

Stock Code: 1504



TECO ELECTRIC & MACHINERY CO., LTD

GENERAL SHAREHOLDERS MEETING 2018

JUNE 15, 2018

AGENDA

Time: 09:00am, June 15, 2018 (Friday)

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

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

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TECO Electric & Machinery Co., Ltd.

General Shareholders Meeting 2018

Meeting Procedure

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

TECO Electric & Machinery Co., Ltd.

General Shareholders Meeting 2018

Agenda

Time: 09:00am, June 15, 2018(Friday)

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

1. Meeting called to order

2. Addresses by the Chairman.

3. Reports

3.1 Business Report for 2017

3.2 Inspection Report of Audit Committee for 2017

3.3 Remuneration distribution to employees and directors for 2017

3.4 Issuance of 1st Unsecured Corporate Bonds

3.5 Amendment to Corporate Governance Best Practice Principles

4. Ratification

4.1 Business Report and Financial Statements for 2017

4.2 Distribution of 2017 Profits

5. Election

5.1 Election of the 25th term Board of Directors

※ 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. Discussion

6.1 Plan to remove the restrictions on non-competition obligation of the 25th term of Board of Directors

7. Extempore motion(s)

8. Meeting adjourned

Reports

1. Business report for 2017 (pages 11-13)
2. Inspection Report of Audit Committee for 2017 (page 14)
3. Remuneration distribution to employees and directors for 2017

Explanatory note:

In 2017, income before tax is NT\$ 3,304,468 thousands, and remuneration to employees is proposed to be NT\$ 250,553 thousands, whilst remuneration to directors is proposed to be NT\$ 111,357 thousands. The remuneration would be distributed in cash.

4. Issuance of 1st Unsecured Corporate Bonds in 2017 (page 42)
5. Amendment to Corporate Governance Best Practice Principles (page 69-94)

Ratification

Proposal 1:

Business Report and Financial Statements for 2017 (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 2017, both of which were subsequently inspected by Audit Committee and are hereby submitted for ratification.
2. Please see pages 11-13 for the business report and pages 15-40 for the Auditors' Report and the Financial Statements.

Proposal 2:

Distribution of 2017 profits (proposed by the board of directors)

Explanatory note:

1. The board of directors plans to appropriate NT\$1,722,315,882 from distributable earnings in 2017 for dividend payout, capable of paying NT\$0.86 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 41 for the detailed profit distribution plan.

Election

Proposal 1

Election of the 25th term Board of Directors (proposed by the board of directors)

Explanatory note:

1. The term of the company's 24th board of directors will expire on June 10, 2018.
The duty of board of directors is extended to the office of newly elected directors, according to Article 195 of the Company Law.
2. According to the Articles of Incorporation, the board of directors has 15 seats, with a three-year term, which can be continued via election. Three seats are reserved for independent directors, who together form the Audit committee. Election of directors shall adopt nomination system and is also carried out according to article 192-1 of the Company Law. Term of period of newly elected directors is starting from June 15, 2018 to June 14, 2022.
3. Please see P.43-45 of this agenda for the List of Candidates of Directors, their shareholding and educational background.
4. Please see P.67-68 of this agenda for "Rules Governing Election of Directors".

Discussion

Proposal 1:

Plan to remove non-competition obligation on 25th board of directors (proposed by the board of directors)

Explanatory note:

1. Article 209 of Company Law stipulates that “For behaviors of their own or others within the company’s business scope, the Directors shall explain their importance of their conducts during the Shareholders’ Meeting and obtain its approval.”
2. Some newly elected members of the 25th board of directors (including Independent Directors) have invested in or are managing other companies with identical or similar business scope of the company, in addition to being directors of those companies. The board of directors plans to remove the non-competition obligation on newly elected directors, pending approval of shareholders’ meeting, according to article 209 of the Company Law.
3. Please see P.46-52 for planning to remove non-competition obligation on 25th board of directors.

Extempore Motion(s)

Meeting Adjourned

Attachments

1. Business Report for 2017 on pages 11-13.
2. Inspection Report of Audit Committee for 2017 on page 14.
3. Financial Statements and Auditors' Report for 2017 on pages 15-40.
4. Distribution of 2017 Profits on page 41.
5. Issuance of Unsecured Corporate Bonds on page 42
6. List of Candidates of Directors on page 43-45.
7. Plan to remove the restrictions on non-competition obligation of the 25th term of Board of Directors on page 46-52.

Business Report

Dear Shareholders,

Looking back, the global economy continued to expand steadily in 2017, when Taiwan's economy also scored 2.8% growth, double 2016's 1.4%. However, businesses were impacted by a number of adverse factors, including rising raw-materials and labor costs and exchange-rate swings on the global financial market. Still, the company managed to stage a good performance in sales growth and profits, minimizing the effect of adverse factors via gains and breakthrough in energy conservation, emission reduction, smart application, and automation, thanks to continuous quest for technology innovation, constant upgrading of automation and intelligent production equipment/technology and increase of installation rate.

A. Review of Business Performance in 2017

Analysis of the company's business performance in 2017 follows:

a. Parent Company

Unit: NT\$ thousand

	2017	2016	Change
Sales revenue	21,301,208	20,274,047	5.07%
Operating profit	1,507,068	1,615,152	-6.69%
Profit for the year	3,092,358	3,481,480	-11.18%

As for business turnover, sales of electromechanical products grew, thanks to the effects of a number of policies, including organizational adjustment separating sales and production for heavy-electric, green-energy, and electric-control divisions, and intensified integrated sales of electromechanical products, such as foray into the North American market for electric-control products, intensified cultivation of small-motor products, shipment of big motors to Australia, and expanded market share in mainland China. Sales of power division grew significantly, thanks to influx of engineering orders. Home-appliances division, though, had a lackluster performance, due to weak domestic demands and the fire at the Kuanyin plant, which dampened refrigerator sales. The company's overall sales, however, still grew by 5% in 2017.

As for operating profit, despite international price hike of raw materials and exchange-rate swing, gross margin scored slight decline of 1.8%, thanks to higher production efficiency via investments in automated and intelligent equipment and improved product quality and quality via design change. Operating expense dropped by near NT\$50 million, due to improved flow and rationalization of expenses.

Concerning non-business income/outlay, investment returns decreased by NT\$110 million, due to the adverse effect of rising raw-materials cost and renminbi exchange rate on the profit of the mainland Chinese subsidiary and the one-off outlay for rationalization of the European subsidiary. Overall speaking, the company's current

net profit declined by 11%.

As for R&D, the company successfully developed a number of new products, including high power density general induction motor, premium breaker motor, apparatus of 2000 amp electric brush, IE3 Exd motor, NEMA Premium large horse power motor, series of E510s IPP, series of JSDG2S, smart grid, CSPF new efficient air-conditioner, new efficient fridge, series of multi tube VRF and R32 refrigerant. The company won Taiwan Excellent Award for 17 items and 65 domestic and foreign patents.

b. Consolidated Financial Statements

Unit: NT\$ thousand

	2017	2016	Change
Sales revenue	50,942,521	49,923,836	2.04%
Operating profit	3,496,200	4,189,481	-16.55%
Profit for the year	3,544,248	4,036,998	-12.21%
Total comprehensive income for the year	4,326,037	4,360,290	-0.79%

In the aspect of consolidated business turnover, in addition to Taiwan, North America, Australia, and mainland China where sales grew further, significant gains were made in tapping the markets of India and Vietnam, sustaining overall sales growth. Operating expense declined by near NT\$240 million, thanks to rationalization of outlays. Operating profit still tumbled by 16%, due to raw-materials price hike, weak U.S. dollar, and intensified competition. Overall speaking, consolidated current net profit slipped by only 0.79%.

B. Outline of 2017 Business Plan

Major forecast bodies predict that the global economy will recover steadily in 2018 and the Directorate General of Budget, Accounting, and Statistics, under the Executive Yuan, has revised upward its forecast growth for Taiwan's economy to 2.42%. In addition, budgets for public constructions and major investment projects of state enterprises, plus private participation in public constructions, are conducive to sales growth of electromechanical and other divisions. However, continuing trend of raw-materials price hike and weak U.S. dollar will still pose a major challenge to the company's operation.

Looking ahead, in line with the vision of "energy conservation, emission reduction, smart application, and automation," the company will focus on new products, new applications, and new markets in 2018. Benefitting from surge of global energy-conserving environmental awareness, green-energy products are expected to score double-digit sales growth, thanks to development of high-efficiency motors, continuing improvement of frequency converters, and contribution of new high-performance home appliances. In addition, completion of the company's deployment in engineering projects related to offshore wind power and PV power, electric-car motors, railway constructions under the auspices of the government's

"Forward-Looking Infrastructure Development Program," and ship motors will become new growth driver in the aspects of energy conservation and emission reduction. Pertaining to smart application and automation, development of MHM health management system for electromechanical equipment is nearing completion, for which there is strong demands on the market. Meanwhile, new digital services integrating electromechanical technology and big-data analysis has begun to generate revenue, server sales have expanded via cooperation with machinery plants, and the introduction of service-oriented robots and the development of new markets for speed reducers are expected to result in double-digit growth for related revenue. Industrial big-data analysis has been coupled with AI machine learning in the installation of IoT at factories, facilitating improvement of the flow of major processes and enhancing production efficiency. Efforts will be doubled for tapping the markets of Vietnam, the Philippines, and India, so as to consolidate overseas presence and expand global deployment.

