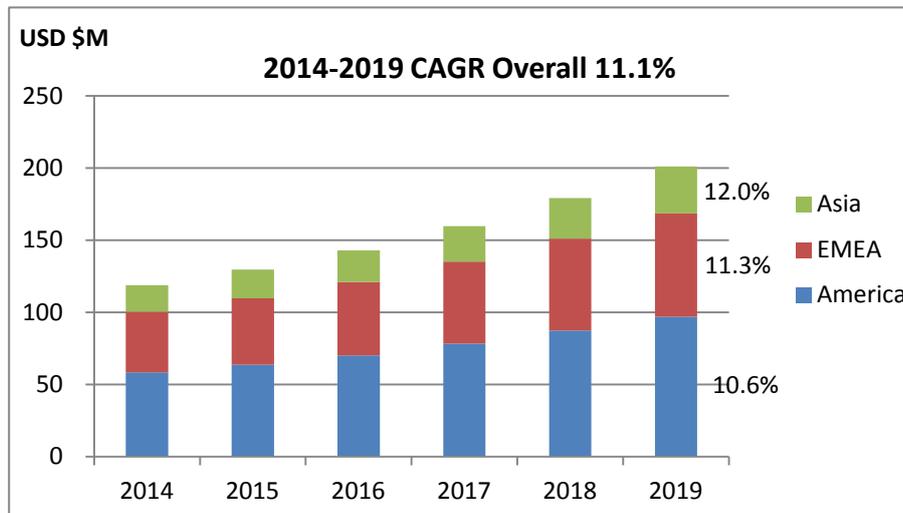
As regards the current state of the IT infrastructure management industry, with the steady increase in computer and Internet usage, IT infrastructure has tended to become larger and more complex, leading to the emergence of an entire industry dedicated to meeting IT infrastructure management needs. From the point of view of the end user, the number of alternative products available is limited, so market demand has continued to grow steadily. The key factors affecting market growth can be summarized as follows:

- a. Convenience:KVM products make it easy and convenient for IT managers to implement centralized control of multiple PCs and servers. KVM products facilitate the sharing of resources, help to save space, are easy to operate and reduce management costs, making for improved work efficiency.
- b. A global market:With business enterprises continuing to expand their global networks and establish new sites overseas, KVM products can be used to resolve issues affecting servers and related equipment on a real-time basis.
- c. Continuing investment in IT hardware:Companies all over the world continue to deploy new IT hardware; KVM products facilitate efficient management of corporate IT infrastructure.
- d. The growth in the server market and the integration of server platforms: KVM products can be used to manage large numbers of servers. With the continued growth of the server market and the trend for companies to multiple entry-level servers instead of one powerful but very expensive sever, KVM products provide a way for firms to connect these multiple cost-effective servers, and facilitate more efficient server management.
- e. Economic growth in Asia and in other emerging markets:The strong economic growth in Asia and in emerging markets in other parts of the world has led to a steady increase in demand for data management solutions both in the private sector and in government. KVM products can help both government agencies and business enterprises to implement efficient data management; as a result, demand for KVM products has been growing rapidly in Asia and in emerging economies elsewhere.
- f. Demand deriving from the growth of the Internet:The emergence of the Internet has made it possible for IT personnel to manage servers remotely from any

- location. At the same time, falling product prices have made medium-sized enterprises more willing to purchase over-IP KVM products, which in turn has created higher profit margins for KVM product vendors.
- g. Low-price personal computers: The prices of personal computers have been dropping fast following the Moore's law. Nowadays it is common for a person to own more than one computer, which indirectly boosts the demands for SOHO KVM switch. The A/V interface also shifts gradually from VGA analog interface to DVI/HDMI digital interface. Recently the A/V interface even tends to upgrade to DisplayPort, Thunderbolt, and Type C.
 - h. Emergence of cloud computing: Cloud computing provides a brand new computational framework and enables users to enjoy convenient services anytime and anywhere. The emergence of cloud computing service is a major trend in recent years along with maturing software, hardware and transmission technology. The cloud computing infrastructure is essentially a large data center, which will have high demands for remote control products.
 - i. The Growing Importance of Information Security: With the dramatic growth of the Internet, exchanging information has become steadily more convenient. However, from the point of view of IT managers, protecting data security has become much more challenging. The restricted connectivity characteristic of KVM switch products means that adopting KVM devices can substantially enhance information security, preventing unnecessary online connections and reducing the risk of data leaks.
 - j. Demand for isolation of Intranets from the Internet: Due to information security considerations, government agencies need both Intranet servers and external Internet servers, to ensure the required separation between physical devices; this has stimulated the emergence of market demand for new applications in the Secure KVM market.
 - k. Emergence of Industry 4.0 and the Internet of Things (IoT): The "Industry 4.0" concept was first introduced in Germany in 2012, and has since become a major new trend in the advanced nations. The idea behind Industry 4.0 is to achieve seamless integration of IT technology, communications, operating systems and manufacturing facilities, so as to stimulate the development of industrial automation and "smart" decision-making, thereby providing a safe, efficient, fast, highly-automated manufacturing environment that meets production and sales requirements. The growth of Industry 4.0 will create a whole new wave of demand for IT architecture management solutions.
 - l. The widespread adoption of large-sized, high-resolution displays has stimulated growth in demand for High Performance KVM Switches. In the past, broadcasting and media firms - particularly in North America and Western Europe - have been the main customers for High Performance KVM Switches. Recently, however, there has been new growth in demand in the transportation sector, for example control room applications for airports and underground railway stations, and there has also been a shift away from analog switches towards Digital High Performance KVM Switches. This has stimulated rapid

growth in demand in the High Performance KVM Switch market throughout the world.

Worldwide High performance KVM switches 2014-2019 Revenue Forecast



Source: 2015 KVM switches and serial consoles report, IHS

The professional Audio/Video equipment market is a new market that ATEN has been avidly developing since 2008. The major growth trends are as follows:

- a. The growth of professional AV applications: Demand for professional audiovisual equipment for different applications and environments has been rising across a wide range of industries and sectors. Examples include public information systems for public transport operators, display systems for financial institutions, video-conferencing systems for all kinds of business enterprises, display systems for exhibition venues, medical imaging and public information systems for hospitals and clinics, display systems for sporting events, monitoring and information management systems for industrial environments, teaching systems for academic institutions, special systems for research institutes, and home movie theater systems. The adoption of professional audiovisual equipment can lead to dramatic improvements in efficiency; this trend has created significant new business opportunities for manufacturers of video products, such as ATEN.
- b. The growth of digital advertising: With the growth of the Internet, digital signage has come to play an increasingly important role in the advertising industry. This trend has created new opportunities for video products.
- c. Digitization of A/V contents and interface: The digitization of A/V contents and interface greatly enhances the quality of images and sound, and at the same time, increases user demands. As a result, A/V equipment suppliers are under pressure to replace the recoding, processing, storage, transmission and playing components every year, which however opens an excellent window of opportunity for new players to enter the market.
- d. The dramatic improvement in video and audio quality: Digitalization has been followed by a steady improvement in the quality of both audio and video. Video

image resolution has evolved from SDTV to HDTV, Full HD, 3D, and now 4Kx2K、True 4K & 4K HDR, while audio quality has seen a progression from 2.1 systems to 5.1 and now to 7.1. The rapid pace of change has created significant business opportunities, in terms of demand for upgrading of existing audio/video equipment. In Japan, it has already been announced that the 2020 Tokyo Olympics will be broadcast in 8K ultra-high definition (UHD). To realize this national goal, companies in related industries in Japan have been mobilizing their personnel to upgrade many different types of device. The HDMI Forum has formally announced the new HDMI 2.1 specification, which supports 8K UHD; this is currently a major driver of market growth.

- e. The global video wall market has continued to post double-digit annual growth rates. The Asia Pacific is the biggest regional market, and is the region forecasted to have the highest growth in the future. China is the single biggest market within the Asia Pacific region, accounting for nearly 40% of the total regional market, and demand for video wall applications in China will constitute an important driver of growth for ATEN's professional audio/video product line in the future.
- f. Besides their use in control centers, video walls are now also widely used for the display of public information. Within the Asia Pacific region, the biggest segments within the video wall market are, in order: public information display, control centers, corporate / exhibition use, commercial display, and broadcasting. Video walls are already in widespread use in many aspects of our daily lives, and can be seen around us in airports, public spaces, shopping malls, etc.
- g. Mobile devices are coming into increasingly widespread use, and their functionality has become more powerful and more wide-ranging; the ability to use mobile devices such as iPads, iPhones or Android Phones to control or operate complex professional audiovisual systems has become a major new driver of growth in the Audio/Video market. Besides substantially reducing overall cost, it can also provide a whole new user experience, with the potential to create new, expanded markets.
- h. A report published by AV Industry Outlook and Trends Analysis (IOTA) in 2017 noted a steady increase in the degree of integration between the global Professional Audio/Video equipment market and the IT hardware market; The 2017 IOTA report forecast that the Professional Audio/Video segment would post a CAGR of 4.7% over the period 2017 - 2022, and that overall market size would grow by an additional US\$52 billion during this period. An IHS report compiled in 2015 forecast that, by 2025, there would be over 75 billion devices connected to the Internet worldwide, reflecting the strong growth in the Internet of Things (IoT) sector. The growing integration of Audio/Video with IT hardware is a product of these two trends; the combining of Audio/Video equipment with the Internet not only provides more flexible extensibility, it also overcomes the constraints of distance, making it easier for users to control their equipment remotely using the Internet.

