

Stock Code: 1504



TECO ELECTRIC & MACHINERY CO., LTD

GENERAL SHAREHOLDERS MEETING 2019

JUNE 14, 2019

AGENDA

Time: 09:00am, June 14, 2019 (Friday)

Place: 3F., Building A, No. 166, Jingmao 2nd Rd., Nangang District,
Taipei City, Taiwan (Grande Luxe Banquet)

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 2019

Meeting Procedure

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

TECO Electric & Machinery Co., Ltd.

General Shareholders Meeting 2019

Agenda

Time: 09:00am, June 14, 2019(Friday)

Place: 3F., Building A, No. 166, Jingmao 2nd Rd., Nangang District, Taipei City, Taiwan (Grande Luxe Banquet)

1. Meeting called to order
 2. Addresses by the Chairman.
 3. Reports
 - 3.1 Business Report for 2018
 - 3.2 Inspection Report of Audit Committee for 2018
 - 3.3 Remuneration distribution to employees and directors for 2018
 - 3.4 Report on the purchase of treasury stock
 4. Ratification
 - 4.1 Business Report and Financial Statements for 2018
 - 4.2 Distribution of 2018 Profits
 5. Election
 - 5.1 Amendment to Articles of Incorporation
 - 5.2 Amendment to Procedure for Acquisition or Disposal of Assets
- ※ After being discussed case by case, voting for the Ratification and Discussion will take place at the same time. Vote counting will be conducted separately.
6. Extempore motion(s)
 7. Meeting adjourned

Reports

1. Business report for 2018 (pages 10-12)
2. Inspection Report of Audit Committee for 2018 (page 13)
3. Remuneration distribution to employees and directors for 2018

Explanatory note:

In 2018, income before tax is NT\$ 3,294,809 thousands, and remuneration to employees is proposed to be NT\$ 255,103 thousands, whilst remuneration to directors is proposed to be NT\$ 113,379 thousands. The remuneration would be distributed in cash.

4. Report on the purchase of treasury stock

Terms of repurchase	16 th
Purpose of share repurchase	To sustain the company's credit and shareholders' interests
Originally determined number of shares to be repurchased	Common share 35,000,000 shares
Period for the repurchase	2019/1/2~2019/2/22
Originally determined repurchase price range	NT\$12.15~NT\$26.70
Number of shares repurchased	Common share 35,000,000 shares
Ratio to total shares issued	1.75%
Total monetary amount of shares repurchased	NT\$675,839,547
Any other matters that need to be specified	Shall file for change of share register within 6 months starting from the date starting to repurchase(ended by 2019/7/1)

Ratification

Proposal 1:

Business Report and Financial Statements for 2018 (proposed by the board of directors)

Explanatory note:

1. The Board of Directors entrusted certified public accountants Wu, Yu-Lung and Chou, Chien-Hung with Pricewaterhouse Coopers to audit and certify the Business Report and Financial Statements (includes Consolidated Financial Statements) for 2018, both of which were subsequently inspected by Audit Committee and are hereby submitted for ratification.
2. Please see pages 10-12 for the business report and pages 14-41 for the Auditors' Report and the Financial Statements.

Proposal 2:

Distribution of 2018 profits (proposed by the board of directors)

Explanatory note:

1. The board of directors plans to appropriate NT\$1,770,923,597 from distributable earnings in 2018 for dividend payout, capable of paying NT\$0.90 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 42 for the detailed profit distribution plan.

Discussion

Proposal 1:

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

Explanatory note:

1. In accordance with the Company Act revised on August 1st, 2018, the company proposes to revise the related measures of Articles of Incorporation.
2. For the comparison between the revision and the original, please refer to pages **43-45** and **71-78**.

Proposal 2:

Amendment to Procedure for Acquisition or Disposal of Assets (proposed by the board of directors)

Explanatory note:

1. In accordance with Financial Supervisory Commission's revision on "Regulations Governing the Acquisition and Disposal of Assets by Public Companies", the company proposes to revise the partial measures of Procedure for Acquisition or Disposal of Assets.
2. For the comparison between the revision and the original, please refer to pages **46-69** and **82-99**.

Extempore Motion(s)

Meeting Adjourned

Attachments

1. Business Report for 2018 on pages 10-12
2. Inspection Report of Audit Committee for 2018 on page 13
3. Financial Statements and Auditors' Report for 2018 on pages 14-41
4. Distribution of 2018 Profits on page 42
5. The comparison between the revision and the original of "Articles of Incorporation" on page 43-45
6. The comparison between the revision and the original of "Procedure for Acquisition or Disposal of Assets" on page 46-69

Business Report

Dear Shareholders,

External environment fluctuated in 2018, posing multiple challenges for enterprise. Volatile factors include prolonging China-U.S. trade friction, stagnant Brexit, attempt by North Korea to return to the international arena, and slackened market of crude oil and raw materials. However, continuing expansion of the electric-car market has triggered demands for auto motors, and the automation and AI current has fostered huge business potential. In the quest for sustainable development, the company has adhered to the vision of "energy conservation, emission reduction, intelligence, and automation," pushing the automation, smart production, and consistency of the company's production bases worldwide and rolling out innovative high-performance and smart products, in order to uphold strong growth momentum, minimize the effect of external changes, and retain steady profits.

A. Review of Business Performance in 2018

Analysis of the company's business performance in 2018 follows:

a. Parent Company

Unit: NT\$ thousand

	2018	2017	Change
Sales revenue	20,879,719	21,301,208	-1.98%
Operating profit	1,410,943	1,507,068	-6.38%
Profit for the year	3,150,089	3,092,358	1.87%

Motor's order intake and sales picked up significantly, thanks to increased share on domestic and Australian markets, plus robust demands from power generation and oil & gas industries in North America. Affected by sluggish realty market and private consumption, sales of home appliances and power devices dropped. In general, the company's 2018 revenue scored slight decline of 1.98%.

In response to China-U.S. trade war, some orders for the U.S. were shifted to Taiwan for production, dampening gross margin. Consequently, the company has endeavored to cut material and other costs, reduce product weight and size, to boost competitiveness. Still, affected mainly by profit margin drop of air conditioning products, overall gross margin decreased by 0.9%. The company, though, managed to decrease operating expense by near NT\$70 million, via working-flow improvement and outlay rationalization, as a result of which operating profit only declined by NT\$96 million.

Continuing sales and profit growth of affiliates in China, North America, and Australia

led to increase of NT\$330 million in investment income under equity method in 2018. In 2018, the company's net profit increased by 1.87%.

In 2018, the company had a remarkable performance in R&D, launching high-power smart motor, permanent-magnet motor for electric car, smart air quality and air-conditioning energy management system for hospitals, and service-oriented robot, which won the company 15 awards of Taiwan Excellent Award, the highest among electromechanical manufacturers.

b. Consolidated Financial Statements

Unit: NT\$ thousand

	2018	2017	Change
Sales revenue	50,104,927	50,942,521	-1.64%
Operating profit	3,520,486	3,496,200	0.69%
Profit for the year	3,475,969	3,544,248	-1.93%
Total comprehensive income	3,908,980	4,326,037	-9.64%

Sales in China grew, thanks to the policy separating production and sales, increased market share of large-sized motor and air-separation equipment, grasp of the business opportunities related to "Road and Belt" program, and focus on gear reducer and explosion-proof electric machinery. Sales in North America and Europe both scored double-digit growth, thanks to brisk demands for large-sized motors and gear reducers, respectively, while sales growth in Australia exceeds 5% and domestic sales also grew, despite exclusion of the revenue of Kuenling Air. After excluding the contribution of Kuenling Air, operating income still grew slightly by NT\$60 million, due to merger of regional organizations and further rationalization of expenses. Affected by loss in the valuation of financial assets and reduced investment income, current net profit dropped by 1.93%, while total comprehensive income also tumbled by 9.64%, due to decline in unrealized valuation income from equity investment instruments.

B. Outline of 2019 Business Plan

The global economy is expected to remain sluggish in 2019, according to the prediction of major forecast bodies. The Cabinet-level Directorate General of Budget, Accounting, and Statistics forecasts that Taiwan's economy will score 2.27% growth in 2019, compared with the forecasts of other bodies ranging 2.18-2.45%. Faced with even steeper challenges, the company will continue embracing the vision of "energy conservation, emission reduction, intelligence, and automation," focusing on IoT-

enabled motor digital service, double growth for inverters, electromechanical equipment sales program, overseas electromechanical engineering, and smart communities, so as to sustain sales growth.

To achieve intelligence and automation, the company will establish industry IoT at all of its factories, on the basis of MES (manufacturing execution system), which will be coupled with big-data analysis in forging smart electromechanical factory solutions. Automated guided vehicles and service-oriented robots will also be applied, to further boost the operating efficiency of factories.

For energy conservation and emission reduction, the company has engaged in the RD& on high-efficiency low-energy consumption permanent-magnet motor for use as motive force, and the development, via utilization of "synchronous reluctance assisted permanent magnet technology," of traction power modules, for deployment in the markets of electric cars and electric vessels. The company is also actively foraying into the supply chain for offshore wind-power turbines, plans to engage in the grid-connection power control panel and assembly of wind turbine, using Taiwan as a springboard for inroads into the markets of Japan, South Korea, and Southeast Asia.

The company has been granted golden award of Taiwan Top 50 Corporate Sustainability Report Award for five years in row and Corporate Citizen Award by Commonwealth magazine for seven consecutive years. As a vanguard of Taiwan's electromechanical industry, the company will continue adhering to the concept of sustainable development and, in response to the need for innovative technology and the current of Industry 4.0, will dedicate to the development of IoT and smart environment-friendly products, in the hope of turning in a good performance amid stern international environment and creating optimal benefits for shareholders and investing public, in return for their longstanding support and patronage.

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 2018 (including 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 2019

TECO Electric & Machinery Co., Ltd

Audit Committee Convener : Ting-Wong, Cheng

Date: March 26, 2019

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To TECO Electric & Machinery Co., Ltd.

Opinion

We have audited the accompanying parent company only balance sheets of TECO Electric & Machinery Co., Ltd. as at December 31, 2018 and 2017, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the audit reports of other independent accountants, as described in the other matter section of our report, the parent company only financial statements present fairly, in all material respects, the financial position of TECO Electric & Machinery Co., Ltd. as of December 31, 2018 and 2017, and its financial performance and cash flows for the years then ended, in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (“ROC GAAS”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and audit reports of other independent accountants, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only financial

statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Company's financial statements of the current period are stated as follows:

Revenue recognition of export sales of heavy industrial products group

Description

Refer to Note 4(31) of the parent company only financial statements for the accounting policies on revenue recognition. Heavy industrial products group handles the manufacturing and sales of various machinery, equipment and motors. Aside from domestic sales in Taiwan, the customers of heavy industrial products group are from China, America, Southeast Asia and Europe and the sales terms vary for different customers. Thus, we consider the revenue recognition of export sales of heavy industrial products group as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. Obtained an understanding of and validated the internal controls over revenue recognition of export sales of heavy industrial products group to assess the effectiveness of the internal control process.
2. Validated selected samples of export sales revenue transactions of heavy industrial products group to confirm the existence of export sales revenue transactions.

Investment accounted for under equity method – impairment assessment of premium generated from the acquisition of subsidiaries

Description

Motovario S.p.A. is headquartered in Italy, and is engaged in the manufacturing and sales of gear reducers and other power transmission equipment. Motovario S.p.A. is considered a minor cash-generating unit of TECO Electric & Machinery Co., Ltd.. As of December 31, 2018, the balance of goodwill was NT\$5,207,755 thousand. Refer to Note 4(18) of the parent company only financial statement for the accounting policies on the impairment of non-financial assets and Note 5(2) for the uncertainty of the accounting estimate regarding impairment of

investment in premium. TECO Electric & Machinery Co., Ltd. assesses the impairment of investment in premium using the recoverable amount generated from the cash flow forecast discounted using a reasonable discount rate.

The aforesaid recoverable amount includes several assumptions such as the discount rate used and the preparation of financial projections to estimate the cash flows for the next three years. The discount rate and financial projections relating to the future operations of Motovario S.p.A. are subject to management judgement which have a significant impact on the measurement of the recoverable amount, thus affecting the results of the impairment assessment. Accordingly, we consider management's impairment assessment of investments accounted for under equity method as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. Obtained an understanding and assessed the Company's policies and procedures in relating to the goodwill impairment assessment.
2. Assessed whether the future cash flows adopted in the valuation model was in accordance with Motovario S.p.A's operation plan, and reviewed the results of the previous operating plans prepared by management.
3. Evaluated the reasonableness of major assumptions (including the expected growth rate and discount rate) used in the model.
4. Reviewed the sensitivity analysis for the above significant assumptions and parameters prepared by management and confirmed whether management has adequately addressed the possible impact of the estimation uncertainty on the impairment assessment.

Reclassification from investments accounted for under equity method - subsidiaries into associates due to loss of control

Description

Refer to Note 4(13) for accounting policies adopted when losing control over subsidiaries accounted for under equity method. As mentioned in Note 6(7) of the parent company only financial statements, Kuen Ling Machinery Refrigerating Co., Ltd. ("Kuen Ling") was a subsidiary accounted for under equity method and included in the parent company only financial statements given a control over the Kuen Ling's Board of Directors through 19.98% of equity previously held by TECO Electric & Machinery Co., Ltd.. However, based on the

management's assessment, TECO Electric & Machinery Co., Ltd. has lost control and yet still retained significant influence over the Board of Directors of Kuen Ling following the re-election of directors by shareholders held on May 23, 2018. On the same date, the investments in Kuen Ling were remeasured at fair value. Kuen Ling was then accounted for under equity method but no longer a consolidated entity thereafter. In addition, Kuen Ling does not meet the criteria of Level 1 fair value because of its small stock trading amounts although it is an OTC company based on the management's assessment. Per management's request, external experts valued its fair value to be Level 3. Given that significant judgements exercised by both the management and valuers' pertaining to the valuation techniques and parameters in Level 3 significantly affect accounting treatment for losing control, we consider it as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. Assessed the management's judgements regarding the loss of control and yet still retaining significant influence over the Board of Directors of Kuen Ling.
2. Confirmed that the valuation models, assumptions and parameters used by external experts are justified.
3. Assessed the relevance between the investments and the comparable companies used in the valuation report in terms of their business traits and financial information; reviewed referenced information and supporting documentation of the comparable companies.
4. Verified that the amount of gain on remeasurement recognised by the management is accurate.

Other matter – Reports of other independent accountants

As described in Notes 6(6) of the parent company only financial statements, we did not audit the financial statements of certain investee accounted for under the equity method. Those financial statements were audited by other independent accountants, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements and the information on the investee disclosed in Note 13 was based solely on the reports of other independent accountants. The investments accounted for under the equity method amounted to NT\$4,076,536 thousand and NT\$4,043,134 thousand, both constituting 6% of the related total assets as of December 31, 2018 and 2017, respectively, and the comprehensive income amounting to NT\$176,754 thousand and NT\$89,767 thousand,

constituting 5% and 2% of the total comprehensive income for the years then ended, respectively.

Responsibilities of management and those charged with governance for the parent company only financial statements

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

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

Those charged with governance, including the Audit Committee, are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of the parent company only financial statements

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive

to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

2. Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause TECO Electric & Machinery Co., Ltd. to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within TECO Electric & Machinery Co., Ltd. to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or

when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Wu, Yu-Lung

Chou, Chien-Hung

For and on behalf of PricewaterhouseCoopers, Taiwan

March 28, 2019

The accompanying parent company only 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 parent company only 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
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2018		December 31, 2017		
		AMOUNT	%	AMOUNT	%	
Current assets						
1100	Cash and cash equivalents	6(1) and 8	\$ 1,232,796	2	\$ 887,185	1
1140	Current contract assets		1,074,420	1	-	-
1150	Notes receivable, net	6(4) and 12(2)	405,734	1	289,239	1
1160	Notes receivable - related parties	7	326,842	-	316,590	1
1170	Accounts receivable, net	6(4) and 12(2)	1,528,892	2	1,567,629	2
1180	Accounts receivable - related parties	6(6) and 7	1,284,953	2	1,641,299	2
1190	Receivables from customers on construction contracts	12(4)	-	-	836,338	1
1200	Other receivables		62,938	-	143,086	-
1210	Other receivables - related parties	6(6) and 7	1,293,359	2	1,257,512	2
130X	Inventory	6(5)	2,758,641	4	2,612,493	4
1410	Prepayments		168,385	-	53,287	-
1470	Other current assets	6(1) and 8	206,812	-	176,650	-
11XX	Total current assets		<u>10,343,772</u>	<u>14</u>	<u>9,781,308</u>	<u>14</u>
Non-current assets						
1510	Non-current financial assets at fair value through profit or loss	6(2)(21)	1,835,790	3	-	-
1517	Non-current financial assets at fair value through other comprehensive income	6(3)	5,983,461	8	-	-
1523	Available-for-sale financial assets - non-current	12(4)	-	-	6,609,115	10
1550	Investments accounted for under equity method	6(6) and 7	47,877,378	66	47,511,672	67
1600	Property, plant and equipment	6(7) and 7	3,739,530	5	3,761,489	5
1760	Investment property - net	6(8)	2,060,182	3	2,167,540	3
1840	Deferred income tax assets	6(24)	803,739	1	794,842	1
1900	Other non-current assets	6(9)	151,848	-	148,967	-
15XX	Total non-current assets		<u>62,451,928</u>	<u>86</u>	<u>60,993,625</u>	<u>86</u>
1XXX	Total assets		<u>\$ 72,795,700</u>	<u>100</u>	<u>\$ 70,774,933</u>	<u>100</u>

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2018		December 31, 2017		
		AMOUNT	%	AMOUNT	%	
Current liabilities						
2100	Short-term borrowings	6(10)	\$ 49,110	-	\$ 275,784	-
2120	Financial liabilities at fair value through profit or loss - current	6(11)(21)	-	-	2,529	-
2130	Current contract liabilities	6(19)	356,457	-	-	-
2150	Notes payable		6,861	-	19,630	-
2160	Notes payable - related parties	7	162,340	-	169,104	-
2170	Accounts payable		3,371,424	5	3,321,297	5
2180	Accounts payable - related parties	7	876,705	1	1,275,730	2
2190	Payables to customers on construction contracts	12(4)	-	-	164,333	-
2200	Other payables		2,590,466	4	2,554,240	4
2220	Other payables - related parties	7	635,479	1	711,805	1
2230	Current income tax liabilities	6(24)	269,312	-	548,103	1
2250	Provisions for liabilities - current		91,679	-	83,418	-
2300	Other current liabilities		58,851	-	224,744	-
21XX	Total current liabilities		<u>8,468,684</u>	<u>11</u>	<u>9,350,717</u>	<u>13</u>
Non-current liabilities						
2530	Corporate bonds payable	6(12)	4,000,000	6	4,000,000	6
2540	Long-term borrowings	6(13)	4,249,725	6	3,090,794	5
2570	Deferred income tax liabilities	6(24)	814,098	1	893,369	1
2600	Other non-current liabilities	6(14)	1,584,533	2	1,610,288	2
25XX	Total non-current liabilities		<u>10,648,356</u>	<u>15</u>	<u>9,594,451</u>	<u>14</u>
2XXX	Total liabilities		<u>19,117,040</u>	<u>26</u>	<u>18,945,168</u>	<u>27</u>
Equity						
Share capital						
3110	Common stock	6(15)	20,026,929	28	20,026,929	28
Capital surplus						
3200	Capital surplus	6(16)	7,647,215	10	7,628,542	10
Retained earnings						
3310	Legal reserve	6(17)	6,387,454	9	6,078,219	9
3320	Special reserve		3,640,779	5	3,640,779	5
3350	Unappropriated retained earnings		15,192,788	21	12,750,338	18
Other equity interest						
3400	Other equity interest	6(18)	1,105,058	1	2,026,521	3
3500	Treasury stocks	6(6)(15)	(321,563)	-	(321,563)	-
3XXX	Total equity		<u>53,678,660</u>	<u>74</u>	<u>51,829,765</u>	<u>73</u>
Commitments and Contingent Liabilities						
Extraordinary Items						
Subsequent Events						
3X2X	Total liabilities and equity		<u>\$ 72,795,700</u>	<u>100</u>	<u>\$ 70,774,933</u>	<u>100</u>

The accompanying notes are an integral part of these parent company only financial statements.

