

Stock Code: 1504



TECO ELECTRIC & MACHINERY CO., LTD

GENERAL SHAREHOLDERS MEETING 2016

JUNE 16, 2016

AGENDA

Time: 09:00am, June 16, 2016 (Thursday)

Place: 11 An Dong Road, Industrial Zone, Chung-Li, Taoyuan City
(TECO Chung-Li Plant)

This English version is only a translation of the Chinese version. If there is any inconsistency or discrepancy between the Chinese and English versions, the Chinese version shall prevail for all intents and purposes.

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TECO Electric & Machinery Co., Ltd.

General Shareholders Meeting 2016

Meeting Procedure

1. Meeting called to order
2. Addresses by Chairman
3. Discussion
4. Reports
5. Ratification
6. Election
7. Discussion
8. Extempore motions
9. Meeting adjourned

TECO Electric & Machinery Co., Ltd.

General Shareholders Meeting 2016

Agenda

Time: 09:00am, June 16, 2016 (Thursday)

Place: 11 An Dong Road, Industrial Zone, Chung-Li, Taoyuan City
(TECO Chung-Li Plant)

1. Meeting called to order

2. Addresses by the Chairman.

3. Discussion

3.1 Amendment to Articles of Incorporation

4. Reports:

4.1 Business Report for 2015

4.2 Inspection Report of Audit Committee for 2015

4.3 Remuneration distribution to employees and directors for 2015

5. Ratification:

5.1 Business Report and Financial Statements for 2015

5.2 Distribution of 2015 Profits

6. Election:

6.1 By-Election of the Independent Director

※ Firstly, Discussion 3.1 will be discussed and voted. Secondly, Ratification will be discussed case by case and voted with the Election at the same time. Vote counting will be conducted separately.

7. Discussion:

7.2 Propose to remove the restrictions on the newly elected Independent Director's non-competition clauses.

8. Extempore motion(s).

9. Meeting adjourned.

Discussion

Proposal 1:

Amendment to Articles of Incorporation (proposed by the board of directors)

Explanatory note:

1. According to President decree No. 10402427800, May 20,2015, Ministry of Economic Affairs formulated Articles 235-1 of “Company Law” to regulate the distribution of remuneration to employee and issued the letter No.10402413890 regarding distribution of remuneration to directors and supervisors. The company propose to revise the related measures of Article in Incorporation.
2. The company plans to add “Controlled telecommunication radio-frequency device ” to its business lineup and already filed and received the approval from the National Communication Commission.
3. For the comparison between the revision and the original, please refer to pages 11-14.

Reports

1. Business report for 2015 (pages 15-17)
2. Inspection Report of Audit Committee for 2015 (page 18)
3. Remuneration distribution to employees and directors for 2015

Explanatory note:

- I. Based upon the letter of the Ministry of Economic Affairs (No. 10402413890, June 11, 2015 and No. 10402427800, Oct 15, 2015)
- II. In 2015, income before tax is NT\$ 3,506,444 thousands, and remuneration to employees is proposed to be NT\$ 257,361 thousands, whilst remuneration to directors is proposed to be NT\$ 114,382 thousands. The remuneration would be distributed in cash.

Ratification

Proposal 1:

Business Report and Financial Statements for 2015 (proposed by the board of directors)

Explanatory note:

1. The Board of Directors entrusted certified public accountants Audrey Tseng and Dexter Chang with Pricewaterhouse Coopers to audit and certify the Business Report and Financial Statements (includes Consolidated Financial Statements) for 2015, both of which were subsequently inspected by Audit Committee and are hereby submitted for ratification.
2. Please see pages 15-17 for the business report and pages 19-35 for the Auditors' Report and the Financial Statements.

Proposal 2:

Distribution of 2015 profits (proposed by the board of directors)

Explanatory note:

1. The board of directors plans to appropriate NT\$1,602,154,309 from distributable earnings in 2015 for dividend payout, capable of paying NT\$0.8 of cash dividend per share, which, though, will be rounded off, leaving out decimal fraction.
2. Subject to the approval by the General Shareholders Meeting, it is proposed that the ex-dividend date and the distribution date shall be determined by the Board of Directors authorized to do so.
3. Please see page 36 for the detailed profit distribution plan.

Election

Proposal 1

By-Election of the Independent Director (proposed by the board of directors)

Explanatory note:

1. Due to the job exchange, the company's 24th Managing & Independent Director, Mr. Tian-Jy Chen resigned on May. 12, 2016, and the company plans to by-election for a seat of Independent Director.
2. According to article 15 of the Articles of Incorporation, the candidate of independent director shall be elected by nomination. The newly elected independent director will have a term from June 16, 2016 to June 10, 2018 and can be reelected later on for another term.
3. After investigating based upon Article 192-1 of Company Act, the board listed the candidate as following.

Name	ID/Shareholding	Education	Experience
CHENG, TING-WONG	-/ 0 shares	Ph.D & Master, School of Accountancy, Robert J. Trulaske, Sr. College of Business, University of Missouri Master of Public Finance, National Chengchi University (NCCU) BA, Department of Accounting & Statistics, National Chengchi University (NCCU)	President of National Chengchi University Dean, National Chengchi University Dean, NCCU College of Commerce Graduate Chair, NCCU Department of Accounting Professor, National Chengchi University Supervisor, Central Bank of the Republic of China (Taiwan) Managing Director & Independent Director, Asia Pacific Telecom

4. Please see P.51-52 of this agenda for "Rules Governing Election of Directors".

Discussion

Proposal 2:

Propose to remove the restrictions on the newly elected Independent Director's non-competition clauses. (proposed by the board of directors)

Explanatory note:

1. Article 209 of Company Law stipulates that "For behaviors of their own or others within the company's business scope, the Directors shall explain their importance of their conducts during the Shareholders' Meeting and obtain its approval."
2. Some newly elected members of the new Independent Directors may have invested in or are managing other companies with identical or similar business scope of the company, in addition to being directors of those companies. The board of directors plans to remove the non-competition obligation on newly elected directors, pending approval of shareholders' meeting, according to article 209 of the Company Law.
3. Please see the following for planning to remove non-competition obligation on the newly elected Independent Director.

Name	Position in other companies
CHENG, TING-WONG (Independent Director)	Managing Director & Independent Director, Asia Pacific Telecom

Extempore Motion(s)

Meeting Adjourned

Attachments

1. The comparison between the revision and the original of Articles of Incorporation on pages 11-14.
2. Business Report for 2015 on pages 15-17.
3. Inspection Report of Audit Committee for 2015 on page 18.
4. Financial Statements and Auditors' Report for 2015 on pages 19-35
5. Distribution of 2015 Profits on page 36

The comparison between the revision and the original of Articles of Incorporation

Proposed Amendment	Current Provision	Note
Article 2 The scope of business of this Company is as follows: 1-14 (omission) 15. CC01101 Manufacturing of controlled telecom radio-frequency products 16-39 (omission) 40. F113070 Wholesale of telecom-products 41-48 (omission) 49. F213060 Retail of telecom products 50 F218010 Retail of information software 51. F401010 International Trade 52. F401021 Import of controlled telecommunication radio-frequency devices 53-63 (omission)	Article 2 The scope of business of this Company is as follows: 1-14 (omission) New added 15-38 (omission) (New added) 39-46 (omission) (New added) 47. F218010 Retail of information software 48. F401010 International Trade (New added) 49-59(omission)	1. With the approval of the National Communications Commission, the company has added controlled telecommunication radio-frequency devices to its business lineup. 2. Change in the numbers of items

Proposed Amendment	Current Provision	Note
<p>Article 26 The company appropriates part of its annual profits, ranging from 1% to 10%, for distribution of remuneration to employee. Remuneration to directors are capped at 5% of profits. Employees of affiliated companies are also entitled to remuneration to employee. Profits should be used, in priority, for making up accumulated loss, should it exist.</p> <p>The shares of the aforementioned distribution of remuneration to employee and the directors, as well as the choice of stock or cash should be resolved by the board of directors, with approval of over half of attendees in a meeting attended by over two thirds of directors, before being reported to shareholders' meeting.</p> <p>The annual profit mentioned in item 1 refers to pre-tax profits of the year before deduction of distribution of remuneration to employee and directors.</p>	<p>(New added)</p>	<p>The company formulates measures for distribution of remuneration to employee and directors, according to the revised "Company Law," promulgated by the President (Presidential decree No. 10400058161, May 20, 2015) and letter of the Ministry of Economic Affairs (No. 10402413890, June 11, 2015 & No. 10402427800, Oct. 15, 2015).</p>
<p>Article 27 Profit, should it appear in final account, should be used, in descending order, in paying tax, making up for accumulated loss, and then appropriating 10% of the remainder for legal reserve, on top of appropriation or reversal of special reserve, according to the regulation of regulator. The balance, should it exist, should be combined with retained earnings of previous year for the board of directions to formulate proposal of profit distribution for approval by the shareholders' meeting.</p> <p>The Company is in a stably growing industry with investment made in developing business. In consideration of possible expansion of operation and</p>	<p>Article 26 The profit of the Company as of the final accounting each year shall be appropriated in the following order to</p> <ol style="list-style-type: none"> 1. Pay taxes. 2. Make up accumulated loss from previous years. 3. Set aside 10% thereof in legal reserve. 4. Set aside or reverse special earnings reserve in accordance with the requirements prescribed by the competent authority 5. Pay 1% to 5% of the balance as of the application provided in subparagraphs 1 to 4 to Directors as remuneration. 6. Pay profit sharing to the employees which is from 1% 	<ol style="list-style-type: none"> 1. Change in the numbers of items 2. In line with the addition of article 26 on distribution of remuneration to employee and directors to the charter, remove repetitive regulation in the article.