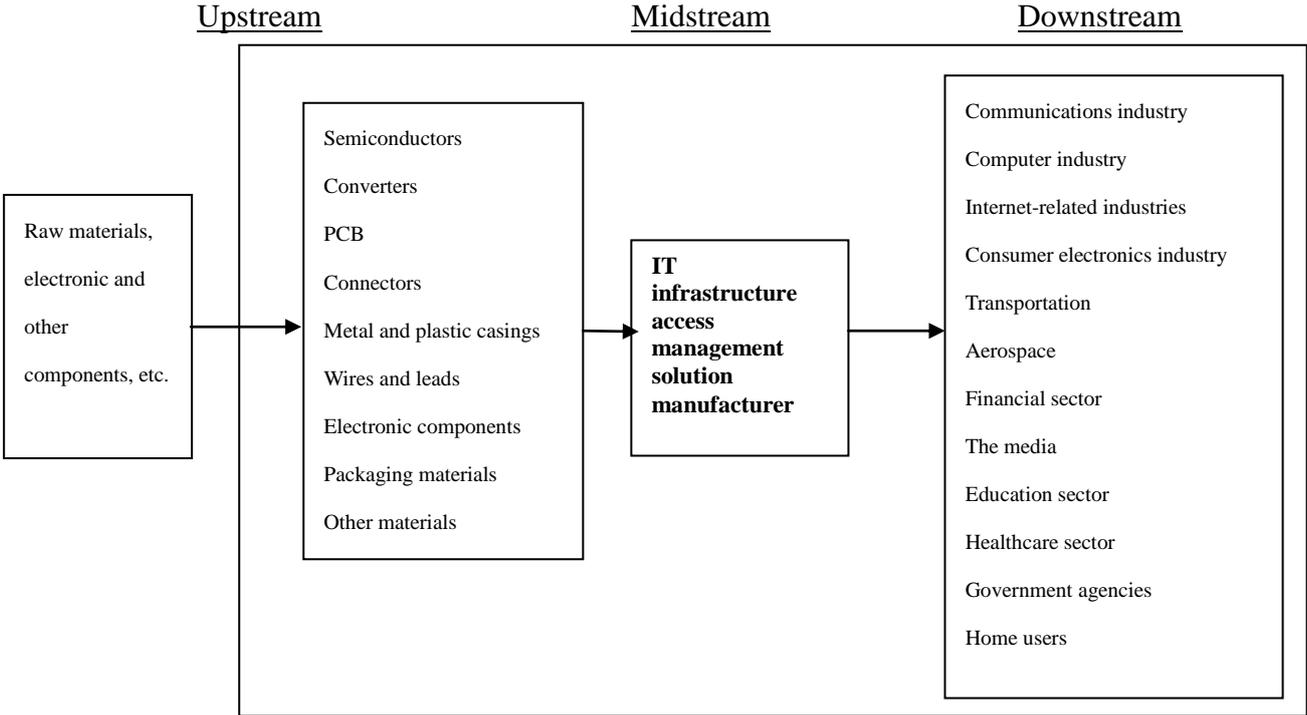
The continuing evolution of the IT and electronics industry and of its peripheral industries has helped to drive the development of the global economy as a whole.

ATEN's products and solutions have an extremely wide range of applications, including the communications sector, the computer industry, the Internet sector, consumer electronics, transportation and logistics, aerospace, the financial sector, the media, education, healthcare, government administration and defense, and the residential sector. The existence of this huge market is the main reason why the industry to which ATEN belongs has been able to maintain double-digit compound annual growth rates year after year.

B. The Links between the Up-, Mid- and Downstream Segments of the Industry Supply Chain

ATEN is engaged in the development, manufacturing and sale of It infrastructure access management solution products, professional audio/video products, green energy products and related products. Within the IT hardware industry as a whole, ATEN is located in the midstream segment. The upstream segment comprises suppliers of raw materials and components, including semiconductors, converters, connectors, PCB, metal and plastic casings, packaging materials etc. With its positioning in the midstream segment, ATEN provides KVM switches, video splitters and converters, USB hubs, IEEE 1394 hubs, and cross-platform converters and extenders to meet the different needs of customers in various different fields. The downstream segment includes the communications industry, the computer industry, Internet-related industries, consumer electronics, transportation, aerospace, the financial sector, the media, education, healthcare, government administration, military applications, and home users. The relationship between the up-, mid- and downstream segments are shown in the figures below.

The Links in the IT Infrastructure Access Management Solution Manufacturing Industry



important source of profits for the company.

b. Developing ATEN's "VanCryst" professional audiovisual product line

ATEN has leveraged the outstanding video technology that the company has built up almost four decades to develop first-class specialist video solutions, expanding ATEN's target market to include not only control room applications but a much wider range of potential applications and customers. It is anticipated that, over the next few years, the new VanCryst product line will become a major revenue source for ATEN, alongside the company's existing high-end product lines.

c. Marketing focus

Whether in the high-end, mid-range or entry-level segments, manufacturers will be allocating more marketing resources to strengthen the distribution of their products. Whereas in the past product specifications and functions were the main focus of competition, in the future companies will be focusing more on intensive marketing, promotion and technical support.

d. Developing a wider range of distribution channels

For a variety of reasons – including changes in consumer purchasing behavior, the growth of the Internet, the expansion of the target market, etc. – the competition in IT hardware distribution has grown steadily more intense. At the same time, a wider range of distribution channels has emerged. Besides continuing to use our existing network of distributors, in the future ATEN will also be focusing on in-depth development of the system integrator segment, and will be striving to provide timely, efficient pre-sales and after-sales service.

e. Integrating networking and communications into product development strategy

With the rapid pace of change in information technology and networking, Internet and communications technology will be closely integrated into future product development strategies. ATEN will be working actively to keep pace with new trends in this area, and to achieve efficient integration of information security technology, etc.

f. ATEN will be working actively to grow its market share in the entry-level and mid-range product segments, while continue to develop the core technologies that underlie the company's development of high-end products. We will continue to make our products' user interfaces more user-friendly, and to strengthen product compatibility and stability, which will contribute to improved profitability.

g. Developing emerging markets

In the IT infrastructure access management solution industry, the rapidly growing emerging markets have a vital role to play in every manufacturer's global expansion plans. Currently, the fastest growth is being seen in the Asian and European markets. In the future, both long-established manufacturers and new entrants will need to focus heavily on developing the emerging markets, concentrating resources on these markets to grow market share.

h. Stepping up the promotion of smart power distribution units

In high-end applications, such as large data center, smart power distribution unit is also an important subsystem component in addition to the remote KVM management system, particularly under the current trend of energy saving and carbon reduction.

ATEN's capability to provide those two important subsystems will be its competitive edge in the future.

i. Expanding into the industrial controller and production automation application segments

IT infrastructure access management solution products on the market are comprehensive in conventional IT applications, be it in the arena of SOHO, SMB, enterprise or data center. But they also have enormous potential in more specialized fields, such as industrial control and production automation. The capability to provide complete product line and custom-made service will be a huge advantage for launching into those new fields of application.

j. New demand in today's mobile era

In the period since the global financial crisis of 2008, innovation efforts in the information and communications technology (ICT) sector have mainly been concentrated in the mobile segment. Mobile applications have already evolved from simple communications tools into the business sphere and now into personal entertainment. New products and services are appearing all the time, creating new business opportunities; the biggest single challenge facing the IT sector today is to keep pace with this major trend towards mobility. As a leading provider of multi-computer management solutions, ATEN has allocated considerable resources towards exploiting this important trend.

k. Using ATEN's unique sales model to develop new business opportunities

Responding to the emergence of new types of market demand, ATEN has stepped up the integration of the three main product categories in which the company enjoys significant competitive advantages (KVM, professional audio/video solutions, and green energy solutions) to introduce unique cross-product-line integrated solutions that can meet all of a customer's needs in one solution. These solutions can be tailored to meet the usage scenario needs of different industries, with an ability to create large-scale, diversified, hybrid solutions that reflects ATEN's solid, flexible solution integration capabilities.

l. Opening Showrooms all over the worlds that provide an opportunity to experience the outstanding integration capabilities of ATEN products.

ATEN has been leading the way in the industry trend towards "AV meets IT." Besides launching integrated solutions, in 2017 ATEN's subsidiaries and partners began opening new Showrooms all over the world, to give potential customers the opportunity to experience the application environment of ATEN products for themselves. ATEN has already opened Showrooms in 21 countries, and will continue to add new locations in the future, so as to extend the company's sales footprint.

D. The Competition for the Products

Compared to other computer product industry, the competitive situation for IT infrastructure access management solution market is rather stable. ATEN's main competitors in the KVM switch market include VERTIV, Raritan and Belkin. The leading vendors, which possess extensive high-end KVM switch product technology, have tended to focus on the enterprise and networking segments of the market, while

the smaller firms product mainly mid-range and entry-level products. Intense competition and the continued expansion of the leading vendors have created a situation where the top three vendors hold combined global market share of almost 50%. The remainder is divided between a multitude of smaller vendors. The most important change of KVM competitors is that Avocent became a wholly-owned subsidiary of Emerson Electric Corporation in 2009, the department of Emerson Network Power became own new brand called VERTIV in 2016, and Raritan was merged by Legrand in mid-2015.

The Professional Audio/Video industry is somewhat conservative; most of ATEN's competitors in this market segment have adopted a very low-key approach. There are a handful of larger European and American companies, such as Extron, Crestron and Kramer, which have decades of experience in the Professional Audio/Video industry, and which have a comprehensive product line. These companies enjoy a high reputation in the system integrator (SI) and value-added retailer (VAR) channels, and are able to charge high prices for their products; they have established a solid leading position within the industry. One point worth noting is that in 2016 Harman, the parent company of leading manufacturer AMX, was acquired by Samsung; it remains to be seen how this will affect the sector's development.

The Professional Audio/Video industry is characterized by a high concentration level, with a handful of first-tier manufacturers dominating the lion's share of the market; overall, competition is not particularly intense. Individual manufacturers emphasize different aspects in their products, so there is a significant degree of differentiation between the various manufacturers' products. This differentiation reduces the potential for competing on price, and as a result, there is relatively little price competition between the first-tier manufacturers.