The company has been granted golden award for "Taiwan Top 50 Corporate Sustainability Report" for four years running, on top of "corporate citizen award" granted by Commonwealth magazine. As a driver for the sustainable development of the electromechanical industry, the company will continue adhering to the integrity-oriented management concept and being dedicated to the development of smart environment-friendly products, in line with the global current of energy conservation and carbon abatement, in addition to marching towards the goal of becoming a corporate guidepost of the world, so as to create maximum benefits for shareholders and provide ample giveback to shareholders and investing public, in return to 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 2017 (include consolidated financial statements), the business report and proposed profit distribution plan prepared and proposed by the Board of Directors, with the financial statements having been audited and certified by Pricewaterhouse Coopers, hereby submit this report pursuant to Article 14 of Securities and Exchange Act and Article 219 of the Company Act.

To

General Shareholders Meeting 2018

TECO Electric & Machinery Co., Ltd

Audit Committee Convener : Ting-Wong, Cheng

Date: March 26, 2018

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, 2017 and 2016, 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 reports of other independent accountants, 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, 2017 and 2016, and its financial performance and cash flows for the years then ended, in conformity with the “Rules Governing the Preparation of Financial Statements 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 Parent Company Only 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. 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

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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 motor division

Description

Please refer to Note 4(32) of the parent company only financial statements for the accounting policies on revenue recognition. Motor division handles the manufacturing and sales of various machinery, equipment and motors. The clients of motor division are from China, America, South-East Asia and Europe and the sales terms vary for different clients, which is the same situation in the subsidiaries (listed as investments accounted for under equity method). Thus, we consider the revenue recognition of motor division as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Checked the internal controls over sales revenue recognition of motor division to assess the effectiveness of the internal control process.
2. Selected samples of export sales revenue transactions of motor division to determine whether the export sales recognized actually existed.

Investments accounted for under equity method-impairment assessment of premium generated from the acquisition of subsidiaries

Description

Motovario S.p.A. is located in Italy, and is engaged in the manufacturing and sales of gear reducers and other power transfer equipment. Motovario S.p.A. is considered a minimum cash-generating unit of Teco Electric & Machinery Co., Ltd.. As of December 31, 2017, the balance of investments accounted for under equity method was \$5,262,494,000. Please refer to Note 4(19) of the parent company only financial statements for the accounting policy on the impairment assessment of goodwill and Note 5(2) for the uncertainty of the accounting estimate regarding impairment of investment in premium. TECO

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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 five years. The discount rates and financial projections relating to the future operations of Motovario S.p.A. are subject to management judgment 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-impairment assessment of premium generated from the acquisition of subsidiaries as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Assessed whether the valuation model used in the entity's industry and environment is appropriate.
2. Assessed whether the future cash flows of valuation model is in accordance with Motovario S.p.A's operation plan, and reviewed the results of the operation plan prepared by management in the past.
3. Evaluated the reasonableness of major assumptions (including the expected growth rate and discount rate) used in the model.
4. Assessed the sensitivity analysis of management's future cash flows for the above significant assumptions and confirmed whether management has adequately addressed the possible impact of the estimated uncertainty of the impairment assessment.

Other matter – audit of other independent accountants

As described in Note 6(8) to the parent company only financial statements, we did not audit the financial statements of certain investee companies accounted for under the equity method. These investments amounted to \$4,043,134,000 and \$ 4,037,283,000 both constituting 6% of the related total assets as of December 31, 2017 and 2016, respectively, and the comprehensive income amounting to \$89,767,000 and \$ 60,193,000 both constituting 2% of the total comprehensive income for the years ended then ended. The financial statements of these investee companies were audited by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts

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included in these financial statements and the information disclosed in Note 13 are based solely on the audits of the other independent accountants.

Responsibilities of management and the Board of Directors 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.

The Board of Directors, including 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 an auditor’s 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 judgment 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

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

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

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

We also provide the Board of Directors 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 the Board of Directors, 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 auditor's 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 26, 2018

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
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1) and 8	\$ 887,185	1	\$ 760,582	1
1110	Financial assets at fair value	6(2)(23)				
	through profit or loss - current		-	-	30,832	-
1150	Notes receivable, net	6(4)(5)	289,239	1	355,078	1
1160	Notes receivable - related parties	7	316,590	1	338,482	-
1170	Accounts receivable, net	6(5)	1,567,629	2	1,941,337	3
1180	Accounts receivable - related parties	6(8) and 7	1,641,299	2	1,474,255	2
1190	Receivables from customers on construction contracts	6(7)	836,338	1	1,112,235	2
1200	Other receivables		143,086	-	58,077	-
1210	Other receivables - related parties	6(8) and 7	1,257,512	2	1,251,437	2
130X	Inventories, net	6(6)	2,612,493	4	2,993,682	4
1410	Prepayments		53,287	-	23,994	-
1470	Other current assets	6(1) and 8	176,650	-	259,162	-
11XX	Total current assets		<u>9,781,308</u>	<u>14</u>	<u>10,599,153</u>	<u>15</u>
Non-current assets						
1523	Available-for-sale financial assets - non-current	6(3)	6,609,115	10	5,723,592	8
1550	Investments accounted for under equity method	6(8) and 7	47,511,672	67	46,963,822	67
1600	Property, plant and equipment	6(9) and 7	3,761,489	5	3,643,481	5
1760	Investment property - net	6(10)	2,167,540	3	2,209,428	3
1840	Deferred income tax assets	6(27)	794,842	1	733,286	1
1900	Other non-current assets	6(11)	148,967	-	311,868	1
15XX	Total non-current assets		<u>60,993,625</u>	<u>86</u>	<u>59,585,477</u>	<u>85</u>
1XXX	Total assets		<u>\$ 70,774,933</u>	<u>100</u>	<u>\$ 70,184,630</u>	<u>100</u>

(Continued)

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

	Liabilities and Equity	Notes	December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
	Current liabilities					
2100	Short-term borrowings	6(12)	\$ 275,784	-	\$ 477,670	1
2120	Financial liabilities at fair value through profit or loss - current	6(13)(23)	2,529	-	-	-
2150	Notes payable		19,630	-	9,141	-
2160	Notes payable - related parties	7	169,104	-	169,722	-
2170	Accounts payable		3,321,297	5	3,406,292	5
2180	Accounts payable - related parties	7	1,275,730	2	1,258,472	2
2190	Payables to customers on construction contracts	6(7)	164,333	-	182,598	-
2200	Other payables	6(29)	2,554,240	4	2,595,906	4
2220	Other payables - related parties	7	711,805	1	376,716	1
2230	Current income tax liabilities	6(27)	548,103	1	297,153	-
2250	Provisions for liabilities - current		83,418	-	71,778	-
2300	Other current liabilities		224,744	-	184,135	-
21XX	Total current liabilities		<u>9,350,717</u>	<u>13</u>	<u>9,029,583</u>	<u>13</u>
	Non-current liabilities					
2530	Corporate bonds payable	6(14)	4,000,000	6	3,000,000	4
2540	Long-term borrowings	6(15)	3,090,794	5	5,690,598	8
2570	Deferred income tax liabilities	6(27)	893,369	1	1,011,652	1
2600	Other non-current liabilities	6(16)	1,610,288	2	1,721,230	3
25XX	Total non-current liabilities		<u>9,594,451</u>	<u>14</u>	<u>11,423,480</u>	<u>16</u>
2XXX	Total liabilities		<u>18,945,168</u>	<u>27</u>	<u>20,453,063</u>	<u>29</u>
	Equity					
	Share capital	6(17)				
3110	Share capital - common stock		20,026,929	28	20,026,929	29
	Capital surplus	6(18)				
3200	Capital surplus		7,628,542	10	7,671,889	10
	Retained earnings	6(19)(27)				
3310	Legal reserve		6,078,219	9	5,730,071	8
3320	Special reserve		3,640,779	5	3,640,779	5
3350	Unappropriated retained earnings		12,750,338	18	11,816,689	17
	Other equity interest	6(20)				
3400	Other equity interest		2,026,521	3	1,166,773	2
3500	Treasury stocks	6(8)(17)	(321,563)	-	(321,563)	-
3XXX	Total equity		<u>51,829,765</u>	<u>73</u>	<u>49,731,567</u>	<u>71</u>
	Significant contingent liabilities and unrecognised contract commitments	9				
	Significant disaster loss	10				
	Significant events after the balance sheet date	6(27) and 11				
3X2X	Total liabilities and equity		<u>\$ 70,774,933</u>	<u>100</u>	<u>\$ 70,184,630</u>	<u>100</u>

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 26, 2018.