Proposed Amendment	Current Provision	Note
<p>investment, the earnings distributed to the shareholders each year will basically be in an amount equal to 80% of the earnings received in the period combined with the retained earnings from the previous year, net of the legal reserve and special earning reserve. Basically 50% but not less than 5% of the earnings distributed to the shareholders shall be distributed in cash.</p>	<p>to 10% of the balance net of the reserved amounts provided in subparagraphs 1 to 4. Profit sharing to employees in stock and in cash shall not exceed the ratio stock dividend from the reversed retained earning and cash dividend to the shareholders. Where there is no capital increase from capitalization of the retained earnings or where the capital increase proposed is not ratified or approved by the shareholders meeting or the competent authority, all profit sharing will be paid in cash.</p> <p>7. Bonus to shareholders, the balance net of the above and the retained earnings from the previous year will be distributed or retained to shareholders according to their percentage of shareholding.</p> <p>8. Conditions and method of profit-sharing in stock to eligible employees shall be determined by the Board of Directors.</p> <p>The Company is in a stably growing industry with investments made in developing businesses. In consideration of possible expansion of operation and investment, the earnings distributed to the shareholders each year will basically be in an amount equal to 80% of the earnings received in the period combined with the retained earnings from the previous year, net of the legal reserve, special earning reserve, remuneration to the Directors (ranging from 1% to 5%), and profit sharing to employees (ranging from 1% to 5%). Basically 50% but not less than 5% of the earnings distributed to the shareholders</p>	

Proposed Amendment	Current Provision	Note
	shall be distributed in cash.	
Article 28-29 (omission)	Article 27-28 (omission)	Change in the numbers of items
Article 30 The fifty-sixth amendment was on June 16, 2016 It will take effect after the approval of shareholders' meeting.	Article 29 The fifty-fifth amendment was on June 23, 2014 It will take effect after the approval of shareholders' meeting.	1. Change in the numbers of items 2. Add the date and the number of times of amendment

Business Report

Dear Shareholders,

2015 turned out to be the sternest year in international politics and economy since the global financial tsunami, due to the effect of a litany of adverse factors, including Greek debt crisis, slowdown of the Chinese economy, and collapse of energy and other raw-material prices. On the domestic front, affected by weak demand of global trade, investments and exports declined continuously, with GDP growth falling short of 1%, the lowest since 2009. Faced with shrinking external and domestic demands, which dampened both revenue and profit, the company still continued development of smart and variable-frequency products, which offer higher added value, and foraying into new markets , new industries and overseas acquisitions, in order to uphold the foundation for sustainable development.

A. Review of Business Performance in 2015

Analysis of the company's business performance in 2015 follows:

a. Parent Company

Unit: NT\$ thousand

	2015	2014	Change
Sales revenue	21,809,717	24,256,762	(10%)
Operating profit	1,617,491	1,949,849	(17%)
Profit for the year	3,177,291	4,062,960	(22%)

As for sales revenue, sales of home-appliances business grew further, due to replacement demand and expanding need for white goods. Demands for motors, however, slackened, due to plunge in capital outlays of the oil and mining industry and sales decline of other businesses on sluggish business of downstream industries. Overall revenue dropped 10% in 2015.

As for operating profit, thanks to the result of negotiation for procurement and increased share of custom and variable-frequency products boasting higher gross margin, gross margins of major business divisions and the entire company increased. In addition, operating expense decreased by NT\$200 million in 2015 than 2014, due to adjustment in production/marketing strategy, reduction of inventories, and further rationalization of personnel outlays and expenses. Despite the savings, operating profit still dropped, due to shrinking revenue.

As for non-operating income and expenses, thanks to intensified restructuring and management of equipment investments, investment income, excluding listed income from disposal of land in Wugu of New Taipei City in 2014, investment profit still increased by NT\$530 million in 2015 than 2014. Overall speaking, the company's net profit slipped 22% in 2015.

To cope with rigorous market challenge and sustain long-term development, the company successfully developed a number of cutting-edge products in 2015, including monitoring system for smart motor, IE5 ultra high-efficient variable-frequency permanent magnetic motor, IE4 ultra high-efficient induction motor,

pan-American high power-factor medium-voltage excellent-efficiency motor, multi-task electric-voltage vector inverter, cloud-end variable-frequency multi-split type air conditioner, cloud-end smart sea-water heat-dissipation air conditioner, dual variable-frequency multi-unit central conditioning system, and R32 environment-friendly coolant air conditioner, on top of the obtaining of 31 domestic and foreign patents.

b. Consolidated Financial Statements

Unit: NT\$ thousand

	2015	2014	Change
Sales revenue	48,598,573	53,748,466	(10%)
Operating profit	3,787,627	4,422,836	(14%)
Profit for the year	3,514,116	4,402,267	(20%)
Total comprehensive income for the year	560,158	8,992,173	(94%)
Profit attributable to:			
Owner of the parent	3,177,291	4,062,960	(22%)
Non-controlling interest	336,825	339,307	(1%)
Comprehensive income attributable to:			
Owner of the parent	359,066	8,448,923	(96%)
Non-controlling interest	201,092	543,250	(63%)

Consolidated sales revenue declined in 2015, due to sales drop of main business on market factor and continuing business adjustment of subsidiary Tecom. The acquisition of Italian firm Motovario in mid-October, however, will boost sales revenue. Operating profit slipped 14%, due to drop in consolidated sales revenue. Other comprehensive income shrank on drop in the unrealized gain on valuation, due to drop in prices of shares of Taiwan High-Speed Rail and momo-com Inc., listed as available-for-sale. Overall speaking, current consolidated net profit plunged 96%.

B. Outline of 2016 Business Plan

Looking ahead, the Cabinet-level Directorate General of Budget, Accounting, and Statistics predicts that Taiwan's economic growth will reach 1.47% in 2016, slightly higher than the 2015 level. The economic outlook, however, is shrouded in uncertainty, due to a number of adverse factors, including shrinking public outlays, low-lying prices of crude oil and other raw materials, and continuing slowdown of the Chinese economy. To cope with the challenges, as well as potential opportunities, of the uncertainty, the company will continue developing new products, new

applications, and new markets, adhering to the concept of "energy conservation, carbon abatement, intelligence, and automation."

For domestic sales, induced by the subsidy of the Ministry of Economic Affairs for high-efficiency motors, the company will consolidate its core business by marketing intelligent high-performance motors. In addition, the company will deploy in the markets of smart micro grid and cloud-end smart air conditioner, tapping energy-conservation and the Internet-of-things businesses, so as to expand market share.

For exports, newly developed high-performance motor IE3+, medium-voltage inverter, and new servo products will hit the market successively, boosting overseas sales. Overseas sales will also benefit from moderate economic recovery in North America, the company's effort to solicit new OEM customers, and other business opportunities. Business in the European market will benefit from the effect of integration resulting from the newly acquired company. In addition, the company will step up marketing and investments in emerging markets, in line with its globalization strategy.

In sum, to cope with changes in domestic and external economies, the company will continue the quest for revenue and profit growth, the materialization of the norms for corporate governance, and fulfillment of corporate social responsibility. In 2015, the company's effort was acknowledged by a number of awards, including top 5% in the evaluation of corporate governance, the corporate citizen award for the fourth year running granted by Commonwealth magazine, and the gold award for the traditional manufacturing industry of the "Taiwan Corporate Sustainability Awards. In line with the concept of management of integrity and the vision of energy conservation, automation, and intelligence, the company will dedicate to the development of smart environment-friendly products, so as to create maximum benefits for shareholders and give payback to shareholders and investing public, in return to their long-term support to and patronage of the company.

TECO Electric & Machinery Co., Ltd

Inspection Report of Audit Committee

(This English version is only a translation of the Chinese version.)

The Audit Committee has duly inspected and approved the financial statements for 2015 (include consolidated financial statements), the business report and proposed profit distribution plan prepared and proposed by the Board of Directors, with the financial statements having been audited and certified by Pricewaterhouse Coopers, hereby submit this report pursuant to Article 14 of Securities and Exchange Act and Article 219 of the Company Act.

To

General Shareholders Meeting 2016

TECO Electric & Machinery Co., Ltd

Audit Committee Convener : Tain-Jy, Chen

Date: March 21, 2016

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To TECO Electric & Machinery Co., Ltd.

We have audited the accompanying parent company only balance sheets of TECO Electric & Machinery Co., Ltd. as of December 31, 2015 and 2014, and the related parent company only statements of comprehensive income, of changes in stockholders' equity and of cash flows for the years then ended. These parent company only financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these parent company only financial statements based on our audits. As described in Note 6(8) to the parent company only financial statements, we did not audit the financial statements of certain investee companies accounted for under the equity method. These investments amounted to \$8,265,099,000 and \$4,349,311,000, constituting 12% and 6% of the related total assets as of December 31, 2015 and 2014, respectively, the related credit investments balance amounted to \$0 and \$11,948,000, both constituting 0% of the related total assets as of December 31, 2015 and 2014, respectively, and the comprehensive income amounted to \$290,837,000 and \$222,402,000, constituting 81% and 3% of the total comprehensive income for the years then ended, respectively. The financial statements of these investee companies were audited by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included in the parent company only financial statements and information disclosed in Note 13 relative to these investees, is based solely on the reports of the other independent accountants.

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other independent accountants provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other independent accountants, the parent company only financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of TECO Electric & Machinery Co., Ltd. as of December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended, in conformity with the “Rules Governing the Preparation of Financial Statements by Securities Issuers”.

PricewaterhouseCoopers, Taiwan

March 23, 2016

The accompanying non-consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying non-consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2015		(adjusted) December 31, 2014	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 1,111,218	2	\$ 2,795,583	4
1110	Financial assets at fair value through profit or loss - current	6(2)(23)	-	-	21,006	-
1150	Notes receivable, net	6(4)(5)	309,109	1	252,766	-
1160	Notes receivable - related parties	7	279,145	-	412,389	1
1170	Accounts receivable, net	6(5)	1,576,044	2	1,764,143	3
1180	Accounts receivable - related parties	6(8) and 7	1,556,391	2	1,931,288	3
1190	Receivables from customers on construction contracts	6(7)	730,166	1	768,393	1
1200	Other receivables		47,622	-	48,266	-
1210	Other receivables - related parties	6(8) and 7	1,226,378	2	1,175,049	2
130X	Inventories, net	6(6)	2,941,725	4	3,284,765	5
1410	Prepayments		20,063	-	14,661	-
1470	Other current assets	6(1) and 8	319,424	1	381,460	-
11XX	Total current assets		<u>10,117,285</u>	<u>15</u>	<u>12,849,769</u>	<u>19</u>
Non-current assets						
1523	Available-for-sale financial assets - non-current	6(3)	4,227,347	6	4,523,795	7
1550	Investments accounted for under equity method	6(8) and 7	46,389,595	69	43,886,886	64
1600	Property, plant and equipment, net	6(9) and 7	3,877,206	6	3,959,960	6
1760	Investment property - net	6(10)	2,059,317	3	2,081,331	3
1840	Deferred income tax assets	6(27)	624,028	1	571,748	1
1900	Other non-current assets	6(11)	302,936	-	252,936	-
15XX	Total non-current assets		<u>57,480,429</u>	<u>85</u>	<u>55,276,656</u>	<u>81</u>
1XXX	Total assets		<u>\$ 67,597,714</u>	<u>100</u>	<u>\$ 68,126,425</u>	<u>100</u>