Besides the first-tier manufacturers, there are also many medium-sized and smaller firms in the Professional Audio/Video industry, many of which are strong in a particular region or a particular industry segment niche. As these medium-sized and small manufacturers generally have relatively low technology and service capabilities, and often lack marketing experience, they are forced to rely on selling their products via distributors (as opposed to supplying SIs and VARs directly). The degree of differentiation between the medium-sized and smaller firms is significantly less pronounced, and price competition is consequently more intense.

(3).A Review of the Company's Technology and its Research and Development Work:

A. Technology and Products Successfully Developed during the most Recent Fiscal Year.

ATEN has always attached great emphasis to research and development, allocating a sizable budget to R&D each year. A dedicated R&D division has overall responsibility for R&D operations, working actively to develop new products for the company and help it to strengthen and diversify its product line. ATEN's core technologies – including Over-IP server management and digital audio/video signal management – have been successfully integrated into all of the company's product lines. Some of the key achievements in R&D include:

- a. Integration and applications of IT Infrastructure Management solutions for Data Center.
- b. Development of Prosumer KVM Series products. Integration and applications of New SOHO peripheral products and video game peripheral products.
- c. Integration and applications of Audio& Video signal extending, switch, streaming, format conversion, compression, and recognition.
- d. Industrial Control and Data Communication series product integration and applications.
- e. Smart control system.
- f. Development, integration and application of Intelligence Power Distribution Units (eco PDU) and Green Energy management software.
- g. Solution of automation product line.
- h. Development of core software, firmware, hardware, and intellectual property core.

(4). Long- and Short-term Business Development Plans

A. Short-term plans:

a. Marketing

- In the enterprise-class segment, ATEN will continue to provide reliable, streamlined, high-performance solutions that offer high value for money, developing an expanded range of applications for many different industry environments, and building on the competitiveness that ATEN already enjoys in its three main product lines and dig out vertically-integrated markets in an in-depth manner. In the consumer product segment, ATEN will be focusing on understanding users' needs, strengthening user feedback and the user experience, achieving product differentiation, and incorporating unique innovation into new products to enhance value-added, while at the same time working to raise the barriers to replication and imitation of ATEN's products by rival firms, and striving to build brand value.
- In the Professional Audio/Video product solutions market, product specifications are constantly evolving. ATEN will be working to meet demand for switching between different interfaces and for interoperability, providing intuitive, user-friendly graphical user interfaces (GUIs), and making the simplification of complex controller operating systems a core element in product design. In the IT infrastructure management segment, ATEN will continue to develop and launch new products that have higher resolution, higher efficiency and higher port density, while also optimizing the user experience. At the same time, ATEN will also be allocating resources to the development of integrated solution products to ensure its continued competitiveness.
- As regards green energy management solutions, ATEN will be focusing on the development of products for data center electric power applications, providing a wide range of slim, "smart" power distribution unit (PDU)

products to help customers improve the safety and efficiency of their electric power usage, and realize the goal of enhancing control room energy-saving performance. ATEN will also be providing flexible, customized services to meet the specific needs of medium-sized and large corporate customers.

- ATEN will be working actively to establish localized marketing teams that can achieve greater proximity to the market and closely monitor customers' needs. ATEN will carefully evaluate the potential for establishing new service locations in countries with a large economy and strong growth potential, so as to be able to develop direct communication links with these markets; ATEN will be working to develop a more comprehensive globalized network and reduce the systematic risk of single country, supported by the effective integration of regional logistics hubs, in order to strengthen overall service provision capability.
- ATEN will be coordinating its global marketing resources, strengthening both above-the-line (ATL) and below-the-line (BTL) marketing content, working to enhance brand recognition, expanding marketing impact, and helping ATEN subsidiaries to develop their local markets.
- New showrooms will be established through collaboration with ATEN's subsidiaries and distributors, and ATEN will step up its implementation of regional conferences and training programs, so as to enhance the competitive advantage that ATEN products enjoy, raise the level of brand recognition, and boost sales of high-end products.
- ATEN will be cultivating teams of pre-sales consultants, and will be establishing a database of case studies of successful pre-sales implementation, with the aim of enhancing ATEN's solution selling capabilities.
- ATEN will be planning the introduction of a distribution partner loyalty scheme and a brand-new online product training platform to facilitate the building up of a network of first-rate distribution partner, which in turn will help to enhance customer satisfaction and customer loyalty.
- ATEN will also be working to strengthen its online marketing. Besides continuing to expand its online stores, ATEN will also be working to strengthen its social media presence, and will be utilizing scenario-based video content, video content showing how to use ATEN products, and video content featuring key opinion leaders (KOLs), to enhance consumers' and business partners' awareness of ATEN's product applications and the ATEN brand.
- ATEN will be using webinars to strengthen training provision for business partners, and using scenario-based product presentations to attract potential customers.

b. Production strategy

- Strengthening ATEN's TQM quality assurance system, and enhancing the

level of customer satisfaction with the quality aspect of PLCS (Product Life Cycle Service).

- Working actively to improve production processes, adding new automated testing and inspection equipment and reducing lead times, so as to cut costs and boost competitiveness.
- Implementing enhanced employee education to develop multi-skilled employees, so as to shorten the learning curve when ramping up to volume production of new products.
- In line with the principle of comparative advantage, ATEN will be utilizing an international division of labor in its production activities, striving for flexible, efficient coordination of its Taiwan-based and China-based production and outsourcing capacity; this will enable ATEN both to reduce its production costs and spread risk more effectively.

c. New product R&D strategy:

- ATEN will be stepping up development and integration of Pro-AV products.
- Strengthening both the depth and breadth of ATEN's over-IP product development activities.
- Developing new, modular, multi-platform, many-to-many, multi-port high-end products.
- Make headway into industrial control applications based on existing core technology.
- Developing new management software for large-sized Audio/Video equipment, to provide equipment managers with reliable management tools.
- Continuing to optimize product user interfaces on the basis of consumers' views and user experience.
- Develop new star products in line with market demands.

d. Management strategy:

- Achieving the right balance between R&D, marketing, manufacturing and administration.
- Comprehensive employee welfare planning to care for ATEN employees and their dependents; this will also help to attract outstanding human talent to join the company.
- Reinforcement of globalized e-enablement systems to integrate group resources and enhance overall operational efficiency.
- Implementing ongoing process improvement to enhance overall managerial efficiency.
- Emphasizing effective implementation of the internal control system, giving due weight to both the pursuit of earnings growth and the prevention of improper activity.
- Implementing matrix-type management and optimizing global logistics architecture and warehousing management so as to reduce operating costs

and operating risk, while improving inventory turnover and being able to respond more rapidly to changing markets and customer needs.

B. Long-term plans:

a. Marketing

- ATEN will be paying close attention to market development trends and focusing on product innovation, working actively to develop robust, specialized technology in line with ATEN's positioning as a specialist provider of total solutions. In the future, ATEN will continue to strengthen the combination of product customization capabilities supporting small volume production of a wide variety of different products with highly flexible manufacturing capabilities, so as to enhance both the depth and breadth of the industry segments and applications that ATEN caters to, thereby enabling ATEN to provide customers with optimal solutions characterized by enhanced value.
- ATEN will be making effective use of customer relationship management (CRM) system data to provide customized services and enhance customer satisfaction and loyalty, strengthening overall service quality and building long-term partnership relationships with customers.
- ATEN will be expanding its ODM/OEM business, striving to keep its finger on the pulse of the market, and helping to guide the development and adoption of innovative new technologies.
- In the area of brand management, ATEN will be simultaneously optimizing its distribution network and working actively to develop the system integrator market, aiming to know end-user' needs to expand sales of ATEN's own-brand products and strengthen ATEN's overall marketing and sales model.
- To meet the diverse needs of different customer segments, ATEN will be making effective use of digital marketing and the integration of global e-commerce service resources, providing e-tailer partners with rich content for product promotion on online platforms, and strengthening targeted marketing and advertising campaigns tailored to specific market segments to enhance ATEN's overall marketing performance; ATEN will also be working to boost brand recognition in individual regional markets and establish convenient transaction channels, as well as effective platforms for communication with consumers, in order to realize synergy from the integration of physical and virtual channels.
- ATEN will be developing comprehensive localized product marketing, distribution channel management, logistical services and sales promotion capabilities at all ATEN business locations throughout the world, so as to maximize ATEN's brand value.
- ATEN will be striving constantly for excellence in service quality, providing timely advanced replacement services for specific models, which can effectively reduce the amount of time and money lost as a result of

equipment breakdown.

- ATEN will be using product seminars to train its internal sales personnel, working to strengthen pre-sales techniques, and utilizing comprehensive pre-sales, sales and post-sales services to enhance the quality of service that customers receive.
- ATEN will be creating a unified partner portal that integrates the three key functions of the downloads center, B2B online services and the support center, so as to further speed up the bi-directional flow of information.

b. Production strategy

- ATEN plans to add additional outsourced production capacity and bought-in products, to ensure that overall production capacity increases in line with the company's development in a mutually-reinforcing way.
- ATEN will be drawing up work order production plans to meet order requirements and implementing batch production, order request handling and delivery from stock, while also boosting production capacity, in order to ensure customer satisfaction with regard to delivery times.
- ATEN will be working to cultivate multi-skilled factory operatives and implementing rotation of mid-level managers, so as to strengthen the development of specialist skills and management capabilities.
- ATEN will be strengthening its flexible manufacturing capabilities and production line scheduling, enhancing its ability to manufacture a wide range of products in small volumes, and reducing unit production costs, to strengthen overall competitiveness.
- Advancing the concept of the TQM (Total Quality Management) and JIT (Just In Time); this will be supported by the purchasing of new production line automation equipment to enhance production efficiency and improve quality.
- ATEN will be implementing visual management, using kanban board visualization tools and transparent, timely Shop Floor Information System (SFIS) messaging to realize quality objectives and efficient management goals.

c. New product R&D strategy:

- Ongoing development of core video technologies.
- Development and deployment of embedded software.
- Aggressive development of new ASIC materials.
- An ongoing drive to develop new, higher-end products.
- Adoption of User-centered Design to help ensure the best possible customer experience.
- Applying for patents (for ATEN's independently developed technologies) both in Taiwan and overseas, to protect intellectual property rights.

d. Management strategy:

- Utilizing continuous improvement of internal management processes and of production efficiency to achieve an enhancement of overall

organizational efficiency and reduction of costs and expenses, committing to building core advantage, thereby enhancing ATEN's earnings performance and creating maximum value for society, customers, employees and shareholders.