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

Items	Notes	Year ended December 31			
		2017		2016	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(21) and 7	\$ 21,301,208	100	\$ 20,274,047	100
5000 Operating costs	6(6)(16)(25)(26) and 7	(16,655,569)	(78)	(15,500,989)	(77)
5900 Net operating margin		4,645,639	22	4,773,058	23
5910 Unrealized profit from sales	7	(653,779)	(3)	(584,325)	(3)
5920 Realized profit from sales		584,325	2	550,823	3
5950 Net operating margin		4,576,185	21	4,739,556	23
6100 Operating expenses	6(16)(25)(26) and 7				
6100 Selling expenses		(1,898,343)	(9)	(1,862,294)	(9)
6200 General and administrative expenses		(536,338)	(2)	(577,374)	(3)
6300 Research and development expenses		(634,436)	(3)	(684,736)	(3)
6000 Total operating expenses		(3,069,117)	(14)	(3,124,404)	(15)
6900 Operating profit		1,507,068	7	1,615,152	8
7000 Non-operating income and expenses					
7010 Other income	6(2)(10)(13)(22) and 7	602,694	3	514,376	3
7020 Other gains and losses	6(3)(23) and 7	(344,071)	(2)	(464,090)	(2)
7050 Finance costs	6(24) and 7	(109,565)	(1)	(127,580)	(1)
7070 Share of profit of subsidiary, associates and joint ventures accounted for under equity method	6(8)				
		1,648,342	8	2,084,566	10
7000 Total non-operating income and expenses		1,797,400	8	2,097,272	10
7900 Profit before income tax		3,304,468	15	3,622,424	18
7950 Income tax expense	6(27)	(212,110)	(1)	(140,944)	(1)
8200 Profit for the year		\$ 3,092,358	14	\$ 3,481,480	17
Other comprehensive income					
Components of other comprehensive income that will not be reclassified to profit or loss					
8311 Other comprehensive income, before tax, actuarial losses on defined benefit plans	6(16)	(\$ 34,361)	-	(\$ 20,771)	-
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		(13,830)	-	(34,295)	-
8310 Components of other comprehensive loss that will not be reclassified to profit or loss		(48,191)	-	(55,066)	-
Components of other comprehensive loss that will be reclassified to profit or loss					
8361 Other comprehensive income, before tax, exchange differences on translation	6(20)	(775,713)	(3)	(1,164,215)	(6)
8362 Other comprehensive income, before tax, available-for-sale financial assets	6(3)(20)	1,133,547	5	1,651,872	8
8380 Share of other comprehensive income of subsidiary, associates and joint ventures accounted for under equity method		433,805	2	(177,296)	(1)
8399 Income tax relating to the components of other comprehensive income	6(20)(27)	68,109	-	99,432	1
8360 Components of other comprehensive (loss) income that will be reclassified to profit or loss		859,748	4	409,793	2
8300 Other comprehensive (loss) income for the year		\$ 811,557	4	\$ 354,727	2
8500 Total comprehensive income for the year		\$ 3,903,915	18	\$ 3,836,207	19
Earnings per share (in dollars)	6(28)				
9750 Basic earnings per share		\$ 1.56		\$ 1.76	
9850 Diluted earnings per share		\$ 1.55		\$ 1.76	

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 26, 2018.

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

		Retained Earnings				Other equity interest				
	Notes	Share capital - common stock	Total capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks	Total equity
<u>2016</u>										
Balance at January 1, 2016		\$ 20,026,929	\$ 7,638,417	\$ 5,412,342	\$ 3,640,779	\$ 10,310,158	\$ 13,030	\$ 743,950	(\$ 321,563)	\$ 47,464,042
Appropriations of 2016 earnings (Note)	6(19)									
Legal reserve		-	-	317,729	-	(317,729)	-	-	-	-
Cash dividends		-	-	-	-	(1,602,154)	-	-	-	(1,602,154)
Effect of changes in the net equity of associates and joint ventures accounted for under the equity method		-	33,472	-	-	-	-	-	-	33,472
Other comprehensive loss for the year	6(20)	-	-	-	-	(20,771)	(1,064,783)	1,651,872	-	566,318
Share of other comprehensive loss of subsidiary, associates and joint venture accounted for under the equity method	6(20)	-	-	-	-	(34,295)	-	(177,296)	-	(211,591)
Profit for the year		-	-	-	-	3,481,480	-	-	-	3,481,480
Balance at December 31, 2016		<u>\$ 20,026,929</u>	<u>\$ 7,671,889</u>	<u>\$ 5,730,071</u>	<u>\$ 3,640,779</u>	<u>\$ 11,816,689</u>	<u>(\$ 1,051,753)</u>	<u>\$ 2,218,526</u>	<u>(\$ 321,563)</u>	<u>\$ 49,731,567</u>
<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
Appropriations of 2017 earnings (Note)	6(19)									
Legal reserve		-	-	348,148	-	(348,148)	-	-	-	-
Cash dividends		-	-	-	-	(1,762,370)	-	-	-	(1,762,370)
Effect of changes in the net equity of associates and joint ventures accounted for under the equity method		-	(43,347)	-	-	-	-	-	-	(43,347)
Other comprehensive loss for the year	6(20)	-	-	-	-	(34,361)	(707,604)	1,133,547	-	391,582
Share of other comprehensive loss of subsidiary, associates and joint venture accounted for under the equity method	6(20)	-	-	-	-	(13,830)	-	433,805	-	419,975
Profit for the year		-	-	-	-	3,092,358	-	-	-	3,092,358
Balance at December 31, 2017		<u>\$ 20,026,929</u>	<u>\$ 7,628,542</u>	<u>\$ 6,078,219</u>	<u>\$ 3,640,779</u>	<u>\$ 12,750,338</u>	<u>(\$ 1,759,357)</u>	<u>\$ 3,785,878</u>	<u>(\$ 321,563)</u>	<u>\$ 51,829,765</u>

Note: For the years ended December 31, 2016 and 2015, directors' and supervisors' remuneration amounting to \$125,333 and \$114,382, respectively, and employees' bonus amounting to \$283,999 and \$257,361, respectively, had been deducted from the statements of comprehensive income.

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 26, 2018

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

	Notes	2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 3,304,468	\$ 3,622,424
Adjustments			
Adjustments to reconcile profit (loss)			
Net gain on financial assets at fair value through profit or loss	6(2)(23)	19,806	(30,832)
Net loss (gain) on financial liabilities at fair value through profit or loss	6(13)(23)	2,529	(1,316)
Provision for doubtful accounts	6(5)	(3,738)	1,005
Interest income	6(22)	(13,550)	(29,661)
Interest expense	6(24)	94,354	123,462
Dividend income	6(22)	(187,217)	(197,377)
Impairment loss	6(3)(23)	-	96,190
Loss on disposal of investments	6(23)	(25,874)	(23,971)
Changes in unrealized loss from downstream sales		69,454	33,503
Share of profit of associates and joint ventures accounted for under the equity method	6(8)	(1,648,342)	(2,084,566)
Depreciation, amortization and net gain or loss on disposal of property, plant and equipment, net	6(9)(10)(23)(25)	412,618	416,926
Foreign currency exchange loss on bonds payable		-	1,620
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current		11,026	-
Notes receivable		65,852	(46,099)
Notes receivable - related parties		21,892	(59,337)
Accounts receivable		377,433	(366,169)
Accounts receivable - related parties		(159,426)	82,136
Receivables from customers on construction contract		275,897	(382,069)
Other receivables		(85,009)	(10,455)
Other receivables - related parties		(27,098)	(45,825)
Inventories		381,189	(51,957)
Prepayments		(29,293)	(3,931)
Other current asset		85,850	65,081
Changes in operating liabilities			
Financial liabilities at fair value through profit or loss - current		-	(646)
Notes payable		10,489	(5,126)
Notes payable - related parties		(618)	(14,941)
Accounts payable		(84,995)	746,822
Accounts payable - related parties		17,258	99,124
Payables to customers on construction contract		(18,265)	(160,535)
Other payables		(59,991)	132,180
Other payables - related parties		37,489	(22,498)
Provisions for liabilities		11,640	30,513
Other current liabilities		40,609	(36,981)
Other non-current liabilities		(187,248)	(127,320)
Cash inflow generated from operations		2,709,189	1,749,374
Interest received	6(22)	13,550	29,661
Dividends received		277,809	227,401
Payment of interest		(94,354)	(156,677)
Payment of income tax		(72,890)	(16,188)
Net cash flows from operating activities		<u>2,833,304</u>	<u>1,833,571</u>

(Continued)

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

	Notes	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in other receivables - related parties		\$ 21,023	\$ 20,766
Decrease in pledged fixed deposit	8	(3,338)	(4,819)
Proceeds from disposal of available-for-sale financial assets - non-current		240,756	111,241
Increase in available-for-sale financial assets - non-current		-	(66,557)
Increase in investments accounted for under equity method		(35,848)	(339,672)
Proceeds from disposal of property, plant and equipment		892	1,858
Acquisition of property, plant and equipment	6(9)(10)(29)	(451,717)	(302,551)
Increase in deferred expenses		(15,061)	(11,041)
Decrease in refundable deposits		822	594
Dividends received		635,789	493,820
Proceeds from disposal of investments accounted for under equity method		8,889	-
Increase (decrease) in other non-current assets		157,552	(19,449)
Net cash flows from (used in) investing activities		559,759	(115,810)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term loans		(201,886)	(2,877,015)
Increase in other payables - related parties financing		297,600	280,000
Proceeds from issuance of bonds payable		1,000,000	-
Decrease in bonds payable		-	(1,500,120)
(Decrease) increase in long-term loans		(2,599,804)	3,630,892
Cash dividends paid	6(19)	(1,762,370)	(1,602,154)
Net cash flows used in financing activities		(3,266,460)	(2,068,397)
Net increase (decrease) in cash and cash equivalents		126,603	(350,636)
Cash and cash equivalents at beginning of year		760,582	1,111,218
Cash and cash equivalents at end of year		\$ 887,185	\$ 760,582

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. and its subsidiaries

Opinion

We have audited the accompanying consolidated balance sheets of TECO Electric & Machinery Co., Ltd. and its subsidiaries (the “Group”) as at December 31, 2017 and 2016, 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 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 financial position of the Group as of December 31, 2017 and 2016, and their financial performance and cash flows for the years then ended, in conformity 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 *Independent accountant’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 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\$31,731,748 thousand, representing 62.29% of the consolidated total sales revenue for the year ended December 31, 2017. Aside from domestic sales in Taiwan, the customers of heavy industrial products group are from China, America, South East 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.