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Items	Notes	Year ended December 31				
		2018		2017		
		AMOUNT	%	AMOUNT	%	
4000	Sales revenue	6(19) and 7	\$ 20,879,719	100	\$ 21,301,208	100
5000	Operating costs	6(5)(14)(23) and 7	(16,506,775)	(79)	(16,655,569)	(78)
5900	Net operating margin		4,372,944	21	4,645,639	22
5910	Unrealized profit from sales	7	(614,532)	(3)	(653,779)	(3)
5920	Realized profit from sales		653,779	3	584,325	2
5950	Net operating margin		4,412,191	21	4,576,185	21
	Operating expenses	6(14)(23) and 7				
6100	Selling expenses		(1,879,790)	(9)	(1,898,343)	(9)
6200	General and administrative expenses		(552,893)	(2)	(536,338)	(2)
6300	Research and development expenses		(568,565)	(3)	(634,436)	(3)
6000	Total operating expenses		(3,001,248)	(14)	(3,069,117)	(14)
6900	Operating profit		1,410,943	7	1,507,068	7
	Non-operating income and expenses					
7010	Other income	6(2)(8)(20) and 7	548,375	3	602,694	3
7020	Other gains and losses	6(2)(3)(6)(11)(21) and 7	(548,547)	(3)	(344,071)	(2)
7050	Finance costs	6(22) and 7	(99,181)	-	(109,565)	(1)
7070	Share of profit of subsidiary, associates and joint ventures accounted for under equity method	6(6)	1,983,219	9	1,648,342	8
7000	Total non-operating income and expenses		1,883,866	9	1,797,400	8
7900	Profit before income tax		3,294,809	16	3,304,468	15
7950	Income tax expense	6(24)	(144,720)	(1)	(212,110)	(1)
8200	Profit for the year		\$ 3,150,089	15	\$ 3,092,358	14

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Items	Notes	Year ended December 31				
		2018		2017		
		AMOUNT	%	AMOUNT	%	
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	6(14)	(\$ 34,335)	-	(\$ 34,361)	-
8316	Unrealised gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	6(18)	1,251,661	6	-	-
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		(692,289)	(3)	(13,830)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(24)	19,779	-	-	-
8310	Components of other comprehensive loss that will not be reclassified to profit or loss		544,816	3	(48,191)	-
Components of other comprehensive loss that will be reclassified to profit or loss						
8361	Other comprehensive income, before tax, exchange differences on translation	6(18)	(185,820)	(1)	(775,713)	(3)
8362	Other comprehensive income, before tax, available-for-sale financial assets	6(18) and 12(4)	-	-	1,133,547	5
8380	Share of other comprehensive income of subsidiary, associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss		-	-	433,805	2
8399	Income tax relating to the components of other comprehensive income	6(18)(24)	43,453	-	68,109	-
8360	Components of other comprehensive (loss) income that will be reclassified to profit or loss		(142,367)	(1)	859,748	4
8300	Other comprehensive (loss) income for the year		\$ 402,449	2	\$ 811,557	4
8500	Total comprehensive income for the year		\$ 3,552,538	17	\$ 3,903,915	18
Earnings per share (in dollars)						
9750	Basic earnings per share	6(25)	\$ 1.59		\$ 1.56	
9850	Diluted earnings per share		\$ 1.59		\$ 1.56	

The accompanying notes are an integral part of these parent company only financial statements.

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	Retained Earnings				Other equity interest					
		Share capital - common stock	Total capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks	Total equity
<u>2017</u>											
Balance at January 1, 2017		\$ 20,026,929	\$ 7,671,889	\$ 5,730,071	\$ 3,640,779	\$ 11,816,689	(\$ 1,051,753)	\$ -	\$ 2,218,526	(\$ 321,563)	\$ 49,731,567
Profit for the year		-	-	-	-	3,092,358	-	-	-	-	3,092,358
Other comprehensive income (loss) for the year	6(18)	-	-	-	-	(48,191)	(707,604)	-	1,567,352	-	811,557
Total comprehensive income		-	-	-	-	3,044,167	(707,604)	-	1,567,352	-	3,903,915
Appropriations of 2016 earnings	6(17)										
Legal reserve		-	-	348,148	-	(348,148)	-	-	-	-	-
Cash dividends		-	-	-	-	(1,762,370)	-	-	-	-	(1,762,370)
Effect of changes in net equity of associates and joint ventures amount for under the equity method		-	(43,347)	-	-	-	-	-	-	-	(43,347)
Balance at December 31, 2017		\$ 20,026,929	\$ 7,628,542	\$ 6,078,219	\$ 3,640,779	\$ 12,750,338	(\$ 1,759,357)	\$ -	\$ 3,785,878	(\$ 321,563)	\$ 51,829,765
<u>2018</u>											
Balance at January 1, 2018		\$ 20,026,929	\$ 7,628,542	\$ 6,078,219	\$ 3,640,779	\$ 12,750,338	(\$ 1,759,357)	\$ -	\$ 3,785,878	(\$ 321,563)	\$ 51,829,765
Effect of retrospective application	12(4)	-	-	-	-	1,937,121	-	1,848,757	(3,785,878)	-	-
Balance at 1 January after adjustments		20,026,929	7,628,542	6,078,219	3,640,779	14,687,459	(1,759,357)	1,848,757	-	(321,563)	51,829,765
Profit (loss)		-	-	-	-	3,150,089	-	-	-	-	3,150,089
Other comprehensive income	6(18)	-	-	-	-	(40,562)	(142,367)	585,378	-	-	402,449
Total comprehensive income		-	-	-	-	3,109,527	(142,367)	585,378	-	-	3,552,538
Appropriations of 2017 earnings	6(17)										
Legal reserve		-	-	309,235	-	(309,235)	-	-	-	-	-
Cash dividends		-	-	-	-	(1,722,316)	-	-	-	-	(1,722,316)
Effect of changes in net equity of associates and joint ventures accounted for under the equity method		-	18,673	-	-	-	-	-	-	-	18,673
Disposal of investment in equity instrument at fair value through other comprehensive income	6(3)(6)	-	-	-	-	(572,647)	-	572,647	-	-	-
Balance at December 31, 2018		\$ 20,026,929	\$ 7,647,215	\$ 6,387,454	\$ 3,640,779	\$ 15,192,788	(\$ 1,901,724)	\$ 3,006,782	\$ -	(\$ 321,563)	\$ 53,678,660

The accompanying notes are an integral part of these parent company only financial statements.

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 3,294,809	\$ 3,304,468
Adjustments			
Adjustments to reconcile profit (loss)			
Net loss on financial assets at fair value through profit or loss	6(2)(21)	103,280	19,806
Net (gain) loss on financial liabilities at fair value through profit or loss	6(11)(21)	(2,529)	2,529
Impairment loss determined in accordance with IFRS 9	12(2)	513	-
Gain on reversal of bad debts	12(4)	-	(3,738)
Interest income	6(20)	(8,879)	(13,550)
Interest expense	6(22)	94,730	94,354
Dividend income	6(20)	(223,794)	(187,217)
Loss on disposal of investments	6(21)	(1,385)	(25,874)
Gain on remeasurement	6(21)	(46,515)	-
Changes in unrealized (gain) loss from downstream sales		(39,247)	69,454
Share of profit of associates and joint ventures accounted for under the equity method	6(6)	(1,983,219)	(1,648,342)
Depreciation, amortization and net gain or loss on disposal of property, plant and equipment, net	6(7)(8)(21)(23)	436,151	412,618
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current		-	11,026
Current contract assets		(238,082)	-
Notes receivable		(116,473)	65,852
Notes receivable - related parties		(10,252)	21,892
Accounts receivable		38,202	377,433
Accounts receivable - related parties		321,893	(159,426)
Receivables from customers on construction contract		-	275,897
Other receivables		80,148	(85,009)
Other receivables - related parties		(97,285)	(27,098)
Inventories		(146,148)	381,189
Prepayments		(115,098)	(29,293)
Other current asset		(22,011)	85,850
Financial assets at fair value through profit or loss - non-current		(39,765)	-
Changes in operating liabilities			
Contract liabilities - current		84,127	-
Notes payable		(12,769)	10,489
Notes payable - related parties		(6,764)	(618)
Accounts payable		50,127	(84,995)
Accounts payable - related parties		(399,025)	17,258
Payables to customers on construction contract		-	(18,265)
Other payables		55,208	(59,991)
Other payables - related parties		(5,876)	37,489
Provisions for liabilities		8,261	11,640
Other current liabilities		(57,896)	40,609
Other non-current liabilities		(21,613)	(187,248)
Cash inflow generated from operations		972,824	2,709,189
Interest received	6(20)	8,879	13,550
Dividends received		752,339	277,809
Payment of interest		(94,730)	(94,354)
Payment of income tax		(448,447)	(72,890)
Net cash flows from operating activities		<u>1,190,865</u>	<u>2,833,304</u>

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Decrease in other receivables - related parties	7	\$ 61,438	\$ 21,023
Increase in pledged fixed deposit	8	(8,151)	(3,338)
Increase in financial assets at fair value through other comprehensive income - non-current		(21,990)	-
Proceeds from disposal of available-for-sale financial assets - non-current		-	240,756
Increase in investments accounted for under equity method		(208,226)	(35,848)
Proceeds from disposal of property, plant and equipment		46,307	892
Acquisition of property, plant and equipment	6(7)(26)	(352,913)	(451,717)
Increase in deferred expenses		(19,691)	(15,061)
(Increase) decrease in refundable deposits		(9,331)	822
Dividends received		223,794	635,789
Proceeds from disposal of investments accounted for under equity method		297,087	8,889
Decrease in other non-current assets		6,931	157,552
Net cash flows from investing activities		<u>15,255</u>	<u>559,759</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in short-term loans		(226,674)	(201,886)
(Decrease) increase in other payables - related parties financing	7	(70,450)	297,600
Proceeds from issuance of bonds payable		-	1,000,000
Increase (decrease) in long-term loans		1,158,931	(2,599,804)
Cash dividends paid	6(17)	(1,722,316)	(1,762,370)
Net cash flows used in financing activities		<u>(860,509)</u>	<u>(3,266,460)</u>
Net increase in cash and cash equivalents		345,611	126,603
Cash and cash equivalents at beginning of year		887,185	760,582
Cash and cash equivalents at end of year		<u>\$ 1,232,796</u>	<u>\$ 887,185</u>

The accompanying notes are an integral part of these parent company only financial statements.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To TECO Electric & Machinery Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of TECO Electric & Machinery Co., Ltd. and its subsidiaries (the “Group”) as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the audit reports of other independent accountants, as described in the Other matter section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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 (“ROC GAAS”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and audit reports of other independent accountants, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

Revenue recognition of export sales of heavy industrial products group

Description

Refer to Note 4(34) of the consolidated financial statements for the accounting policies on revenue recognition and Note 14 for the segment financial information. The Group disclosed the financial information of heavy industrial products group and home electric appliance division in the segment financial information. Heavy industrial products group handles the manufacturing and sales of various machinery, equipment and motors. The sales revenue of the heavy industrial products group amounted to NT\$33,448,989 thousand, representing 66.76% of the consolidated total sales revenue for the year ended December 31, 2018. Aside from domestic sales in Taiwan, the customers of heavy industrial products group are from China, America, Southeast Asia and Europe and the sales terms vary for different customers. Thus, we consider the revenue recognition of export sales of heavy industrial products group as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

3. Obtained an understanding of and validated the internal controls over revenue recognition of export sales of heavy industrial products group to assess the effectiveness of the internal control process.
4. Validated selected samples of export sales revenue transactions of heavy industrial products group to confirm the existence of export sales revenue transactions.

Impairment assessment of goodwill from the acquisition of Motovario S.p.A.

Description

Motovario S.p.A. is headquartered in Italy, and is engaged in the manufacturing and sales of gear reducers and other power transmission equipment. Motovario S.p.A. is considered a minor cash-generating unit of the Group. As of December 31, 2018, the balance of goodwill was NT\$5,207,755 thousand. Refer to Note 6(10) of the consolidated financial statements for information of goodwill, Note 4(21) for the accounting policies on the impairment of non-financial assets and Note 5(2) for the uncertainty of the accounting estimate regarding impairment of goodwill. The Group assesses the impairment of goodwill using the recoverable amount generated from the cash flow forecast discounted using a reasonable discount rate.

The aforesaid recoverable amount includes several assumptions such as the discount rate used and the preparation of financial projections to estimate the cash flows for the next three years. The discount rate and financial projections relating to the future operations of Motovario S.p.A. are subject to management judgement which have a significant impact on the measurement of the recoverable amount, thus affecting the results of the impairment assessment. Accordingly, we consider management's impairment assessment of goodwill as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

5. Obtained an understanding and assessed the Group's policies and procedures in relating to the goodwill impairment assessment.
6. Assessed whether the future cash flows adopted in the valuation model was in accordance with Motovario S.p.A's operation plan, and reviewed the results of the previous operating plans prepared by management.
7. Evaluated the reasonableness of major assumptions (including the expected growth rate and discount rate) used in the model.
8. Reviewed the sensitivity analysis for the above significant assumptions and parameters prepared by management and confirmed whether management has adequately addressed the possible impact of the estimation uncertainty on the impairment assessment.

Reclassification from investments accounted for under equity method - subsidiaries into associates due to loss of control

Description

Refer to Note 4(3) for accounting policies adopted when losing control over subsidiaries accounted for under equity method. As mentioned in Note 6(7) of the consolidated financial statements, Kuen Ling Machinery Refrigerating Co., Ltd. ("Kuen Ling") was a subsidiary accounted for under equity method and included in the consolidated financial statements given a control over the Kuen Ling's Board of Directors through 19.98% of equity previously held by the Group. However, based on the management's assessment, the Group has lost control and yet still retained significant influence over the Board of Directors of Kuen Ling following the re-election of directors by shareholders held on May 23, 2018. On the same date, the investments in Kuen Ling were remeasured at fair value. Kuen Ling was then accounted for under equity method but no longer a consolidated entity thereafter. In addition, Kuen Ling does not meet the criteria of Level 1 fair value because of its small stock trading amounts although it is an OTC company based on the

management's assessment. Per management's request, external experts valued its fair value to be Level 3. Given that significant judgements exercised by both the management and valuers' pertaining to the valuation techniques and parameters in Level 3 significantly affect accounting treatment for losing control, we consider it as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. Assessed the management's judgements regarding the loss of control and yet still retaining significant influence over the Board of Directors of Kuen Ling.
2. Confirmed that the valuation models, assumptions and parameters used by external experts are justified.
3. Assessed the relevance between the investments and the comparable companies used in the valuation report in terms of their business traits and financial information; reviewed referenced information and supporting documentation of the comparable companies.
4. Verified that the amount of gain on remeasurement recognised by the management is accurate.

Other matter – Reports of other independent accountants

As described in Notes 4(3) and 6(7) of the consolidated financial statements, we did not audit the financial statements of certain subsidiaries and investments accounted for under the equity method. Those financial statements were audited by other independent accountants, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements and the information on the investee disclosed in Note 13 was based solely on the reports of other independent accountants. Total assets amounted to NT\$2,630,617 thousand and NT\$2,363,784 thousand, both constituting 3% of the consolidated total assets as of December 31, 2018 and 2017, respectively, and total operating revenues amounted to NT\$2,475,154 thousand and NT\$2,156,230 thousand, constituting 5% and 4% of consolidated total operating revenues for the years then ended, respectively. The investments accounted for under the equity method amounted to NT\$2,630,962 thousand and NT\$2,490,857 thousand, both constituting 3% of consolidated total assets as of December 31, 2018 and 2017, respectively, the credit balance of investments accounted for under the equity method amounted to NT\$83,459 thousand and NT\$66,393 thousand, both constituting 0% of consolidated total assets as of December 31, 2018 and 2017, respectively, and the share of profit of associates and joint ventures accounted for under the equity method amounted to NT\$143,935 thousand and NT\$187,682 thousand, both constituting 4% of the consolidated total comprehensive income for the years then ended, respectively.

Other matter –Parent company only financial reports

We have audited and expressed an unqualified opinion with other matter section on the parent company only financial statements of TECO Electric & Machinery Co., Ltd. as of and for the years ended December 31, 2018 and 2017.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the Audit Committee, are responsible for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

7. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
8. Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
9. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
10. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern.
11. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
12. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably

be expected to outweigh the public interest benefits of such communication.