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

			December 31, 2015		(adjusted) December 31, 2014	
Liabilities and Equity		Notes	AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(12)	\$ 3,354,685	5	\$ 128,751	-
2120	Financial liabilities at fair value through profit or loss - current	6(13)(23)	1,962	-	-	-
2150	Notes payable		14,267	-	20,070	-
2160	Notes payable - related parties	7	184,663	-	182,749	-
2170	Accounts payable		2,659,470	4	3,441,261	5
2180	Accounts payable - related parties	7	1,159,348	2	1,481,283	2
2190	Payables to customers on construction contracts	6(7)	343,133	-	259,109	1
2200	Other payables	6(29)	2,485,286	4	2,582,698	4
2220	Other payables - related parties	7	119,214	-	786,201	1
2230	Current income tax liabilities	6(27)	343,926	-	161,960	-
2250	Provisions for liabilities - current		41,265	-	43,622	-
2300	Other current liabilities	6(14)	1,719,616	3	274,790	1
21XX	Total current liabilities		12,426,835	18	9,362,494	14
Non-current liabilities						
2530	Corporate bonds payable	6(14)	3,000,000	5	1,527,600	2
2540	Long-term borrowings	6(15)	2,059,706	3	5,389,582	8
2570	Deferred income tax liabilities	6(27)	830,297	1	812,525	1
2600	Other non-current liabilities	6(16)	1,816,834	3	1,764,151	3
25XX	Total non-current liabilities		7,706,837	12	9,493,858	14
25XX	Total liabilities		20,133,672	30	18,856,352	28
Equity						
Share capital		6(17)				
3110	Common stock		20,026,929	30	20,026,929	29
Capital surplus		6(18)				
3200	Capital surplus		7,638,417	11	7,600,552	10
Retained earnings		6(19)(27)				
3310	Legal reserve		5,412,342	8	5,005,650	7
3320	Special reserve		3,640,779	5	3,737,786	6
3350	Unappropriated retained earnings		10,310,158	15	9,701,155	14
Other equity interest		6(20)				
3400	Other equity interest		756,980	1	3,519,564	6
3500	Treasury stocks	6(8)(17)	(321,563)	-	(321,563)	-
35XX	Total equity		47,464,042	70	49,270,073	72
Commitments and Contingent Liabilities		9				
Subsequent events		11				
352X	Total liabilities and equity		\$ 67,597,714	100	\$ 68,126,425	100

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 23, 2016.

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share data)

			Year ended December 31			
	Items	Notes	2015		2014	
			AMOUNT	%	AMOUNT	%
4000	Sales revenue	6(21) and 7	\$ 21,809,717	100	\$ 24,256,762	100
5000	Operating costs	6(6)(16)(19)(25)(26) and 7	(16,971,458)	(78)	(18,843,170)	(78)
5900	Net operating margin		4,838,259	22	5,413,592	22
5910	Unrealized profit from sales	7	(550,823)	(3)	(559,116)	(2)
5920	Realized profit from sales		559,116	3	520,178	2
5950	Net operating margin		4,846,552	22	5,374,654	22
	Operating expenses	6(16)(19)(25)(26) and 7				
6100	Selling expenses		(1,930,798)	(9)	(2,006,624)	(8)
6200	General and administrative expenses		(565,761)	(3)	(620,549)	(3)
6300	Research and development expenses		(732,502)	(3)	(797,632)	(3)
6000	Total operating expenses		(3,229,061)	(15)	(3,424,805)	(14)
6900	Operating profit		1,617,491	7	1,949,849	8
	Non-operating income and expenses					
7010	Other income	6(2)(10)(13)(22) and 7	404,789	2	524,129	2
7020	Other gains and losses	6(3)(23) and 7	(566,415)	(2)	(309,176)	(1)
7050	Finance costs	6(24) and 7	(135,806)	(1)	(110,804)	(1)
7070	Share of profit of subsidiary, associates and joint ventures accounted for under equity method	6(8)				
			2,186,385	10	2,393,625	10
7000	Total non-operating income and expenses		1,888,953	9	2,497,774	10
7900	Profit before income tax		3,506,444	16	4,447,623	18
7950	Income tax expense	6(27)	(329,153)	(1)	(384,663)	(1)
8200	Profit for the year		\$ 3,177,291	15	\$ 4,062,960	17
	Other comprehensive income					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Other comprehensive income, before tax, actuarial losses on defined benefit plans		(\$ 56,367)	-	(\$ 55,931)	-
8330	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss		726	-	19,164	-
8310	Components of other comprehensive loss that will not be reclassified to profit or loss		(55,641)	-	(75,095)	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Currency translation differences of foreign operations	6(20)	(398,150)	(2)	728,508	3
8362	Unrealized gain (loss) on valuation of available-for-sale financial assets	6(20)	102,005	1	(448,322)	(2)
8380	Share of other comprehensive income of subsidiary, associates and joint ventures accounted for under the equity method, other comprehensive income that will be reclassified to profit or loss	6(20)	(2,524,687)	(12)	4,244,307	17
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(20)(27)	58,248	-	(63,435)	-
8360	Components of other comprehensive (loss) income that will be reclassified to profit or loss		(2,762,584)	(13)	4,461,058	18
8300	Other comprehensive (loss) income for the year		(\$ 2,818,225)	(13)	\$ 4,385,963	18
8500	Total comprehensive income for the year		\$ 359,066	2	\$ 8,448,923	35
	Earnings per share (in dollars)	6(28)				
9750	Basic earnings per share		\$ 1.60		\$ 2.05	
9850	Diluted earnings per share		\$ 1.60		\$ 2.05	

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

		Capital		Retained earnings				Other equity interest			
	Notes	Share capital - common stock	Advance receipts for share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks	Total equity
2014											
Balance at January 1, 2014		\$ 19,646,374	\$ 380,555	\$ 7,493,180	\$ 4,629,663	\$ 3,737,786	\$ 8,292,239	(\$ 312,141)	(\$ 629,353)	(\$ 321,563)	\$ 42,916,740
Appropriations of 2013 net income (Note)	6(19)	-	-	-	375,987	-	(375,987)	-	-	-	-
Legal reserve		-	-	-	-	-	(2,202,962)	-	-	-	(2,202,962)
Cash dividends		-	-	-	-	-	-	-	-	-	-
Exercise of employee stock options	6(17)	48,720	(48,720)	-	-	-	-	-	-	-	-
Common stock converted from corporate bonds	6(14)(17)	331,835	(331,835)	-	-	-	-	-	-	-	-
Effect of changes in the net equity of associates and joint ventures accounted for under the equity method		-	-	29,476	-	-	-	-	-	-	29,476
Differences between the price for acquisition or disposal of subsidiaries and carrying amount	6(8)	-	-	77,896	-	-	-	-	-	-	77,896
Other comprehensive income for the year	6(20)	-	-	-	-	(55,931)	665,073	(448,322)	-	-	160,820
Share of other comprehensive income of subsidiary, associates and joint venture accounted for under the equity method	6(20)	-	-	-	-	-	(19,164)	-	4,244,307	-	4,225,143
Net income for the year		-	-	-	-	-	4,062,960	-	-	-	4,062,960
Balance at December 31, 2014		<u>\$ 20,026,929</u>	<u>\$ -</u>	<u>\$ 7,600,552</u>	<u>\$ 5,005,650</u>	<u>\$ 3,737,786</u>	<u>\$ 9,701,155</u>	<u>\$ 352,932</u>	<u>\$ 3,166,632</u>	<u>(\$ 321,563)</u>	<u>\$ 49,270,073</u>
2015											
Balance at January 1, 2015		\$ 20,026,929	\$ -	\$ 7,600,552	\$ 5,005,650	\$ 3,737,786	\$ 9,701,155	\$ 352,932	\$ 3,166,632	(\$ 321,563)	\$ 49,270,073
Appropriations of 2014 net income (Note)	6(19)	-	-	-	-	(97,007)	97,007	-	-	-	-
Reversal of special reserve		-	-	-	-	-	(406,692)	-	-	-	-
Legal reserve		-	-	-	406,692	-	(2,202,962)	-	-	-	(2,202,962)
Cash dividends		-	-	-	-	-	-	-	-	-	-
Effect of changes in the net equity of associates and joint ventures accounted for under the equity method		-	-	10,005	-	-	-	-	-	-	10,005
Differences between the price for acquisition or disposal of subsidiaries and carrying amount	6(8)	-	-	27,860	-	-	-	-	-	-	27,860
Other comprehensive loss for the year	6(20)	-	-	-	-	(56,367)	(339,902)	102,005	-	(294,264)	-
Share of other comprehensive income of subsidiary, associates and joint venture accounted for under the equity method	6(20)	-	-	-	-	-	726	(2,524,687)	-	(2,523,961)	-
Net income for the year		-	-	-	-	-	3,177,291	-	-	-	3,177,291
Balance at December 31, 2015		<u>\$ 20,026,929</u>	<u>\$ -</u>	<u>\$ 7,638,417</u>	<u>\$ 5,412,342</u>	<u>\$ 3,640,779</u>	<u>\$ 10,310,158</u>	<u>\$ 13,030</u>	<u>\$ 743,950</u>	<u>(\$ 321,563)</u>	<u>\$ 47,464,042</u>

Note: For the years ended December 31, 2014 and 2013, directors' and supervisors' remuneration amounting to \$146,409 and \$135,355, respectively, and employees' bonus amounting to \$329,421 and \$304,550, respectively, had been deducted from the statements of comprehensive income.

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 23, 2016.