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, 2017, the balance of goodwill was NT\$5,262,494 thousand. Please refer to Note 4(21) of the consolidated financial statements 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 five years. The discount rate and financial projections relating to the future operations of Motovario S.p.A. are subject to management judgment 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:

1. Obtained an understanding and assessed the Group'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.

Other matter – Reports of other independent accountants

As described in Notes 4(3) and 6(9) 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 amount to NT\$2,363,784 thousand and NT\$3,517,300 thousand, constituting 3% and 4% of the consolidated total assets as of December 31, 2017 and 2016, respectively, and total operating revenues amount to NT\$2,156,230 thousand and NT\$2,065,558 thousand, both constituting 4% of consolidated total operating revenues for the years then ended, respectively. The investments accounted for under the equity method amounted to NT\$2,490,857 thousand and NT\$2,445,113 thousand, both constituting 3% of consolidated total assets as of December 31, 2017 and 2016, respectively, the credit balance of investments accounted for under the equity method amounted to NT\$66,393 thousand and NT\$55,400 thousand, both constituting 0% of consolidated total assets as of December 31, 2017 and 2016, respectively, and the share of profit of associates and joint ventures accounted for under the equity method amounted to NT\$187,682 thousand and NT\$29,987 thousand, constituting 4% and 1% 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 on the parent company only financial statements of TECO Electric & Machinery Co., Ltd. as of and for the years ended December 31, 2017 and 2016.

Responsibilities of management and those charged with governance for the

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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.

Independent accountant’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 judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk

of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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 Group'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 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.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal 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 26, 2018

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, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

			2017		2016			
Assets			AMOUNT		AMOUNT			
Notes			%		%			
Current assets								
1100	Cash and cash equivalents	6(1) and 8	\$	14,129,330	16	\$	13,989,826	15
1110	Financial assets at fair value through profit or loss - current	6(2)(26)		254,003	-		233,508	-
1125	Available-for-sale financial assets - current	6(3) and 8		871,041	1		1,384,099	2
1147	Bond investments without active markets - current	6(4)(25)		3,794,570	4		2,830,572	3
1150	Notes receivable, net	6(5)(6) and 8		1,188,761	1		1,218,343	1
1160	Notes receivable - related parties	7		931	-		5,399	-
1170	Accounts receivable, net	6(6) and 8		9,439,077	10		10,424,905	11
1180	Accounts receivable - related parties	7		183,701	-		234,755	-
1190	Receivables from customers on construction contracts	6(8)		1,030,504	1		1,235,956	1
1200	Other receivables			601,279	1		242,304	-
1210	Other receivables - related parties	7		34,844	-		497,796	1
130X	Inventories, net	6(7) and 8		11,336,492	12		11,177,041	12
1410	Prepayments			422,892	1		471,200	1
1470	Other current assets	6(1) and 8		975,343	1		1,350,606	2
11XX	Total current assets			44,262,768	48		45,296,310	49
Non-current assets								
1523	Available-for-sale financial assets - non-current	6(3) and 8		12,925,119	14		11,743,617	13
1550	Investments accounted for under the equity method	6(9) and 8		4,022,455	4		3,871,299	4
1600	Property, plant and equipment, net	6(10) and 8		17,922,299	20		18,463,450	20
1760	Investment property, net	6(11)		2,883,477	3		3,073,386	3
1780	Intangible assets	6(12)(32)		5,612,315	6		5,369,790	6
1840	Deferred income tax assets	6(30)		1,382,884	2		1,194,242	1
1900	Other non-current assets	6(13) and 8		3,005,640	3		3,361,862	4
15XX	Total non-current assets			47,754,189	52		47,077,646	51
1XXX	Total assets		\$	92,016,957	100	\$	92,373,956	100

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TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	2017		2016	
			AMOUNT	%	AMOUNT	%
	Current liabilities					
2100	Short-term borrowings	6(14) and 8	\$ 2,187,621	3	\$ 3,078,361	4
2120	Financial liabilities at fair value through profit or loss - current	6(15)(26)	2,528	-	-	-
2150	Notes payable		195,407	-	163,161	-
2160	Notes payable - related parties	7	1,368	-	7,611	-
2170	Accounts payable		7,589,788	8	7,511,353	8
2180	Accounts payable - related parties	7	123,271	-	99,117	-
2190	Payables to customers on construction contracts	6(8)	178,165	-	202,021	-
2200	Other payables	6(16)	4,839,917	5	4,998,690	6
2230	Current income tax liabilities	6(30)	917,494	1	550,441	1
2250	Provisions for liabilities - current		308,744	-	272,234	-
2300	Other current liabilities	6(18)	2,398,053	3	2,075,856	2
21XX	Total current liabilities		<u>18,742,356</u>	<u>20</u>	<u>18,958,845</u>	<u>21</u>
	Non-current liabilities					
2530	Corporate bonds payable	6(17)	4,000,000	4	3,000,000	3
2540	Long-term borrowings	6(18) and 8	6,466,239	7	9,428,570	10
2550	Provisions for liabilities - non-current		179,189	-	250,317	-
2570	Deferred income tax liabilities	6(30)	2,423,023	3	2,485,443	3
2600	Other non-current liabilities	6(9)(19)	2,332,013	3	2,526,238	3
25XX	Total non-current liabilities		<u>15,400,464</u>	<u>17</u>	<u>17,690,568</u>	<u>19</u>
2XXX	Total liabilities		<u>34,142,820</u>	<u>37</u>	<u>36,649,413</u>	<u>40</u>
	Equity attributable to owners of parent					
	Share capital	6(20)				
3110	Common stock		20,026,929	22	20,026,929	22
	Capital surplus	6(21)				
3200	Capital surplus		7,628,542	8	7,671,889	8
	Retained earnings	6(22)(30)				
3310	Legal reserve		6,078,219	6	5,730,071	6
3320	Special reserve		3,640,779	4	3,640,779	4
3350	Unappropriated retained earnings		12,750,338	14	11,816,689	13
	Other equity interest	6(23)				
3400	Other equity interest		2,026,521	2	1,166,773	1
3500	Treasury stocks	6(20) and 8	(321,563)	-	(321,563)	-
31XX	Equity attributable to owners of the parent		<u>51,829,765</u>	<u>56</u>	<u>49,731,567</u>	<u>54</u>
36XX	Non-controlling interest		<u>6,044,372</u>	<u>7</u>	<u>5,992,976</u>	<u>6</u>
3XXX	Total equity		<u>57,874,137</u>	<u>63</u>	<u>55,724,543</u>	<u>60</u>
	Significant contingent liabilities and unrecognized contract commitments	9				
	Significant disaster loss	10				
	Significant events after the balance sheet date	11				
3X2X	Total liabilities and equity		<u>\$ 92,016,957</u>	<u>100</u>	<u>\$ 92,373,956</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, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars, except earnings per share)

Items	Notes	2017		2016	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(24) and 7	\$ 50,942,521	100	\$ 49,923,836	100
5000 Operating costs	6(7)(19)(28)(29) and 7	(38,743,733)	(76)	(36,788,304)	(74)
5900 Net operating margin		12,198,788	24	13,135,532	26
5910 Unrealized loss from sales		(9,145)	-	(6,625)	-
5920 Realized profit from sales		6,625	-	5,488	-
5950 Net operating margin		12,196,268	24	13,134,395	26
Operating expenses	6(19)(28)(29)				
6100 Selling expenses		(4,702,844)	(9)	(4,495,731)	(9)
6200 General and administrative expenses		(2,716,018)	(5)	(3,055,579)	(6)
6300 Research and development expenses		(1,281,206)	(3)	(1,393,604)	(3)
6000 Total operating expenses		(8,700,068)	(17)	(8,944,914)	(18)
6900 Operating profit		3,496,200	7	4,189,481	8
Non-operating income and expenses					
7010 Other income	6(4)(11)(25) and 7	1,506,936	3	1,160,006	2
7020 Other gains and losses	6(2)(3)(15)(26)	(628,521)	(1)	(43,705)	-
7050 Finance costs	6(10)(27)	(254,638)	-	(282,231)	-
7060 Share of profit (loss) of associates and joint ventures accounted for under the equity method	6(9)	233,927	-	(90,260)	-
7000 Total non-operating income and expenses		857,704	2	743,810	2
7900 Profit before income tax		4,353,904	9	4,933,291	10
7950 Income tax expense	6(30)	(809,656)	(2)	(896,293)	(2)
8200 Profit for the year		\$ 3,544,248	7	\$ 4,036,998	8

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars, except earnings per share)

Items	Notes	2017		2016	
		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(19)	(\$ 58,868)	-	(\$ 52,979)	-
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		(2,751)	-	(11,532)	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(30)	3,037	-	2,270	-
8310 Components of other comprehensive loss that will not be reclassified to profit or loss		(58,582)	-	(62,241)	-
Other comprehensive income that will be reclassified to profit or loss					
8361 Currency translation differences of foreign operations	6(23)	(803,071)	(2)	(1,218,203)	(2)
8362 Unrealized gain on valuation of available-for-sale financial assets	6(3)(23)	1,570,454	3	1,501,773	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(23)	4,019	-	2,421	-
8399 Income tax relating to the components of other comprehensive income that will be reclassified to profit or loss	6(30)	68,969	-	99,542	-
8360 Components of other comprehensive income that will be reclassified to profit or loss		840,371	1	385,533	1
8300 Other comprehensive income for the year		\$ 781,789	1	\$ 323,292	1
8500 Total comprehensive income for the year		\$ 4,326,037	8	\$ 4,360,290	9
Profit attributable to:					
8610 Owners of the parent		\$ 3,092,358	6	\$ 3,481,480	7
8620 Non-controlling interest		451,890	1	555,518	1
		\$ 3,544,248	7	\$ 4,036,998	8
Comprehensive income attributable to:					
8710 Owners of the parent		\$ 3,903,915	7	\$ 3,836,207	8
8720 Non-controlling interest		422,122	1	524,083	1
		\$ 4,326,037	8	\$ 4,360,290	9
Earnings per share (in dollars)	6(31)				
9750 Basic earnings per share		\$ 1.56		\$ 1.76	
9850 Diluted earnings per share		\$ 1.55		\$ 1.75	