Wu, Yu-Lung

Chou, Chien-Hung

For and on behalf of PricewaterhouseCoopers, Taiwan

March 28, 2019

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, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1) and 8	\$ 17,535,566	19	\$ 14,129,330	16
1110	Financial assets at fair value through profit or loss - current	6(2)	193,955	-	254,003	-
1120	Current financial assets at fair value through other comprehensive income	6(3)	995,951	1	-	-
1125	Available-for-sale financial assets - current	8 and 12(4)	-	-	871,041	1
1140	Current contract assets	6(22)	1,350,238	2	-	-
1147	Bond investments without active markets - current	12(4)	-	-	3,794,570	4
1150	Notes receivable, net	6(5) and 8	1,063,991	1	1,188,761	1
1160	Notes receivable - related parties	7	2,641	-	931	-
1170	Accounts receivable, net	6(5)	9,102,428	10	9,439,077	10
1180	Accounts receivable - related parties	7	241,272	-	183,701	-
1190	Receivables from customers on construction contracts	12(5)	-	-	1,030,504	1
1200	Other receivables		360,606	-	601,279	1
1210	Other receivables - related parties	7	70,979	-	34,844	-
130X	Inventories, net	6(6) and 8	11,429,685	13	11,336,492	12
1410	Prepayments		432,419	1	422,892	1
1470	Other current assets	6(1) and 8	980,640	1	975,343	1
11XX	Total current assets		<u>43,760,371</u>	<u>48</u>	<u>44,262,768</u>	<u>48</u>
Total Non-current assets						
1510	Financial assets at fair value through profit or loss - noncurrent	6(2)	2,140,203	2	-	-
1517	Non-current financial assets at fair value through other comprehensive income	6(3) and 8	11,354,525	12	-	-
1523	Available-for-sale financial assets - non-current	8 and 12(4)	-	-	12,925,119	14
1535	Non-current financial assets at amortised cost, net	6(4) and 8	182,725	-	-	-
1550	Investments accounted for under the equity method	6(7) and 8	4,207,360	5	4,022,455	4
1600	Property, plant and equipment, net	6(8) and 8	17,363,543	19	17,922,299	20
1760	Investment property, net	6(9)	2,783,774	3	2,883,477	3
1780	Intangible assets	6(10)	5,557,343	6	5,612,315	6
1840	Deferred income tax assets	6(28)	1,250,743	1	1,382,884	2
1900	Other non-current assets	6(11) and 8	3,380,699	4	3,005,640	3
15XX	Non-current assets		<u>48,220,915</u>	<u>52</u>	<u>47,754,189</u>	<u>52</u>
1XXX	Total assets		<u>\$ 91,981,286</u>	<u>100</u>	<u>\$ 92,016,957</u>	<u>100</u>

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
	Current liabilities					
2100	Short-term borrowings	6(12) and 8	\$ 1,994,360	2	\$ 2,187,621	3
2120	Financial liabilities at fair value through profit or loss - current	6(13)	-	-	2,528	-
2130	Current contract liabilities	6(22)	899,728	1	-	-
2150	Notes payable		73,105	-	195,407	-
2160	Notes payable - related parties	7	136,874	-	1,368	-
2170	Accounts payable		7,517,824	8	7,589,788	8
2180	Accounts payable - related parties	7	90,047	-	123,271	-
2190	Payables to customers on construction contracts	12(5)	-	-	178,165	-
2200	Other payables	6(14)	4,720,360	5	4,839,917	5
2230	Current income tax liabilities	6(28)	690,853	1	917,494	1
2250	Provisions for liabilities - current		269,254	1	308,744	-
2300	Other current liabilities	6(16) and 8	1,748,975	2	2,398,053	3
21XX	Total current liabilities		<u>18,141,380</u>	<u>20</u>	<u>18,742,356</u>	<u>20</u>
	Non-current liabilities					
2530	Corporate bonds payable	6(15)	4,000,000	4	4,000,000	4
2540	Long-term borrowings	6(16) and 8	6,746,354	7	6,466,239	7
2550	Provisions for liabilities - non-current		113,947	-	179,189	-
2570	Deferred income tax liabilities	6(27)	2,254,076	3	2,423,023	3
2600	Other non-current liabilities	6(7)(17)	2,234,614	2	2,332,013	3
25XX	Total non-current liabilities		<u>15,348,991</u>	<u>16</u>	<u>15,400,464</u>	<u>17</u>
2XXX	Total liabilities		<u>33,490,371</u>	<u>36</u>	<u>34,142,820</u>	<u>37</u>
	Equity attributable to owners of parent					
	Share capital	6(18)				
3110	Common stock		20,026,929	22	20,026,929	22
	Capital surplus	6(19)				
3200	Capital surplus		7,647,215	8	7,628,542	8
	Retained earnings	6(20)				
3310	Legal reserve		6,387,454	7	6,078,219	6
3320	Special reserve		3,640,779	4	3,640,779	4
3350	Unappropriated retained earnings		15,192,788	17	12,750,338	14
	Other equity interest	6(21)				
3400	Other equity interest		1,105,058	1	2,026,521	2
3500	Treasury stocks	6(18) and 8	(321,563)	-	(321,563)	-
31XX	Equity attributable to owners of the parent		<u>53,678,660</u>	<u>59</u>	<u>51,829,765</u>	<u>56</u>
36XX	Non-controlling interest	6(31)	<u>4,812,255</u>	<u>5</u>	<u>6,044,372</u>	<u>7</u>
3XXX	Total equity		<u>58,490,915</u>	<u>64</u>	<u>57,874,137</u>	<u>63</u>
	Commitments and contingent liabilities	9				
	Significant events after the balance sheet date	11				
3X2X	Total liabilities and equity		<u>\$ 91,981,286</u>	<u>100</u>	<u>\$ 92,016,957</u>	<u>100</u>

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

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Items	Notes	Year ended December 31				
		2018		2017		
		AMOUNT	%	AMOUNT	%	
4000	Sales revenue	6(8)(9)(22), 7 and 12(5)	\$ 50,104,927	100	\$ 50,942,521	100
5000	Operating costs	6(6)(17)(26) and 7	(38,052,253)	(76)	(38,743,733)	(76)
5900	Net operating margin		12,052,674	24	12,198,788	24
5910	Unrealized loss from sales		(9,160)	-	(9,145)	-
5920	Realized profit from sales		9,145	-	6,625	-
5950	Net operating margin		12,052,659	24	12,196,268	24
	Operating expenses	6(17)(26)				
6100	Selling expenses		(4,636,195)	(9)	(4,702,844)	(9)
6200	General and administrative expenses		(2,735,191)	(6)	(2,716,018)	(5)
6300	Research and development expenses		(1,120,748)	(2)	(1,281,206)	(3)
6450	Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9	12(2)	(40,039)	-	-	-
6000	Total operating expenses		(8,532,173)	(17)	(8,700,068)	(17)
6900	Operating profit		3,520,486	7	3,496,200	7
	Non-operating income and expenses					
7010	Other income	6(4)(9)(23) and 7	1,264,083	3	1,506,936	3
7020	Other gains and losses	6(2)(7)(13)(24)(26)	(389,884)	(1)	(628,521)	(1)
7050	Finance costs	6(25)	(222,540)	-	(254,638)	-
7060	Share of profit of associates and joint ventures accounted for under the equity method	6(7)	114,143	-	233,927	-
7000	Total non-operating income and expenses		765,802	2	857,704	2
7900	Profit before income tax		4,286,288	9	4,353,904	9
7950	Income tax expense	6(27)	(810,319)	(2)	(809,656)	(2)
8200	Profit for the period		\$ 3,475,969	7	\$ 3,544,248	7

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Items	Notes	Year ended December 31						
		2018		2017				
		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	6(17)						
		(\$	39,123)	-	(\$ 58,868)	-		
8316	Unrealized gain on investments in equity instruments at fair value through other comprehensive income	6(3) and 12(4)	615,645	1	-	-		
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		(24,384)	(2,751)	-	
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(27)	21,442	-	3,037	-		
8310	Components of other comprehensive income that will not be reclassified to profit or loss		573,580	1	(58,582)	-		
Other comprehensive income that will be reclassified to profit or loss								
8361	Currency translation differences of foreign operations	6(21)	(185,642)	(803,071)	(2)
8362	Unrealized gain on valuation of available-for-sale financial assets	12(4)	-	-	1,570,454	3		
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(21)	-	-	4,019	-		
8399	Income tax relating to the components of other comprehensive income that will be reclassified to profit or loss	6(27)	45,073	-	68,969	-		
8360	Components of other comprehensive income that will be reclassified to profit or loss		(140,569)	-	840,371	1	
8300	Other comprehensive income for the period		\$	433,011	1	\$	781,789	1
8500	Total comprehensive income for the period		\$	3,908,980	8	\$	4,326,037	8
Profit attributable to:								
8610	Owners of the parent		\$	3,150,089	6	\$	3,092,358	6
8620	Non-controlling interest			325,880	1		451,890	1
			\$	3,475,969	7	\$	3,544,248	7
Comprehensive income attributable to:								
8710	Owners of the parent		\$	3,552,538	7	\$	3,903,915	7
8720	Non-controlling interest			356,442	1		422,122	1
			\$	3,908,980	8	\$	4,326,037	8
Earnings per share (in dollars)								
9750	Basic earnings per share	6(29)	\$		1.59	\$		1.56
9850	Diluted earnings per share		\$		1.58	\$		1.55

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

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

Equity attributable to owners of the parent													
Notes	Share capital - common stock	Capital surplus	Retained Earnings			Other equity interest			Treasury stocks	Total	Non-controlling interest	Total equity	
			Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets					
2017													
		\$ 20,026,929	\$ 7,671,889	\$ 5,730,071	\$ 3,640,779	\$ 11,816,689	(\$ 1,051,753)	\$ -	\$ 2,218,526	(\$ 321,563)	\$ 49,731,567	\$ 5,992,976	\$ 55,724,543
		-	-	-	-	3,092,358	-	-	-	-	3,092,358	451,890	3,544,248
		-	-	-	-	(48,191)	(707,604)	-	1,567,352	-	811,557	(29,768)	781,789
	6(21)	-	-	-	-	3,044,167	(707,604)	-	1,567,352	-	3,903,915	422,122	4,326,037
	6(20)	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	348,148	-	(348,148)	-	-	-	-	-	-	-
		-	-	-	-	(1,762,370)	-	-	-	-	(1,762,370)	-	(1,762,370)
		-	(43,347)	-	-	-	-	-	-	-	(43,347)	-	(43,347)
		-	-	-	-	-	-	-	-	-	-	(370,726)	(370,726)
		\$ 20,026,929	\$ 7,628,542	\$ 6,078,219	\$ 3,640,779	\$ 12,750,338	(\$ 1,759,357)	\$ -	\$ 3,785,878	(\$ 321,563)	\$ 51,829,765	\$ 6,044,372	\$ 57,874,137
2018													
		\$ 20,026,929	\$ 7,628,542	\$ 6,078,219	\$ 3,640,779	\$ 12,750,338	(\$ 1,759,357)	\$ -	\$ 3,785,878	(\$ 321,563)	\$ 51,829,765	\$ 6,044,372	\$ 57,874,137
	12(4)	-	-	-	-	1,937,121	-	1,848,757	(3,785,878)	-	-	-	-
		20,026,929	7,628,542	6,078,219	3,640,779	14,687,459	(1,759,357)	1,848,757	-	(321,563)	51,829,765	6,044,372	57,874,137
		-	-	-	-	3,150,089	-	-	-	-	3,150,089	325,880	3,475,969
	6(21)	-	-	-	-	(40,562)	(142,367)	585,378	-	-	402,449	30,562	433,011
		-	-	-	-	3,109,527	(142,367)	585,378	-	-	3,552,538	356,442	3,908,980
	6(20)	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	309,235	-	(309,235)	-	-	-	-	-	-	-
		-	-	-	-	(1,722,316)	-	-	-	-	(1,722,316)	-	(1,722,316)
		-	18,673	-	-	-	-	-	-	-	18,673	-	18,673
		-	-	-	-	-	-	-	-	-	-	(1,588,559)	(1,588,559)
	6(21)	-	-	-	-	(572,647)	-	572,647	-	-	-	-	-
		\$ 20,026,929	\$ 7,647,215	\$ 6,387,454	\$ 3,640,779	\$ 15,192,788	(\$ 1,901,724)	\$ 3,006,782	\$ -	(\$ 321,563)	\$ 53,678,660	\$ 4,812,255	\$ 58,490,915

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

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 4,286,288	\$ 4,353,904
Adjustments			
Adjustments to reconcile profit (loss)			
Net loss on financial assets at fair value through profit or loss	6(2)(22)(24)	160,975	4,573
Net (gain) loss on financial liabilities at fair value through profit or loss	6(13)(24)	(2,528)	2,528
Provision for allowance for doubtful accounts	12(4)	-	39,339
Impairment loss determined in accordance with IFRS 9	12(2)	40,039	-
Provision for decline in value of inventories	6(6)	88,300	114,196
Interest income	6(23)	(219,986)	(150,197)
Dividend income	6(23)	(553,818)	(508,613)
Interest expense	6(25)	222,540	254,638
Depreciation and amortization	6(8)(9)(26)	1,528,540	1,483,888
Gain on disposal of investments	6(22)(24)	(631)	(239,595)
Gain on remeasurement	6(7)(24)	(46,515)	-
Loss on disposal of property, plant and equipment	6(24)	29,086	(150,541)
(Reversal of) provision for impairment loss	6(8)(24)	(32,335)	889
Share of profit of associates and joint ventures accounted for under the equity method	6(7)	(114,143)	(233,927)
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current		106,333	(25,068)
Current contract assets		(363,976)	-
Notes receivable		(40,235)	29,665
Notes receivable - related parties		(88,707)	4,468
Accounts receivable		(211,181)	945,770
Accounts receivable - related parties		(82,463)	51,054
Receivables from customers on construction contracts		-	205,452
Other receivables		233,001	(358,975)
Other receivables - related parties		(36,135)	407,881
Inventories		(729,564)	(273,647)
Prepayments		(94,809)	48,308
Other current assets		196,526	366,416
Changes in operating liabilities			
Current contract liabilities		170,447	-
Notes payable		(54,021)	32,246
Notes payable - related parties		136,981	(6,243)
Accounts payable		266,296	78,435
Accounts payable - related parties		(33,031)	24,154
Payables to customers on construction contracts		-	(23,856)
Other payables		155,244	(143,811)
Provisions for liabilities		(34,934)	(34,618)
Other current liabilities		31,178	287,157
Other non-current liabilities		(50,020)	(257,468)
Cash inflow generated from operations		4,862,742	6,328,402
Interest received		219,986	150,197
Dividend received		443,772	289,350
Interest paid	6(25)	(222,540)	(254,638)
Income tax paid	6(27)	(975,268)	(621,659)
Net cash flows from operating activities		<u>4,328,692</u>	<u>5,891,652</u>

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in financial assets at fair value through other comprehensive income - current		(\$ 424,082)	\$ -
Decrease in available-for-sale financial assets - current		-	552,833
Decrease in other receivables-related parties	7	-	55,071
Decrease (increase) decrease in bond investments without active market		3,794,570	(963,998)
(Increase) decrease in pledged demand and fixed deposits	6(1) and 8	(201,823)	8,847
Increase in financial assets at fair value through other comprehensive income - non-current		(76,384)	-
Decrease in financial assets at fair value through other comprehensive income - non-current		184,067	-
Proceeds from disposal of available-for-sale financial assets - non-current		-	549,407
Acquisition of available-for-sale financial assets - non-current		-	(128,435)
Increase in financial assets at amortised cost - non-current	6(4)	(182,725)	-
Increase in investments accounted for under the equity method		(149,083)	(38,001)
Acquisition of property, plant and equipment	6(8)(29)	(1,190,647)	(1,021,817)
Proceeds from disposal of property, plant and equipment		90,173	619,976
Acquisition of intangible assets		(242,354)	(103,174)
Increase in restricted assets		-	(425)
(Increase) decrease in other non-current assets		(450,185)	102,313
Net cash outflow on acquisitions of subsidiaries	6(29)	(434,442)	-
Cash dividends received		287,870	351,648
Net cash flows from (used in) investing activities		<u>1,004,955</u>	<u>(15,755)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in short-term loans		(121,466)	(890,740)
Increase (decrease) in long-term loans		311,897	(2,927,291)
Proceeds from issuance of bonds payable		-	1,000,000
Cash dividends paid to non-controlling interest		(156,477)	(265,099)
Cash dividends paid	6(20)	(1,722,316)	(1,762,370)
Net cash flows used in financing activities		<u>(1,688,362)</u>	<u>(4,845,500)</u>
Exchange rate effect		(239,049)	(890,893)
Net increase in cash and cash equivalents		3,406,236	139,504
Cash and cash equivalents at beginning of year		<u>14,129,330</u>	<u>13,989,826</u>
Cash and cash equivalents at end of year		<u>\$ 17,535,566</u>	<u>\$ 14,129,330</u>

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

TECO Electric & Machinery Co., Ltd.

Distribution of 2018 Profits

(In NT \$)

Item	Amount
Accumulated undistributed profit as of the beginning of the period	10,718,786,062
Add: Impact of retrospective application of IFRS9	1,937,121,448
Accumulated undistributed earnings after adjustment	12,655,907,510
Less: Retained earnings after adjustment in 2018 (Note 1)	(613,208,392)
Add: Net Profit after tax in 2018	3,150,088,912
Less: Legal Reserve	(315,008,891)
Total distributable earnings	14,877,779,139
Profit available for distribution for the period:	
Profit-sharing to shareholders	1,770,923,597
(Dividend per share)	0.90
Undistributed profit as of the end of 2018	13,106,855,542
Note :	
1. Including a. Remeasurement of actuarial gains and losses of defined benefit plan, (NT\$40,561,743) b. Disposal of financial assets at fair value through other comprehensive income NT\$86,645,851 c. Derecognition of financial assets at fair value through other comprehensive income (NT\$659,292,500)	

Notes:

1. Dividend per share in 2018 is NT\$0.90 and all dividends distributed this year shall be cash dividend.
2. The profit distributed this period will be distributed from the distributable earnings received in 2017 and from the accumulated undistributed profits from previous years where there is a shortfall.
3. In the event of any change to the total number of outstanding shares as a result of 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.