- Integrating key product technologies in different fields, while working tirelessly to further enhance the technical capabilities of R&D personnel, so as to be able to respond effectively to the growing demand for small-volume production of a wide range of highly-customized products.
- Implementing steady, ongoing expansion of global operations and service facilities, enhancing market competitiveness and providing localized service, with the aim of building a more comprehensive global network.
- Strengthening corporate governance to fulfill ATEN's responsibilities to stakeholders, and continuing to strengthen ATEN's CSR efforts, so that we can "give back" to society.
- Not being complacent about ATEN's status as an industry leader in both technology and products, and continuing to foster product and technology innovation to stimulate overall operational growth, in line with the product application needs of individual industries.

2. Market and Sales Overview

(1) Market Analysis

A. Shipment Destinations for Products

unit:%

| Shipment Destinations | 2018 | 2017 |
|------------------------------|-------------|-------------|
| America | 30 | 29 |
| Asia | 35 | 37 |
| Europe | 22 | 21 |
| Other regions | 4 | 4 |
| Domestic sales | 8 | 8 |

B. Market Share

ATEN has developed many innovative new products for the High Performance KVM switch and Secure KVM switch markets, which are forecast to have high growth in the future. There is thus considerable scope for a further increase in ATEN's overall market share.

C. The Outlook for Market Supply and Demand and Growth

Judging from the current state of the global IT infrastructure access management solution market, data center central management solution still constitute the KVM market mainstream, and represent the main driver of growth. In the past, North America was by far the largest market for data center central management solution. However, with the rapid pace of development of the Internet and the advances that have been achieved in technology, there has recently been significant growth in demand for KVM switches in Asia and Europe, particularly

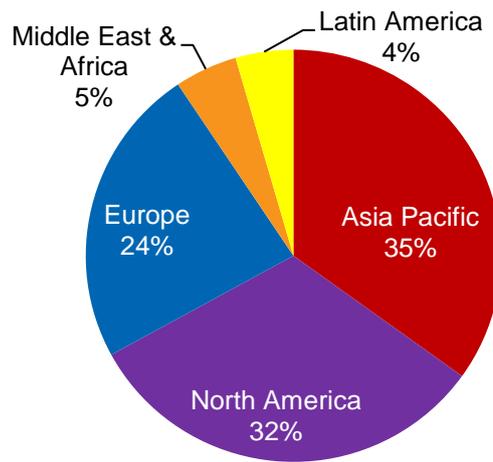
from government agencies and financial institutions. With the consumer and enterprise-class KVM markets more or less saturated, demand for replacement of existing KVM switches is derived mainly from the upgrading of interface specifications. There has been a gradual shift away from analog VGA interface towards DVI (Digital Visual Interface) or DisplayPort interface, which can provide users with better, more stable image quality.

Traditionally, the main source of demand for KVM switch vendors has been for the use of KVM switches in control rooms and data centers, where they are used in server connection and management solutions. This market segment will continue to grow steadily over the next few years, but the growth will be relatively slow. Given the expected trends in terms of technology development and markets, there are two areas where stronger growth is likely to be seen. Due to the integration of Pro AV and Infrastructure access management solution products and the widespread of large-sized, high-resolution displays, high performance KVM brings strong demand in the application such as broadcasting TV industry and transportation control room. Also, European and America government and defense agencies request the demand of secure KVM with international certification because of the information security and privacy protection. For these two potential sales momentums, ATEN has already allocated considerable resources towards technology and product development, and will be rolling out a series of related products and solutions.

Data compiled by leading market research firm IOTA shows that the global Professional Audio/Video equipment market is an extremely large one, and covers a very wide range of different product and applications. Examination of the shares of the total global Professional Audio/Video equipment market held by individual regions (Table 1) shows that the Asia Pacific market is the largest regional market, accounting for 35% of the total global market, followed by the North America region with 32%. As regards the shares of the market held by different types of customer (Table 2), corporate customers account for the largest share of the overall Professional Audio/Video market with 20% of the total, followed by venues and events, media and entertainment, and governmental and military. IOTA also forecast that the Professional Audio/Video segment would post a CAGR of 4.7% over the period 2017 - 2022, and that overall market size would grow by an additional US\$52 billion during this period.

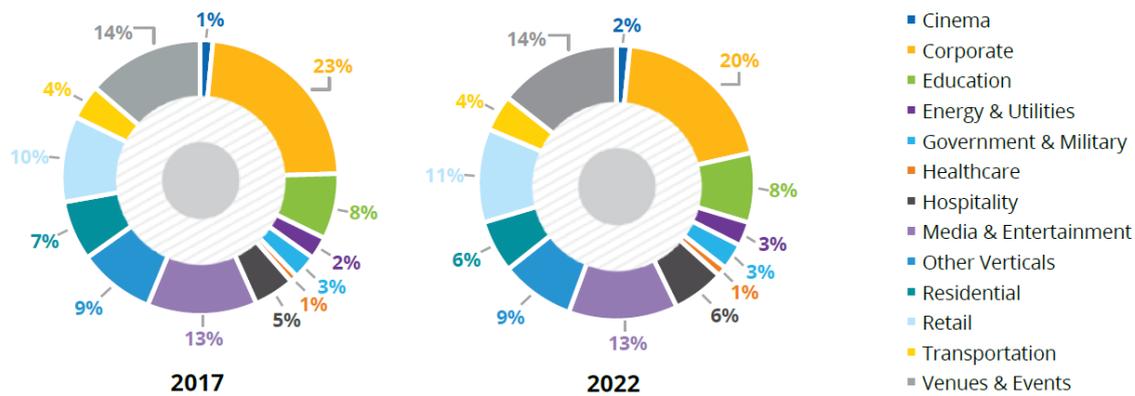
The Professional Audio/Video sector encompasses a wide range of sub-industries (see Table 3), but can be broadly divided into two main categories: products and services. The main product types include: Display devices, projectors, monitors, control systems, signal management and transmission equipment, lighting equipment, etc. Services include: design, installation, customization, stage installation, etc. Currently, the main focus in ATEN's VanCryst Professional Audio/Video product line is on two broad areas: Signal Management & Processing, and Control Systems.

Table 1: Global Pro-A/V Market Category by Region



Source: IOTA report 2017

Table 2: Global Pro-A/V Market Category by Industry
Global Sales Revenue Share by Industry - 2017 vs. 2022



Source: IHS Markit

© 2017 IHS Markit

Source: IOTA report 2017

Table 3: Global Pro-A/V Market Category by Product and Service



D. The Company's Competitive Niche

- a. An outstanding R&D team whose constant innovation and technological breakthroughs enable ATEN to enjoy the advantage of being the market leader.
- b. The ability to offer total solutions for remote management, backed up by a comprehensive high-end, mid-range and entry-level product line, along with the ability to implement customized production of a wide range of different products in small volumes, enabling ATEN to meet the needs of different customers and different market segments.
- c. A global marketing and sales strategy supported by expert international marketing talent and comprehensive, localized distribution networks, along with mechanisms to facilitate rapid response to changes in the market.
- d. A strong brand; ATEN products are renowned for their high quality and reliability.
- e. A global patent strategy, with aggressive action against piracy to safeguard the company's intellectual property rights.
- f. Using "AV meets IT" integrated solutions to meet the needs of the global IT management and Professional Audio/Video markets.

E. Positive and Negative Factors for the Future Development, and the Company's Response to Such Factors.

- a. Positive factors:
 - (a). ATEN has been developing its KVM product line for over 10 years, and the "ATEN" brand enjoys a first-class reputation throughout the global market.
 - (b). ATEN has won numerous major awards, has established a strong international brand, and strengthens the brand identification.
 - (c). ATEN has been refining its sales and localized service strategies for individual regions, establishing a solid foundation for achieving further revenue growth in the future.
 - (d). Focusing on niche market and steadily expanding diversified product application scope, with a gradual expansion from KVM products towards A/V and intelligent PDU product lines, creating the foundation needed to drive revenue and earnings growth in the future.
 - (e). First-class, highly-experienced R&D and production technology teams.
 - (f). High-end core technology capabilities that include IC design, hardware, monitoring software/firmware, video networked communications, etc., and applying for patent to protect intellectual property.
 - (g). A business philosophy based on integrity and practical, down-to-earth management.
 - (h). Ongoing corporate social responsibility (CSR) initiatives that are helping to strengthen the company's public image.
 - (i). Harmonious collaborative relationships with partner companies and

- outstanding customer quality.
- (j). Ongoing cultivation and recruitment of outstanding human talent.
- (k). Sound financial underpinnings.
- b. Negative factors:
 - (a). Uneven economic growth between regions.
 - (b). Exchange rate fluctuations with potential risk.
 - (c). The emergence of new competitors.
 - (d). Consumers' lack of product knowledge.
 - (e). Piracy and intellectual property violations.
- c. Measures that can be adopted to address the negative factors:
 - (a). ATEN's globalized market development strategy will ensure that ATEN will not be unduly affected by fluctuations in any given market or single country, thereby reducing systematic risk. At the same time, developing products for a wider range of industries and applications will help to spread systemic risk relating to the business cycle in individual industries, and will facilitate the optimization of production and sales management, thereby reducing the generation of idle inventory.
 - (b). ATEN's finance and accounting departments will undertake ongoing monitoring of exchange rate fluctuations for the main currencies in which ATEN receives payment, and will evaluate how market prices can be expected to move, thereby making it possible to adjust product prices as needed; in addition, ATEN will make effective use of financial tools to hedge against the risk of foreign exchange loss.
 - (c). In response to the continuing increase in the number of competitor firms in the medium- and low-end segment of the KVM market, ATEN will be leveraging its first-class product development and R&D capabilities to achieve a higher level of differentiation and enhanced product quality, thereby avoiding being dragged into vicious price competition. Providing efficient maintenance and repair service, and superior customer service in general, will also help ATEN to differentiate itself from price-slashing competitors. ATEN will also be taking legal action against firms that violate ATEN's trademarks and patents, to protect the company's interests.
 - (d). By establishing showrooms in major cities throughout the world, and by utilizing marketing and sales promotion methods that include the use of case studies of successful adoption of ATEN products in particular industries, ATEN can make it easier for potential customers – including system integrators, ordinary business enterprises, government agencies and individual consumers – to gain a greater understanding of company products and application environment, while spreading awareness of the benefits that ATEN devices offer in terms of being energy-saving, environmentally-friendly, space-saving, and enhancing overall control room performance.