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, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Notes	Equity attributable to owners of the parent								Non-controlling interest	Total equity	
		Retained Earnings					Other Equity Interest					
		Share capital - common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks			Total
2016												
Balance at January 1, 2016		\$ 20,026,929	\$ 7,638,417	\$ 5,412,342	\$ 3,640,779	\$ 10,310,158	\$ 13,030	\$ 743,950	(\$ 321,563)	\$ 47,464,042	\$ 3,968,462	\$ 51,432,504
Appropriations of 2015 net earnings	6(22)											
Legal reserve		-	-	317,729	-	(317,729)	-	-	-	-	-	-
Cash dividends		-	-	-	-	(1,602,154)	-	-	-	(1,602,154)	-	(1,602,154)
Effect of changes in net equity of associates and joint ventures accounted for under the equity method		-	33,472	-	-	-	-	-	-	33,472	-	33,472
Changes in non-controlling interests		-	-	-	-	-	-	-	-	-	1,500,431	1,500,431
Other comprehensive income(loss) for the year	6(23)	-	-	-	-	(55,066)	(1,064,783)	1,474,576	-	354,727	(31,435)	323,292
Profit for the year	6(22)	-	-	-	-	3,481,480	-	-	-	3,481,480	555,518	4,036,998
Balance at December 31, 2016		<u>\$ 20,026,929</u>	<u>\$ 7,671,889</u>	<u>\$ 5,730,071</u>	<u>\$ 3,640,779</u>	<u>\$ 11,816,689</u>	<u>(\$ 1,051,753)</u>	<u>\$ 2,218,526</u>	<u>(\$ 321,563)</u>	<u>\$ 49,731,567</u>	<u>\$ 5,992,976</u>	<u>\$ 55,724,543</u>
2017												
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	\$ 5,992,976	\$ 55,724,543
Appropriations of 2016 net earnings	6(22)											
Legal reserve		-	-	348,148	-	(348,148)	-	-	-	-	-	-
Cash dividends		-	-	-	-	(1,762,370)	-	-	-	(1,762,370)	-	(1,762,370)
Effect of changes in net equity of associates and joint ventures accounted for under the equity method		-	(43,347)	-	-	-	-	-	-	(43,347)	-	(43,347)
Changes in non-controlling interests		-	-	-	-	-	-	-	-	-	(370,726)	(370,726)
Other comprehensive income (loss) for the year	6(23)	-	-	-	-	(48,191)	(707,604)	1,567,352	-	811,557	(29,768)	781,789
Profit for the year	6(22)	-	-	-	-	3,092,358	-	-	-	3,092,358	451,890	3,544,248
Balance at December 31, 2017		<u>\$ 20,026,929</u>	<u>\$ 7,628,542</u>	<u>\$ 6,078,219</u>	<u>\$ 3,640,779</u>	<u>\$ 12,750,338</u>	<u>(\$ 1,759,357)</u>	<u>\$ 3,785,878</u>	<u>(\$ 321,563)</u>	<u>\$ 51,829,765</u>	<u>\$ 6,044,372</u>	<u>\$ 57,874,137</u>

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, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 4,353,904	\$ 4,933,291
Adjustments			
Adjustments to reconcile profit (loss)			
Net loss (gain) on financial assets at fair value through profit or loss	6(2)(26)	4,573	(12,017)
Net loss on financial liabilities at fair value through profit or loss	6(15)(26)	2,528	(1,214)
Provision for (Reversal of) allowance for doubtful accounts	6(6)	39,339	(11,722)
Interest income	6(25)	(150,197)	(172,217)
Dividend income	6(25)	(508,613)	(560,089)
Interest expense	6(27)	254,638	282,231
Depreciation and amortization	6(10)(11)(28)	1,483,888	1,549,723
Gain on disposal of investments	6(24)(26)	(239,595)	(619,104)
Gain on disposal of property, plant and equipment	6(24)(26)	(150,541)	(687)
Impairment loss	6(26)	889	127,277
Share of (profit) loss of associates and joint ventures accounted for under the equity method	6(9)	(233,927)	90,260
Foreign currency exchange loss of bonds payable		-	1,620
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current		(25,068)	44,493
Notes receivable		29,665	(212,164)
Notes receivable - related parties		4,468	9,544
Accounts receivable		945,770	(1,060,196)
Accounts receivable - related parties		51,054	(18,936)
Receivables from customers on construction contracts		205,452	(414,111)
Other receivables		(358,975)	178,066
Other receivables - related parties		407,881	23,411
Inventories		(159,451)	578,186
Prepayments		48,308	(111,621)
Other current assets		366,416	(127,198)
Changes in operating liabilities			
Notes payable		32,246	49,516
Notes payable - related parties		(6,243)	(444)
Accounts payable		78,435	820,574
Accounts payable - related parties		24,154	3,351
Payables to customers on construction contracts		(23,856)	(187,308)
Other payables		(143,811)	72,845
Provisions for liabilities		(34,618)	35,307
Other current liabilities		287,157	(372,607)
Other non-current liabilities		(257,468)	7,705
Cash inflow generated from operations		6,328,402	4,925,765
Interest received	6(25)	150,197	172,217
Dividends received	6(25)	289,350	303,163
Interest paid	6(27)	(254,638)	(282,231)
Income tax paid	6(30)	(621,659)	(671,738)
Net cash flows from operating activities		5,891,652	4,447,176

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Decrease in available-for-sale financial assets - current		\$ 552,833	\$ 11,067
Decrease in other receivables-related parties	7	55,071	216,500
Increase in bond investments without active market		(963,998)	(2,689,021)
Decrease (increase) in pledged demand and fixed deposits	8	8,847	(13,811)
Proceeds from disposal of available-for-sale financial assets - non-current		549,407	925,473
Acquisition of available-for-sale financial assets - non-current		(128,435)	(150,622)
Increase in investments accounted for under the equity method		(38,001)	(91,829)
Acquisition of property, plant and equipment	6(10)(33)	(1,021,817)	(1,464,972)
Proceeds from disposal of property, plant and equipment		619,976	63,713
Acquisition of intangible assets		(103,174)	(225,070)
(Increase) decrease in restricted assets		(425)	511
Decrease (increase) in other non-current assets		102,313	(627,777)
Net cash inflow on acquisitions of subsidiaries	6(32)(33)	-	266,268
Dividends received		351,648	403,253
Net cash flows used in investing activities		(15,755)	(3,376,317)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in short-term loans		(890,740)	(3,540,651)
Increase (decrease) in long-term loans		(2,927,291)	5,588,166
Repayment of bonds payable		-	(1,500,200)
Proceeds from issuance of bonds payable	6(18)	1,000,000	-
Cash dividends paid for non-controlling interest		(265,099)	-
Cash dividends paid	6(22)	(1,762,370)	(1,602,154)
Net cash flows used in financing activities		(4,845,500)	(1,054,839)
Exchange rate effect		(890,893)	(945,236)
Net increase (decrease) in cash and cash equivalents		139,504	(929,216)
Cash and cash equivalents at beginning of year		13,989,826	14,919,042
Cash and cash equivalents at end of year		<u>\$ 14,129,330</u>	<u>\$ 13,989,826</u>

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

TECO Electric & Machinery Co., Ltd.

Distribution of 2017 Profits

(In NT \$)

Item	Amount
Accumulated undistributed profit as of the beginning of the period	9,706,171,298
Less: Retained earnings after adjustment in 2017 (Note 1)	(48,191,453)
Accumulated undistributed earnings after adjustment	9,657,979,845
Add: Net Profit after tax in 2017	3,092,357,888
Less : Legal Reserve	(309,235,789)
Total distributable earnings	12,441,101,944
Profit available for distribution for the period:	
Profit-sharing to shareholders	1,722,315,882
(Dividend per share)	0.86
Undistributed profit as of the end of 2017	10,718,786,062
Note :	
1. Defined Pension Obligation actuarial gains and losses, and recognized as Other comprehensive income including it into retained earnings	

Notes:

- Dividend per share in 2017 is NT\$0.86 and all dividends distributed this year shall be cash dividend.
- 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.
- In the event of any change to the total number of outstanding shares as a result of the issuance of convertible bond, Company's buyback of its own shares, transfer, conversion or deregistration of treasury shares, exercise of employees' stock option and other factors, it is proposed that the Shareholders' Meeting grants the Chairman full authority to handle all relevant matters subject to the fixed payout rate mentioned above.

TECO Electric & Machinery Co., Ltd.

Issuance of Unsecured Corporate Bond

Decree of the Authority	TPEX No. 10600249021
Bond Name	P06TECO1
Status	Over-the-counter
Total Issue Amount	NTD\$ 1 Billion
Raising Terms	5 years (2017/9/15~2022/9/15)
Coupon Rate	Fixed annual percentage rate, 1.02%
Repayment	Repay the loan outright
Underwriter	Yuanta Security
Transfer Agency	Taishin International Bank Co., Ltd.
Selling Target	Exclusive for professional investors, as defined by the management rules for foreign currency-denominated international bonds, formulated by GreTai Securities Market (over-the-counter market).

TECO Electric & Machinery Co., Ltd.