TECO Electric & Machinery Co., Ltd.
Comparison between the Revision and the Original of
“Articles of Incorporation”

Proposed Revision	Current Clauses	Note
<p>Article 1 The Company is incorporated in accordance with the Company Act and is named TECO Electric & Machinery Co., Ltd. <u>The company is named as TECO Electric and Machinery Co., Ltd. in English.</u></p>	<p>Article 1 The Company is incorporated in accordance with the Company Act and is named TECO Electric & Machinery Co., Ltd.</p>	<p>Addition of the company's English name, in line with article 392-1 of the Company Act and the trend of internationalization.</p>
<p>Article 2 The scope of business of this Company is as follows: 1.~60. (omitted) 61. <u>E606010 Testing and inspection of electrical equipment services;</u> 62.~63.(omitted)</p>	<p>Article 2 The scope of business of this Company is as follows: 1.~60. (omitted) 61. IF02010 Testing and inspection of electrical equipment services; 62.~63.(omitted)</p>	<p>Code number 61. IF02010 for the company's Testing and inspection of electrical equipment services is no longer in use and has been changed to E606010, for which the revision is made accordingly.</p>
<p>Article 6 (Item1~item3 omitted) <u>The company's share-subscription warrants for employees can also be issued to employees of subordinate companies meeting a certain conditions.</u></p>	<p>Article 6 (Item1~item3 omitted) (New addition)</p>	<p>According to item 3 of article 167-2 of the revised Company Act stipulating that "the charter can specify the targets for the issuance of share-subscription warrants for employees can be employees of controlling or subordinate company meeting a certain conditions," add item 4 to the article, giving the company flexibility in</p>

		execution and assuring its legal compliance.
<p>Article 7 (omitted)</p> <p><u>Targets for transfer of shares purchased by the company legally can include employees of the company meeting a certain conditions.</u></p>	<p>Article 7 (omitted) (New addition)</p>	<p>According to item 4 of article 167-1 of the revised Company Act stipulating that "the charter can specify the targets for the transfer specified in item 2 can be employees of controlling or subordinate company meeting a certain conditions," add item 2 to the article, giving the company flexibility in execution and assuring its legal compliance.</p>
<p>Article 25</p> <p>The Board of Directors shall after the end of each fiscal year produce the following reports and statements and submit the same to the Shareholders Meeting <u>for ratification</u>:</p> <ol style="list-style-type: none"> 1. Business report. 2. Financial statement. 3. Proposed <u>stock dividend of profit distribution or loss make-up plan.</u> 	<p>Article 25</p> <p>The Board of Directors shall after the end of each fiscal year produce the following reports and statements and submit the same to <u>the Audit Committee for inspection and, thereafter,</u> the Shareholders Meeting:</p> <ol style="list-style-type: none"> 1. Business report. 2. Financial statement. 3. Proposed profit distribution or loss make-up plan. 	<ol style="list-style-type: none"> 1. As actual flow of item 1 should be audit committee, the board of directors, and shareholders' meeting, the item only refers to "board of directors, shareholders' meeting," in conformance to the actual situation. 2. As article 27 of the charter authorizes the board of directors to make resolution on cash-dividend payout, add the statement to item 1-3 that only stock-dividend

		payout needs the approval of the shareholders' meeting.
<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. Proposal for stock-dividend payout should be submitted to shareholders' meeting for approval, while the board of directors is authorized to determine the proposal for cash-dividend payment with a resolution which needs the support of over half of the directors present at a meeting attended by over two thirds of all the directors before reporting the resolution to the shareholders' meeting.</p> <p>(omitted)</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>(omitted)</p>	<p>According to item 5 of article 240 of the revised Company Act, the charter can specify authorization for the board of directors to determine cash-dividend payout via special resolution before reporting the resolution to shareholders' meeting (without needing its approval). Accordingly, item 1 contains description of the flow for the payout of cash and stock dividends.</p>
<p>Article 30 (Omitted)</p> <p><u>The fifty-seventh amendment was on June 14, 2019</u> It took effect after the approval of shareholders' meeting.</p>	<p>Article 30 (Omitted)</p> <p>The fifty-sixth amendment was on June 16, 2016 It took effect after the approval of shareholders' meeting.</p>	<p>Addition of the date and number of the revision</p>

TECO Electric & Machinery Co., Ltd.
Comparison between the Revision and the Original of
“Procedure for Acquisition or Disposal of Assets”

Proposed Revision	Current Clauses	Note
<p>Article 3</p> <p>1. The term <i>marketable securities</i> include investments in stocks, government bond, corporate bond, financial debenture, mutual fund securities, depository receipts, share warrant certificates, beneficiary securities, asset-back securities and so on.</p> <p>2. Real property (including land, house & construction, investment real assets and inventory of construction business) and equipment.</p> <p>3. Membership.</p> <p>4. Intangible assets, including, patent, copyright, trademark, franchise and so on.</p> <p>5. Right-of-use asset</p> <p>6. Credit claims in financial institutions (including accounts receivable, foreign exchange discount, lending, overdue receivables).</p> <p>7. Derivatives.</p> <p>8. Assets acquired or disposed of as a result of legal merger, spin-off, acquisition or assignment of shares.</p> <p>9. Other important assets.</p>	<p>Article 3</p> <p>1. The term <i>marketable securities</i> include investments in stocks, government bond, corporate bond, financial debenture, mutual fund securities, depository receipts, share warrant certificates, beneficiary securities, asset-back securities and so on.</p> <p>2. Real property (including land, house & construction, investment real assets, <u>land utilization right</u> and inventory of construction business) and equipment.</p> <p>3. Membership.</p> <p>4. Intangible assets, including, patent, copyright, trademark, franchise and so on.</p> <p>5. Credit claims in financial institutions (including accounts receivable, foreign exchange discount, lending, overdue receivables).</p> <p>6. Derivatives.</p> <p>7. Assets acquired or disposed of as a result of legal merger, spin-off, acquisition or assignment of shares.</p> <p>8. Other important assets.</p>	<p>1. In line with change of acquisition and disposal rules by Taiwan Stock Exchange, add Right-of-use asset, expand the scope of the Right-of-use asset, and move land usage right, now under section 2, to section 5.</p> <p>2. In line with addition of Right-of-use asset as section 5 in the rules of Taiwan Stock Exchange, change section 5 to section 6.</p>
<p>Article 4</p> <p>1. Derivatives means the forward contracts, options contracts, futures contracts, hedge margin contracts, swaps contracts, and <u>combination of aforementioned contracts or derivatives-based combination contracts, or structured products</u> the value of which is derived from <u>specific interest rates, prices of financial instruments,</u></p>	<p>Article 4</p> <p>1. Derivatives means the forward contracts, options contracts, futures contracts, hedge margin contracts, swaps contracts, <u>and compound contracts of the combination of the above</u> the value of which is derived from <u>assets, interest rates, exchange rate, indices or other interests.</u> Forward contracts do not include insurance contracts,</p>	<p>1. In line with the change of acquisition and disposal rules by Taiwan Stock Change, revise the scope of derivatives.</p> <p>2. In line with revision of the Company Act, change the reference of</p>

<p><u>commodity price, exchange rate, indices of price or rate, credit rating or credit standing indices, or other variables.</u> Forward contracts do not include insurance contracts, performance guaranty contracts, after-sale service contracts, long-term leases and long-term purchase (sale) contracts.</p> <p>2. Assets acquired or disposed of as a result of legal merger, spin-off, acquisition or assignment of shares means the assets acquired from or disposed of as a result of a merger, spin-off or acquisition conducted in accordance with the Business Merger and Acquisition Act, Financial Holding Company Act, Financial Institutions Merger Act or other laws, or the stocks of another company acquired by issuing new shares pursuant to the <u>third</u> paragraph of Article 156 of the Company Act.</p> <p>(Omitted)</p>	<p>performance guaranty contracts, after-sale service contracts, long-term leases and long-term purchase (sale) contracts.</p> <p>2. Assets acquired or disposed of as a result of legal merger, spin-off, acquisition or assignment of shares means the assets acquired from or disposed of as a result of a merger, spin-off or acquisition conducted in accordance with the Business Merger and Acquisition Act, Financial Holding Company Act, Financial Institutions Merger Act or other laws, or the stocks of another company acquired by issuing new shares pursuant to the <u>eighth</u> paragraph of Article 156 of the Company Act.</p> <p>(Omitted)</p>	<p>"item 8 of article 156" in section 2 to "article 156-3."</p>
<p>Article 6</p> <p>The company's appraisal report or certified public account, attorney at law, or securities underwriter should meet the following conditions:</p> <p>1. without subsection to verdict of over one year of imprisonment for violation of the law, the Company Act, the Banking Act, the Insurance Act, the Financial Holding Company Act, or the Business Entity Accounting Act, or commitment of fraud, breach of trust, conversion, forgery, or business-related crimes, except those who have served the imprisonment or those with completion of probation or reception of pardon for three years or</p>	<p>Article 6</p> <p><u>No appraiser, certified public account, legal counsel or securities underwriter who has provided the Company with the appraisal report or opinion may involve in the transaction in issue as a related party. Nor shall the transaction counterpart be a related party in the transaction.</u></p>	<p>1. In line with the change of acquisition and disposal rules by Taiwan Stock Exchange, include in the guidelines notices for the company in the employment of appraiser, certified public account, attorney at law, or security underwriter and add</p>

<p>more.</p> <ol style="list-style-type: none"> 2. Trading partners should not be stakeholders or those with substantive relationship. 3. Should it need to obtain appraisal reports from two or more appraisers, those appraisers should not have the relationship of stakeholders or other substantive relationship. <p>The aforementioned appraisers should abide by the following regulations when producing appraisal report or opinions:</p> <ol style="list-style-type: none"> 1. Cautiously evaluation their own expertise, experience, and independence before undertaking the cases; 2. when inspecting cases, properly plan and execute operating flow for formation of conclusions, as basis for producing report or opinions and register in detail execution procedure, data collection, and conclusions in working paper; 3. evaluate one by one the completeness, accuracy, and reasonableness of data sources, parameters, and information, as the basis for production of appraisal report or opinions; 4. declaration should include expertise and independence of related persons, evaluation of the reasonableness of information in use, and legal compliance. 		<p>sections 1-3 of item 1 specifying ineligible conditions for related experts and revocation of previous stipulation, in reference to ineligible conditions for directors, supervisors, and managerial staffers in section 4 of article 53 of the Securities and Exchange Act, as well as principle of integrity for issuer and person in charge in section 15, item 1 of article 8 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers.</p> <ol style="list-style-type: none"> 2. Specify the responsibilities of outside experts and add item 2 to the guideline specifying the evaluation, auditing, and declaration of appraisal report or opinions produced by related
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		<p>experts, in reference to article 9 of the Regulations Governing the Preparation of Financial Reports by Securities Issuers pertaining to the evaluation, auditing, and declaration of certified public accountant on appraisal report and reasonable opinions about realty investment.</p>
<p>Article 7</p> <p>1. Evaluation and procedure of operation Acquisition or disposal of real property, and <u>equipment and its right-of-use asset</u> by the Company shall be in accordance with the Company's internal control policy pertaining to the revolving of fixed assets.</p> <p>2. Procedure for determining the terms of transaction and approval of transaction</p> <p>2.1 The terms and transaction price of the acquisition or disposal of real property <u>and its right-of-use asset</u> shall be determined by reference to, among others, the posted current value, appraised value, and the actual transaction price of other real property located nearby. Transactions with a value of <u>less than</u> TWD50</p>	<p>Article 7</p> <p>1. Evaluation and procedure of operation Acquisition or disposal of real property and <u>equipment</u> by the Company shall be in accordance with the Company's internal control policy pertaining to the revolving of fixed assets.</p> <p>2. Procedure for determining the terms of transaction and approval of transaction</p> <p>2.1 The terms and transaction price of the acquisition or disposal of real property shall be determined by reference to, among others, the posted current value, appraised value, and the actual transaction price of other real property located nearby. Transactions with a value of <u>less than</u> TWD50 million may precede with the approval of the</p>	<p>1. In line with change of acquisition and disposal rule by Taiwan Stock Exchange, add Right-of-use asset and expand the scope of Right-of-use asset, as well as addition of the regulations on Right-of-use asset to acquisition and disposal procedure stipulated in article 7 accordingly.</p> <p>2. Make proper revision of the texts from section 2 to section 3, for</p>

<p>million may precede with the approval of the President. Transactions with a value of between TWD50 million and TWD100 million each may proceed with the approval of the Chairman of the Board of Directors and shall be reported to the immediately subsequent meeting of the Board of Directors. Transactions with a value of over TWD100 million must be approved by the Board of Directors in advance.</p> <p>2.2 Acquisition or disposal of equipment <u>its right-of-use asset</u> shall be conducted by way of issuing request for proposal, price competition under restricted tendering, and price negotiation under single tendering or bidding. The approval thereof shall be in accordance with the Schedule of Functions and Authority compiled pursuant to the relevant bylaws of the Company.</p> <p>2.3 Where the acquisition or disposal of assets by the Company in accordance with the relevant procedure or other laws must be approved by the Board of Directors in advance, the opposition expressed by the Director with written record thereof taken or in writing shall be submitted to Audit Committee. On the acquisition or disposal of assets duly proposed to the Board of Directors for approval, opinion expressed by the Independent Director shall be sufficiently considered</p>	<p>President. Transactions with a value of between TWD50 million and TWD100 million each may proceed with the approval of the Chairman of the Board of Directors and shall be reported to the immediately subsequent meeting of the Board of Directors. Transactions with a value of over TWD100 million must be approved by the Board of Directors in advance.</p> <p>2.2 Acquisition or disposal of equipment shall be conducted by way of issuing request for proposal, price competition under restricted tendering, and price negotiation under single tendering or bidding. The approval thereof shall be in accordance with the Schedule of Functions and Authority compiled pursuant to the relevant bylaws of the Company.</p> <p>2.3 Where the acquisition or disposal of assets by the Company in accordance with the relevant procedure or other laws must be approved by the Board of Directors in advance, the opposition expressed by the Director with written record thereof taken or in writing shall be submitted to Audit Committee. On the acquisition or disposal of assets duly proposed to the Board of Directors for approval, opinion expressed by the Independent Director shall be sufficiently considered with their concurrence or dissent expressed and the</p>	<p>the sake of legal compliance.</p> <p>3. In line with change of acquisition and disposal rule by Taiwan Stock Exchange, revise section 4 with confinement of domestic government agencies, plus proper modification of text, for the sake of legal compliance.</p> <p>4. Proper revision of the text of section 4-1, for the sake of legal compliance.</p>
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<p>with their concurrence or dissent expressed and the reason therefore duly recorded in the meeting minutes.</p> <p>3. Unit in charge of execution of transaction Upon approval of the proposed acquisition or disposal of real property, equipment or <u>its right-of-use asset</u> pursuant to the preceding paragraph, the responsible department and the Corporate Finance & Management Division shall take charge of the execution thereof.</p> <p>4. Appraisal report on real property or equipment Where the transaction value of the acquisition or disposal of real property, equipment <u>or its right-of-use asset</u> amounts to 20% or more of the paid-in capital of the Company or TWD300 million or more, an appraisal report produced by a professional appraiser must be obtained before the date the fact happens in accordance with the following, except in cases where the transaction counterpart is a <u>domestic</u> government agencies, or the transaction is an entrusted construction project on a self-owned land or a leased land, or the objects to be acquired or disposed of equipment <u>or its right-of-use asset</u> for business purpose.</p> <p>4.1 Where the transaction price shall be determined by reference to any restricted, designated price or special price for whatever special reason, the transaction and <u>all subsequent changes to the terms thereof (if any)</u> must be submitted to the</p>	<p>reason therefore duly recorded in the meeting minutes.</p> <p>3. Unit in charge of execution of transaction Upon approval of the proposed acquisition or disposal of real property <u>or equipment</u> pursuant to the preceding paragraph, the responsible department and the Corporate Finance & Management Division shall take charge of the execution thereof</p> <p>4. Appraisal report on real property or equipment Where the transaction value of the acquisition or disposal of real property <u>or equipment</u> amounts to 20% or more of the paid-in capital of the Company or TWD300 million or more, an appraisal report produced by a professional appraiser must be obtained before the date the fact happens in accordance with the following, except in cases where the transaction counterpart is a government agencies, or the transaction is an entrusted construction project on a self-owned land or a leased land, or the objects to be acquired or disposed of is equipment for business purpose.</p> <p>4.1 Where the transaction price shall be determined by reference to any restricted, designated price or special price for whatever special reason, the transaction and <u>all subsequent changes to the terms thereof (if any)</u> must be submitted to the Board of Directors for approval in advance.</p> <p>(Omitted)</p>	
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<p>Board of Directors for approval in advance. (Omitted)</p>		
<p>Article 8 Procedure for acquisition or disposal of marketable securities</p> <p>1. Evaluation and procedure of operation Trading of long- or short-term securities by the Company shall be in accordance with the Company's internal control policy pertaining to the revolving of investments. Acquisition or disposal of long-term securities mentioned in the procedure refers to the holding of over 20% stake or long-term equity investment. Acquisition or disposal of long-term securities mentioned in the procedure refers to the holding of over 20% stake or long-term equity investment in a company.</p> <p>2. Procedure for determining the terms of transaction and approval of transaction</p> <p>2.1 For acquisition and disposal of long-term securities, the execution unit should evaluate transaction conditions and authorized quota, <u>under the principle of legal compliance, for the sake of timing and company interests, investments less than NT\$300 million in value can be approved by the board of standing directors during the recess of the board of directors before being reported to the latter at its next meeting. Cases with value exceeding NT\$300 million still need the approval of the board of directors, though.</u></p>	<p>Article 8 Procedure for acquisition or disposal of marketable securities</p> <p>1. Evaluation and procedure of operation Trading of long- or short-term securities by the Company shall be in accordance with the Company's internal control policy pertaining to the revolving of investments. Acquisition or disposal of long-term securities mentioned in the procedure refers to the holding of over 20% stake or long-term equity investment. Acquisition or disposal of long-term securities mentioned in the procedure refers to the holding of over 20% stake or long-term equity investment in a company.</p> <p>2. Procedure for determining the terms of transaction and approval of transaction</p> <p>2.1 For acquisition and disposal of long-term securities, the execution unit should evaluate transaction conditions and authorized quota <u>before submitting its proposal to the board of directors for approval.</u></p> <p>(Omitted)</p>	<p>Taking into account that purchase of the shares of joint ventures (subsidiaries) in the past, any value of cases need of the approval by the board of directors affects the timing, price, and efficiency of transactions, such as investment in the joint venture of Mitsui and TEMICO (NT\$80,000) in April and transaction for the shares of Roteco of the Philippines (over 6 million pesos) in August. For the sake of timing and company interests, it is suggested to authorize, in a legal manner, the board of standing directors to determine the long-term acquisition or disposal of securities with value less than NT\$300 million, in exercise the power of the board of directors during the latter's recess period. Such cases, however, have to be reported to</p>

(Omitted)		the board of directors at its next meeting.
<p>Article 9</p> <p>1. In addition to the procedure for acquisition or disposal of <u>assets or its right-of-use asset</u> from a related party provided in Article 7-11, requirements with respect to the procedure of approval and evaluation of the acceptability of the terms of transaction. According the stipulations of article 7-11 of the handling procedure, when the trading value exceeds 10% of the company's total assets, the appraisal report of professional appraisers or the opinions of CPA should be obtained. The substance of the relationship other than the formation as a legal matter must be considered when determining whether the transaction counterpart is a related party</p> <p>2. Evaluation and procedure of operation Acquisition or disposal of real property <u>or its right-of-use asset</u> from a related party, or acquires r disposes non-property assets <u>or its right-of-use asset</u> with related parties and the trading value exceeds 20% of the company's paid-in capital, 10% of total assets, or NT\$300 million, must be approved by the Board of Directors based on the materials on the following matters and ratified by the Audit Committee in advance to sign the transaction contract and make payment:</p> <p>2.1 The purpose, necessity and anticipated efficacy of the proposed acquisition or disposal of assets.</p> <p>2.2 The reason for selecting the related party in issue</p>	<p>Article 9</p> <p>1. In addition to the procedure for acquisition or disposal of assets from a related party provided in Article 7-11, requirements with respect to the procedure of approval and evaluation of the acceptability of the terms of transaction. According the stipulations of article 7-11 of the handling procedure, when the trading value exceeds 10% of the company's total assets, the appraisal report of professional appraisers or the opinions of CPA should be obtained. The substance of the relationship other than the formation as a legal matter must be considered when determining whether the transaction counterpart is a related party</p> <p>2. Evaluation and procedure of operation Acquisition or disposal of real property from a related party, or acquires r disposes non-property assets with related parties and the trading value exceeds 20% of the company's paid-in capital, 10% of total assets, or NT\$300 million, must be approved by the Board of Directors based on the materials on the following matters and ratified by the Audit Committee in advance to sign the transaction contract and make payment:</p> <p>2.1 The purpose, necessity and anticipated efficacy of the proposed acquisition or disposal of assets.</p> <p>2.2 The reason for selecting the related party in issue as the transaction counterpart.</p>	<p>1. In line with the change of acquisition and disposal rule by Taiwan Stock Exchange, add right-of - use assets and expand the scope of the usage right for assets; add regulations on right-of - use asset and lease to the acquisition and disposal procedure stipulated in article 9, according to the rule of Taiwan Stock Exchange.</p> <p>2. Make proper revision of the text, in line with relaxation by Taiwan Stock Exchange of the regulation authorizing chairman to determine transactions between public companies and their parent firms or subsidiaries, or between directly or indirectly 100%-owned subsidiaries, due to the</p>