(e). Efforts can be made to step up investigation of the pirating of ATEN products, with concrete measures being taken to protect ATEN's exclusive rights to the sale of its patented products.

(2). Suppliers and Customers that Have Accounted for 10% or More of ATEN's Total Purchasing or Total Sales during Either of the Last Two Years

A. Suppliers that have accounted for 10% or more of ATEN's total consolidated purchasing during either of the last two years:

Unit: NT\$ thousands

| 2018 | | | 2017 | | |
|------------------|-----------|---|------------------|-----------|---|
| Name | Amount | Percentage of total annual purchasing (%) | Name | Amount | Percentage of total annual purchasing (%) |
| NA | | | NA | | |
| Total Purchasing | 1,840,074 | - | Total Purchasing | 1,550,965 | - |

The Company's consolidated suppliers(excluding ATEN manufacturing subsidiaries) scattered around the world. There is no single supplier that has accounted for 10% or more of ATEN's total consolidated purchasing during either of the last two year.

B. Customers that have accounted for 10% or more of ATEN's total consolidated sales during either of the last two years:

Unit: NT\$ thousands

| 2018 | | | 2017 | | |
|-----------------|-----------|--------------------------------------|-----------------|-----------|--------------------------------------|
| Name | Amount | Percentage of total annual sales (%) | Name | Amount | Percentage of total annual sales (%) |
| NA | | | NA | | |
| Total Net Sales | 5,173,010 | - | Total Net Sales | 4,947,321 | - |

The Company's consolidated customers(excluding ATEN subsidiaries) scattered around the world. There is no single customer that has accounted for 10% or more of ATEN's total consolidated customer during either of the last two year.

(3). Production Volume and Production Value for the Last Two Years

Units: pieces / NT\$ thousands

| Product Line \ Year | 2018 | | | 2017 | | |
|---|---------------------|-------------------|------------------|---------------------|-------------------|------------------|
| | Production Capacity | Production Volume | Production Value | Production Capacity | Production Volume | Production Value |
| IT Infrastructure Access Management Solution Products | 1,127,636 | 1,075,395 | 1,018,390 | 1,143,412 | 1,064,118 | 990,805 |
| Video Products | 294,063 | 275,642 | 259,899 | 266,357 | 257,448 | 236,871 |
| Other | 1,288,306 | 1,220,960 | 175,589 | 1,310,953 | 1,244,223 | 177,268 |
| Total | 2,710,005 | 2,571,997 | 1,453,878 | 2,720,722 | 2,565,789 | 1,404,944 |

(4) Sales Volume and Value for the Last Two Years

Units: pieces / NT\$ thousands

| Year Product Line | 2018 | | | | 2017 | | | |
|---|----------------|---------|--------------|-----------|----------------|---------|--------------|-----------|
| | Domestic Sales | | Export Sales | | Domestic Sales | | Export Sales | |
| | Volume | Value | Volume | Value | Volume | Value | Volume | Value |
| IT Infrastructure Access Management Solution Products | 48,864 | 180,242 | 916,300 | 2,965,851 | 46,606 | 176,624 | 967,693 | 2,952,403 |
| Video Products | 18,475 | 49,005 | 366,106 | 955,645 | 18,039 | 39,852 | 372,011 | 855,689 |
| Other | 102,840 | 188,060 | 1,577,238 | 834,207 | 117,352 | 186,360 | 1,601,766 | 736,393 |
| Total | 170,179 | 417,307 | 2,859,644 | 4,755,703 | 181,997 | 402,836 | 2,941,470 | 4,544,485 |

3. Employees

The number of ATEN Group employees, their average years of service, average age and education levels

| Year | | As of March 31, 2019 | 2018 | 2017 |
|---------------------------|--------------------------------|-------------------------|-------|-------|
| Numbers of employees | Managerial and sales personnel | 932 | 925 | 828 |
| | R&D personnel | 275 | 268 | 261 |
| | Production line workers | 409 | 504 | 528 |
| | Total | 1616 | 1697 | 1617 |
| Average age | | 36.10 | 35.66 | 35.21 |
| Average length of service | | 5.68 | 5.48 | 5.22 |
| Education | Ph.D. | 0.3% | 0.3% | 0.4% |
| | Masters | 17.7% | 16.2% | 15.0% |
| | Bachelor's Degree | 39.7% | 36.9% | 40.2% |
| | Senior High School | 16% | 15.9% | 15.0% |
| | Below Senior High School | 26.3% | 30.7% | 29.4 |

Note: The number of overseas and local product line workers accounted for 25.31% of total group employee.

V. Financial Information

1. Abbreviated Consolidated Balance Sheet and Income Statement for the last 5 years

(1). Abbreviated Consolidated Balance Sheet – IFRS

Unit: NT\$ thousands

| Item | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---------------------|-----------|-----------|-----------|-----------|
| Current assets | 4,638,222 | 3,445,070 | 3,206,670 | 3,046,467 | 3,155,232 |
| Property, plant and equipment | 1,994,459 | 2,024,879 | 2,026,920 | 2,058,046 | 2,075,749 |
| Goodwill | 2,756 | 2,756 | 2,756 | 2,756 | 2,756 |
| Other assets | 409,627 | 479,542 | 514,324 | 470,451 | 465,822 |
| Total assets | 7,045,064 | 5,952,247 | 5,750,670 | 5,577,720 | 5,699,559 |
| Current liabilities | Before distribution | 2,074,856 | 1,882,630 | 1,647,471 | 1,608,563 |
| | After distribution | Note 2 | 1,218,346 | 2,348,346 | 2,242,340 |
| Non-Current liabilities | 383,789 | 350,619 | 392,834 | 419,132 | 467,506 |
| Total liabilities | Before distribution | 2,458,645 | 2,233,249 | 2,040,305 | 2,027,695 |
| | After distribution | Note 2 | 1,568,965 | 2,741,180 | 2,661,472 |
| Total Equity attributable to shareholders of the parent company | Before distribution | 4,496,883 | 3,617,887 | 3,612,942 | 3,458,339 |
| | After distribution | Note 2 | 2,953,603 | 2,920,009 | 2,837,089 |
| Common Stock | 1,194,711 | 1,194,711 | 1,194,711 | 1,194,711 | 1,194,711 |
| Capital Surplus | 343,149 | 387,157 | 383,026 | 336,527 | 333,360 |
| Retained Earnings | Before distribution | 3,066,318 | 2,130,064 | 2,100,537 | 1,927,978 |
| | After distribution | Note 2 | 1,472,973 | 1,407,604 | 1,306,728 |
| Other equity | (107,295) | (94,045) | (65,332) | (877) | 8,274 |
| Treasury stock | - | - | - | - | - |
| Non-controlling interests | Before distribution | 89,536 | 101,111 | 97,423 | 91,686 |
| | After distribution | Note 2 | 93,918 | 89,481 | 79,159 |
| Total equity | Before distribution | 4,586,419 | 3,718,998 | 3,710,365 | 3,550,025 |
| | After distribution | Note 2 | 3,054,714 | 3,009,490 | 2,916,248 |

Notes: 1. Data for 2014 – 2018 has all been audited by a certified public accountant.

2. Pending for shareholders' meeting resolution.

(2). Abbreviated Consolidated Income Statement - IFRS

Unit: NT\$ thousands

| Item | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-----------|-----------|-----------|-----------|-----------|
| Net Sales | 5,173,010 | 4,947,321 | 4,935,747 | 4,887,879 | 4,897,935 |
| Gross profit | 3,043,680 | 2,924,660 | 2,962,576 | 2,850,171 | 2,877,840 |
| Operating profit | 830,114 | 886,183 | 939,912 | 883,929 | 1,012,933 |
| Non-operating income and expenses | 1,026,856 | 60,798 | 68,306 | 47,573 | 39,857 |
| Net income before tax | 1,856,970 | 946,981 | 1,008,218 | 931,502 | 1,052,790 |
| Income from Continuing Operations | 1,587,751 | 738,194 | 795,533 | 719,337 | 776,632 |
| Income (Loss) from Discontinued Operations | - | - | - | - | - |
| Net income | 1,587,751 | 738,194 | 795,533 | 719,337 | 776,632 |
| Other comprehensive income (loss), net of tax | 3,471 | (32,817) | (62,615) | (29,823) | 5,872 |
| Total comprehensive income | 1,591,222 | 705,377 | 732,918 | 689,514 | 782,504 |
| Net income attributable to shareholders of the parent company | 1,576,132 | 726,748 | 788,320 | 704,711 | 760,474 |
| Net income attributable to non-controlling interests | 11,619 | 11,446 | 7,213 | 14,626 | 16,158 |
| Total comprehensive income attributable to shareholders of the parent company | 1,580,030 | 693,747 | 729,354 | 676,109 | 764,474 |
| Total comprehensive income attributable to non-controlling interests | 11,192 | 11,630 | 3,564 | 13,405 | 18,030 |
| EPS (NT\$) | 13.19 | 6.08 | 6.60 | 5.90 | 6.37 |

Notes: 1.The data for 2014 – 2018 has all been audited by a certified public accountant.