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars)

	Notes	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 3,506,444	\$ 4,447,623
Adjustments			
Adjustments to reconcile profit (loss)			
Net gain on financial assets at fair value through profit or loss	6(2)(23)	(33,672)	(56,546)
Net loss (gain) on financial liabilities at fair value through profit or loss	6(13)(23)	1,962	(1,163)
Provision for doubtful accounts	6(5)	1,663	2,605
Provision for (reversal of) decline in value of inventories	6(6)	27,559	(15,664)
Interest income	6(22) and 7	(28,640)	(35,855)
Interest expense	6(24)	115,847	95,197
Dividend income	6(22)	(84,084)	(69,467)
Impairment loss	6(23)	308,328	-
Loss on disposal of investments	6(23)	31,878	8,395
Changes in unrealized (gain) loss from downstream sales	6(8) and 7	(8,293)	38,938
Reclassification to current profit (loss) from other comprehensive income of investments accounted for under the equity method prior to gaining control		21,547	-
Share of profit of associates and joint ventures accounted for under the equity method	6(8)	(2,186,385)	(2,393,625)
Depreciation, amortization and net gain or loss on disposal of property, plant and equipment, net	6(9)(10)(23)(25)	416,374	462,174
Foreign currency exchange (gain) loss on bonds payable	6(14)	(29,100)	51,900
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current	6(2)	54,678	40,895
Notes receivable	6(4)	(55,818)	(29,586)
Notes receivable - related parties	7	133,244	19,239
Accounts receivable	6(5)	185,835	159,833
Accounts receivable - related parties	7	374,897	102,233
Receivables from customers on construction contract	6(7)	38,227	(24,125)
Other receivables		644	(19,890)
Other receivables - related parties	7	(22,107)	(103,975)
Inventories	6(6)	315,481	71,784
Prepayments		(5,402)	21,815
Other current assets		61,116	(64,323)
Changes in operating liabilities			
Notes payable		(5,803)	2,835
Notes payable - related parties	7	1,914	55,123
Accounts payable		(781,791)	(34,201)
Accounts payable - related parties	7	(321,935)	(13,368)
Payables to customers on construction contract	6(7)	84,024	41,835
Other payables		(99,412)	176,884
Other payables - related parties	7	(23,507)	(105,130)
Provisions for liabilities		(2,357)	(41,128)
Other current liabilities		(53,674)	15,737
Other non-current liabilities		(11,167)	5,674
Cash inflow generated from operations		1,928,515	2,812,673
Interest received	6(22)	28,640	35,855
Dividends received		965,897	583,469
Interest paid		(89,489)	(83,308)
Income tax paid		(123,447)	(287,907)
Net cash flows from operating activities		2,710,116	3,060,782

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TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars)

	Notes	2015	2014
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in other receivables - related parties	7	(\$ 29,222)	(\$ 221,907)
Decrease in pledged demand and fixed deposits	8	920	4,216
Proceeds from disposal of available-for-sale financial assets - non-current		95,807	273,065
Increase in available-for-sale financial assets - non-current		(37,560)	(48,925)
Increase in investments accounted for under the equity method		(4,063,078)	(1,413,988)
Proceeds from disposal of property, plant and equipment		4,999	-
Acquisition of property, plant and equipment	6(9)(10)(29)	(309,740)	(933,730)
Increase in deferred expenses	6(11)	(2,340)	(11,254)
(Increase) decrease in refundable deposits	6(11)	(34,397)	6,397
Increase in other non-current assets		(69,486)	(38,388)
Net cash flows used in investing activities		(4,444,097)	(2,384,514)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from short-term loans	6(12)	3,225,934	128,751
(Decrease) increase in other payables - related parties — financing	7	(643,480)	643,480
Proceeds from issuance of bonds payable	6(14)	3,000,000	-
(Decrease) increase in long-term loans	6(15)	(3,329,876)	989,996
Cash dividends paid	6(19)	(2,202,962)	(2,202,962)
Net cash flows from (used in) financing activities		49,616	(440,735)
Net (decrease) increase in cash and cash equivalents		(1,684,365)	235,533
Cash and cash equivalents at beginning of year		2,795,583	2,560,050
Cash and cash equivalents at end of year		<u>\$ 1,111,218</u>	<u>\$ 2,795,583</u>

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To TECO Electric & Machinery Co., Ltd.

We have audited the accompanying consolidated balance sheets of TECO Electric & Machinery Co., Ltd. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. As described in Notes 4(3) and 6(9) to the consolidated financial statements, we did not audit the financial statements of certain consolidated subsidiaries and investee companies accounted for under the equity method. The financial statements of these subsidiaries reflect total assets of \$11,314,418,000 and \$2,486,924,000, constituting 13% and 3% of the consolidated total assets as of December 31, 2015 and 2014, respectively, and total operating revenues of \$3,074,913,000 and \$2,483,505,000, constituting 6% and 5% of consolidated total operating revenues for the years then ended, respectively. These investments accounted for under the equity method amounted to \$4,040,747,000 and \$3,924,963,000, both constituting 5% of total consolidated assets as of December 31, 2015 and 2014, respectively, the credit balance of investments accounted for under equity method amounted to \$28,270,000 and \$23,334,000, both constituting 0% of total consolidated assets as of December 31, 2015 and 2014, respectively, and the share of profit of associates and joint ventures accounted for under the equity method amounted to \$94,683,000 and \$114,585,000, constituting 17% and 1% of the consolidated comprehensive income for the years then ended, respectively. Those financial statements and the information disclosed in Note 13 were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein is based solely on the audit reports of the other independent accountants.

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other independent accountants provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other independent accountants, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of TECO Electric & Machinery Co., Ltd. and subsidiaries as of December 31, 2015 and 2014, and their financial performance and cash flows for the years then ended, in conformity with the "Rules Governing the Preparation of

Financial Statements by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

We have also audited the parent company only financial statements of TECO Electric & Machinery Co., Ltd. as of and for the years ended December 31, 2015 and 2014, and have expressed a modified unqualified opinion on such financial statements.

PricewaterhouseCoopers, Taiwan

March 23, 2016

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.
As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars)

(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2015		(Adjusted) December 31, 2014	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1) and 8	\$ 14,919,042	18	\$ 17,201,690	21
1110	Financial assets at fair value	6(2)				
	through profit or loss - current		265,984	-	318,399	
1125	Available-for-sale financial assets	6(3) and 8				
	- current		1,462,871	2	1,252,111	2
1147	Bond investments without active	6(4)				
	markets - current		141,551	-	122,540	-
1150	Notes receivable, net	6(5)(6) and 8	1,006,151	1	998,510	1
1160	Notes receivable - related parties	7	14,943	-	99,132	-
1170	Accounts receivable, net	6(6) and 8	9,329,829	11	8,333,056	10
1180	Accounts receivable - related	7				
	parties		194,082	-	583,912	1
1190	Receivables from customers on	6(8)				
	construction contracts		805,488	1	844,335	1
1200	Other receivables		323,881	-	256,546	-
1210	Other receivables - related parties	7	692,340	1	701,582	1
130X	Inventories, net	6(7) and 8	11,755,227	14	11,539,306	14
1410	Prepayments		333,968	1	250,509	-
1470	Other current assets	6(1) and 8	1,047,045	1	773,706	1
11XX	Total current assets		42,292,402	50	43,275,334	52
Non-current assets						
1523	Available-for-sale financial assets	6(3) and 8				
	- non-current		10,905,909	13	14,155,901	17
1550	Investments accounted for under	6(9) and 8				
	the equity method		5,464,797	6	5,352,012	7
1600	Property, plant and equipment, net	6(10) and 8	15,018,217	18	14,569,687	18
1760	Investment property, net	6(11)	2,561,444	3	2,591,956	3
1780	Intangible assets	6(12)(33)	5,541,844	7	174,250	-
1840	Deferred income tax assets	6(31)	1,183,247	1	1,078,738	1
1900	Other non-current assets	6(13) and 8	1,466,392	2	1,515,167	2
15XX	Total non-current assets		42,141,850	50	39,437,711	48
1XX	Total assets		\$ 84,434,252	100	\$ 82,713,045	100

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	December 31, 2015		(Adjusted) December 31, 2014	
			AMOUNT	%	AMOUNT	%
	Current liabilities					
2100	Short-term borrowings	6(14) and 8	\$ 6,619,012	8	\$ 2,472,904	3
2120	Financial liabilities at fair value	6(15)				
	through profit or loss - current		15,043	-	-	-
2150	Notes payable		112,098	-	119,833	-
2160	Notes payable - related parties	7	1,313	-	8,850	-
2170	Accounts payable		6,628,882	8	7,461,702	9
2180	Accounts payable - related parties	7	95,766	-	87,358	-
2190	Payables to customers on	6(8)				
	construction contracts		367,467	-	291,341	1
2200	Other payables	6(16)	4,863,815	6	5,246,997	6
2230	Current income tax liabilities	6(31)	555,477	1	393,743	1
2250	Provisions for liabilities - current		256,979	-	192,504	-
2300	Other current liabilities	6(17)(18)	3,199,186	4	1,800,595	2
21XX	Total current liabilities		22,715,038	27	18,075,827	22
	Non-current liabilities					
2530	Corporate bonds payable	6(17)	3,000,000	3	1,527,600	2
2540	Long-term borrowings	6(18) and 8	2,300,299	3	5,474,646	7
2550	Provisions for liabilities -					
	non-current		230,265	-	226,994	-
2570	Deferred income tax liabilities	6(31)	2,317,721	3	1,911,066	2
2600	Other non-current liabilities	6(9)	2,438,425	3	2,208,190	3
25XX	Total non-current liabilities		10,286,710	12	11,348,496	14
2XX	Total liabilities		33,001,748	39	29,424,323	36
	Equity attributable to owners of					
	parent					
	Share capital	6(21)				
3110	Common stock		20,026,929	24	20,026,929	24
	Capital surplus	6(22)				
3200	Capital surplus		7,638,417	8	7,600,552	8
	Retained earnings	6(23)(31)				
3310	Legal reserve		5,412,342	7	5,005,650	6
3320	Special reserve		3,640,779	4	3,737,786	5
3350	Unappropriated retained earnings		10,310,158	12	9,701,155	12
	Other equity interest	6(24)				
3400	Other equity interest		756,980	1	3,519,564	4
3500	Treasury stocks	6(21) and 8	(321,563)	-	(321,563)	-
31XX	Equity attributable to owners					
	of the parent		47,464,042	56	49,270,073	59
36XX	Non-controlling interest		3,968,462	5	4,018,649	5
3XX	Total equity		51,432,504	61	53,288,722	64
	Commitments and contingent	9				
	liabilities:					
	Subsequent events	11				
3X2X	Total liabilities and equity		\$ 84,434,252	100	\$ 82,713,045	100

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 23, 2016.