<p>as the transaction counterpart.</p> <p>2.3 Acquiring real property <u>or its right-of-use asset</u> from related parties, the evaluation materials regarding the acceptability of the proposed terms of transaction produced pursuant to paragraphs .1 and 3.4 of this Article. (omitted)</p> <p><u>Transaction between the company and subsidiaries or between directly or indirectly 100%-owned subsidiaries, in terms of issued shares or paid-in capital, board of directors could authorize the chairperson to make decision with the value falls within NT300 million:</u></p> <p>a. <u>for the acquisition or disposal of the equipment or its right-of-use asset for business use</u></p> <p>b. <u>for the acquisition or disposal of right-of-use asset of real property for business use</u></p> <p>3. Evaluation of acceptability of the transaction cost</p> <p>3.1 The acceptability of transaction cost of the proposed acquisition of real property <u>or its right-of-use asset</u> by the Company from a related party shall be evaluated in accordance with the following: (omitted)</p> <p>3.2 Where the subject real property bought <u>or leased</u> jointly comprises the land and the building thereon, the transaction cost of the land and the building may be evaluated separately according to any of the</p>	<p>2.3 Acquiring real property from related parties, the evaluation materials regarding the acceptability of the proposed terms of transaction produced pursuant to paragraph 3 of this Article. (omitted)</p> <p><u>The board of directors could authorize the chairperson to make decision for acquiring from, or disposing with, related parties equipment whose value falls within a certain scope.</u></p> <p>3. Evaluation of acceptability of the transaction cost</p> <p>3.1 The acceptability of transaction cost of the proposed acquisition of real property by the Company from a related party shall be evaluated in accordance with the following: (omitted)</p> <p>3.2 Where the subject real property bought jointly comprises the land and the building thereon, the transaction cost of the land and the building may be evaluated separately according to any of the methods provided in the preceding paragraph</p> <p>3.3 The cost of the real property to be acquired by the Company from a related party shall be evaluated in accordance with paragraph 3.1 and 3.2 of this Article and review and workable opinion by a certified public accountant on such evaluation should be sought for.</p> <p>3.4 Where the values of the real property to be</p>	<p>need of collective purchase or transfer of leased business equipment (via transaction or release) and lease of part of leased real estate, plus lower risk involved.</p> <p>3. In line with change of acquisition and disposal rule by Taiwan Stock Exchange, relax regulation governing acquisition of usage right for the realties by stakeholders, with reference to lease transactions between non-stakeholders in neighboring area as basis in the calculation of transaction prices, plus incorporation of existing 4-1.3 of item 3 into 4-1.2 and addition of lease cases as transaction cases.</p>
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<p>methods provided in the preceding paragraph</p> <p>3.3 The cost of the real property <u>or its right-of-use asset</u> to be acquired by the Company from a related party shall be evaluated in accordance with paragraph 3.1 and 3.2 of this Article and review and workable opinion by a certified public accountant on such evaluation should be sought for.</p> <p>3.4 Where the values of the real property to be acquired by the Company from a related party in conclusion of the evaluation pursuant to paragraphs 3.1 and 3.2 of this Article respectively both are lower than the proposed transaction price, paragraph 3.5 of this Article shall apply except in the following cases where objective evidence has been produced and workable opinion has been sought for from the professional appraiser and a certified public on the acceptability of the transaction price:</p> <p>3.4.1 The related party has acquired or leased a vacant land to build the building and evidence has been produced to prove fulfillment of any of the following: (omitted)</p> <p>3.4.1(2) The terms of the proposed transaction are considered acceptable by</p>	<p>acquired by the Company from a related party in conclusion of the evaluation pursuant to paragraphs 3.1 and 3.2 of this Article respectively both are lower than the proposed transaction price, paragraph 3.5 of this Article shall apply except in the following cases where objective evidence has been produced and workable opinion has been sought for from the professional appraiser and a certified public on the acceptability of the transaction price:</p> <p>3.4.1 The related party has acquired or leased a vacant land to build the building and evidence has been produced to prove fulfillment of any of the following: (omitted)</p> <p>3.4.1(2) The terms of the proposed transaction are considered acceptable by reference to the <u>successful</u> transactions of the other floors of the same building or nearby buildings concluded by non-related parties, each of</p>	
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<p>reference to the <u>transaction</u>s of the other floors of the same building or nearby buildings concluded by non-related parties, each of which is of similar square measure to that of the subject real property, and the term of such successful transactions are considered comparable to the relevant terms of the proposed transaction according to the common practice of real property transaction <u>or leasing</u> applicable to the area.</p> <p>3.4.2 The Company has produced evidence to prove the terms of the proposed purchase of real property <u>or its right-of-use asset thorough leasing</u></p>	<p>which is of similar square measure to that of the subject real property, and the term of such <u>successful transaction</u>s are considered comparable to the relevant terms of the proposed transaction according to the common practice of real property transaction applicable to the area.</p> <p><u>3.4.1(3) The terms of the proposed transaction are considered acceptable by reference to the successful leases of the other floors of the same building or nearby buildings concluded by non-related parties within one year and the terms</u></p>	
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<p>from a related party are comparable to the terms of <u>transactions</u> of nearby real property of similar square measure which were concluded by non-related parties within one year. <u>Transaction</u> of nearby real property means the <u>transaction</u> of a real property which is located in the same block as the subject real property and within a radius of 500 meters from the subject real property or the posted present value of which is similar to that of the subject real property. Of similar square measure means, basically, the square measure of the real property <u>or its right – of-use asset</u> in the <u>transaction</u> concluded by a non-related party being referred to is no less than 50% of the square measure of the subject real property. Within one year means within the year immediately preceding the date of occurrence of the proposed transaction.</p> <p>3.5 Where the values of the real property <u>or its right – of-use asset</u> to be acquired by the Company from a related party appraised in conclusion of the evaluation pursuant to paragraphs 3.1 and 3.2 of this Article respectively</p>	<p><u>of such successful leases are considered comparable to the relevant terms of the proposed transaction according to the common practice of real property leases applicable to the area.</u></p> <p>3.4.2 The Company has produced evidence to prove the terms of the proposed purchase of real property from a related party are comparable to the terms of <u>successful</u> transactions of nearby real property of similar square measure which were concluded by non-related parties within one year. <u>Successful</u> transaction of nearby real property means the successful transaction of a real property which is located in the same block as the subject real property and within a radius of 500 meters from the subject real property or the posted present value of which is similar to</p>	
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<p>both are lower than the proposed transaction price, the Company shall act in accordance with the following:</p> <p>3.5.1 The Company shall appropriate an amount equal to the difference between the transaction price and the appraised cost of the real property for special earnings reserve pursuant to the first paragraph of Article 41 of the Securities and Exchange Act, which shall be set aside from distribution or new issues of shares for capital increase. Investors who recognize their investment in the Company on equity method and who are public listed companies shall also appropriate an amount equal to the recognized value according to the shareholding percentage for special earnings reserve pursuant to the first paragraph of Article 41 of the Securities and Exchange Act.</p> <p>3.5.2 Audit Committee shall act in accordance Article 218 of the Company Act.</p> <p>3.5.3 The result of handling pursuant to <u>aforementioned two points</u> shall be reported to the</p>	<p>that of the subject real property. Of similar square measure means, basically, the square measure of the real property in the <u>successful</u> transaction concluded by a non-related party being referred to is no less than 50% of the square measure of the subject real property. Within one year means within the year immediately preceding the date of occurrence of the proposed transaction.</p> <p>3.5 Where the values of the real property to be acquired by the Company from a related party appraised in conclusion of the evaluation pursuant to paragraphs 3.1 and 3.2 of this Article respectively both are lower than the proposed transaction price, the Company shall act in accordance with the following:</p> <p>3.5.1 The Company shall appropriate an amount equal to the difference between the transaction price and the appraised cost of the real property for special earnings reserve pursuant to the first paragraph of Article 41 of the Securities and Exchange Act, which shall be set aside from</p>	
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<p>Shareholders Meeting and the particulars of the transaction shall be disclosed in the relevant annual report and the prospectus.</p> <p>The special earnings reserve set aside pursuant to the above shall not be applied for use without the prior approval by the Financial Supervisory Commission until the loss from depreciation arising from the purchase <u>or lease</u> of the asset by paying a high premium price is duly recognized, disposed of, <u>end of leasing</u> appropriately made up, restored or there being no other evidence challenging the acceptability issue.</p> <p>3.6 Acquisition of real property <u>or its right –of-use asset</u> by the Company from a related party will be forthwith handled in accordance with paragraphs 1 and 2 of this Article in any of the following cases, in which case paragraphs 3.1, 3.2 and 3.3 of this Article regarding evaluation of acceptability of the transaction cost shall not operate:</p> <p>3.6.1 The related party has acquired the subject real property <u>or its right –of-use asset</u> by inheritance or as a gift.</p> <p>3.6.2 Over five years has lapsed since the related party signed the contract on acquisition of the subject real property.</p>	<p>distribution or new issues of shares for capital increase. Investors who recognize their investment in the Company on equity method and who are public listed companies shall also appropriate an amount equal to the recognized value according to the shareholding percentage for special earnings reserve pursuant to the first paragraph of Article 41 of the Securities and Exchange Act.</p> <p>3.5.2 Audit Committee shall act in accordance Article 218 of the Company Act.</p> <p>3.5.3 The result of handling pursuant to <u>paragraphs 3.5.1 and 3.5.2 of this Article</u> shall be reported to the Shareholders Meeting and the particulars of the transaction shall be disclosed in the relevant annual report and the prospectus.</p> <p>The special earnings reserve set aside pursuant to the above shall not be applied for use without the prior approval by the Financial Supervisory Commission until the loss from depreciation arising from the purchase of the asset by paying a high premium price is duly recognized, disposed of, appropriately made up, restored or there being no other evidence</p>	
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<p><u>or its right –of-use asset.</u></p> <p>3.6.3 The related party acquired the subject real property under a signed joint construction contract with its related party or entrustment of related parties for realty constructions, either on own land or leased land.</p> <p>3.6.4 <u>Transaction between the company and subsidiaries or between directly or indirectly 100%-owned subsidiaries, in terms of issued shares or paid-in capital, for the acquisition of right-of- use asset for realty assets for business use.</u></p> <p>3.7 In case there is any evidence proving any irregularity of the proposed transaction for the Company to acquire the subject real property from a related party, the Company shall still act in accordance with paragraph 3.5 of this Article.</p>	<p>challenging the acceptability issue.</p> <p>3.6 Acquisition of real property by the Company from a related party will be forthwith handled in accordance with paragraphs 1 and 2 of this Article in any of the following cases, in which case paragraphs 3.1, 3.2 and 3.3 of this Article regarding evaluation of acceptability of the transaction cost shall not operate:</p> <p>3.6.1 The related party has acquired the subject real property by inheritance or as a gift.</p> <p>3.6.2 Over five years has lapsed since the related party signed the contract on acquisition of the subject real property.</p> <p>3.6.3 The related party acquired the subject real property under a signed joint construction contract with its related party or entrustment of related parties for realty constructions, either on own land or leased land.</p> <p>3.7 In case there is any evidence proving any irregularity of the proposed transaction for the Company to acquire the subject real property from a related party, the Company shall still act in accordance with</p>	
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	paragraph 3.5 of this Article.	
<p>Article 11</p> <p>1. Evaluation and procedure for operation The acquisition or disposal of intangible assets <u>or its right – of-use asset</u> by the Company shall be conducted in accordance with the Company’s internal control policy pertaining to the revolving of fixed assets.</p> <p>2. Terms of transaction and procedure for approval of transaction</p> <p>2.1 The terms and transaction price of the proposed acquisition or disposal of intangible assets <u>or its right –of-use asset</u> shall be determined by reference to the evaluation report produced by an expert or the fair market value. Transactions with a transaction value of less than TWD30 million each may proceed with the approval of the President. Transactions with a value of between TWD30 million and TWD60 million may proceed with the approval of the Chairman and shall be reported to the immediate subsequent meeting of the Board of Directors. Transactions with a value of over TWD60 million each must be approved by the Board of Directors in advance.</p> <p>2.2 Where the acquisition or disposal of assets <u>or its right –of-use asset</u> by the Company in accordance with the relevant procedure or other laws</p>	<p>Article 11</p> <p>1. Evaluation and procedure for operation The acquisition or disposal of intangible assets by the Company shall be conducted in accordance with the Company’s internal control policy pertaining to the revolving of fixed assets.</p> <p>2. Terms of transaction and procedure for approval of transaction</p> <p>2.1 The terms and transaction price of the proposed acquisition or disposal of intangible assets shall be determined by reference to the evaluation report produced by an expert or the fair market value. Transactions with a transaction value of less than TWD30 million each may proceed with the approval of the President. Transactions with a value of between TWD30 million and TWD60 million may proceed with the approval of the Chairman and shall be reported to the immediate subsequent meeting of the Board of Directors. Transactions with a value of over TWD60 million each must be approved by the Board of Directors in advance.</p> <p>2.2 Where the acquisition or disposal of assets by the Company in accordance with the relevant procedure or other laws must be approved by the Board of Directors in advance, the opposition expressed by the Director</p>	<p>In line with change of acquisition and disposal rule by Taiwan Stock Exchange, add usage right for assets and expand the scope of the right-of-use assets.</p>

<p>must be approved by the Board of Directors in advance, the opposition expressed by the Director with written record thereof taken or in writing shall be submitted to Audit Committee. On the acquisition or disposal of assets duly proposed to the Board of Directors for approval, opinion expressed by the Independent Director shall be sufficiently considered with their concurrence or dissent expressed and the reason therefore duly recorded in the meeting minutes.</p> <p>3. Unit in charge of execution of transaction Upon approval of the proposed acquisition or disposal of membership or intangible assets <u>or its right –of-use asset</u> pursuant to the preceding paragraph, the responsible department and the Corporate Finance & Management Division shall take charge of the execution thereof. (omitted)</p>	<p>with written record thereof taken or in writing shall be submitted to Audit Committee. On the acquisition or disposal of assets duly proposed to the Board of Directors for approval, opinion expressed by the Independent Director shall be sufficiently considered with their concurrence or dissent expressed and the reason therefore duly recorded in the meeting minutes.</p> <p>3. Unit in charge of execution of transaction Upon approval of the proposed acquisition or disposal of membership or intangible assets pursuant to the preceding paragraph, the responsible department and the Corporate Finance & Management Division shall take charge of the execution thereof. (omitted)</p>	
<p>Article 13</p> <p>1. Principle and policy of transaction (omitted)</p> <p>1.4 Key points of performance evaluation:</p> <p>1.4.1 <u>Non-hedging part</u> shall be evaluated according to the accumulated realized amount of net foreign exchange gain (loss) of the year.</p> <p>1.4.2 <u>Hedging part</u> shall be evaluated according to their compliance with the</p>	<p>Article 13</p> <p>1. Principle and policy of transaction (omitted)</p> <p>1.4 Key points of performance evaluation:</p> <p>1.4.1 <u>Transaction part</u> shall be evaluated according to the accumulated realized amount of net foreign exchange gain (loss) of the year.</p> <p>1.4.2 <u>Non-transaction part</u> shall be evaluated according to their compliance</p>	<p>1. In line with article 18 of the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" and the suggestion of securities regulator, set loss ceiling for a single contract on the operation</p>

<p>relevant policy and rules for operation of forward foreign exchange of the Company.</p> <p>1.5 Total contractual transaction amount (omitted)</p> <p>1.6 <u>Ceiling of loss value</u></p> <p>1.6.1 <u>Loss ceiling for open-interest position of the current quarter for an individual contract on risk-hedging merchandise transaction is set at NT\$5 million, with ceiling for all the contracts set at NT\$50 million. Cases with loss surpassing the aforementioned ceiling should be reported to chairman, who is authorized to adopt proper countermeasures according to current operating need and expected situation of the financial market, so as to reduce the losses of individual or total open-interest positions under the ceilings.</u></p> <p>1.6.2 <u>The value of open-interest positions for non-risk hedging merchandise transactions is calculated according to the closing price of New York on the previous day and</u></p>	<p>with the relevant policy and rules for operation of forward foreign exchange of the Company.</p> <p>1.5 Total contractual transaction amount (omitted)</p> <p>1.6 <u>Limits on total loss from all transaction contracts and the loss from each individual transaction contract</u> <u>The uncovered position of derivative transactions by the Company as a whole shall be calculated according to the closing price of TWD at the current day on and that of the New York foreign exchange market of the previous day. When the loss incurred amounts to TWD2.5 million, 25% thereof shall be covered and the trader shall be instructed to suspend all transactions. When the loss incurred amounts to TWD5 million, 50% of the uncovered position must be covered with a relevant report submitted to the President. If the loss incurred amounts to TWD10 million, all positions shall be closed with a relevant report submitted to the President and the Chairman.</u></p> <p>(omitted)</p> <p>2. Risk management</p> <p>2.5 Operational risk management The transactions shall be conducted within the relevant authorized amount in full compliance</p>	<p>of non-transaction derivatives , authorized quota for traders, and stop-loss quota, stipulated in section 1.</p> <p>2. Proper change of the text of section 2-5.</p>
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<p><u>that of NT dollar on the day. Should the loss already exceed NT\$2.5 million, offset 25% of the open-interest position and stop all trading carried out by traders; should the loss surpass NT\$5 million, offset 50% of open-interest position and report the case to chairman; should the loss top NT\$10 million, close all positions and report the case to the board of directors.</u></p> <p>2. Risk management 2.5 Operational risk management The transactions shall be conducted within the relevant authorized amount in full compliance with the procedure for operation and put under internal control to prevent operational risks. The personnel conducting derivatives must not act concurrently as the personnel responsible for making the relevant verification and delivery and vice versa. The personnel responsible for weighing, monitoring and controlling the risks and the personnel provided in the preceding subparagraph must be serving in different departments of the Company and they must report to the Board of Directors or a high-ranking managerial officer who is not in charge of the</p>	<p>with the procedure for operation and put under internal control to prevent operational risks. The personnel conducting derivatives must not act concurrently as the personnel responsible for making the relevant verification and delivery and vice versa. The personnel responsible for weighing, monitoring and controlling the risks and the personnel provided in the preceding subparagraph must be serving in different departments of the Company and they must report to the Board of Directors or a high-ranking managerial officer who is not in charge of the transaction or decision-making on the positions to be taken. The positions taken by derivatives transaction shall be evaluated at least once a week except hedging transactions which have been conducted to meet business needs and which shall be evaluated twice a month. The evaluation report shall be submitted to the relevant high-ranking managerial officer authorized to do so by the Board of Directors.</p> <p>(omitted)</p>	
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<p>transaction or decision-making on the positions to be taken.</p> <p>The positions taken by derivatives transaction shall be evaluated at least once a week except hedging transactions which have been conducted to meet business needs and which shall be evaluated twice a month. The evaluation report shall be submitted to the relevant high-ranking managerial officer authorized to do so by the Board of Directors.</p> <p>(omitted)</p>		
<p>Article 15</p> <p>1. Matters which should be reported for public disclosure and the relevant standards</p> <p>1.1 Acquisition of real property <u>or its right-of-use assets</u>, or disposal of properties <u>or its right-of-use assets</u> with, related parties, or acquisition of non-property assets <u>or its right-of-use assets</u> from, or disposal of non-property assets <u>or its right-of-use assets</u> with, related parties with the trading value exceeding 20% of the company's paid-in capital or 10% of total assets, or NT\$300 million. However, trading in government bonds or bonds with repurchase and resale agreements, or subscription or repurchase of money market funds by domestic securities investment trust enterprises and subscription or redemption of domestic money-market funds issued by Securities</p>	<p>Article 15</p> <p>1. Matters which should be reported for public disclosure and the relevant standards</p> <p>1.1 Acquisition of real property, or disposal of properties with, related parties, or acquisition of non-property assets from, or disposal of non-property assets with, related parties with the trading value exceeding 20% of the company's paid-in capital or 10% of total assets, or NT\$300 million. However, trading in government bonds or bonds with repurchase and resale agreements, or subscription or repurchase of money market funds by domestic securities investment trust enterprises and subscription or redemption of domestic money-market funds issued by Securities Investment Trust Enterprises are not included.</p>	<p>1. In line with change of acquisition and disposal rule by Taiwan Stock Exchange, add usage right for assets and expand the scope of right-of-use assets; add regulation on right-of-use assets to the acquisition and disposal procedure stipulated in article 15, according to the rule of Taiwan Stock Exchange.</p> <p>2. Add restriction on trading partners for the acquisition of realties via commissione d construction</p>