2. Consolidated Financial Ratios for the last 5 years - IFRS

| Item | | 2018 | 2017 | 2016 | 2015 | 2014 |
|----------------------|--|--------|-------|-------|-------|-------|
| Financial structure | Debt ratio (%) | 35 | 38 | 35 | 36 | 38 |
| | Ratio of Long-term fund to Property, plant and equipment asset (%) | 249 | 201 | 202 | 193 | 194 |
| Liquidity Ratios | Current ratio (%) | 224 | 183 | 195 | 189 | 188 |
| | Quick ratio (%) | 169 | 135 | 144 | 133 | 140 |
| | Times interest earned (times) | 102 | 66 | 82 | 84 | 70 |
| Operating ratios | Receivables turnover (turns) | 7.18 | 7.48 | 8.39 | 8.19 | 8.40 |
| | Receivables turnover days | 51 | 49 | 44 | 45 | 43 |
| | Inventory turnover (turns) | 2.27 | 2.55 | 2.46 | 2.64 | 2.83 |
| | Payables turnover (turns) | 4.51 | 4.79 | 4.84 | 4.86 | 4.94 |
| | Inventory turnover days | 161 | 143 | 148 | 138 | 129 |
| | Property, plant and equipment asset turnover (turns) | 2.57 | 2.44 | 2.42 | 2.36 | 2.34 |
| | Total assets turnover (turns) | 0.80 | 0.85 | 0.87 | 0.87 | 0.88 |
| Profitability ratios | Return on assets (%) | 24.66 | 12.82 | 14.23 | 12.92 | 14.18 |
| | Return on equity (%) | 38.23 | 19.87 | 21.91 | 20.25 | 22.40 |
| | Pre-tax Income to Paid-in Capital Ratio (%) | 155.43 | 79.26 | 84.39 | 77.97 | 88.12 |
| | Profit ratio (%) | 30.69 | 14.92 | 16.12 | 14.72 | 15.86 |
| | Earnings per share (NT\$) | 13.19 | 6.08 | 6.60 | 5.90 | 6.37 |
| Cash flow | Cash flow ratio (%) | 7 | 44 | 25 | 49 | 54 |
| | Cash flow adequacy ratio (%) | 76 | 90 | 90 | 99 | 104 |
| | Cash flow reinvestment ratio (%) | -9.25 | 2.58 | -4.80 | 2.04 | 6.50 |
| Leverage | Degree of operating leverage | 2.44 | 2.16 | 2.11 | 2.16 | 1.92 |
| | Degree of financial leverage | 1 | 1 | 1 | 1 | 1 |

VI. Analysis of Risk Management

1. The effect upon the company's profit (loss) of interest and exchange rate fluctuations and changes in the inflation rate, and response measures to be taken in the future

- (1).The effect of interest rate fluctuations

Unit:NT\$ thousands

| Year | 2018 | 2017 |
|---|-----------|---------|
| Item | | |
| Interest Income | 2,910 | 4,119 |
| Interest Expense | 18,369 | 14,467 |
| Net Income | 1,587,751 | 738,194 |
| (Interest Income-Interest Expense) / Net Income | -0.97% | -1.40% |

ATEN has consistently maintained a healthy financial structure, with dedicated personnel responsible for close interaction with ATEN's banks. The company makes effective use of a range of financial tools to reduce the risk associated with interest rate fluctuations. For the last two years, ATEN's net interest income amounted to less than 2.0% of the company's consolidated net income; the impact of interest rate fluctuations on the company has thus been very limited.

- (2).The effect of exchange rate fluctuations

- A. ATEN's products are heavily oriented towards the export market, with exports accounting for over 90% of total sales in 2017 and 2018. Prices for export sales are normally calculated in U.S. dollars, and as imported materials account for only a small share of total materials costs, ATEN does not benefit from the "natural hedging" effect. Exchange rate fluctuations can thus have a significant impact on the company's operations. The impact of exchange rate loss on the company's consolidated sales revenue and profits in 2017 and 2018 are outlined below:

Unit:NT thousands

| Item | 2018 | 2017 |
|-----------------------------------|-----------|-----------|
| Gain on foreign Exchange, Net (1) | 7,679 | 9,551 |
| Net Income before Tax (2) | 1,856,970 | 946,981 |
| Net Income (3) | 5,173,010 | 4,947,321 |
| (1)/(2) | 0.41% | 1.01% |
| (1)/(3) | 0.15% | 0.19% |

- B. The response measures to be taken

- a. Careful recording the exchange rate at the time which receivables and payments are made into the account, and using forward contracts for hedging purposes. ATEN maintains close contacts with its banks, and

collects information relating to exchange rate movements, enabling the company to keep its finger on the pulse of exchange rate movements, thereby avoiding, or at least minimizing, exchange rate risk.

- b. In accordance with ATEN's Procedures for the Acquisition and Disposal of Assets, the company reviews its foreign exchange positions twice a month. ATEN is constantly monitoring market fluctuations, so as to be able to adjust its hedging strategy as necessary.

(3).The effect of changes in the inflation rate

ATEN constantly monitors market price movements, and maintains close relations with both suppliers and customers. As a result, in 2017 and 2018, ATEN has not suffered any serious impact from inflation.

2. The company's policy regarding high-risk investments, highly leveraged investments, loan to other parties, endorsement, guarantees, and derivatives transactions; the main reasons for the profit/losses generated thereby; and response measures to be taken in the future.
 - (1). The Company did not engage in high-risk, high-leverage investment or make loans to others in 2018.
 - (2). The great majority of the Company's business transactions are denominated in foreign currency. To hedge against exchange rate risk, the Company engaged in forward exchange transactions with banks with good credit ratings for hedging purpose so as to minimize our exchange rate exposure.
3. R&D work to be carried out in the future, and future expenditures expected for R&D work.

Unit:NT thousands

| R&D Plans | Current Progress | Further Expenditure Required | Expected completion schedule |
|---|------------------|------------------------------|------------------------------|
| Development of a range of high-performance KVM matrix system products for use in the management and integration of KVM equipment for control room applications. | Ongoing | 128,000 | Q4, 2019 |
| Development of the new-generation Prosumer KVM series of products, targeting True 4K resolution, mixed-signal and multi-screen office applications. | Ongoing | 43,000 | Q3, 2019 |
| Integration and applications of New SOHO peripheral products and video game peripheral products. | Ongoing | 78,000 | Q2, 2019 |
| Integration and applications of Audio/ Video connector management products. | Ongoing | 129,000 | Q4, 2019 |

| R&D Plans | Current Progress | Further Expenditure Required | Expected completion schedule |
|---|------------------|------------------------------|------------------------------|
| Smart Control System. | Ongoing | 46,000 | Q3, 2019 |
| PE series electric power and green energy integration and applications. | Ongoing | 41,000 | Q3, 2019 |
| EC series electric power and green energy integration and applications. | Ongoing | 14,000 | Q3, 2019 |

4. Effect on the company’s financial operations of important policies adopted and changes in the legal environment at home and abroad, and measures to be taken in response.

ATEN constantly monitors domestic and international developments in the political and economic spheres as well as legal and regulatory changes, while maintaining the ability to respond appropriately to such changes. In regard to issues such as the U.S.-China trade dispute that began in FY2018, which has made it necessary to evaluate possible scenarios for relocating production and also carries the risk of an increased tariff burden, and the implementation of the General Data Protection Regulation (GDPR) by the EU, ATEN implements initiatives involving evaluation and response measures as necessary. As a result, none of the major domestic or international policy decisions and legal and regulatory changes of the past fiscal year had a significant material impact on ATEN’s finances or sales.

5. Effect on the company’s financial operations of developments in science and technology as well as industrial change, and measures to be taken in response.

ATEN specializes in the development, manufacturing and sale of network management and computer peripheral devices. The company uses its participation in exhibitions, trade shows and conferences to obtain information about the industry of which it is part and to keep up-to-date with the latest market news. Today, when the pace of change in technology is so rapid, demand for computer networking and monitoring equipment is rising steadily, which has helped to boost demand for ATEN’s KVM switches and industrial controller products. ATEN’s outstanding technology and high competitiveness, coupled with a business development strategy that emphasizes innovation, will help ATEN to achieve even more impressive results in the future.

6. Effect on the company’s crisis management of changes in the company’s corporation image, and measures to be taken in the future.

ATEN’s core values – Integrity, Caring, Ambition, and Novelty – continue to guide the actions of both the management team and ordinary ATEN employees. We take into account the issues that are important to our stakeholders (including our shareholders, our employees, customers, suppliers, the government, the local

community, etc.) in every aspect of our business operations, viewing these issues as areas where we need to make a real effort and where there is always room for improvement. Besides continuing to maintain a high level of profitability in our core business, so that we can share this success with our shareholders and our employees, we also hope that ATEN can use the influence that it exerts as a corporation to provide positive benefits to an even wider range of stakeholders.

Over the years, the importance that ATEN attaches to its corporate image and the efforts that have been made in this regard have won recognition in the form of numerous awards of various kinds, including the “Taiwan Mittelstand Award,” CommonWealth magazine’s “Excellence in Corporate Social Responsibility” award, “Corporate Governance Evaluation System” award, the “Award for Best Companies to Work For,” the “Taiwan Excellence Award,” etc. This recognition has given us further encouragement to continue to make sustainable development our goal in every aspect of our business operations, and to strive to ensure that the strategies we follow benefit not only our company but also the global community as a whole.