List of Candidates of Directors

Name	Shares (Note)	Education/ Experience
Tung Kuang Investment Co., Ltd. Representative : Chwen-Jy, Chiu	30,341,364 shares	MBA, University of Michigan, Ann-Arbor Chairman of TECO Electric & Machinery Co., Ltd President of TECO Electric & Machinery Co., Ltd Chairman of Taiwan Pelican Express Co., Ltd
Tong Ho Global Investment Co., Ltd Representative : Chao-Kai, Liu	2,240,262 shares	Ph.D. of Electric Engineering, University of Illinois Chairman of TECO Electric & Machinery Co., Ltd Chairman of TECOM Co., Ltd
Cheng-Tsung, Huang	15,279,849 shares	Bachelor of Economics, Fu Jen Catholic University Independent Director of Aurotek Corporation Chairman of Sen Yeh Construction Co., Ltd. President of Importers and Exporters Association of Taipei
Creative Sensor Inc. Representative: Yu-Ren, Huang	10,000,000 shares	Master of Electric Engineering, Columbia University Chairman of Creative Sensor Inc. Chairman of Lien Chang Electronic Enterprise Co., Ltd Chairman of TECO Image Systems Co., Ltd CEO of IT& Optronics Product Sector in TECO Group
Mao-Hsiung, Huang	18,486,633 shares	Master of Economics, University of Pennsylvania Director of TECO Electric & Machinery Co., Ltd President of Chinese National Association of Industry and Commerce, Taiwan Chairman of Century Development Corporation

Name	Shares (Note)	Education/ Experience
YINGE Int. Inv. Co.,Ltd. Representative: Po-Chih, Huang	10,079,600 shares	Master of Mechanical Engineering, University of Tokyo President of Taiwan Association of Machinery Industry Director of TECO Electric & Machinery Co., Ltd Director of TECO Technology Foundation
Hung Shun Investment Co., Ltd. Representative: Tzu-Yi, Kuo	304,000 shares	Bachelor of Business Administration, University of Southern California Chairman of PT Group President of PT Group Chairman of South Taiwan Bus
Yubantec & Co Dong-Hai Gao	13,200,000 shares	Advance Course for Business Manager, Division of Financial Management, National Chengchi University Chairman of Tong Ho Global Investment Co., Ltd Chairman of Inotec Taiwan Co., Ltd Vice Chairman of Yubantec & Co President of Multilite International Co., Ltd.
Kuang Yuan Industrial Co., Ltd. Representative: Shih-Chien, Yang	22,033,919 shares	Ph.D. of Electric Engineering, Northwestern University, US Minister without Portfolio of Executive Yuan, Republic of China Political Deputy Minister of Ministry of Economic Affairs, R.O.C Director of TECO Electric & Machinery Co., Ltd Chairman of Global Strategic Venture
Tung Kuang Investment Co., Ltd. Representative : Hong-Hsiang, Lin	30,341,364 shares	Master of Mechanical Engineering, University of Houston Vice CEO of Industrial Product & System Sector in TECO Group Executive Consultant for Board of Directors in TECO Electric & Machinery Co., Ltd Assistant Vice President of TECO Electric & Machinery Co., Ltd Supervisor of TECOM Co., Ltd

Name	Shares (Note)	Education/ Experience
Tong-An Investment Co., Ltd. Representative : Shang-Wei, Kao	19,40,052 shares	Master of Business Administration, National Taiwan University of Science and Technology Chairman of Information Technology Total Service Corp President of Information Technology Total Service Corp Chairman of TECO Smart Technologies Co., Ltd.
Yung-Hsiang, Chang	0 shares	Bachelor of Industrial Engineering and Management, Minghsin University of Science and Technology Director of TECO Electric & Machinery Co., Ltd Chairman of Hong Tong Co., Ltd. Vice Chairman of Taiwan Wax Company Ltd.
Ting-Wong, Cheng (Independent Director)	0 shares	Ph.D. of of Accountancy, Robert J. Trulaske, Sr. College of Business, University of Missouri Principle of National Chengchi University Professor of National Chengchi University Independent Director of TECO Electric & Machinery Co., Ltd
Jin-Fu, Chang (Independent Director)	0 shares	Ph.D. of Electrical Engineering and Computer Sciences, University of California, Berkeley Chairman of Institute for Information Industry Minister without Portfolio of Executive Yuan, Republic of China Consultant of An-Shin Food Services Co., Ltd. Independent Director of Taiwan Secom Co. , Ltd
Wei-Chi, Liu (Independent Director)	0 shares	Ph. D. of Business Administration, Northwestern University Chairman of Taiwan High Speed Rail Corp Chairman of International Bills Finance Corp Principal of Chung Hua University Independent Director of Fusheng Precision Company

Note: Shares held on the book closure starting date of AGM 2018 (April 17th, 2018)

TECO Electric & Machinery Co., Ltd.

Plan to Remove of Restriction on Non-Competition Obligation for Candidates of Director

Name	Serve concurrently in Taiwan	Serve concurrently Overseas
Tung Kuang Investment Co., Ltd. Representative: Chwen-Jy, Chiu	Director of TECO Electro Devices Co., Ltd. Director of TECOM Co., Ltd Director of Information Technology Total Services Co., Ltd. Managing Director of Tung Pei Industrial Co., Ltd. Director of Yatec Engineering Corporation Director of Kuenling Machinery Refrigerating Co., Ltd. Chairman of Taiwan Pelican Express Co., Ltd. Supervisor of TG Teco Vacuum Insulated Glass Corp. Director of Royal Host Taiwan Co., Ltd. Director of Century Development Corporation Inc. Director of Century Biotech Development Corporation Supervisor of Teco Image System Co., Ltd. Director of Lien Chang Electronic Enterprise Co., Ltd. Director of Far Eastern Electronic Toll Collection Co, Ltd Director of FETC International	Director of Wuxi Teco Electric & Machinery Co., Ltd. Director of Wuxi TECO Precision Mechatronics Co., Ltd Chairman of Jiangxi TECO Electric & Machinery Co., Ltd. Director of Shanghai TECO Electric & Machinery Co., Ltd. Chairman of Beijing Pelican Express Co., Ltd. Director of TECO Australia Pty Limited.(TAC) Chairman of TAIAN (Malaysia) Electric Sdn. Bhd. Chairman of TECO YASKAWA Motor Engineering Co. Chairman of P.T Teco Elektro Indonesia (TEI) Chairman of TECO (Philippines) 3C Appliances Inc. Chairman of Pelecanus Express Pte. Ltd Chairman of GreyBack International Property Inc.(GIPI) Director of Tecocapital Investment Co., Ltd. Director of Tecom Global Tech Investment Pte. Ltd. Director of Tecom Global Tech Investment (B.V.I.) Ltd. Director of TEMICO International Pte. Ltd.

Name	Serve concurrently in Taiwan	Serve concurrently Overseas
<p>Tong Ho Global Investment Co., Ltd. Representative Chao-Kai, Liu</p>	<p>Director of TECO Electro Devices Co., Ltd. Chairman of TECOM Co., Ltd Chairman of Tecom International Investment Co., Ltd. Chairman of WondaLink Inc. Chairman of Baycom Opto-Electronics Technology Co., Ltd. Director of Ericsson Taiwan Ltd Director of Senergy Wind Power Co., Ltd.</p>	<p>Director of Wuxi TECO Electric & Machinery Co., Ltd. Director of Hunan MINGYANG TECO Wind Energy Limited Director of Beijing Tecom Innovative Technology Co., Ltd. Director of TECO Australia Pty Limited.(TAC). Director of Ropali-Teco Corporation Director of Tecom Global Tech Investment Pte. Ltd. Director of Tecom Global Tech Investment (B.V.I.) Ltd.</p>
<p>Cheng-Tsung, Huang</p>	<p>Chairman of Sen Yeh Construction Co., Ltd. Chairman of Wan Yu Development Co., Ltd. Independent Director of Aurotek Corporation</p>	<p>None</p>

Name	Serve concurrently in Taiwan	Serve concurrently Overseas
<p>Creative Sensor Inc. Representative: Yu-Ren, Huang</p>	<p>Chairman of TECO Image Systems Co., Ltd Chairman of Creative Sensor Inc. Chairman of Lien Chang Electronic Enterprise Co., Ltd Chairman of Gen Mao International Limited Chairman of Multilite International Co., Ltd. Chairman of Kuang Yuan Co., Ltd. Director of Koryo Eletronic Co., Ltd Director of Yubantec Director of Inotec Taiwan Co., Ltd.</p>	<p>Chairman of Wuxi Creative Sensor Technology Co., Ltd. Chairman of NanChang Creative Sensor Technology Co., Ltd. Chairman of Tung Xin (Jiangxi) Opto-electronics Technology Co., Ltd. Director of Yuban Technology Co., Ltd Director of Yuban Technology (Shenzhen) Co. Ltd Director of Gen Mao (Singapore) Limited Director of Creative Sensor (USA) Co. Director of Creative Sensor Co., Ltd. Director of Creative Sensor Inc. Director of Sanyu International Co.,Ltd</p>
<p>Mao-Hsiung, Huang</p>	<p>Supervisor of Tung Pei Industrial Co., Ltd. Director of Tecnos International Consultant Co., Ltd. Chairman of An-Tai International Investment Co., Ltd. Chairman of An-Sheng Travel Co., Ltd. Supervisor of An-Shin Food Service Co., Ltd. Chairman of Royal Host Taiwan Co., Ltd. Chairman of ROYAL PARK Director of Taiwan Pelican Express Co., Ltd. Vice Chairman of TG Teco Vacuum Insulated Glass Corp. Chairman of Century Development Corporation Chairman of Jason Technology (Asia) Co., Ltd Director of Taiwan High Speed Rail Co. Ltd.</p>	<p>Director of Qingdao Jie Zheng Property Service & Management Company Supervisor of Technical Information International Co., Ltd. Chairman of MOS Burger Xiamen Director of Beijing Pelican Express Co., Ltd. Chairman of TECO Australia Pty Limited. (TAC) Director of TAIAN (Malaysia) Electric Sdn. Bhd. Chairman of TAIAN Technology Sdn. Bhd. Director of TECMA Information Systems Sdn. Bhd. Director of Tecom Global Tech Investment Pte. Ltd. Director of Tecom Global Tech Investment (B.V.I.) Ltd.</p>