<p>Investment Trust Enterprises are not included.</p> <p>1.2 Merger, spin-off, acquisition or assignment of shares.</p> <p>1.3 The amount of loss incurred from the derivatives transaction exceeds the limit on loss from all contracts or the relevant individual contract provided in the relevant handling procedure.</p> <p>1.4 The subject asset <u>or its right-of-use assets</u> to be acquired or disposed of is equipment for business use and the transaction counterpart is a non-related party and the transaction value is above TWD 1 billion.</p> <p>1.5 The subject real property <u>or its right-of-use assets</u> is to be acquired or disposed of by the construction business division of the Company for construction use and the transaction counterpart is a non-related party and the transaction value is above TWD500 million.</p> <p>1.6 The subject real property to be acquired is a building is to be constructed on a self-owned land, leased land, jointly constructed and shared by units, jointly constructed and shared by percentage, jointly constructed and sold by units and the anticipated transaction value is above TWD500 million <u>and counterparties of transaction are not related parties.</u></p>	<p>1.2 Merger, spin-off, acquisition or assignment of shares.</p> <p>1.3 The amount of loss incurred from the derivatives transaction exceeds the limit on loss from all contracts or the relevant individual contract provided in the relevant handling procedure.</p> <p>1.4 The subject asset to be acquired or disposed of is equipment for business use and the transaction counterpart is a non-related party and the transaction value is above TWD 1 billion.</p> <p>1.5 The subject real property is to be acquired or disposed of by the construction business division of the Company for construction use and the transaction counterpart is a non-related party and the transaction value is above TWD500 million.</p> <p>1.6 The subject real property to be acquired is a building is to be constructed on a self-owned land, leased land, jointly constructed and shared by units, jointly constructed and shared by percentage, jointly constructed and sold by units and the anticipated transaction value is above TWD500 million.</p> <p>1.7 Assets transactions or disposals of credit claims in financial institutions or investment in PRC other than those provided in the preceding six subparagraphs, the transaction value of which amounts to 20% of the</p>	<p>on own land, commissioned construction on leased land, joint construction with allocation of completed houses, joint construction with allocation of a share of completed houses, and joint construction with separate sales of completed houses.</p>
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<p>1.7 Assets transactions or disposals of credit claims in financial institutions or investment in PRC other than those provided in the preceding six subparagraphs, the transaction value of which amounts to 20% of the paid-in capital of the Company or TWD300 million each, except for these transactions:</p> <p>1.7.1 The transaction is the purchase or sale of <u>domestic</u> government bonds.</p> <p>1.7.2 Professional investors, who trade in securities at stock exchanges or business outlets of securities firms, or subscribe to common corporate bonds and common financial bonds without stock right (<u>excluding subordinated bonds</u>), or <u>subscription to of redemption of securities investment trust funds or futures trust funds</u> on the domestic primary market, security brokers who subscribe to securities out of the need for underwriting business or in the capacity as a assisting or recommending security firm for share listing on the Emerging Stock Market, according to the regulations of</p>	<p>paid-in capital of the Company or TWD300 million each, except for these transactions:</p> <p>1.7.1 The transaction is the purchase or sale of government bonds.</p> <p>1.7.2 Professional investors, who trade in securities at <u>domestic or overseas</u> stock exchanges or business outlets of securities firms, or subscribe to common corporate bonds and common financial bonds without stock right on the domestic primary market, security brokers who subscribe to securities out of the need for underwriting business or in the capacity as a assisting or recommending security firm for share listing on the Emerging Stock Market, according to the regulations of the ROC Gretai Market (over-the-counter market)</p> <p>1.7.3 The subject asset to be acquired or disposed of is bond with re-purchase, re-sale agreements. Subscription to and redemption of domestic money-market funds issued by Securities Investment Trust Enterprises.</p>	
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<p>the ROC Greta Market (over-the-counter market)</p> <p>1.7.3 The subject asset to be acquired or disposed of is bond with re-purchase, re-sale agreements. Subscription to and redemption of domestic money-market funds issued by Securities Investment Trust Enterprises.</p> <p>1.8 The transaction value provided in previous paragraph 1.8 above shall be calculated as follows, where within one year means within the year immediately preceding the date of occurrence of the proposed transaction, excluding the items which have been publicly disclosed.</p> <p>1.8.1 The value of each transaction.</p> <p>1.8.2 The total value of the property of the same nature acquired from or transferred to the same transaction counterpart within one year.</p> <p>1.8.3 The total value of the real property <u>or its right-of-use assets</u> under the same development project acquired or disposed of within one year (the sum acquired and the sum disposed of shall be calculated separately).</p> <p>(omitted)</p>	<p>1.8 The transaction value provided in previous paragraph 1.8 above shall be calculated as follows, where within one year means within the year immediately preceding the date of occurrence of the proposed transaction, excluding the items which have been publicly disclosed.</p> <p>1.8.1 The value of each transaction.</p> <p>1.8.2 The total value of the property of the same nature acquired from or transferred to the same transaction counterpart within one year.</p> <p>1.8.3 The total value of the real property under the same development project acquired or disposed of within one year (the sum acquired and the sum disposed of shall be calculated separately).</p> <p>(omitted)</p>	
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<p>Article 19 This Procedure (omitted) and the tenth amendment on 16 June 2017. <u>and the eleventh amendment on 14 June 2019.</u></p>	<p>Article 19 This Procedure (omitted) and the tenth amendment on 16 June 2017.</p>	<p>Addition of the date for the current revision</p>
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Appendices

1. Articles of Incorporation on pages 71-78
2. Rules Governing Shareholders' Meeting on pages 79-81
3. Procedure for Acquisition or Disposal of Assets on pages 82-99
4. Shareholding of All Directors on page 100
5. Notes on page 101

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. CC01101 Manufacturing of controlled telecom radio-frequency products
16. CC01110 Manufacture of computers and the peripheral thereof;
17. CD01010 Manufacture of boats and the parts thereof;
18. CD01020 Manufacture of rail cars and the parts thereof;
19. CD01030 Manufacture of automobiles and the parts thereof;
20. CD01040 Manufacture of motorbikes and the parts thereof;
21. CD01060 Manufacture of aircrafts and the parts thereof;
22. CE01010 Manufacture of general instruments;
23. CE01030 Manufacture of optical instruments;
24. E501011 Services regarding water utilities as contractor;
25. E502010 Installation of fuel pipes;
26. E599010 Engineering of pipe lines;
27. E601010 Service regarding electrical appliance as contractor;
28. E601020 Installation of electrical appliance;
29. E602011 Engineering of refrigerating, air-conditioning equipment;
30. E603010 Installation of cables;
31. E603040 Installation of firefighting safety equipment;
32. E603050 Engineering of automatic control equipment;
33. E603080 Installation of traffic signs;
34. E603090 Installation of illuminating equipment;
35. E604010 Installation of machines;
36. E605010 Installation of computer equipment;
37. F106010 Wholesale of hardware;
38. F106030 Wholesale of tooling;
39. F108031 Wholesale of medical devices
40. F113070 Wholesale of telecom-products
41. F114080 Wholesale of rail cars and the parts thereof;
42. F117010 Wholesale of fire-fighting safety equipment;
43. F119010 Wholesale of electrical materials;

44. F206010 Retail sale of hardware;
45. F206030 Retail sale of tooling;
46. F206040 Retail sale of water equipment and relevant materials;
47. F208031 Retail sale of medical devices;
48. F213040 Retail sale of precision instruments;
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. F501060 Restaurant services;
54. G801010 Warehousing services;
55. H701010 Development and leasing of residential and business buildings;
56. I103060 Management consulting services;
57. I301010 Information application services;
58. I301020 Data-processing services;
59. I301030 Supply of electronic information services;
60. IF01010 Inspection and repair of firefighting safety equipment services;
61. IF02010 Testing and inspection of electrical equipment services;
62. JE01010 Leasing services;
63. 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 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.

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.

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.

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.

The Company is in a stably growing industry with investment made in developing business. 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 and special earning reserve. Basically 50% but not less than 5% of the earnings distributed to the shareholders shall be distributed in cash.

Chapter 8 Supplemental Provisions

Article 28

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

Article 29

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

Article 30

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
The fifty-sixth amendment was on June 16, 2016
It took 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.

Procedure for Acquisition or Disposal of Assets

Article 1 Purpose

This Procedure is established for the purpose of protecting the rights and interests of shareholders and the interests of investors.

Article 2 Legal authority

This Procedure is established pursuant to Article 36-1 of the Securities And Exchange Act and the relevant provision and subsequent revision there of the “Regulations Governing the Acquisition or Disposal of Assets by Public Companies” established by the Financial Supervisory Commission, Executive Yuan (hereinafter “FSC”).

Article 3 Scope of assets

1. The term *marketable securities* include investments in stocks, government bond, corporate bond, financial debenture, mutual fund securities, depository receipts, share warrant certificates, beneficiary securities, asset-back securities and so on.
2. Real property (including land, house & construction, investment real assets, land utilization right and inventory of construction business) and equipment.
3. Membership.
4. Intangible assets, including, patent, copyright, trademark, franchise and so on.
5. Credit claims in financial institutions (including accounts receivable, foreign exchange discount, lending, overdue receivables).
6. Derivatives.
7. Assets acquired or disposed of as a result of legal merger, spin-off, acquisition or assignment of shares.
8. Other important assets.

Article 4 Definition

1. Derivatives means the forward contracts, options contracts, futures contracts, hedge margin contracts, swaps contracts, and compound contracts of the combination of the above the value of which is derived from assets, interest rates, exchange rate, indices or other interests. Forward contracts do not include insurance contracts, performance guaranty contracts, after-sale service contracts, long-term leases and long-term purchase (sale) contracts.
2. Assets acquired or disposed of as a result of legal merger, spin-off, acquisition or assignment of shares means the assets acquired from or disposed of as a result of a merger, spin-off or acquisition conducted in accordance with the Business Merger and Acquisition Act, Financial Holding Company Act, Financial Institutions Merger Act or other laws, or the stocks of another company acquired by issuing new shares pursuant to the eighth paragraph of Article 156 of the Company Act.
3. A related party & *subsidiary* means the party defined in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers.
4. A professional appraiser means real property appraisers or any other service which is legally authorized to appraise real property and equipment for business.
5. Date of occurrence means the transaction contracting date, payment date, the entrusted transaction closing date, transfer date, board resolution date or other date on which the transaction counterpart and the transaction value may be sufficiently ascertained, whichever is earlier. Notwithstanding, where the investment must be approved by the competent authority in advance, the date of occurrence shall mean the earlier of the above date applicable and the date of approval by the competent authority.

6. PRC investment means the investment made in the People's Republic of China in accordance with the Regulations Governing Approval of Investments or Technical Cooperation Conducted in the People's Republic of China prescribed by the Investment Commission, Ministry of Economic Affairs.
7. Within one year means the year counted backward from the date of acquisition or disposal of the asset in issue, excluding the items which have been publicly disclosed.
8. The most recent certified financial statements means the latest financial statements certified or audited by a certified public accountant and duly published immediately before the acquisition or disposal of assets in issue.

Article 5

Limit on investment in non-business purpose real property and marketable securities.

The limits on the above assets acquired by the Company are as follows:

1. Non-business purpose real property: The total investment amount shall not exceed 30% of the amount of shareholders' equity represented in the most recent certified financial statements. The total amount of investment in any specific short-term securities shall not exceed 5% of the amount of the above shareholders' equity.
2. Long- and short-term securities: The total investment amount (means the original investment amount) shall not exceed the amount of shareholders' equity represented in the most recent certified financial statements.
3. The total amount of investment in any specific marketable securities (means the original investment amount) shall not exceed 30% of the amount of shareholders' equity represented in the most recent certified financial statements.

The limits on the total amount of the above asset acquired by a subsidiary of the Company are as follows:

1. Non-business purpose real property: The total amount shall not exceed 20% of the amount of shareholders' equity represented in the most recent certified financial statements of the subsidiary concerned. The total amount of investment in any specific short-term securities shall not exceed 5% of the amount of the above shareholders' equity.
2. Long- and short-term securities: The total investment amount (means the original investment amount) shall not exceed the amount of shareholders' equity represented in the most recent certified financial statements of the subsidiary concerned.
3. The total amount of investment in any specific marketable securities (means the original investment amount) shall not exceed 30% of the amount of shareholders' equity represented in the most recent certified financial statements of the subsidiary concerned.

Article 6

No appraiser, certified public account, legal counsel or securities underwriter who has provided the Company with the appraisal report or opinion may involve in the transaction in issue as a related party. Nor shall the transaction counterpart be a related party in the transaction.

Article 7 Procedure for acquisition or disposal of real property or equipment

1. Evaluation and procedure of operation

Acquisition or disposal of real property and equipment by the Company shall be in accordance with the Company's internal control policy pertaining to the revolving of fixed assets.

2. Procedure for determining the terms of transaction and approval of transaction

- 2.1 The terms and transaction price of the acquisition or disposal of real property shall be determined by reference to, among others, the posted current value, appraised value, and the actual transaction price of other real property located nearby. Transactions

with a value of less than TWD50 million may precede with the approval of the President. Transactions with a value of between TWD50 million and TWD100 million each may proceed with the approval of the Chairman of the Board of Directors and shall be reported to the immediately subsequent meeting of the Board of Directors. Transactions with a value of over TWD100 million must be approved by the Board of Directors in advance.

- 2.2 Acquisition or disposal of equipment shall be conducted by way of issuing request for proposal, price competition under restricted tendering, and price negotiation under single tendering or bidding. The approval thereof shall be in accordance with the Schedule of Functions and Authority compiled pursuant to the relevant bylaws of the Company.
 - 2.3 Where the acquisition or disposal of assets by the Company in accordance with the relevant procedure or other laws must be approved by the Board of Directors in advance, the opposition expressed by the Director with written record thereof taken or in writing shall be submitted to Audit Committee. On the acquisition or disposal of assets duly proposed to the Board of Directors for approval, opinion expressed by the Independent Director shall be sufficiently considered with their concurrence or dissent expressed and the reason therefore duly recorded in the meeting minutes.
3. Unit in charge of execution of transaction

Upon approval of the proposed acquisition or disposal of real property or equipment pursuant to the preceding paragraph, the responsible department and the Corporate Finance & Management Division shall take charge of the execution thereof.
 4. Appraisal report on real property or other fixed asset

Where the transaction value of the acquisition or disposal of real property or equipment amounts to 20% or more of the paid-in capital of the Company or TWD300 million or more, an appraisal report produced by a professional appraiser must be obtained before the date the fact happens in accordance with the following, except in cases where the transaction counterpart is a government agencies, or the transaction is an entrusted construction project on a self-owned land or a leased land, or the objects to be acquired or disposed of is equipment for business purpose.

 - 4.1 Where the transaction price shall be determined by reference to any restricted, designated price or special price for whatever special reason, the transaction and all subsequent changes to the terms thereof (if any) must be submitted to the Board of Directors for approval in advance.
 - 4.2 Where the transaction value amounts to TWD1 billion or more, the appraisal shall be conducted by two or more professional appraisers.
 - 4.3 If the appraisal conducted by the professional appraiser runs into either of the following conditions, except the appraisal value of the acquired assets is higher than the trading value or the appraisal value of the disposed assets is lower than the trading value, subsequent handling by certified public accountant in accordance with the No. 20 Statement of Financial Accounting Standards published by Accounting Research and Development Foundation (ARD Foundation) should be sought for as well as its opinion with respect to the reasons accounting for the price difference and the acceptability of the transaction price:
 - 4.3.1 The amount difference between the appraised value and the transaction value amounts to 20% of the transaction value.
 - 4.3.2 The amount difference among the appraised values as a result of the appraisals conducted by two or more professional appraiser's amounts to 10% or more of the transaction value.

- 4.4 The appraisal report date and the date of creation of the transaction contract conducted by professional appraiser must not be apart for more than 3 months. Notwithstanding, if the same posted present value has been adopted to calculate the value and the above two dates are less than 6 months apart, the written opinion of the original professional appraiser may be sought.
- 4.5 Where the Company has acquired or disposed of the asset by auction by the court, the relevant written evidence document issued by the court may operate in place of the appraisal report or certified public accountant's opinion.
5. The aforementioned trading value should be calculated according to Article 15.1.5. The period is the one year before the occurrence of the trading. The obtaining of appraisal report or CPA's opinions can not be included.

Article 8

Procedure for acquisition or disposal of marketable securities

1. Evaluation and procedure of operation

Trading of long- or short-term securities by the Company shall be in accordance with the Company's internal control policy pertaining to the revolving of investments. Acquisition or disposal of long-term securities mentioned in the procedure refers to the holding of over 20% stake or long-term equity investment. Acquisition or disposal of long-term securities mentioned in the procedure refers to the holding of over 20% stake or long-term equity investment in a company.

2. Procedure for determining the terms of transaction and approval of transaction

2.1 For acquisition and disposal of long-term securities, the execution unit should evaluate transaction conditions and authorized quota before submitting its proposal to the board of directors for approval.

2.2 For acquisition and disposal of short-term securities, the execution unit should evaluate the transaction conditions and authorization quota before carrying out the move according to "Measures for the Management of Short-term Investment."