7. Expected benefits and possible risk associated with any merger and acquisitions, and mitigation measures being or to be taken.

ATEN has not undertaken any merger or acquisition activity in 2018, or in 2019 (up until the present time).

8. Expected benefits and possible risk associated with any plant expansion and mitigation measures being or to be taken.

Not applicable.

9. Risk associated with any consolidation of sales or purchasing operations, and mitigation measures being or to be taken.

ATEN’s consolidated suppliers and customers (excluding ATEN subsidiaries) scatter around the world. No single supplier and customer accounted for 10% or more of total consolidated purchases and sales, respectively. There is therefore no serious risk due to excessive customer concentration.

10. Effect upon and risk to the company in the event a major quantity of shares belonging to a director, supervisor, or shareholder holding greater than 10 percent stake in the company has been transferred or has otherwise changed hands, and mitigation measures being or to be taken.

Not applicable.

11. Effects of, risks relating to and response to changes in control over the Company.

Not applicable.

12. Litigious and non-litigious matters. List major litigious or administrative disputes that:(1) involve the company and/or any company director, any company supervisor, the general manager, any person with actual responsibility for the firm, any major shareholder holding a stake of greater than 10 percent, and/or any company or companies controlled by the company; and (2) have been concluded by means of a final and unappealable judgment, or are still under litigation. Where such a dispute could materially affect shareholders' equity or the price of the company's securities.
- (1) The Company had filed patent infringement suits against YiFeng Technology Co., Ltd. (Yi-Feng),and Heoya Technology Corp., Ltd. (Heoya). As of March 31, 2019, December 31 and March 31, 2018, the Company had pledged cash and time deposits of \$22,400 thousand, \$22,400 thousand, and \$108,750 thousand, respectively. However, the Company lost both appeals.
 - (2) During 2014, the Company filed patent infringement suits against Uniclass Technology Co., Ltd, Electronic Technology Co., Ltd. Of Dongguan Uniclass, Airlink 101, Pheobe Micro Inc, Broadtech International Co., Ltd, d/b/a Linkskey and Black Box Corporation to the Eastern District Court of Texas. Though losing the first appeal, the Company will proceed to appeal to the federal circuit court to secure its patent rights.
 - (3) In July 2018, ATEN Technology, Inc., a subsidiary of the Company, filed trademark infringement and unfair competition suits against Arris Group, Inc. and its associate, Ruckus Wireless, Inc., to the Western Division of Central District Court of California. As of March 31, 2019, the parties had reached a settlement, with the respondents undertaking to cease and desist from any violation of the trademarks of ATEN Technology, Inc., thereby bringing this dispute to an end.

13. Other important risks, and mitigation measures being or to be taken.

Evaluation and Analysis of Information Security Risk

In order to strengthen information security management, ATEN has adopted the most rigorous information security requirements and established a set of information security protection systems to monitor and support the company's operations. However, ATEN cannot guarantee that its computer systems are entirely free from any risk of a Distributed Denial of Service (DDoS) attack initiated by a third party and aimed at paralyzing the company's systems, or of attack using ransomware or social engineering, etc.

The use of illegal methods by external hackers to penetrate ATEN's internal networks and systems could disrupt the company's day-to-day operations. In the event of an online attack, important corporate data might be lost from the company's systems, which might result in delays or stoppages in sales and service provision, could impact the new product R&D process, and might lead to

temporary factory shutdowns, etc.

Malicious hackers might also attempt to infect the company's networks and systems with computer viruses, malware or ransomware in an effort to disrupt the company's operations or obtain control of computer systems with the aim of extorting money from ATEN, or stealing intellectual property or other confidential information, such as customer data or data relating to other stakeholders, or employees' personal data, etc.

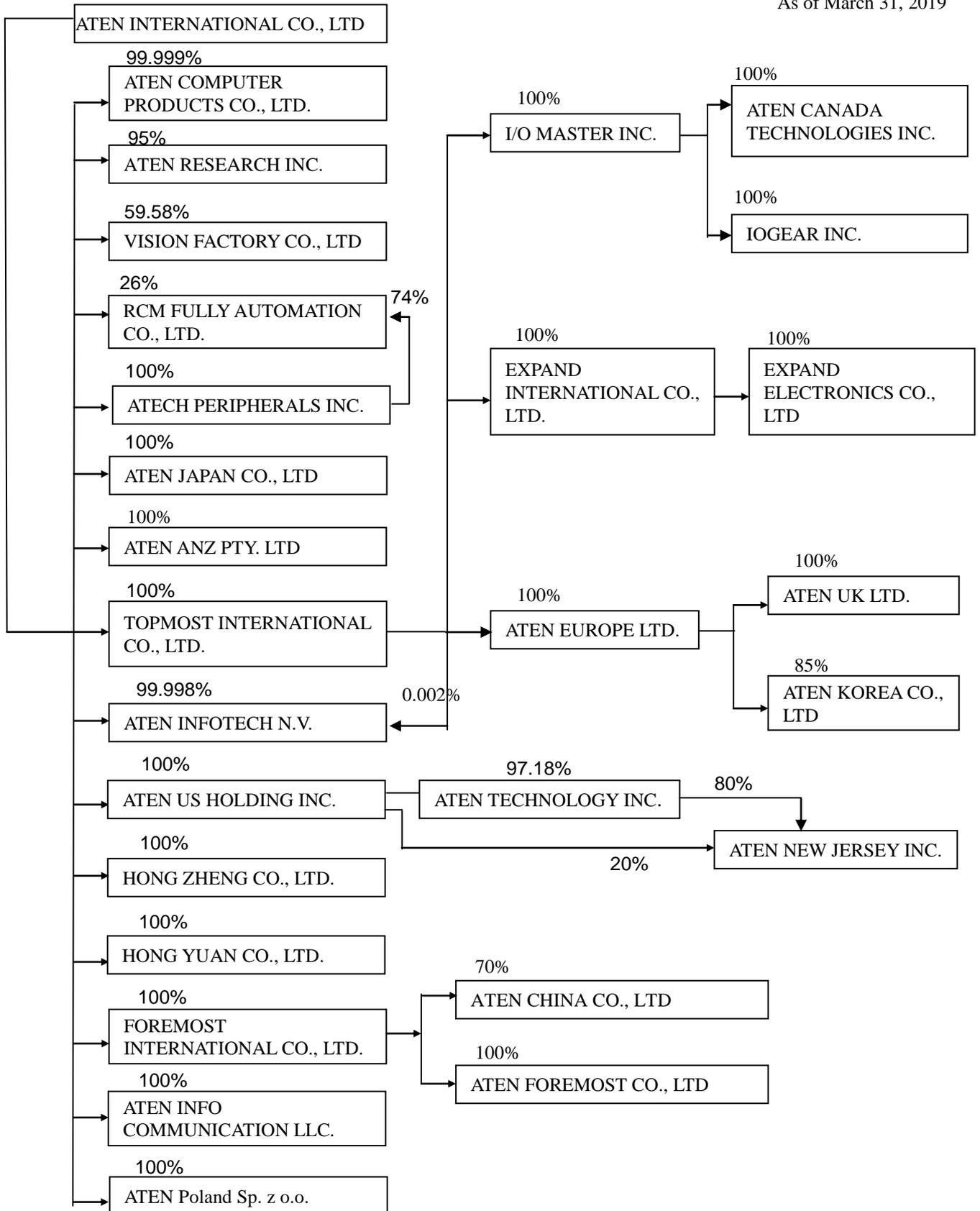
Responding to the emerging trends in the information security field, ATEN will continue to refine its governance system and strengthen its defensive capabilities in relation to information security, utilizing annual reviews and evaluations of network security rules and procedures to verify that they are appropriate and effective. However, given the constantly evolving state of information security threats, ATEN cannot guarantee that the company will be safe from the impact of new types of attacks and risks.

For the personal data protection risk, ATEN has implemented the regulation and system in compliance with the General Data Protection Regulation (GDPR), aiming to minimize the risk of collection, handling, and utilizing EU citizen information.