Name	Serve concurrently in Taiwan	Serve concurrently Overseas
	Director of E & E Recycling Co. Ltd. Director of Ericsson Taiwan Ltd Director of Atetsu International Inc. Director of Momo.com Inc. Director of Shin-Etsu Chemical Co., Ltd. Chairman of Mao Wang Technology Co., Ltd. Director of Inotec Taiwan Co., Ltd. Director of Magic-Food Mos Food Industry Corp. Director of FujiAtetsu Multimedia Inc. Director of Fujio Food System Taiwan Co.,Ltd Chairman of Xianlaoman	Director of An-Shin Food Services (Singapore) Pte. Ltd. Director of Subic Bay Development &Management Corporation Chairman of TEMICO International Pte. Ltd.
YINGE Int. Inv. Co.,Ltd. Representative: Po-Chih, Huang	Director of TECOM Co., Ltd Vice Chairman of Ta Hong Machinery Co., Ltd. Chairman of ELITE International Investment Co., Ltd. Chairman of YINGE Int. Inv. Co.,Ltd	None
Hung Shun Investment Co., Ltd. Representative: Tzu-Yi, Kuo	Chairman of PT Group Chairman of South Taiwan Bus Chairman of Radius Exhibition Management Consulting Co., Ltd. Chairman of Ping Tung Travel Service	None

Name	Serve concurrently in Taiwan	Serve concurrently Overseas
<p>Yubantec Representative: Dong-Hai Gao</p>	<p>Chairman of Inotec Taiwan Co., Ltd. Chairman of Tong Ho Global Investment Co., Ltd. Vice Chairman of Yubantec Chairman of YUTEK ELECTRONICS CO., LTD.</p>	<p>None</p>
<p>Kuang Yuan Industrial Co., Ltd. Representative: Shih-Chien, Yang</p>	<p>Director of TECOM Co., Ltd Chairman of Global Strategic Venture Chairman of Huan Xun Venture Capital Co., Ltd. Director of YAGEO Corporation Independent Director of Topkey Corporation Director of MiTAC Inc. Independent Director of WUS Printed Circuit Co.,Ltd Director of Global BioPharma, Inc.</p>	<p>None</p>
<p>Tung Kuang Investment Co., Ltd. Representative : Hong-Hsiang, Lin</p>	<p>Director of TECOM Co., Ltd Chairman of Tung Pei Co., Ltd Director of Yatec Engineering Corporation Director of Taiwan Cogeneration Corporation</p>	<p>Director of Wuxi TECO Electric & Machinery Co., Ltd. Chairman of Wuxi TECO Precision Mechatronics Co., Ltd Director of Jiangxi Teco Electric &Machinery Co., Ltd. Director of Jiangxi Teco-Lead PM Generator Manufacturing Co.,Ltd Director of TECO Middle East Electric & Machinery Co., Ltd. (TME) Supervisor of TECO YASKAWA Motor Engineering Co. Chairman of Teco (Vietnam) Electric & Machinery Co., Ltd.</p>

Name	Serve concurrently in Taiwan	Serve concurrently Overseas
<p>Tong-An Investment Co., Ltd. Representative : Shang-Wei, Kao</p>	<p>Director of A-Ok Technical Co., Ltd. Director of Tecnos International Consultant Co., Ltd. Director of Taiwan Pelican Express Co., Ltd. Director of Century Development Corporation Director of Royal Park Chairman of Information Technology Total Service Corp Chairman of Universal Mail Service Ltd. Chairman of Unison Service Corporation Director of Tension Corporation</p>	<p>Chairman of Information Technology Total Service (BVI) Co.,Ltd Director of LiveABC Interactive Corporation Chairman of Teco Group Science-Technology (Hang Zhou) Co., Ltd. Chairman of Information Technology (Wuxi) Co., Ltd. Chairman of Information Technology Total Service (Xiamen) Ltd. Director of Technical Information International Co., Ltd</p>
<p>Yung-Hsiang, Chang</p>	<p>Chairman of Hong Tong Co., Ltd</p>	<p>None</p>
<p>Ting-Wong, Cheng</p>	<p>Managing and Independent Director of Asia Pacific Telecom Independent Director of SuperAlloy International</p>	<p>None</p>
<p>Jin-Fu, Chang</p>	<p>Consultant of An-Shin Food Services Co., Ltd. Independent Director of Taiwan Secom Co. , Ltd.</p>	<p>None</p>

Name	Serve concurrently in Taiwan	Serve concurrently Overseas
Wei-Chi, Liu	Independent Director of Fusheng Precision Company Director of Airiti.Inc	None

Appendices

1. Articles of Incorporation on pages 54-63
2. Rules Governing Shareholders' Meeting on pages 64-66
3. Rules Governing Election of Directors on pages 67-68
4. Corporate Governance Best Practice Principles on page 69-94
5. Shareholding of All Directors on page 95
6. Notes on page 96

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.

Rules Governing Election of Directors

Article 1

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

Article 2

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

Article 3

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

Article 4

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

Article 5

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

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

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

Article 6

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

Article 7

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

Article 8

A ballot cast will be void if

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

Article 9

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

Article 10

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

Article 11

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

Article 12

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

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

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

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

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

TECO Electric & Machinery Co., Ltd.

Corporate Governance Best Practice Principles

Chapter I General Provisions

Article 1

These Principles are established and an effective corporate governance system is erected in accordance with the Corporate Governance Best-Practice Principles prescribed jointly adopted by the Taiwan Stock Exchange Corporation ("TSEC") and the GreTai Securities Market ("GTSM"). These Principles are disclosed on the Market Observation Post System.

Article 2

In addition to complying with relevant laws and regulations, as well as contracts signed with the TSEC or GTSM and other relevant regulations, the Company shall follow the following principles:

1. Protect shareholders' rights and interests;
2. Strengthen the powers of the Board of Directors;
3. Fulfill the function of supervisors;
4. Respect stakeholders' rights and interests; and
5. Enhance information transparency.

Article 3

The Company shall follow the "Criteria Governing the Establishment of Internal Control System of Public Listed Company" and take into consideration the overall operational activities of itself and its subsidiaries in designing and actually implementing an internal control system, and review it at all times, in order to keep up with the dynamics of environment inside and outside the company and ensure that the design and enforcement of the system remain effective.

Except approved by the competent authority, the establishment or revision of internal control should be made with over one half of the members of the audit committee before being submitted to the board of directors for resolution.

In addition to faithfully performing voluntary evaluation of the internal control system, the Board of Directors and the management shall review the result of the voluntary evaluation of each department and the report of the internal audit department at least once each year quarterly. The auditing committee should notice and supervise the report.

The evaluation of the efficiency of the internal control system shall be made with over one half of the members of the audit committee before being submitted to the board of directors for resolution.

The management of the Company shall pay special attention to the internal audit department and its personnel, fully empower them and urge them to conduct audits effectively, evaluate problems of the internal control system and assess the efficiency of operations to ensure that such a system can be carried out effectively on a continuous basis and can assist the board of directors and the management to perform their duties effectively so as to ensure a sound corporate governance system.

To materialize internal-control system, strengthen the expertise of deputies of internal auditors, and enhance or uphold auditing quality or auditing result, the company should institute deputies of internal auditors.

Qualifications for internal auditors, specified in Article 11-6 of the "Criteria for Establishment of Internal Control Systems by Public Companies", and stipulations of Article 16, 17, and 18 are applicable to the aforementioned deputies of internal auditors.

Article 3-1

The company can institute unit or staffer(s) in charge of corporate governance, in a dedicated or part-time manner, and appoint ranking manager for supervision, who should have the qualification of lawyer or certified public accountant, or over three years of managerial experience for legal affairs, finance, or stock affairs at a company with public share offering.

The aforementioned corporate governance-related affairs should at least include:

1. Registration or revision of registration for incorporation
2. Holding of meeting of the board of directors and shareholders' meeting according to law and assistance for the company in legal compliance for the board of directors and shareholders' meeting
3. Production of minutes for meeting of the board of directors or shareholders' meeting
4. Provide directors materials they need in executing their business duties and information on new laws/regulations related to corporate management, thereby facilitating legal compliance by directors.
5. Affairs regarding investor relationship
6. Other items specified by corporate charter or contracts

Chapter II Protection of Shareholders' Rights and Interests

Subchapter 1

Encouraging Shareholders to Participate in Corporate Governance

Article 4

When implementing the corporate governance system, the Company shall take the protection of shareholders' rights and interests and treat all shareholders fairly.

The Company shall establish a corporate governance system which ensures shareholders' rights of being fully informed of, participating in and making decisions over important matters of the company.

Article 5

The Company shall convene shareholders' meetings in accordance with the Company Act and relevant laws and regulations and provide comprehensive rules for such meetings. The Company shall faithfully implement resolutions adopted by shareholders' meetings in accordance with the rules for the meetings.