2.2.1 Purchasing and selling short-term marketable securities traded on the stock exchange or over-the-counter market shall be judged and determined by the responsible financial unit according to the market. The limits on the total investment amount and the amount of investment in any specific securities are as follows:

Securities	Limit	Limit on specific securities
Domestic finance bills Foreign finance bills		TWD600 million TWD600 million
Negotiable certificates of deposit Time deposit		TWD600 million TWD600 million
Open-end bonds funds	TWD2 billion	TWD500 million
Mutual funds (excluding open-end bonds mutual funds)	TWD1 billion	TWD100 million
Stocks traded on stock exchanges, over-the-counter market and relevant securities	TWD1 billion	TWD100 million
Share warrant certificates	TWD1 billion	TWD5 million

2.2.2 For purchase or sale of short-term marketable securities not traded on the stock exchange or over-the-counter market, the most recent certified financial statements of the target company must be obtained for an as reference for evaluating the transaction price for an analysis on, among others, the per share net value, profitability and potentiality of the objective company. The above proposed purchase or sale proposed must be submitted transaction conditions and authorization quota to the board of directors for approval in advance.

2.3 Where the acquisition or disposal of assets by the Company in accordance with the relevant procedure or other laws must be approved by the Board of Directors in advance, the opposition expressed by the Director with written record thereof taken or in writing shall be submitted to all Supervisors. On the acquisition or disposal of assets duly proposed to the Board of Directors for approval, opinion expressed by the Independent Director (if any) shall be sufficiently considered with their concurrence or dissent expressed and the reason therefore duly recorded in the meeting minutes.

3. Unit in charge of execution

Upon approval of the proposed acquisition or disposal of long- or short-term investment in securities by the Company pursuant to the preceding paragraph, the Corporate Finance & Management Division shall take charge of the execution thereof.

4. Expert opinion

4.1 For acquisition or disposal of marketable securities, the company should obtain the audited or reviewed financial statement of the target companies as the reference for transaction price, the transaction value of which amounts to 20% of the paid-in capital of the Company or TWD300 million, certified public accountant's opinion shall be sought for with respect to the acceptability of the transaction price before the date the fact happens. In case CPA needs to adopt the report of experts, auditing criteria No. 20 publicized by Accounting Research and Development Foundation should be followed, except in cases where there is an active public quote on the subject securities or where the subject securities belongs to any of the following:

4.1.1 securities obtained on contribution of cash capital to the establishment of an entity by promoters or by placement.

4.1.2 securities issued at par value on the legal capital increase of an invested company.

4.1.3 securities issued on the cash capital increase of a 100%-owned invested company.

4.1.4 securities traded on the stock exchange, Over-the-Counter Market or on the GreTai Securities Market.

4.1.5 government bonds or bonds with re-purchase, re-sale agreements.

4.1.6 domestic or offshore mutual funds

4.1.7 corporate securities listed on the stock exchange or traded on the GreTai Securities Market to be acquired or disposed off pursuant to the Regulations Governing Purchase of Listed Securities by Tender Offer or by Auction of the Taiwan Stock Exchange Corporation or the GreTai Securities Market.

4.1.8 stocks of public companies issued on cash capital increase but not under private placement

4.1.9 the request for purchase of which was submitted prior to the establishment of the mutual fund as provided in the first paragraph of Article 11 of the Securities

Investment Trust and Consulting Act and the Order of 1 November 2004 issued by the Financial Supervisory Commission (ref. Jin-Guan-Si-Tze No. 0930005249).

4.1.10 newly purchased or re-purchased domestic private equity, the scope of investment of which is identical with that of publicly raised mutual funds except the investment strategy with respect to securities credit trading and position of the un-covered products relating to the securities as indicated in the relevant trust agreement

4.2 Where the subject asset is acquired or disposed of by auction in the court, the appraisal report or certified public accountant's opinion may be replaced by the relevant certifying document issued by the court.

5. The aforementioned trading value should be calculated according to Article 15.1.5. The period is the one year before the occurrence of the trading. The obtaining of appraisal report or CPA's opinions can be excluded.

Article 9 Transaction with related parties

1. In addition to the procedure for acquisition or disposal of assets from a related party provided in Article 7-11, requirements with respect to the procedure of approval and evaluation of the acceptability of the terms of transaction. According the stipulations of article 7-11 of the handling procedure, when the trading value exceeds 10% of the company's total assets, the appraisal report of professional appraisers or the opinions of CPA should be obtained. The substance of the relationship other than the formation as a legal matter must be considered when determining whether the transaction counterpart is a related party

2. Evaluation and procedure of operation

Acquisition or disposal of real property from a related party, or acquires or disposes non-property assets with related parties and the trading value exceeds 20% of the company's paid-in capital, 10% of total assets, or NT\$300 million, must be approved by the Board of Directors based on the materials on the following matters and ratified by the Audit Committee in advance to sign the transaction contract and make payment:

2.1 The purpose, necessity and anticipated efficacy of the proposed acquisition or disposal of assets.

2.2 The reason for selecting the related party in issue as the transaction counterpart.

2.3 Acquiring real property from related parties, the evaluation materials regarding the acceptability of the proposed terms of transaction produced pursuant to paragraphs .1 and 3.4 of this Article.

2.4 The acquisition date and the transaction price at which the related party acquired the subject real property and the related party's transaction counterpart in that transaction and the relationship between them.

2.5 Forecast on the statement of receipts and disbursements of cash within one year from the month of the proposed contract signing date, and an evaluation of the necessity of the proposed transaction and the acceptability of the application of the relevant funds.

2.6 Obtain the appraisal report of professional appraisers or the opinions of CPA according to item 1 of the Article9.

2.7 The restrictions and other important arrangements on the transaction.

The aforementioned trading value should be calculated according to item 1-5 of Article 15. The one-year period refers to the one year before the date for the implementation of the trading. The trading which has been submitted to the board of directors for approval and the auditing committee for acknowledgement can be excluded.

The opinion expressed by the Independent Directors each at the relevant meeting of the Board of Directors convened for discussing according to the previous two items, transaction proposed pursuant to the preceding paragraph shall be sufficiently considered. Opposition or qualified opinion expressed by the Independent Director shall be clearly indicated in the minutes of the relevant meeting of the Board of Directors.

The board of directors could authorize the chairperson to make decision for acquiring from, or disposing with, related parties equipment whose value falls within a certain scope.

3. Evaluation of acceptability of the transaction cost

3.1 The acceptability of transaction cost of the proposed acquisition of real property by the Company from a related party shall be evaluated in accordance with the following:

3.1.1 The transaction cost shall be the sum of the proposed transaction price plus the necessary capital interest and the legal cost to be incurred by the buyer. *Necessary capital interest* shall be calculated according to the weighted average interest rate on loans extended to the Company in the year of the purchase of the real property, provided that the said interest rate shall not exceed the maximum non-financing borrowing interest rate announced by the Ministry of Finance.

3.1.2 Where the related party has mortgaged the subject real property to any financial institution, the total value adopted by the financial institution to determine the line of credit shall be taken into account, provided that the accumulated amount of the actual advanced credit on the subject real property has amounted to 70% or more of the line of credit for over one year except in cases where the financial institution is a related party to the related party in issue or vice versa.

3.2 Where the subject real property comprises the land and the building thereon, the transaction cost of the land and the building may be evaluated separately according to any of the methods provided in the preceding paragraph

3.3 The cost of the real property to be acquired by the Company from a related party shall be evaluated in accordance with paragraph 3.1 and 3.2 of this Article and review and workable opinion by a certified public accountant on such evaluation should be sought for.

3.4 Where the values of the real property to be acquired by the Company from a related party in conclusion of the evaluation pursuant to paragraphs 3.1 and 3.2 of this Article respectively both are lower than the proposed transaction price, paragraph 3.5 of this Article shall apply except in the following cases where objective evidence has been produced and workable opinion has been sought for from the professional appraiser and a certified public on the acceptability of the transaction price:

3.4.1 The related party has acquired or leased a vacant land to build the building and evidence has been produced to prove fulfillment of any of the following:

3.4.1(1) The sum of the value of the vacant land appraised according to the method provided in the preceding Article and the value of the building appraised as the total of the construction cost incurred by the related party plus reasonable construction profit exceeds the actual transaction price. Reasonable construction profit shall be determined based on the average gross margin ratio of the construction department of the related party in the past three years or the gross margin ratio applicable to the construction industry published by the Ministry of Finance, whichever is lower.

3.4.1(2) The terms of the proposed transaction are considered acceptable by reference to the successful transactions of the other floors of the same building or nearby buildings concluded by non-related parties, each of which is of similar square measure to that of the subject real property,

and the term of such successful transactions are considered comparable to the relevant terms of the proposed transaction according to the common practice of real property transaction applicable to the area.

3.4.1(3) The terms of the proposed transaction are considered acceptable by reference to the successful leases of the other floors of the same building or nearby buildings concluded by non-related parties within one year and the terms of such successful leases are considered comparable to the relevant terms of the proposed transaction according to the common practice of real property leases applicable to the area.

3.4.2 The Company has produced evidence to prove the terms of the proposed purchase of real property from a related party are comparable to the terms of successful transactions of nearby real property of similar square measure which were concluded by non-related parties within one year. Successful transaction of nearby real property means the successful transaction of a real property which is located in the same block as the subject real property and within a radius of 500 meters from the subject real property or the posted present value of which is similar to that of the subject real property. Of similar square measure means, basically, the square measure of the real property in the successful transaction concluded by a non-related party being referred to is no less than 50% of the square measure of the subject real property. Within one year means within the year immediately preceding the date of occurrence of the proposed transaction.

3.5 Where the values of the real property to be acquired by the Company from a related party appraised in conclusion of the evaluation pursuant to paragraphs 3.1 and 3.2 of this Article respectively both are lower than the proposed transaction price, the Company shall act in accordance with the following:

3.5.1 The Company shall appropriate an amount equal to the difference between the transaction price and the appraised cost of the real property for special earnings reserve pursuant to the first paragraph of Article 41 of the Securities and Exchange Act, which shall be set aside from distribution or new issues of shares for capital increase. Investors who recognize their investment in the Company on equity method and who are public listed companies shall also appropriate an amount equal to the recognized value according to the shareholding percentage for special earnings reserve pursuant to the first paragraph of Article 41 of the Securities and Exchange Act.

3.5.2 Audit Committee shall act in accordance Article 218 of the Company Act.

3.5.3 The result of handling pursuant to paragraphs 3.5.1 and 3.5.2 of this Article shall be reported to the Shareholders Meeting and the particulars of the transaction shall be disclosed in the relevant annual report and the prospectus.

The special earnings reserve set aside pursuant to the above shall not be applied for use without the prior approval by the Financial Supervisory Commission until the loss from depreciation arising from the purchase of the asset by paying a high premium price is duly recognized, disposed of, appropriately made up, restored or there being no other evidence challenging the acceptability issue.

3.6 Acquisition of real property by the Company from a related party will be forthwith handled in accordance with paragraphs 1 and 2 of this Article in any of the following cases, in which case paragraphs 3.1, 3.2 and 3.3 of this Article regarding evaluation of acceptability of the transaction cost shall not operate:

3.6.1 The related party has acquired the subject real property by inheritance or as a gift.

3.6.2 Over five years has lapsed since the related party signed the contract on acquisition of the subject real property.

3.6.3 The related party acquired the subject real property under a signed joint construction contract with its related party or entrustment of related parties for realty constructions, either on own land or leased land.

3.7 In case there is any evidence proving any irregularity of the proposed transaction for the Company to acquire the subject real property from a related party, the Company shall still act in accordance with paragraph 3.5 of this Article.

Article 10 Procedure for acquisition or disposal of membership

The Company will, in principle, not conduct acquisition or disposal of memberships. Should any such transaction be proposed in the future, the Company shall submit the proposal to the meeting of the Board of Directors for approval and, thereafter, lay down the procedure for the evaluation and operation thereof.

Article 11 Procedure for acquisition or disposal of intangible assets

1. Evaluation and procedure for operation

The acquisition or disposal of intangible assets by the Company shall be conducted in accordance with the Company's internal control policy pertaining to the revolving of fixed assets.

2. Terms of transaction and procedure for approval of transaction

2.1 The terms and transaction price of the proposed acquisition or disposal of intangible assets shall be determined by reference to the evaluation report produced by an expert or the fair market value. Transactions with a transaction value of less than TWD30 million each may proceed with the approval of the President. Transactions with a value of between TWD30 million and TWD60 million may proceed with the approval of the Chairman and shall be reported to the immediate subsequent meeting of the Board of Directors. Transactions with a value of over TWD60 million each must be approved by the Board of Directors in advance.

2.2 Where the acquisition or disposal of assets by the Company in accordance with the relevant procedure or other laws must be approved by the Board of Directors in advance, the opposition expressed by the Director with written record thereof taken or in writing shall be submitted to Audit Committee. On the acquisition or disposal of assets duly proposed to the Board of Directors for approval, opinion expressed by the Independent Director shall be sufficiently considered with their concurrence or dissent expressed and the reason therefore duly recorded in the meeting minutes.

3. Unit in charge of execution of transaction

Upon approval of the proposed acquisition or disposal of membership or intangible assets or other fixed assets pursuant to the preceding paragraph, the responsible department and the Corporate Finance & Management Division shall take charge of the execution thereof.

4. Expert evaluation report on membership or intangible assets

Except the transaction with government agencies, where the transaction value of the acquisition or disposal of membership or intangible asset by the Company amounts to 20% of the paid-in capital of the Company or TWD300 million, the opinion of a certified public accountant on the acceptability of the proposed transaction price should be sought for

before the date the fact happens, who shall act in accordance with the No. 20 Statement of Auditing Standards published by the ARD Foundation.

5. The aforementioned trading value should be calculated according to Article 15.1.5. The period is the one year before the occurrence of the trading. The obtaining of appraisal report or CPA's opinions can be excluded.

Article 12 Procedure for acquisition or disposal of credit claims in financial institutions

The Company will, basically, not conduct the transaction of acquiring or disposing of credit claims in financial institutions. Should any such transaction be proposed in the future, the Company shall submit the proposal to the meeting of the Board of Directors for approval and, thereafter, lay down the procedure for the evaluation and operation thereof.

Article 13 Procedure for acquisition or disposal of financial derivatives

1. Principle and policy of transaction

All derivatives transactions by the Company shall basically be conducted with a view to prevent possible risks arising from business operation of the Company. The responsible personnel of a derivatives transaction shall conduct a detailed analysis of the possible risks in advance, conduct the hedge transaction with care, and get hold of all possible risks that may arise from the transaction.

1.1 Derivatives transactions:

Derivatives means the transaction contracts the value of which is derived from assets, interest rates, exchange rates, indices or the interests in any of the above (such as forward contracts, options contracts, futures, swap and compound contracts of a combination of the above). For purposes of this Procedure, forward contracts exclude insurance contracts, performance guaranty, after-sale services warranty, long-term leases and long-term purchase (sale) contracts.

1.2 Operational or hedging strategy:

The Company's demand for foreign currency to meet the calls for purchases of imported materials and equipment shall be hedged by buying forward foreign exchange and receipts of foreign currency from exports shall be hedged by selling forward foreign exchange.

1.3 Division of powers and duties:

1.3.1 Only the personnel approved by the Chairman authorized to do so by the relevant meeting of the Board of Directors may conduct foreign exchange transactions. Necessary increase or reduction in the staff of such personnel, if any, must also be approved by the Chairman.

1.3.2 The accounting department shall be responsible for administering foreign exchange transactions.

1.3.3 The relevant financial managerial office shall act as the supervisor of the foreign exchange transaction within the scope of their power of authority with respect to the transaction amount.

1.4 Key points of performance evaluation:

1.4.1 Transaction part shall be evaluated according to the accumulated realized amount of net foreign exchange gain (loss) of the year.

1.4.2 Non-transaction part shall be evaluated according to their compliance with the relevant policy and rules for operation of forward foreign exchange of the Company.

1.5 Total contractual transaction amount

Total contractual transaction amount shall be the Company's total authorized transaction amount on forward foreign exchange contracts.

1.5.1 Limit of hedging transactions: The total hedging transaction amount of the Company as a whole shall basically be determined according to the Company's call for imports and exports both for a term of six month of the year. Any position call beyond the 6-month term must be approved by the Chairman authorized to do so by the relevant meeting of the Board of Directors.

1.5.2 Limit of non-hedging transactions: The total non-hedging transaction amount of the Company as a whole shall be within the range of the amount equal to 15% of the Company's call for imports and exports both for a term of six month of the year.

1.5.3 The maximum uncovered position of the Company as a whole shall not exceed 150% of the Company's call for imports and exports both for a term of six month of the year and the sum of the position of hedging transactions and that of non-hedging transactions combined shall not exceed the maximum uncovered position of the Company.

1.6 Limits on total loss from all transaction contracts and the loss from each individual transaction contract

The uncovered position of derivative transactions by the Company as a whole shall be calculated according to the closing price of TWD at the current day on and that of the New York foreign exchange market of the previous day. When the loss incurred amounts to TWD2.5 million, 25% thereof shall be covered and the trader shall be instructed to suspend all transactions. When the loss incurred amounts to TWD5 million, 50% of the uncovered position must be covered with a relevant report submitted to the President. If the loss incurred amounts to TWD10 million, all positions shall be closed with a relevant report submitted to the President and the Chairman.

Please see the Trader Authorization and Stop-Loss Points Schedule attached hereto (1, 2) for the stop-loss point applicable to foreign exchange transactions. Each trader shall act according to the stop-loss point for each individual transaction and for accumulated loss respectively which are fixed according to the limit on his/her authorization and the foreign currency traded. The trader will be suspended from conducting transactions for a term of three months on his/her initial breach in conducting closing of position at the relevant stop-loss point and he/she will be disqualified on a second non-compliance, in which case, he/she will be reported to the President for determining the disciplinary action against him/her.

2. Risk management

2.1 Credit risk management:

In consideration of the changing market, risks management in connection with the operation of derivatives transactions shall be administered in accordance with the following principles:

The transaction counterparts shall mainly be well known local or foreign financial institutions.

The commodity transacted shall be among those offered by local or foreign financial institutions.

The total uncovered transaction amount with respect to the same transaction counterpart shall not exceed 10% of the total authorized amount except as otherwise approved by the President.

2.2 Market risk management:

The operation shall focus on the public foreign exchange transaction provided by banks without regard to the futures market.

2.3 Liquidity risk management:

In consideration of liquidity, the derivative commodities transacted by the Company shall be selected from among those with high liquidity (i.e. those which may be covered at any time on the market). The financial institution entrusted to conduct the transaction must be able to get hold of the relevant information and is able to conduct transactions on any market at any time.

2.4 Cash flow risk management:

In consideration of stable working capital, the Company shall basically conduct derivatives transactions by using self-owned fund and take into account the capital calls forecast for the next three months when deciding the amount to be applied to conduct derivatives transactions.