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars, except earnings per share data)

	Items	Notes	Year ended December 31			
			2015		2014	
			AMOUNT	%	AMOUNT	%
4000	Sales revenue	6(25) and 7	\$ 48,598,573	100	\$ 53,748,466	100
5000	Operating costs	6(7)(19)(29)(30) and 7	(36,203,039)	(74)	(40,356,727)	(75)
5900	Net operating margin		12,395,534	26	13,391,739	25
5910	Unrealized profit from sales		(5,488)	-	(10,265)	-
5920	Realized profit from sales		10,265	-	10,329	-
5950	Net operating margin		12,400,311	26	13,391,803	25
	Operating expenses	6(19)(29)(30)				
6100	Selling expenses		(4,155,857)	(9)	(4,322,767)	(8)
6200	General and administrative expenses		(3,021,603)	(6)	(3,042,610)	(6)
6300	Research and development expenses		(1,435,224)	(3)	(1,603,590)	(3)
6000	Total operating expenses		(8,612,684)	(18)	(8,968,967)	(17)
6900	Operating profit		3,787,627	8	4,422,836	8
	Non-operating income and expenses					
7010	Other income	6(4)(26) and 7	1,361,206	3	1,185,074	2
7020	Other gains and losses	6(2)(3)(10)(11)(15)(27)(33)	(511,807)	(1)	141,095	-
7050	Finance costs	6(10)(28)	(227,691)	(1)	(229,363)	-
7060	Share of profit of associates and joint ventures accounted for under the equity method	6(9)	153,936	-	180,329	1
7000	Total non-operating income and expenses		775,644	1	1,277,135	3
7900	Profit before income tax		4,563,271	9	5,699,971	11
7950	Income tax expense	6(31)	(1,049,155)	(2)	(1,297,704)	(3)
8200	Profit for the year		\$ 3,514,116	7	\$ 4,402,267	8

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars, except earnings per share data)

Items	Notes	Year ended December 31			
		2015		2014	
		AMOUNT	%	AMOUNT	%
Other comprehensive income					
Other comprehensive income that will not be reclassified to profit or loss					
8311 Other comprehensive income, before tax, actuarial losses on defined benefit plans		(\$ 61,881)	-	(\$ 70,088)	-
8320 Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss		(6,113)	-	(8,743)	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(31)	2,852	-	1,009	-
8310 Components of other comprehensive loss that will not be reclassified to profit or loss		(65,142)	-	(77,822)	-
Other comprehensive income that will be reclassified to profit or loss					
8361 Currency translation differences of foreign operations	6(24)	(398,131)	(1)	753,275	1
8362 Unrealized (loss) gain on valuation of available-for-sale financial assets	6(3)(24)	(2,540,151)	(5)	3,984,367	8
8370 Share of other comprehensive income of associates and joint ventures accounted for under the equity method - other comprehensive income that will be reclassified to profit or loss	6(24)	(8,826)	-	(6,350)	-
8399 Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(31)	58,292	-	63,564	-
8360 Components of other comprehensive (loss) income that will be reclassified to profit or loss		(2,888,816)	(6)	4,667,728	9
8300 Other comprehensive (loss) income for the year		(\$ 2,953,958)	(6)	\$ 4,589,906	9
8500 Total comprehensive income for the year		\$ 560,158	1	\$ 8,992,173	17
Profit attributable to:					
8610 Owners of the parent		\$ 3,177,291	6	\$ 4,062,960	7
8620 Non-controlling interest		336,825	1	339,307	1
		\$ 3,514,116	7	\$ 4,402,267	8
Comprehensive income attributable to:					
8710 Owners of the parent		\$ 359,066	1	\$ 8,448,923	16
8720 Non-controlling interest		201,092	-	543,250	1
		\$ 560,158	1	\$ 8,992,173	17
Earnings per share (in dollars)	6(32)				
9750 Basic earnings per share		\$ 1.60		\$ 2.05	
9850 Diluted earnings per share		\$ 1.60		\$ 2.04	

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars)

Notes	Equity attributable to owners of the parent											
	Capital			Retained earnings			Other equity interest			Total	Non-controlling interest	Total equity
	Share capital - common stock	Advance receipts for share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks			
2014												
Balance at January 1, 2014	\$ 19,646,374	\$ 380,555	\$ 7,493,180	\$ 4,629,663	\$ 3,737,786	\$ 8,292,239	(\$ 312,141)	(\$ 629,353)	(\$ 321,563)	\$ 42,916,740	\$ 3,860,540	\$ 46,777,280
Appropriations of 2013 net income 6(23)	-	-	-	375,987	-	(375,987)	-	-	-	-	-	-
Legal reserve	-	-	-	375,987	-	(375,987)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(2,202,962)	-	-	-	(2,202,962)	-	(2,202,962)
Transferred from advance receipts for share capital 6(21)	380,555	(380,555)	-	-	-	-	-	-	-	-	-	-
Effect of changes in net equity of associates and joint ventures accounted for under the equity method	-	-	29,476	-	-	-	-	-	-	29,476	-	29,476
Difference between the price for acquisition or disposal of subsidiaries and carrying amount	-	-	77,896	-	-	-	-	-	-	77,896	-	77,896
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(385,141)	(385,141)
Other comprehensive income for the year	-	-	-	-	-	(75,095)	665,073	3,795,985	-	4,385,963	203,943	4,589,906
Profit for the year 6(23)	-	-	-	-	-	4,062,960	-	-	-	4,062,960	339,307	4,402,267
Balance at December 31, 2014	<u>\$ 20,026,929</u>	<u>\$ -</u>	<u>\$ 7,600,552</u>	<u>\$ 5,005,650</u>	<u>\$ 3,737,786</u>	<u>\$ 9,701,155</u>	<u>\$ 352,932</u>	<u>\$ 3,166,632</u>	<u>(\$ 321,563)</u>	<u>\$ 49,270,073</u>	<u>\$ 4,018,649</u>	<u>\$ 53,288,722</u>
2015												
Balance at January 1, 2015	\$ 20,026,929	\$ -	\$ 7,600,552	\$ 5,005,650	\$ 3,737,786	\$ 9,701,155	\$ 352,932	\$ 3,166,632	(\$ 321,563)	\$ 49,270,073	\$ 4,018,649	\$ 53,288,722
Appropriations of 2014 net income 6(23)	-	-	-	-	(97,007)	97,007	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(97,007)	97,007	-	-	-	-	-	-
Legal reserve	-	-	-	406,692	-	(406,692)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(2,202,962)	-	-	-	(2,202,962)	-	(2,202,962)
Effect of changes in net equity of associates and joint ventures accounted for under the equity method	-	-	10,005	-	-	-	-	-	-	10,005	-	10,005
Difference between the price for acquisition or disposal of subsidiaries and carrying amount	-	-	27,860	-	-	-	-	-	-	27,860	-	27,860
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(251,279)	(251,279)
Other comprehensive loss for the year 6(24)	-	-	-	-	-	(55,641)	(339,902)	(2,422,682)	-	(2,818,225)	(135,733)	(2,953,958)
Profit for the year 6(23)	-	-	-	-	-	3,172,291	-	-	-	3,172,291	336,825	3,514,116
Balance at December 31, 2015	<u>\$ 20,026,929</u>	<u>\$ -</u>	<u>\$ 7,638,417</u>	<u>\$ 5,412,342</u>	<u>\$ 3,640,779</u>	<u>\$ 10,310,158</u>	<u>\$ 13,030</u>	<u>\$ 743,950</u>	<u>(\$ 321,563)</u>	<u>\$ 47,466,042</u>	<u>\$ 3,968,462</u>	<u>\$ 51,434,504</u>

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars)

	Notes	2015	2014 (Adjusted)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 4,563,271	\$ 5,699,971
Adjustments			
Adjustments to reconcile profit (loss)			
Net gain on financial assets at fair value through profit or loss	6(2)(27)	(56,530)	(69,173)
Net loss (gain) on financial liabilities at fair value through profit or loss	6(15)(27)	14,620	(1,163)
Provision for doubtful accounts	6(6)	39,009	5,040
Provision for (reversal of) decline in value of inventories	6(7)	136,665	(156,281)
Interest income	6(26)	(178,084)	(151,465)
Dividend income	6(26)	(476,663)	(392,277)
Interest expense	6(28)	227,691	229,363
Depreciation and amortization	6(10)(11)(29)	1,307,539	1,325,539
Gain on disposal of investments	6(25)(27)	(177,504)	(139,044)
Loss (gain) on disposal of property, plant and equipment	6(27)	10,233	(646,286)
Impairment loss	6(3)(10)(27)	412,195	260,762
Share of profit of associates and joint ventures accounted for under the equity method	6(9)	(153,936)	(180,329)
Foreign currency exchange (gain) loss of bonds payable	6(17)	(29,100)	51,900
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current	6(2)	108,945	99,229
Notes receivable	6(5)	67,433	125,556
Notes receivable - related parties	7	84,189	(60,267)
Accounts receivable	6(6)	504,850	377,822
Accounts receivable - related parties	7	389,858	(9,897)
Receivables from customers on construction contracts	6(8)	38,847	34,797
Other receivables		(63,257)	(54,279)
Other receivables - related parties	7	9,242	(105,716)
Inventories	6(7)	982,140	(212,323)
Prepayments		(82,285)	119,028
Other current assets		81,192	51,887
Changes in operating liabilities			
Notes payable		(7,824)	(233,039)
Notes payable - related parties	7	(7,537)	(8,073)
Accounts payable		(1,857,814)	(90,355)
Accounts payable - related parties	7	2,178	7,556
Payables to customers on construction contracts	6(8)	76,126	47,905
Other payables	6(16)	164,156	279,011
Provisions for liabilities		67,746	(20,859)
Other current liabilities		(270,965)	(376,684)
Other non-current liabilities		(141,878)	83,809
Cash inflow generated from operations		5,784,748	5,891,665
Interest received	6(26)	178,084	151,465
Dividend received	6(26)	651,005	558,510
Interest paid	6(28)	(227,691)	(236,784)
Income tax paid	6(31)	(844,718)	(1,197,456)
Net cash flows from operating activities		5,541,428	5,167,400

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars)

	Notes	2015	2014 (Adjusted)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in other receivables-related parties		\$ -	(\$ 183,000)
Increase in available-for-sale financial assets - current	6(3)	(142,407)	(206,622)
Increase in bond investments without active market	6(4)	(19,011)	(15,910)
(Increase) decrease in pledged demand and fixed deposits	8	(282,598)	97,422
Proceeds from disposal of available-for-sale financial assets - non-current	6(3)	699,142	950,148
Acquisition of available-for-sale financial assets - non-current	6(3)	(80,449)	(164,705)
Increase in investments accounted for under the equity method	6(9)	(370,784)	(86,242)
Acquisition of property, plant and equipment	6(10)(34)	(1,696,681)	(1,945,847)
Proceeds from disposal of property, plant and equipment	6(10)	28,591	1,219,352
Acquisition of intangible assets		(167,084)	(50,266)
(Increase) decrease in restricted assets	8	(219)	5,675
Decrease (increase) in other non-current assets	6(13)	57,590	(400,976)
Net cash outflow on acquisitions of subsidiaries	6(33)	(3,894,036)	-
Net cash flows used in investing activities		(5,867,946)	(780,971)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in short-term loans	6(14)	3,726,661	(390,338)
(Decrease) increase in long-term loans	6(18)	(5,793,025)	395,416
Proceeds from issuance of bonds payable	6(17)	3,000,000	-
Cash dividends paid	6(23)	(2,202,962)	(2,202,962)
Net cash flows used in financing activities		(1,269,326)	(2,197,884)
Exchange rate effect		(686,804)	112,316
Net (decrease) increase in cash and cash equivalents		(2,282,648)	2,300,861
Cash and cash equivalents at beginning of year		17,201,690	14,900,829
Cash and cash equivalents at end of year		<u>\$ 14,919,042</u>	<u>\$ 17,201,690</u>

TECO Electric & Machinery Co., Ltd.