VII. Affiliated Enterprises

1. Organization Chart of Affiliated Enterprises

As of March 31, 2019



2. Basic Information of Affiliated Enterprises

As of March 31, 2019

| Name | Date of Establishment | Address | Paid-in capital | Major businesses or products |
|----------------------------------|-----------------------|---|---------------------|---|
| ATEN COMPUTER PRODUCTS CO., LTD. | 1990.10 | No 733, Soi Ladphrao 48 , Ladphrao Rd , Samsen nok Huaykwang , Bangkok, Thailand | 12,000,000 baht | Trading of electronic peripheral products |
| ATEN RESEARCH INC. | 1990.09 | 15365 Barranca Parkway, Irvine, CA 92618, U.S.A. | US\$598,000 | Trading of electronic peripheral products |
| VISION FACTORY CO., LTD | 1970.12 | No.15, Ln. 30, Xinjiang N. Rd., Sijhih Dist., New Taipei City, Taiwan 221, ROC | NT\$108,624,000 | Special printing |
| ATECH PERIPHERALS INC. | 1999.06 | 6F., No.133, Sec. 2, Datung Rd., Sijhih District., New Taipei City 221, Taiwan | NT\$25,000,000 | Trading of electronic peripheral products |
| TOPMOST INTERNATIONAL CO., LTD. | 1999.07 | Scotia Centre, 4th Floor, P.O. Box2804, George Town, Grand Cayman, Cayman Islands. | US\$700,000 | General investment |
| EXPAND INTERNATIONAL CO., LTD. | 1999.07 | Suite 11, Level 2 Niamall, Saleufi Samoa | US\$689,965 | General investment |
| ATEN TECHNOLOGY, INC. | 1996.03 | 15365 Barranca Parkway, Irvine, CA 92618, U.S.A. | US\$2,749,562.5 | Trading of electronic peripheral products |
| ATEN INFOTECH N.V. | 2000.11 | Mijnwerkerslaan 34, 3550 Heusden-Zolder, BELGIUM | EUR\$1,250,000 | Trading of electronic peripheral products |
| ATEN JAPAN CO., LTD | 2004.03 | ATEN Bldg. 8-4, Minami-senju 3-chome, Arakawa-ku, Tokyo 116-0003 Japan | ¥80,000,000 | Trading of electronic peripheral products |
| ATEN EUROPE LTD. | 2006.05 | 466 Malton Avenue Slough, Berkshire SL1 4QU, UK | GBP\$1,069,000 | General investment |
| ATEN UK LTD. | 2006.05 | 466 Malton Avenue Slough, Berkshire SL1 4QU, UK | GBP\$650,000 | Trading of electronic peripheral products |
| ATEN US HOLDING INC. | 2006.11 | 2711 CENTERVILLE ROAD SUITE400, WILMINGTON, DELAWARE 19808, USA | US\$3,380,000 | General investment |
| ATEN NEW JERSEY INC. | 2006.08 | 220 DAVIDSON AVE, SUITE 404, SOMERSET, NJ 08873, USA | US\$800,000 | Trading of electronic peripheral products |
| ATEN KOREA CO., LTD | 2007.03 | 153-801 B-dong 303 ho, 60-5 Gabeul Grate Valley, Gasan-dong, Geumcheon-gu, Seoul, Korea | Won \$1,200,000,000 | Trading of electronic peripheral products |
| FOREMOST INTERNATIONAL CO., LTD. | 2007.04 | St James Court, Suite 308, St Denis Street, Port Louis, Republic of Mauritius | US\$ 2,180,628 | General investment |

| Name | Date of Establishment | Address | Paid-in capital | Major businesses or products |
|--------------------------------|-----------------------|---|------------------|---|
| ATEN CHINA CO., LTD | 2007.11 | 18/F, Tower A, Horizon International Tower, No. 6, Zhichun Road, Haidian District Beijing, China 100088 | RMB \$12,000,000 | Trading of electronic peripheral products |
| ATEN FOREMOST CO., LTD | 2008.01 | No.5 Luotian Industrial Park, Songgang Street Baoan District Shenzhen China | HK\$7,500,000 | Manufacturing and trading of electronic peripheral products |
| I/O MASTER INC. | 1999.03 | OFFSHORE CHAMBERS, P.O. BOX217, APIA, SAMOA | US\$ 700,000 | General investment |
| ATEN CANADA TECHNOLOGIES INC. | 1998.09 | #101-11784 Hammersmith Way, Richmond, B.C. V7A 5E3 Canada | CAD\$ 100 | Research development |
| IOGEAR INC. | 2001.03 | 15365 Barranca Parkway, Irvine, CA 92618, U.S.A. | US\$ 100 | Trading of electronic peripheral products |
| EXPAND ELECTRONICS CO., LTD | 2011.11 | Building 184, Yanluo Road, Luotian Community, Songgang Subdistrict, Bao'an District, Shenzhen | RMB\$ 15,000,000 | Manufacturing |
| HONG ZHENG CO., LTD. | 2011.7 | 6F., No.137, Sec. 2, Datung Rd., Sijhih District., New Taipei City 221, Taiwan | NT\$ 16,000,000 | General investment |
| HONG YUAN CO., LTD. | 2011.7 | 6F., No.137, Sec. 2, Datung Rd., Sijhih District., New Taipei City 221, Taiwan | NT\$ 16,000,000 | General investment |
| ATEN ANZ PTY. LTD. | 2015.5 | Suite 3.19, 32 Delhi Road, North Ryde, NSW, 2113 | AUD\$ 1,750,000 | Trading of electronic peripheral products |
| RCM FULLY AUTOMATION CO., LTD. | 2016.4 | 2F., No. 143, Sec. 1, Keelung Rd., Xinyi Dist., Taipei City 110, Taiwan | NT\$ 30,000,000 | Trading of electronic peripheral products |
| ATEN INFO COMMUNICATION LLC. | 2016.10 | Bestepe Mah. Yasam Cad.,Neorama Is Merkezi 13-A/ 76, Yenimahalle Ankara | TRY\$ 2,000,000 | Trading of electronic peripheral products |
| ATEN Poland Sp. z o.o. | 2017.10 | Libra Business Center ul. Gottlieba Daimlera 2., Warsaw, Poland | PLN\$ 1,000,000 | Trading of electronic peripheral products |

3. Operational Performance of Affiliated Enterprises

As of Dec. 31, 2018; Unit: NT\$ thousands

| Company Name | Capital | Total Assets | Total Liabilities | Stockholders' Equity | Net Sales | Operating Income | Net Income | EPS (NT\$) |
|----------------------------------|---------|--------------|-------------------|----------------------|-----------|------------------|------------|------------|
| ATEN COMPUTER PRODUCTS CO., LTD. | 14,113 | 10,733 | 653 | 10,080 | 0 | -343 | -330 | -1.10 |
| ATEN RESEARCH INC. | 16,309 | 279 | 0 | 279 | 0 | -38 | -62 | -20.91 |

| Company Name | Capital | Total Assets | Total Liabilities | Stockholders' Equity | Net Sales | Operating Income | Net Income | EPS (NT\$) |
|----------------------------------|---------|--------------|-------------------|----------------------|-----------|------------------|------------|------------|
| VISION FACTORY CO., LTD | 108,624 | 161,891 | 66,484 | 95,407 | 133,543 | 32,501 | 3,883 | 0.36 |
| ATECH PERIPHERALS INC. | 25,000 | 90,496 | 26,535 | 63,961 | 269,468 | 30,205 | 21,317 | 8.53 |
| TOPMOST INTERNATIONAL CO., LTD. | 22,183 | 512,559 | 0 | 512,559 | 0 | -207 | 37,074 | 52.96 |
| EXPAND INTERNATIONAL CO., LTD. | 21,383 | 323,106 | 5,535 | 317,571 | 0 | -32 | 15,099 | 21.88 |
| ATEN TECHNOLOGY, INC. | 87,993 | 666,758 | 584,654 | 82,105 | 1,240,634 | -6,464 | -15,185 | -5.52 |
| ATEN INFOTECH N.V. | 54,197 | 324,074 | 221,579 | 102,495 | 675,401 | 15,031 | 8,634 | 147.99 |
| ATEN JAPAN CO., LTD. | 25,105 | 294,250 | 168,365 | 125,885 | 434,116 | 35,915 | 23,374 | 14,608.25 |
| ATEN EUROPE LTD. | 67,279 | 169,351 | 5,579 | 163,773 | 0 | -1,385 | 31,343 | 29.32 |
| ATEN UK LTD. | 37,922 | 50,428 | 46,745 | 3,683 | 110,645 | -5,515 | -5,582 | -8.59 |
| ATEN US HOLDING INC. | 107,872 | 90,012 | 4 | 90,008 | 0 | -55 | -15,325 | -4.53 |
| ATEN NEW JERSEY INC. | 26,118 | 35,544 | 1,996 | 33,548 | 58,252 | -11,537 | -4,034 | -5.04 |
| ATEN KOREA CO., LTD | 34,811 | 283,764 | 120,061 | 163,702 | 403,983 | 64,053 | 48,440 | 406.27 |
| FOREMOST INTERNATIONAL CO., LTD. | 69,730 | 145,786 | 0 | 145,786 | 0 | -758 | 7,907 | 3.63 |
| ATEN CHINA CO., LTD | 56,924 | 197,324 | 117,459 | 79,864 | 520,539 | 15,163 | 10,154 | Note |
| ATEN FOREMOST CO., LTD | 29,315 | 133,026 | 81,255 | 51,770 | 271,978 | -147 | 993 | Note |
| I/O MASTER INC. | 9,782 | 33,366 | 8,277 | 25,089 | 0 | -36 | -5,621 | -7.89 |
| ATEN CANADA TECHNOLOGIES INC. | 3 | 38,586 | 5,476 | 33,110 | 94,552 | 3,297 | 2,692 | 8,815.14 |
| EXPAND ELECTRONICS CO., LTD | 67,184 | 248,797 | 132,889 | 115,907 | 831,396 | 16,377 | 14,376 | Note |
| HONG ZHENG CO., LTD. | 16,000 | 501,588 | 31,252 | 470,336 | 0 | -90 | 426,919 | 266.82 |
| HONG YUAN CO., LTD. | 16,000 | 579,642 | 43,680 | 535,962 | 0 | -87 | 492,995 | 308.12 |

| Company Name | Capital | Total Assets | Total Liabilities | Stockholders' Equity | Net Sales | Operating Income | Net Income | EPS (NT\$) |
|--------------------------------|---------|--------------|-------------------|----------------------|-----------|------------------|------------|------------|
| IOGEAR INC. | 3 | 3 | 0 | 3 | 0 | 0 | 0 | 0.00 |
| ATEN ANZ PTY. LTD. | 42,186 | 22,089 | 1,861 | 20,228 | 24,858 | 2,443 | 2,619 | 1.50 |
| RCM FULLY AUTOMATION CO., LTD. | 30,000 | 26,646 | 1,108 | 25,538 | 1,462 | -5,378 | -4,188 | -1.40 |
| ATEN INFO COMMUNICATION LLC. | 17,683 | 4,518 | 1,008 | 3,510 | 8,220 | 8,215 | -992 | -788.04 |
| ATEN POLAND SP. Z O. O. | 8,295 | 6,927 | 795 | 6,132 | 8,734 | -1,362 | -1,457 | -285.78 |

Note: Limited Company