2.5 Operational risk management

The transactions shall be conducted within the relevant authorized amount in full compliance with the procedure for operation and put under internal control to prevent operational risks. The personnel conducting derivatives must not act concurrently as the personnel responsible for making the relevant verification and delivery and vice versa.

The personnel responsible for weighing, monitoring and controlling the risks and the personnel provided in the preceding subparagraph must be serving in different departments of the Company and they must report to the Board of Directors or a high-ranking managerial officer who is not in charge of the transaction or decision-making on the positions to be taken.

The positions taken by derivatives transaction shall be evaluated at least once a week except hedging transactions which have been conducted to meet business needs and which shall be evaluated twice a month. The evaluation report shall be submitted to the relevant high-ranking managerial officer authorized to do so by the Board of Directors.

2.6 Commodities risk management

Internal trading personnel must have complete and accurate special knowledge with respect to derivatives and shall request the bank for full disclosure of risks in order to prevent the risk of utilizing inappropriate commodities.

2.7 Legal risk management

In consideration of prevention of possible legal risks, documents to be entered into by and between the Company and financial institutions must be examined in advance by personnel with special knowledge in foreign exchange and the legal compliance personnel or by the legal counsel.

3. Internal audit policy

3.1 Internal audit personnel must conduct periodical audit of the acceptability of the internal control with respect to derivatives transactions and, on a monthly basis, audit the compliance with the procedure for derivatives transactions by the departments responsible for the transactions and evaluate the transaction cycle, produce the relevant internal reports, and give a written notice of any material breach to the Audit Committee.

3.2 The internal audit personnel shall, by the end of February the following year, submit the internal audit report and the annual internal audit inspection report to the Financial Supervisory Commission and report the correction of irregularities (if any) to the Financial Supervisory Commission by the end of May the following year.

4. Periodical evaluation

- 4.1 The Board of Directors shall authorize high-ranking managerial officers to supervise and evaluate, on a regular basis, the compliance of the procedure for derivatives transactions and the acceptability limits on risks, as well as report to the Board of Directors upon finding of any irregularity in the market value evaluation report (e.g. a position taken having exceeded the limit of loss), and take proper measures in response.
- 4.2 The positions taken by derivatives transaction shall be evaluated at least once a week except hedging transactions which have been conducted to meet business needs and which shall be evaluated twice a month. The evaluation report shall be submitted to the relevant high-ranking managerial officer authorized by the Board of Directors.

5. Principles of supervision and control of derivatives transactions by the Board of Directors

- 5.1 The Board of Directors shall appoint high-ranking managerial officers to oversee and control the risks from derivatives transactions from time to time according to the following principles:
 - 5.1.1 Suitability of the current risk management measures and the compliance of the Company's procedure for derivatives transactions should be evaluated on a regular basis.
 - 5.1.2 Necessary measures shall be taken upon finding of any irregularity with respect to the transaction and profit (loss) from the transaction. Such finding must be reported to the Board of Directors immediately and the relevant opinion expressed by the Independent Director shall be heard at the relevant meeting.
- 5.2 Performance consistency of derivatives transactions with the relevant operation policy and the acceptability limit of risks must be evaluated on a regular basis.
- 5.3 Where the relevant personnel have been authorized pursuant to the procedure for derivatives transactions to handle the transaction, the transaction shall be reported to the Board of Directors up to date after the transaction.
- 5.4 The Company shall maintain a derivatives transactions record book in which the type, value, date of the relevant resolution adopted by the meeting of the Board of Directors, and the matters subject to evaluation provided in paragraphs 4.2, 5.1 and 5.2 of this Article of each transaction shall be indicated in detail for reference.

Article 14 Procedure for handling merger, spin-off, acquisition or assignment of shares

1. Evaluation and procedure of operation

- 1.1 The Company shall, for the purpose of a merger, spin-off, acquisition or assignment of shares, call a meeting of the legal counsel, certified public accountant and underwriter for joint discussion to determine the timetable of the legal proceeding and organize a special group to execute the legal proceeding. The Company shall also seek the opinion of the certified public accountant, legal counsel or underwriter with respect to the acceptability of the proposed swap ratio, acquisition price or, cash or other property to be distributed to the shareholders and submit the same to the meeting of the Board of Directors for approval. The company need not obtain reasonable opinions from experts, as mentioned above, for acquiring subsidiaries 100% owned, in terms of issued shares or paid-in capital, by the company directly or indirectly or merger of subsidiaries 100% owned, in terms of issued shares or paid-in capital, by the company directly.
- 1.2 The Company shall, prior to the convention of the relevant Shareholders Meeting, produce the document on disclosure of the material agreement and relevant matters on the proposed merge, spin-off or acquisition and submit such document to all shareholders together with the expert opinion provided in paragraph 1.1 of this Article and the meeting minutes as reference for the shareholders to determine to or not to approve the proposed merger, spin-off or acquisition, except in case where a relevant

resolution adopted by the Shareholders Meeting is not legally required. If any of the participant companies is unable to convene the meeting, or to obtain the resolution of its shareholders meeting on the proposed merger, spin-off or acquisition because the number of shares represented at the meeting fell short of the quorum for the meeting or the proposal is denied by the meeting, the participant companies shall promptly give a public explanation of the cause, the subsequent handling and reschedule a date for convening the shareholders meeting.

2. Other matters for attention

2.1 Date of convention of the relevant meeting of the Board of Directors:

Except as otherwise provided by law or there being any special factor which has been approved by the FSC, companies participating in the merger, spin-off or acquisition shall convene the meeting of the board of directors and the shareholders meeting on the same day to adopt the resolution on the matters in connection with the proposed merger, spin-off or acquisition. Except as otherwise provided by law or there being any special factor which has been approved by the Financial Supervisory Commission, companies participating in the assignment of shares shall convene the meeting of the board of directors on the same day.

Companies participating in the merger, spin-off, acquisition or assignment of shares whose stocks are traded on the stock exchange or the over-the-counter market shall maintain complete written record on the following materials and keep the same for a term of five years.

2.1.1 Basic personal information: including all personnel who participate in the execution of the merger, spin-off, acquisition or assignment of shares before the relevant information was publicly released, including their titles, names, and identification card (or passport) number.

2.1.2 Dates of important matters including, among others, execution of the relevant memorandum of intent (MOI) or memorandum of understanding (MOU), engagement of financial or legal counsel, execution of the relevant contract(s) and the date of the relevant meeting of the Board of Directors.

2.1.3 Important documents and meeting records on, among others, the proposed merger, spin-off, acquisition or assignment of shares, and the relevant MOI or MOU, important contract(s) and minutes of the relevant meeting of the Board of Directors.

Companies participating in the merger, spin-off, acquisition or assignment of shares, whose stocks are traded on the stock exchange or the over-the-counter market shall each, within two days from the date following the adoption of the relevant resolution by the meeting of their Board of Directors, make a report online of the information provided in subparagraphs 1 and 2 of the preceding paragraph in the required form and substance to the Financial Supervisory Commission.

Companies participating in the merger, spin-off, acquisition or assignment of shares, whose stocks are traded on the stock exchange or the over-the-counter market shall enter into the relevant agreement with companies participating in the merger, spin-off, acquisition or assignment of shares, whose stocks are not traded on the stock exchange or the over-the-counter market (if any) and make the report provided in the two preceding paragraphs.

2.2 Prior non-disclosure agreement:

All persons who participate in or have knowledge about the Company's project of merger, spin-off, acquisition or assignment of shares shall each sign a non-disclosure agreement to undertake that they will not externally disclose the project before the

Company makes the relevant public disclosure and that they will not buy or sell any stocks or equity securities of any company involved in the proposed merger, spin-off, acquisition or assignment of shares, either in their own name or using any other person's name to do so.

2.3 Determination and change of the proposed swap ratio or acquisition price:

Each participant company shall seek the opinion of the certified public accountant, legal counsel or underwriter with respect to the acceptability of the proposed swap ratio, acquisition price, or cash or other property to be distributed to shareholders before the meetings of Board of Directors, then submit the same to the Shareholders Meeting. Basically, neither the swap ratio nor the acquisition price shall be changed except in case of the conditions for a change provided in the contract (if any) and such conditions have been publicly disclosed. The swap ratio or acquisition price may be changed in the event of any of the following:

2.3.1 The subject securities are issued for capital increase, issuance of convertible bonds, stock grant, and issuance of corporate bond with stock option, issuance of preferred shares with stock option, issuance of share warrant certificates or other equity securities.

2.3.2 Any of the participant companies has done any act that may affect the financial operation of the company such as disposal of its material assets.

2.3.3 The shareholders' equity or securities price of any of the participant companies has been affected by, among others, a major disaster or material technical change.

2.3.4 Any of the participant companies has adjusted legal buy-back of treasury stocks.

2.3.5 The principal participant companies or the number of participant companies has changed.

2.3.6 The contract has provided the other conditions for changes and such conditions have been publicly disclosed.

2.4 Provision of the contract:

The contract on the proposed merger, spin-off, acquisition or assignment of shares shall provide the matters set forth below, except those in accordance with the provision of Article 317-1 of the Company Act and Article 22 of the Business Merger Act:

2.4.1 Handling of defaults.

2.4.2 The procedure for issuance of equity securities or buy-back of treasury shares adopted by the company to extinct as a result of the proposed merger or to spin off.

2.4.3 The amount of treasury stocks the participant company may legally buy back after the swap ratio record date and such company's procedure therefore.

2.4.4 Ways to handle matters arising from a change of the principal participant company or the number of participant companies.

2.4.5 The schedule for executing the project and the scheduled date of completion.

2.4.6 Procedure for handling relevant matters and the date to duly convene the relevant Shareholders Meeting in case the project is not completed as scheduled.

2.5 Change of the participant companies: Where, after any of the companies participating in the proposed merger, spin-off, acquisition or assignment of shares has publicly disclosed the information, there is another company to participate in the proposed merger, spin-off, acquisition or assignment of shares, the original participant companies each shall re-new all relevant proceedings or legal acts except in the case of there being reduction in the number of the original participant companies and the Board of Directors is authorized to act accordingly by the resolution of the Shareholders Meeting.

- 2.6 The Company shall enter into an agreement with the participant company which is not a public company and set the date to convene the relevant meeting of the Board of Directors, execute the prior non-disclosure agreement, and act accordingly in consideration of the change of the participant companies in accordance with paragraphs 2.1, 2.2 and 2.5 of this Article.

Article 15 Procedure for public disclosure reports

1. Matters which should be reported for public disclosure and the relevant standards

- 1.1 Acquisition of real property, or disposal of properties with, related parties, or acquisition of non-property assets from, or disposal of non-property assets with, related parties with the trading value exceeding 20% of the company's paid-in capital or 10% of total assets, or NT\$300 million. However, trading in government bonds or bonds with repurchase and resale agreements, or subscription or repurchase of money market funds by domestic securities investment trust enterprises and subscription or redemption of domestic money-market funds issued by Securities Investment Trust Enterprises are not included.
- 1.2 Merger, spin-off, acquisition or assignment of shares.
- 1.3 The amount of loss incurred from the derivatives transaction exceeds the limit on loss from all contracts or the relevant individual contract provided in the relevant handling procedure.
- 1.4 The subject asset to be acquired or disposed of is equipment for business use and the transaction counterpart is a non-related party and the transaction value is above TWD 1 billion.
- 1.5 The subject real property is to be acquired or disposed of by the construction business division of the Company for construction use and the transaction counterpart is a non-related party and the transaction value is above TWD500 million.
- 1.6 The subject real property to be acquired is a building is to be constructed on a self-owned land, leased land, jointly constructed and shared by units, jointly constructed and shared by percentage, jointly constructed and sold by units and the anticipated transaction value is above TWD500 million.
- 1.7 Assets transactions or disposals of credit claims in financial institutions or investment in PRC other than those provided in the preceding six subparagraphs, the transaction value of which amounts to 20% of the paid-in capital of the Company or TWD300 million each, except for these transactions:
 - 1.7.1 The transaction is the purchase or sale of government bonds.
 - 1.7.2 Professional investors, who trade in securities at domestic or overseas stock exchanges or business outlets of securities firms, or subscribe to common corporate bonds and common financial bonds without stock right on the domestic primary market, security brokers who subscribe to securities out of the need for underwriting business or in the capacity as a assisting or recommending security firm for share listing on the Emerging Stock Market, according to the regulations of the ROC Greta Market (over-the-counter market)
 - 1.7.3 The subject asset to be acquired or disposed of is bond with re-purchase, resale agreements. Subscription to and redemption of domestic money-market funds issued by Securities Investment Trust Enterprises.
- 1.8 The transaction value provided in previous paragraph 1.8 above shall be calculated as follows, where within one year means within the year immediately preceding the date of occurrence of the proposed transaction, excluding the items which have been publicly disclosed.
 - 1.8.1 The value of each transaction.

- 1.8.2 The total value of the property of the same nature acquired from or transferred to the same transaction counterpart within one year.
 - 1.8.3 The total value of the real property under the same development project acquired or disposed of within one year (the sum acquired and the sum disposed of shall be calculated separately).
 - 1.8.4 The total value of the same specific securities acquired or disposed of within one year (the sum acquired and the sum disposed of shall be calculated separately).
- 1.9 The calculation for 10% of total assets, as referred in the handling procedure, is based on the sum of assets included in recent alone-basis financial reports, formulated according to the "Regulations Governing the Preparation of Financial. For stocks without par value or with par value other than NT\$10, the calculation of 20% of paid-in capital for transaction value, as referred in the procedure, is based on 10% of the owner's equity of the parent firm.
2. Time period for making public disclosure
If the acquisition or disposal of assets involves any item which should be published pursuant to paragraph 1 of this Article and the transaction value meets the public disclosure standards provided in this Article, the Company shall make a public disclosure on such acquisition or disposal of assets within two days following the date of occurrence of such transaction.
 3. Procedure for making public disclosure
 - 3.1 The Company shall cause the relevant information publicly disclosed on the website designated by the Financial Supervisory Commission.
 - 3.2 The Company shall on a monthly basis make a report on the derivatives transactions conducted in the month by itself and its local subsidiaries which are not public companies on the website designated by the FSC in the form and substance required by the tenth day the following month.
 - 3.3 The Company shall renew the entire public disclosure report in case the public disclosure report made contains any error or omission within 2 days counting inclusively from the date of occurrence of the event.
 - 3.4 The Company shall keep all agreements, meeting minutes, reference record book, appraisal report, opinions of the certified public account, legal counsel or underwriter in the Company relating to the acquisition or disposal of any asset for a term of at least five years except as otherwise provided by law.
 - 3.5 In the event of any of the following after submitting the public disclosure report in accordance with the preceding paragraph, the Company shall, within two days following the occurrence of such event, publicly disclose the relevant information on the website designated by the Financial Supervisory Commission:
 - 3.5.1 There is change to the relevant original signed agreement(s) or the original signed agreement(s) is terminated or rescinded.
 - 3.5.2 The proposed merger, spin-off, acquisition or assignment of shares is not completed as scheduled under the relevant agreement.
 - 3.5.3 There are changes for the original reporting.

Article 16 The Company shall cause all subsidiaries to act in accordance with the following:

1. The subsidiaries of the Company each shall prescribe their own rules for acquisition or disposal of assets pursuant to the Regulations Governing the Acquisition or Disposal of Assets by Public Companies.
2. For a subsidiary of the Company which is not a public company, if the acquisition or disposal of asset by such subsidiary meets the public disclosure standards provided in the

paragraph 1 of Article 15, the Company shall make the relevant public disclosure report for such subsidiary.

3. The “amounts to 20% of the paid-in capital of the company or 10% of the total assets” provided in the public disclosure standards applicable to the subsidiaries of the Company means the paid-in capital of the Company.

Article 17 Penalty

Any employee of the Company who has handled acquisition or disposal of asset for the Company in breach of these Rules shall be subject to periodical evaluation according to the personnel administration rules and employees handbook and punished according to the degree of severity of the breach.

Article 18 Implementation and amendment

Subject to the approval by the meeting of the Board of Directors, the Board of Directors shall submit the Procedure for Acquisition or Disposal of Assets and all subsequent amendment thereto to Audit Committee and to the Shareholders Meeting for approval. Opposition expressed by the Director with written record thereof taken or in writing shall be submitted to Audit Committee. Opinion expressed by the Independent Director (if any) at the relevant meeting of the Board of Directors on the Procedure for Acquisition or Disposal of Assets shall be sufficiently considered. Opposition or qualified opinion expressed by Independent Directors shall be clearly indicated in the minutes of the Board of Directors.

Article 19

This Procedure was established on 11 August 1989 and subsequently amended as follows: the first amendment on 30 September 1991; the second amendment on 26 June 1995; the third amendment on 28 April 1997; the fourth amendment on 28 October 1999; the fifth amendment on 6 June 2003; the sixth amendment on 13 June 2007; the seventh amendment on 15 June 2012. the eighth amendment on 21 June 2013. the ninth amendment on 23 June 2014. and the tenth amendment on 16 June 2017.

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 16 2019 ~ June 14 2019

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	20180615	3yrs	30,341,364	1.52%	30,341,364	1.52%
Managing Director	Tong Ho Gloabl Investment Co., Ltd Representative: Chao-Kai, Liu	20180615	3yrs	2,240,262	0.11%	2,240,262	0.11%
Managing Director	Cheng-Tsung, Huang	20180615	3yrs	15,279,849	0.76%	15,279,849	0.76%
Managing Director	Creative Sensor Inc. Representative: Yu-Ren, Huang	20180615	3yrs	10,000,000	0.50%	10,000,000	0.50%
Managing & Independent Director	Wei-Chi, Liu	20180615	3yrs	0	0	0	0
Independent Director	Jin-Fu, Chang	20180615	3yrs	0	0	0	0
Independent Director	Ting-Wong, Cheng	20180615	3yrs	0	0	0	0
Director	Mao-Hsiung, Huang	20180615	3yrs	18,486,633	0.92%	18,486,633	0.92%
Director	Yinge Int. Inv. Co.,Ltd Representative: Po-chih,Huang	20180615	3yrs	10,079,600	0.50%	14,454,698	0.72%
Director	Hung Shun Investment Co., Ltd Representative: Tzu-Yi, Kuo	20180615	3yrs	304,000	0.02%	604,000	0.03%
Director	Tong-An Investment Co., Ltd Representative: Shang-Wei, Kao	20180615	3yrs	19,540,052	0.98%	19,540,052	0.98%
Director	Kuang Yuan Industrial Co., Ltd. Representative: Shih-Chien, Yang	20180615	3yrs	22,033,919	1.10%	22,033,919	1.10%
Director	Tong Kuang Investment Co., Ltd. Representative: Hong-Hsiang, Lin	20180615	3yrs	30,341,364	1.52%	30,341,364	1.52%
Director	Yubantec Co., Ltd. Representative: Tung-Hai, Kao	20180615	3yrs	13,200,000	0.66%	13,200,000	0.66%
Director	Yung-Hsiang, Chang	20180615	3yrs	0	0.00%	600,000	0.03%
Total number of shares held by all Directors()				141,505,679	7.07%	146,780,777	7.33%

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 8-17, 2019, 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: Not applicable.