Distribution of 2015 Profits

(In NT \$)

Item	Amount
Accumulated undistributed profit as of the beginning of the period	7,142,456,635
Add: Adjustment of IFRS in 2013 (Note 1)	46,051,000
Accumulated undistributed earnings after adjustment	7,188,507,635
Less: Retained earnings after adjustment in 2015	(55,640,839)
Accumulated undistributed earnings after adjustment	7,132,866,796
Add: Net Profit after tax in 2015	3,177,290,819
Less : Legal Reserve	(317,729,082)
Total distributable earnings	9,992,428,533
Profit available for distribution for the period:	
Profit-sharing to shareholders	1,602,154,309
(Dividend per share)	0.8
Undistributed profit as of the end of 2015	8,390,274,224
Note :	
1. Please see the note "Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")" in Non-consolidated Statement in 2015	
2. Defined Pension Obligation actuarial gains and losses	

Notes:

- Dividend per share in 2015 is NT\$0.8 and all dividends distributed this year shall be cash dividend.
- The profit distributed this period will be distributed from the distributable earnings received in 2015 and from the accumulated undistributed profits from previous years where there is a shortfall.
- In the event of any change to the total number of outstanding shares as a result of the issuance of convertible bond, Company's buyback of its own shares, transfer, conversion or deregistration of treasury shares, exercise of employees' stock option and other factors, it is proposed that the Shareholders' Meeting grants the Chairman full authority to handle all relevant matters subject to the fixed payout rate mentioned above.

Appendices

1. Articles of Incorporation on pages 38-47
2. Rules Governing Shareholders' Meeting on pages 48-50
3. Rules Governing Election of Directors on pages 51-52
4. Shareholding of All Directors on page 53
5. Notes on page 54

TECO Electric & Machinery Co., Ltd.

Articles of Incorporation

Chapter 1 General Provisions

Article 1

The Company is incorporated in accordance with the Company Act and is named TECO Electric & Machinery Co., Ltd.

Article 2

The scope of business of this Company is as follows:

1. C805050 Manufacture of industrial plastic products;
2. C805070 Manufacture of reinforced plastic products;
3. CA01030 Steel casting;
4. CA01050 Secondary processing of steel materials;
5. CA02010 Manufacture of metal structure and building parts;
6. CB01010 Manufacture of machinery equipment;
7. CB01020 Manufacture of office machines;
8. CB01030 Manufacture of pollution-control equipment;
9. CB01071 Manufacture of refrigerating, air-conditioning equipment;
10. CC01010 Manufacture of generators, power dispatching, power distributing machinery;
11. CC01030 Manufacture of electrical appliance and audio-visual electronic products;
12. CC01060 Manufacture of cable telecommunication machinery and equipment;
13. CC01070 Manufacture of wireless telecommunication machinery and equipment;
14. CC01080 Manufacture of electrical parts and components;
15. CC01110 Manufacture of computers and the peripheral thereof;
16. CD01010 Manufacture of boats and the parts thereof;
17. CD01020 Manufacture of rail cars and the parts thereof;
18. CD01030 Manufacture of automobiles and the parts thereof;
19. CD01040 Manufacture of motorbikes and the parts thereof;
20. CD01060 Manufacture of aircrafts and the parts thereof;
21. CE01010 Manufacture of general instruments;
22. CE01030 Manufacture of optical instruments;
23. E501011 Services regarding water utilities as contractor;
24. E502010 Installation of fuel pipes;
25. E599010 Engineering of pipe lines;
26. E601010 Service regarding electrical appliance as contractor;
27. E601020 Installation of electrical appliance;
28. E602011 Engineering of refrigerating, air-conditioning equipment;
29. E603010 Installation of cables;
30. E603040 Installation of firefighting safety equipment;
31. E603050 Engineering of automatic control equipment;
32. E603080 Installation of traffic signs;
33. E603090 Installation of illuminating equipment;
34. E604010 Installation of machines;
35. E605010 Installation of computer equipment;
36. F106010 Wholesale of hardware;
37. F106030 Wholesale of tooling;
38. F108031 Wholesale of medical devices
39. F114080 Wholesale of rail cars and the parts thereof;
40. F117010 Wholesale of fire-fighting safety equipment;
41. F119010 Wholesale of electrical materials;
42. F206010 Retail sale of hardware;

43. F206030 Retail sale of tooling;
44. F206040 Retail sale of water equipment and relevant materials;
45. F208031 Retail sale of medical devices;
46. F213040 Retail sale of precision instruments;
47. F218010 Retail sale of software application;
48. F401010 International trade;
49. F501060 Restaurant services;
50. G801010 Warehousing services;
51. H701010 Development and leasing of residential and business buildings;
52. I103060 Management consulting services;
53. I301010 Information application services;
54. I301020 Data-processing services;
55. I301030 Supply of electronic information services;
56. IF01010 Inspection and repair of firefighting safety equipment services;
57. IF02010 Testing and inspection of electrical equipment services;
58. JE01010 Leasing services;
59. ZZ99999 Other businesses not prohibited or restricted legally except those with special permit.

Article 3

The Company may, for the purpose of meeting business needs, provide guarantees to others.

Article 4

The Company may, for the purpose of meeting business needs, authorize the Board of Directors to make investment in relevant businesses without regard to Article 13 of the Company Act.

Article 5

The Company will have its head office located in Taipei and the Board of Directors may set up branch offices and production facilities from time to time in consideration of the business needs of the Company.

Chapter 2 Capital stocks

Article 6

The total capital of the Company is NT\$30,305,500,000 divided into 3,030,550,000 shares with a par value of NT\$10 each. The Board of Directors is authorized to issue the shares in installment in consideration of the business needs of the Company.

A total of NT\$1,000,000,000 of the above total capital will be reserved for issuance of employee stock options for a total of 100,000,000 shares of stocks with a par value of NT\$10 each, which may be issued in installments according to the resolution adopted by the relevant meeting of the Board of Directors.

With the approval of two thirds of voting right owned by attending shareholders representing over half of the total issued shares at a shareholders' meeting, subscription price for the issuance of employee warrants can be exempt from the restriction included in article 53 of the "guidelines for the raising and issuance of securities" and the issuance can be carried out in several batches within one year after the resolution is made by shareholders' meeting.

Article 7

The company can buy back issued shares from the centralized securities market, according to article 10-1 of "measures for buying back shares by listed firms." With approval of two thirds of voting right owned by attending shareholders representing over half of issued shares, the company can transfer the bought-back shares to employees at price lower the average purchase price.

Article 8

The Company may issue shares without printing share certificates. All of the stocks of the Company will be duly issued as name-bearing stocks and duly registered.

Article 9

All transfer of stocks shall be suspended 60 days prior to the annual general shareholders meeting date, 30 days prior the extraordinary shareholders meeting date, and five days prior to the date of distribution of dividend, profit-sharing or other interests.

Chapter 3 Shareholders' Meeting

Article 10

The Company will have two types of shareholders meetings:

1. General shareholder meeting to be convened within six months after the end of each fiscal year; and
2. Extraordinary shareholders meeting to be convened where necessary.

The convention of the above shareholders meetings will be notified to the shareholders 30 days prior to the meeting date of the general shareholders meeting and 15 days prior to the meeting date of the extraordinary shareholders meeting.

Article 11

Each shareholder of this Company will have one vote on each share held except those without voting right according to company law and related regulations.

Article 12

Where the shareholder is unable to attend the shareholders meeting in person, he/she may appoint a proxy to act on his/her behalf at the meeting by signing the proxy form prepared by the Company. The number of votes by a proxy acting on behalf of two or more shareholders at the shareholders meeting shall not exceed the total number of votes representing 3% of the total issued shares of the Company with all excess votes disregarded, except where such proxy is a trust business or stock affairs agency institution approved by the competent securities authority.

Article 13

Except as otherwise provided by the Company Act, the Shareholders' Meeting may be called to order on and only on the attendance by shareholders representing the majority of the total issued shares. Resolutions of the shareholders meeting shall be adopted by the majority votes at the meeting.

The resolutions of the shareholders meeting shall be recorded in the meeting minutes signed or sealed with the chop of the chairperson and distributed to the shareholders each within 20 days after the meeting, provided that the service of the meeting minutes may be made by public notice with respect to shareholders.

Article 14

The shareholders shall be presided by the person who is legally authorized to convene the meeting. Where there are two or more conveners, they shall elect one from among themselves to preside the meeting.

Chapter 4 Board of Directors

Article 15

The Board of Directors of the Company will be formed by 15 Directors to be elected from among the shareholders with disposing capacity. The Director each will serve a term of office of three years and is eligible for re-election.

Three of the aforementioned directors are independent directors. Candidates for directors are nominated, according article 192-1 of the Company Law.

Method for acceptance of the nomination for directors, its publication, and other related affairs will be conducted according to the Company Law, the Securities and Exchange Act, and other related law/regulation.

Article 16

The Directors shall elect five from among themselves to act as the Managing Directors who shall then elect from among themselves the Chairman and Vice Chairman of the Company. The Chairman will externally represent the Company and act as the chairperson of the Shareholders' Meetings, meetings of the Board of Directors and meetings of the Managing Directors. If the Chairman is for any reason unable to perform his/her functions at the meeting, the Vice Chairman shall act on his/her behalf. If the Vice Chairman is also for any reason unable to perform the chairperson's functions at the meeting, the Chairman shall appoint one from among the Managing Directors to act on his/her behalf. In the absence of such appointment, the Managing Directors shall elect one from among themselves to act on behalf.

At least one of the nominated Managing Directors shall be an independent director, and no less than one fifth of the total number of Managing Directors.

Article 17

The Chairman will convene and preside the meetings of the Board of Directors except the first meeting of every new term of office which shall be convened by the Director who was elected with the highest number of votes at the relevant election. Where the Chairman is for whatever reason unable to perform his/her functions at the meeting, the Vice Chairman shall act in his/her stead. If the Vice Chairman is for whatever reason unable to perform the function at the meeting, the Chairman shall appoint one from among the Managing Directors to act in his/her stead. Absent such appointment, the Managing Directors shall elect one from among themselves to act instead of the Chairman at the meeting.

Article 18

Except as otherwise provided by the Company Act, the meeting of the Board of Directors may be called to order on and only on attendance by the majority of the Directors. The resolution of the meeting of the Board of Directors shall be adopted by the majority votes at the meeting.

If the Director is for whatever reason unable to attend the meeting of the Board of Director in person, he/she may appoint another Director to act in his/her stead by issuing a signed proxy. The Managing Director may also appoint another Managing Director to act in his/her stead at the meeting of the Managing Directors.

The board of directors should be convened every quarter. Notice, along with the description of the meeting, will be given to every director seven days in advance. The notice can be given in written form, fax, or e-mail.

The meeting of the Board of Directors may be conducted via audio- or video-teleconference. All Directors present at the meeting via teleconference will be deemed present at the meeting in person.

Article 19

The function of the Board of Directors is to

1. examine and determine important bylaws and contracts;
2. determine business operation policy;
3. examine and determine budgets and final accounting;
4. propose capital increase (reduction);
5. propose profit distribution plan;
6. determine the organization of the business departments of the Company, appoint and discharge managerial officers;
7. examine and approve purchase or disposal of important property and real estate;
8. examine and approve provision of guaranty and loan to external investments;
9. examine and approve investment in relevant business at home or abroad; and
10. perform other functions conferred upon bylaw or the shareholders meeting.

Article 20

In case the vacancies on the Board of Directors exceed one third of the total number of Directors, the Board of Directors shall convene an extraordinary shareholders meeting within 60 days to elect new Directors to fill the vacancies.

The new Directors shall serve the remaining term of office of the predecessors.

Article 21

Compensations for the chairpersons, vice chairpersons, and directors should be proposed by "Compensation Committee", according to their involvement in the company's operation, the value of their contribution, and reference of domestic and overseas level. The proposal will be submitted to the board of directors for approval.

Chapter 5 Audit Committee

Article 22

The company institutes audit committee, consisting of all the independent directors, according to the law. Audit committee will take over the responsibilities and power of supervisors, stipulated in the Company Law, Securities Trading Law, and other laws.

Organizational charter for the audit committee should be formulated to cover the number, term, meeting rules, and provision of resources by the company for the exercise of its duties.

Chapter 6 Managerial officers

Article 23

The Company will have presidents, vice presidents and assistant vice presidents to be appointed and discharged in accordance with Article 29 of the Company Act. The president will take general charge of the operation of the Company according to the instruction from the Chairman.

Article 24

The presidents, vice presidents and assistant vice presidents shall be the responsible person of the business they each take charge of with the powers and duties to operate and manage such business.

Chapter 7 Accounting

Article 25

The Board of Directors shall after the end of each fiscal year produce the following reports and statements and submit the same to the Audit Committee for inspection and, thereafter, the Shareholders Meeting for ratification:

1. Business report.
2. Financial statement.
3. Proposed profit distribution or loss make-up plan.

Article 26

The profit of the Company as of the final accounting each year shall be appropriated in the following order to

1. Pay taxes.
2. Make up accumulated loss from previous years.
3. Set aside 10% thereof in legal reserve.
4. Set aside or reverse special earnings reserve in accordance with the requirements prescribed by the competent authority
5. Pay 1% to 5% of the balance as of the application provided in subparagraphs 1 to 4 to Directors as remuneration.
6. Pay profit sharing to the employees which is from 1% to 10% of the balance net of the reserved amounts provided in subparagraphs 1 to 4. Profit sharing to employees in stock and in cash will be in accordance with the ratio stock dividend from the reversed retained earning and cash dividend to the shareholders. Where there is no capital increase from capitalization of the retained earnings or where the capital increase proposed is not ratified or approved by the shareholders meeting or the competent authority, all profit sharing will be paid in cash.
7. Bonus to shareholders, the balance net of the above and the retained earnings from the previous year will be distributed or retained to shareholders according to their percentage of shareholding.
8. Conditions and method of profit-sharing in stock to eligible employees shall be determined by the Board of Directors.

The Company is in a stably growing industry with investments made in developing businesses. In consideration of possible expansion of operation and investment, the earnings distributed to the shareholders each year will basically be in an amount equal to 80% of the earnings received in the period combined with the retained earnings from the previous year, net of the legal reserve, special earning reserve, remuneration to the Directors (ranging from 1% to 5%), and profit sharing to employees (ranging from 1% to 5%). Basically 50% but not less than 5% of the earnings distributed to the shareholders shall be distributed in cash.

Chapter 8 Supplemental Provisions

Article 27

The rules governing the organization of the Company shall be prescribed by the Board of Directors.

Article 28

Matters not provided herein shall be in accordance with the Company Act and the relevant laws and regulations.

Article 29

These Articles of Incorporation was established on 12 April 1956 and subsequently amended as follows:

The first amendment on 25 January 1957;
The second amendment on 1 September 1958;
The third amendment on 27 March 1960;
The fourth amendment on 31 March 1962;
The fifth amendment on 14 July 1962;
The sixth amendment on 25 April 1964;
The seventh amendment on 26 March 1966;
The eighth amendment on 27 May 1966;
The ninth amendment on 15 April 1967;
The tenth amendment on 23 March 1968;
The eleventh amendment on 30 May 1969;
The twelfth amendment on 24 October 1969;
The thirteenth amendment on 20 February 1971;
The fourteenth amendment on 10 May 1971;
The fifteenth amendment on 12 May 1972;
The sixteenth amendment on 16 April 1973;
The seventeenth amendment on 2 June 1973;
The eighteenth amendment on 14 April 1974;
The nineteenth amendment on 18 April 1975;
The twentieth amendment on 26 March 1976;
The twenty-first amendment on 16 April 1977;
The twenty-second amendment on 21 April 1978;
The twenty-third amendment on 20 October 1978;
The twenty-fourth amendment on 19 April 1979;
The twenty-fifth amendment on 28 March 1980;
The twenty-sixth amendment on 18 April 1981;
The twenty-seventh amendment on 27 March 1982;
The twenty-eighth amendment on 28 March 1983;
The twenty-ninth amendment on 28 March 1984;
The thirtieth amendment on 28 March 1985;
The thirty-first amendment on 28 March 1986;
The thirty-second amendment on 28 March 1987;
The thirty-third amendment on 28 March 1988;
The thirty-fourth amendment on 28 March 1989;
The thirty-fifth amendment on 28 March 1999;
The thirty-sixth amendment on 7 May 1991;
The thirty-seventh amendment on 8 May 1992;
The thirty-eighth amendment on 7 May 1993;
The thirty-ninth amendment on 28 April 1994;
The fortieth amendment on 6 May 1995;
The forty-first amendment on 11 May 1996;

The forth-second amendment on 24 May 1997;
The forty-third amendment on 15 May 1998;
The forty-fourth amendment on 21 April 2000;
The forty-fifth amendment on 15 May 2001;
The forty-sixth amendment on 31 May 2002;
The forty-seventh amendment on 6 June 2003;
The forty-eighth amendment on 11 June 2004;
The forty-ninth amendment on 27 May 2005;
The fiftieth amendment on 15 June 2006;
The fifty-first amendment on 13 June 2008;
The fifty-second amendment on June 19, 2009;
The fifty-third amendment on June 10, 2011,
The fifty-fourth amendment was on June 15, 2012, and
The fifty-fifth amendment was on June 23, 2014
It will take effect after the approval of shareholders' meeting.

TECO Electric & Machinery Co., Ltd. Rules Governing Shareholders' Meetings

Article 1

Except as otherwise provided by law or the Articles of Incorporation of the Company, the Shareholders' Meetings of the Company shall be governed by these Rules.

Article 2

The shareholder shall register his/her attendance by handing in his/her signed attendance card.

The number of shares present at the meeting will be counted according to the signed attendance cards received, plus the shares for the exercise of voting right via written or electronic method.

Article 3

The quorum and ballots at the Shareholders' Meeting will be counted according to the number of shares represented at the meeting.

Article 4

The shareholders meeting shall be convened at the place where the Company is located or any other appropriate place convenient for the shareholders to attend and shall be called to order no earlier than 9:00AM and no later than 3:00PM on the meeting date.

Article 5

Where the shareholders meeting is convened by the Board of Directors, the meeting shall be presided by the Chairman of the Board of Directors. If the Chairman is for any reason unable to perform his/her functions at the meeting, the Vice-Chairman shall act on his/her behalf. If the Vice-Chairman is for any reason unable to perform the function at the meeting as well, the Chairman shall appoint a Managing Director to act on his/her behalf at the meeting. In the absence of such appointment, the Managing Directors shall elect one from among themselves to preside the meeting. Where the Shareholders' Meeting is convened by any person legally authorized to do so other than the Board of Directors, the meeting shall be presided by such person. Where there are two or more conveners, they shall elect one from among themselves to preside the meeting.

Article 6

The Company may appoint legal counsel, certified public accountant or relevant personnel to attend the Shareholders' Meeting without the right to vote.

Personnel administering affairs at the Shareholders' Meeting shall each wear a tag or badge bearing their designation.

Article 7

The whole proceeding of the Shareholders' Meeting shall be video- or tape-recorded and such recording shall be kept for at least one year.

Article 8

The chairperson shall call the meeting to order as scheduled, provided that where the number of shares represented at the meeting is less than the majority of the total issued shares, the chairperson may announce to postpone calling the meeting to order twice and only twice for not more than one hour in total. If the quorum is still not met after the

postponement duration has expired with the number of shares represented at the meeting exceeding one third of the total issued shares, temporary resolutions may be adopted in accordance with the first paragraph of Article 175 of the Company Act.

If the number of shares represented at the meeting represents the majority of the total issued shares before the meeting is adjourned, the chairperson shall present the temporary resolutions made for voting pursuant to Article 174 of the Company Act.

Article 9

Where the Shareholders' Meeting is convened by the Board of Directors, the agenda shall be determined by the Board of Directors and the meeting shall proceed according to the agenda except otherwise changed by the resolution adopted by the Shareholders' Meeting.

Where the Shareholders' Meeting is convened by any person legally authorized to do so other than the Board of Director, the preceding paragraph shall operate with appropriate and necessary alteration.

The chairperson shall not forthwith announce to adjourn the meeting before the agenda provided in the two preceding paragraphs (including extempore motions) is duly completed, except on the resolution adopted by the Shareholders' Meeting for him/her to do so.

No shareholders shall elect a chairperson to continue the meeting at the same place or elsewhere after the meeting is duly pronounced adjourned.

Article 10

The shareholder shall fill out the request for taking the floor before making statement at the meeting and he/she will indicate the gist of his/her statement to make, shareholder account number (or attendance card number) and shareholder name. The chairperson will decide the order for the shareholders to make their statement. The statement made by any shareholder acting in breach of the above shall be disregarded. The shareholder who has only filled out the request for taking the floor without actually doing so shall be deemed not having made any statement. In case of any discrepancy between the gist of statement indicated in the shareholder's request for taking the floor and the record of his/her statement made, the record shall govern.

No shareholder may interrupt the statement being made by the shareholder taking the floor without the consent of both the chairperson and the shareholder taking the floor. The chairperson shall restrain any shareholder acting in breach of the above and the statement made by such shareholder shall be disregarded.

Article 11

Each shareholder may make statement on the same issue not more than twice and not more than five minutes unless the chairperson consents otherwise.

The statements made by any shareholder acting in breach of the preceding paragraph or irrelevant to the issues will be disregarded and the chairperson may prevent him or her from making statement.

Article 12

An institutional entity who is to attend the Shareholders' Meeting in proxy may appoint one and only one representative to attend the meeting

Institutional shareholder who has appointed two more or representatives to attend the Shareholders' Meeting will have its statement (if any) on the same issue by only one of its appointed representatives.

Article 13

The chairperson may personally respond to the statement made by the shareholder or appoint the relevant personnel to do so.

Article 14

The chairperson may announce to conclude the discussion on a proposal as he/she sees fit and submit the proposal to voting for resolution.

Article 15

The personnel supervising the voting and counting the ballots of voting shall be appointed by the chairperson, provided that the personnel supervising the voting must be appointed from among the shareholders. The outcome of the voting shall be announced on the spot and taken down in the minutes.

Article 16

The chairperson may call the meeting to a break as he/she sees fit.

Article 17

Except as otherwise provided by the Company Law or the Articles of Incorporation of the Company, a resolution shall be adopted by more than half of the votes represented by the shareholders present at the Meeting. If shareholders exercising voting right in written or electronic method don't express objection and the chairperson doesn't receive objection from attending shareholders, the proposal will be regarded as receiving approval in entirety. On the day after the holding of shareholders' meeting, post the result of agreement, objection, or no opinion on the Market Observation Post System.

Article 18

The chairperson shall combine the revision or substitute proposal (if any) on a proposal with that proposal for the purpose of determining their order of voting. If one of the proposals is adopted, the other proposals shall be deemed vetoed and no voting on them will be necessary.

Article 19

The chairperson may direct the order-maintaining personnel (or security guard) to maintain the order of the meeting. Each order-maintaining personnel (or security guard) shall wear a badge bearing their designation when performing their function at the meeting.

Article 20

These Rules are amended pursuant to the Company Law and related law/regulation with implemented after being approved by the Shareholders' Meeting. Procedure for revision is the same.

Article 21

These Rules were adopted by the extraordinary Shareholders' Meeting on June 2, 1973.

The first amendment to these Rules was adopted by the General Shareholders' Meeting on May 11, 1996.

The second amendment to these Rules was adopted by the General Shareholders' Meeting on May 15, 1998.

The third amendment to these Rules was adopted by the General Shareholders' Meeting on May 31, 2002.

The fourth amendment to these Rules was adopted by the General Shareholders' Meeting on June 15, 2012.

TECO Electric & Machinery Co., Ltd.

Rules Governing Election of Directors

Article 1

The election of the directors of the Company shall be in accordance with these Rules.

Article 2

Candidate's nomination system is adopted for election of the directors of the Company. Except as otherwise provided by the Article of Incorporation of the Company, each share of the Company held shall have the same number of votes as the number of the directors to be elected, which may be for one and the same candidate or distributed for a plural number of candidates.

Article 3

The chairperson of the election shall appoint a number of voting supervisors and ballots counters before the election begins.

Article 4

The directors of the Company will be elected by the relevant shareholders meeting from among those who have disposing capacity. The number of directors elected shall be in accordance with the Articles of Incorporation of the Company according to the number of votes represented by the ballots won. The independent directors and non-independent directors shall be elected at the same election with the number of independent directors elect and that of the general directors elect counted separately. The election of the independent directors shall be in accordance with the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies, and the relevant rules, laws and regulations. Where there are two or more candidates who have each won equal number of votes and the number of vacancies to fill is less than such candidates, the elect shall be determined by drawing lot. Those who are not present at the meeting shall be represented by the chairperson to draw the lot.

Article 5

Except as otherwise approved by the competent authority, the number of the directors of the Company who run into either of the following relationships among themselves must be less than one half of the total number of directors:

1. Spouse; or
2. Relatives of the second degree.

For elected directors who run counter to the aforementioned regulation, those gaining the support of fewer voting rights should be disqualified.

Article 6

The ballots shall be produced and prepared by the Board of Directors; each ballot shall bear the number of the attendance card and the number of votes it represents.

Article 7

The voting shareholder shall indicate in the ballot the account name and shareholder account number of the candidate voted if he or she is a shareholder, and the name and the national identification card number or passport number of the candidate voted if he or she is not a shareholder. However, where the candidate voted is a government agency or institutional shareholder, the voting shareholding shall fill in the ballot the title of such

government agency or institutional shareholder and the names of all of its representatives (if any).

Article 8

A ballot cast will be void if

1. It is not in the form and substance prepared by the Board;
2. It bears the names of various candidates, which outnumbers the limit fixed;
3. It bears any words other than the personal (account) name, shareholder account number (or identification paper number) of the candidate voted, and the number of the votes cast;
4. It is blank;
5. It is illegible or altered;
6. Where the candidate written therein is a shareholder, the account name or the shareholder account number is different from that indicated in the shareholders roster; where the candidate written therein is a non-shareholder, the personal name written therein is different from his or her identification paper;
7. Where the candidate written therein is a shareholder, the account name written therein is identical with another shareholder's with no shareholder account number given for identification purposes; or where the candidate written therein is not a shareholder, the personal name indicated therein is identical with that of another non-shareholder with no identification number given for identification purposes.

Article 9

The ballots shall be open at the end of the voting and the result of the election shall be announced by the chairperson.

Article 10

The directors elected shall each cause their signed acceptance letters served to the Company within 12 days from the election date.

Article 11

These Rules and all subsequent amendments each shall come into force after being adopted by the relevant shareholders meeting.

Article 12

These Rules were adopted by the shareholders meeting of 14 April 1974.

The first amendment to these Rules was adopted by the shareholders meeting of 31 May 2002.

The second amendment to these Rules was adopted by the shareholders meeting of 13 June 2008.

The third amendment to these Rules was adopted by the shareholders meeting of 10 June 2011.

The fourth amendment to these Rules was adopted by the shareholders meeting of 23 June 2014.

The fourth amendment to these Rules was adopted by the General Shareholders' Meeting on June 23, 2014.

TECO Electric & Machinery Co., Ltd.

Shareholding of All Directors

1. Types and number of issued shares: common stocks, 2,002,692,886 shares in total.
2. Minimum required shareholding by all Directors: 48,064,629 shares (Note)
3. Minimum required shareholding by all Supervisors: Not Applicable (Already set up Audit Committee)
4. The total shareholding of all Directors meets the minimum shareholding requirement.

Period of suspension of share transfer: April 18 2016 ~ June 16 2016

Title	Name	Date elected (yy.mm.dd)	Term of office	Shareholding when elected		Number of shares held recorded in the shareholders roster as of the date of suspension of share transfer	
				Number of shares held	%	Number of shares held	%
Chairman	Tung Kuang Investment Co., Ltd. Representative: Chwen-Jy, Chiu	20150611	3yrs	30,341,364	1.52%	30,341,364	1.52%
Managing Director	Tong Ho Gloabl Investment Co., Ltd Representative: Chao-Kai, Liu	20150611	3yrs	2,340,262	0.11%	2,240,262	0.11%
Managing Director	Cheng-Tsung, Huang	20150611	3yrs	15,279,849	0.76%	15,279,849	0.76%
Managing Director	Creative Sensor Inc. Representative: Yu-Ren, Huang	20150611	3yrs	10,000,000	0.50%	10,000,000	0.50%
Managing & Independent Director	Tian-Jy, Chen	20150611	3yrs	0	0	0	0
Independent Director	Jing-Shown, Wu	20150611	3yrs	0	0	0	0
Independent Director	Chien-Yuan, Lin	20150611	2yrs	0	0	0	0
Director	Mao-Hsiung, Huang	20150611	3yrs	18,486,633	0.92%	18,486,633	0.92%
Director	Po-chih, Huang	20150611	3yrs	21,614,831	1.08%	21,614,831	1.08%
Director	Hsien-Sheng Kuo	20150611	3yrs	9,126,238	0.46%	9,126,238	0.46%
Director	Yaskawa Electric Corporation Representative: Hiroyuki Ougi	20150611	3yrs	29,541,089	1.48%	29,541,089	1.48%
Director	Kuang Yuan Industrial Co., Ltd. Representative: Shih-Chien, Yang	20150611	3yrs	22,033,919	1.10%	22,033,919	1.10%
Director	Tong Kuang Investment Co., Ltd. Representative: Hong-Hsiang, Lin	20150611	3yrs	30,341,364	1.52%	30,341,364	1.52%
Director	Lien Chang Electronic Co., Ltd. Representative: Ming-Feng, Yeh	20150611	3yrs	4,173,000	0.21%	4,173,000	0.21%
Director	Mao Yang Co., Ltd. Representative: Yung-Hsiang, Chang	20150611	3yrs	5,000,893	0.25%	5,000,893	0.25%
Total number of shares held by all Directors				167,838,078	8.38%	167,838,078	8.38%

Note : According to Article 2 of "Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies", if there are two or more independent directors elected, the minimum shareholding of all directors and supervisors, excluding independent directors, could drop to 80% of original requirement.

TECO Electric & Machinery Co., Ltd.

Notes

1. Impact on Company's business performance, EPS and ROI from the stock grant proposed by Shareholders Meeting: Not applicable.
2. Information on proposals submitted to the shareholders' meeting
 - a. According to article 172-1 of the Company Law, shareholders with over 1% holding of total shares issued can submit only one written proposal, containing up to 300 words, to shareholders' meeting.
 - b. Shareholders can put forth proposals to the shareholders' meeting during April 8-18, 2016, which had been posted on the Market Observation Post System of the Taiwan Stock Exchange, according to law.
 - c. The company didn't receive any proposal from shareholders during the period
3. Information on nomination submitted to the shareholders' meeting
 - a. According to article 192-1 of the Company Law, shareholders with over 1% holding of total shares issued can nominate the candidate of Independent Director in written form. The vacancy of independent director is one seat. The candidates for independent directors nominated by shareholders will not be included into the list of candidates for independent directors, should their numbers exceed the amount of vacancies or they fail to meet legal qualifications.
 - b. Shareholders can nominate to the shareholders' meeting during April 13-22, 2016, which had been posted on the Market Observation Post System of the Taiwan Stock Exchange, according to law.
 - c.. During the period, a candidate for Independent Director was accepted. Via the verification of Board Meeting on April 25 2016, the candidate is listed and there is no one being nominated and excluded from the list.