Resolutions adopted by shareholders' meetings of the Company shall comply with laws, regulations and articles of incorporation.

Article 6

The Board of Directors shall properly arrange the proposals and agenda of shareholders' meetings. Formulate principles and workflow for nomination of directors and proposal of motions for shareholders' meeting and properly address motions put forth by shareholders legally. Shareholders' meeting should be held at venue with convenient location and should set aside sufficient time and appoint proper receptionists for reporting by attending shareholders, who shouldn't be required to produce additional identity proofs. Shareholders shall be granted reasonable time to deliberate each proposal and afforded an appropriate opportunity to make statements.

For the shareholders' meetings that are convened by the Board of Directors, the chairman should preside over the meeting in person, and it would be advisable for a majority of the directors (at least one independent director) and one member each of various functional committees should attend the meeting to attend the meeting in person. The state of their attendance should be recorded in the minutes of shareholders' meeting.

Article 7

The Company shall encourage its shareholders to actively participate in its corporate governance, entrust professional stock-affairs institutions to handle the holding of shareholders' meeting and hold shareholders' meetings on the premise of legal, effective and safe proceedings. The Company shall seek all ways and means, including fully exploiting technologies for information disclosure, and meeting notice, meeting agenda, and supplementary information should be uploaded at the same time, so as to enhance the attendance rate of shareholders at the shareholders' meeting and ensure the exercise of shareholders' rights by shareholders at the shareholders' meeting in accordance with laws.

When shareholders' meeting adopts electronic voting, extempore motions and amendment to original motion should be avoided.

Shareholders should be arranged to vote case by case in shareholders' meeting, outcome of agreement, objection, and abstention of shareholders should be put into the Market Observation Post System on the day after the completion of the meeting.

The Company will adopt no discriminatory treatment or discrimination of any kind with respect to the distribution of souvenirs of the shareholders' meeting to the shareholders.

Article 8

In accordance with Company Law and other related laws/regulations, the company should put the date, venue, name of chairperson, resolution method, as well as summary and outcome of the meeting process in meeting minute. For election of directors, it is necessary to specify voting method and the votes obtained by elected directors.

The minutes of the shareholders' meeting shall be properly and perpetually kept by the company during its legal existence. It would be advisable for the Company to fully disclose such meeting minutes on its website, if any.

Article 9

The chairperson at the shareholders' meetings shall be fully familiar and comply with the rules governing the proceedings of the shareholders' meetings established by the company. The chairperson shall ensure the proper progress of the proceedings of the meetings and may not adjourn the meetings at will.

In order to protect the interests of most shareholders, if the chairman declares the

adjournment of the meeting in a manner in violation of rules governing the proceedings of the shareholders' meetings, it would be advisable for the members of the Board of Directors other than the chairman of the shareholders' meeting to promptly assist the attending shareholders at the shareholders' meeting in electing a new chairman of the shareholders' meeting to continue the proceedings of the meeting, by a resolution to be adopted by a majority of the votes represented by the shareholders attending the said meeting in accordance with the legal procedures.

Article 10

The Company shall respect the shareholders' rights to know and faithfully comply with the applicable regulations regarding the information disclosure to provide, regularly and timely, the shareholders with information relating to the financial conditions and operations, the insiders' shareholdings, and corporate governance status in the company by utilizing the Market Observatory Post System or the website established by the company. In order to equally treat shareholders, major messages should be publicized in both Chinese and English. In order to equally treat shareholders, major messages should be publicized in both Chinese and English.

To safeguard the interests of shareholders and provide them equal treatment, the company should formulate regulations forbidding insider trading.

Article 11

The shareholders shall be entitled to profit distributions by the company. In order to ensure the shareholders' investment interests, the shareholders' meeting may, according to Article 184 of the Company Act, examine the statements and books prepared and submitted by the Board of Directors and the inspection reports submitted by the audit committee, and may decide, by resolution, profit distributions and deficit off-setting plans. In order to proceed with the above examination, the shareholders' meeting may appoint an inspector.

The shareholders may, according to Article 245 of the Company Act, apply with the court to select an inspector in examining the accounting records and assets of the company. The Board of Directors, audit committee and managers of the Company shall fully cooperate in the examination conducted by the inspectors in the aforesaid two paragraphs without any obstruction, rejection or circumvention.

Article 12

In entering into material financial and business transactions such as acquisition or disposal of assets, lending funds, and making endorsements or providing guarantees, the Company shall proceed in accordance with the applicable laws and/or regulations. The Company shall further establish the operating procedures in relation to these material financial and business transactions and have the same report to and approved by the shareholders' meeting so as to protect the interests of the shareholders.

In case the company engages in merger or public acquisition, the transaction should be carried out according to related laws and regulations and attention should be made to assure the fairness and reasonableness of the dealing, as well as transparency of information and continuation of a sound financial structure.

In case of management buyout, pay attention to the regulation on information publication. Staffers handling the aforementioned item should notice conflict of interest and need for avoidance.

Article 13

In order to protect the interests of the shareholders, it would be advisable for the Company to designate personnel exclusively dedicated to handling shareholders' proposals, inquiries and disputes.

The Company shall properly deal with matters arising from any action instituted by shareholders pursuant to the applicable laws claiming damage to such shareholders' interests caused by the resolution adopted in its shareholders' meetings or the Board of Directors meetings in violation of the applicable laws, regulations or its articles of incorporation, or claiming a breach by its directors or managers of applicable laws, regulations or the company's articles of incorporation in performing their duties.

The company should formulate internal workflow to address the two aforementioned items properly, a process should be recorded in written form for reference and put under the oversight of the internal-control system.

Subchapter 2

Erect a System to Interact with Shareholders

Article 13-1

The board of directors is responsible for establishing a mechanism for interaction with shareholders, in order to boost mutual understanding of the company's development goal.

Article 13-2

In addition to encouraging shareholders attending shareholders' meeting for better communication, the board of directors should contact shareholders in an efficient manner and join hands with managerial staffers and independent directors for better grasp of the opinions of and issues concerned by shareholders and clear explanation of the company's policy, so as to win their support.

Subchapter 3

Corporate Governance Relationships between the Company and Its Affiliated Enterprise

Article 14

The Company shall clearly identify the allocation of its management target, authorities and responsibilities over personnel, assets and financial matters of its affiliated enterprises, and shall implement risk evaluation and establish appropriate firewalls.

Article 15

Unless otherwise provided by the laws and regulations, a manager of the Company may not serve as a manager of its affiliated enterprises.

A director, who engages in any transaction for himself or on behalf of another person that is within the scope of the company's business, shall disclose to the shareholders' meeting the material terms of such transaction and obtain its consent.

Article 16

The Company shall establish a sound management target and system for finance, operations and accounting in accordance with the applicable laws and regulations. It shall further, together with its affiliated enterprises, properly conduct an overall risk evaluation of the major banks they are dealing with, their customers and their suppliers, and implement the necessary control mechanism to reduce credit risks.

Article 17

Where the Company and its affiliated enterprises enter into inter-company business transactions, a written agreement governing the relevant financial and business operations between each other shall be made in accordance with the principle of fair dealing and reasonableness. Both parties shall definitively stipulate the terms and conditions of the price and payment terms mechanism, and desist from any transactions that are other than at arm's length.

All transactions or contracts made by and between the Company and its affiliated persons and shareholders shall follow the principles set forth in the proceeding paragraph and tunneling of profits is strictly prohibited.

Article 18

A corporate shareholder having controlling power over the Company shall comply with the following provisions:

1. It shall bear a duty of good faith to other shareholders and shall not directly or indirectly cause the company to be engaged in transactions at other than arm's length or involved in a management conduct for illegal profit.
2. Its representative shall follow the rules implemented by its company with respect to the exercise of rights and participation of resolution, so that at a shareholders' meeting, the representative shall exercise his/her voting right for the best interest of all shareholders and in good faith and faithfully carry out the fiduciary duty and duty of care of a director.
3. It shall comply with relevant laws, regulations and the articles of incorporation of the company in nominating directors or supervisors and shall not act beyond the authority granted by the shareholders meeting or board meeting.
4. It shall not improperly intervene in corporate policy making or obstruct corporate management activities.
5. It shall not restrict or impede the management or production of the Company by methods of unfair competition such as monopolizing corporate procurement or foreclosing sales channels.
6. Representatives of legal entities on the board of directors should possess qualifications needed by the company and should not be replaced randomly.

Article 19

The Company shall ensure the command at any time of information on the identity of major shareholders, who own a higher percentage of shares and have an actual control over the company, and its ultimate control persons.

The Company shall disclose periodically important information about its shareholders holding more than ten percent of the outstanding shares of the Company relating to the pledge, increase or decrease of share ownership, or other matters that may possibly trigger a change in the ownership of their shares.

The major shareholders indicated in the first paragraph refers to those who own five percent or more of the outstanding shares of the Company or the shareholding stake thereof is on the top ten list, provided, however, that the company may set up a lower shareholding threshold according to the shareholding of its actual controlling companies.

Chapter III Enhancing the Function of Board of Directors

Subchapter 1 Structure of Board of Directors

Article 20

The Board of Directors of the Company shall guide company strategy, supervise management team, and be responsible for the shareholders' meetings.

Procedures and arrangement relating to corporate governance shall ensure that, in exercising its authority, the Board of Directors will comply with laws, regulations, articles of incorporation, and the resolutions of shareholders' meetings of the company.

Regarding the structure of the Board of Directors of the Company, the number of board members shall be properly determined by reviewing the scale of corporate management and operation and the shareholding of the major shareholders and taking into consideration of the practical needs for operation. While installing independent directors, it shall take into account the reasonable professional composition of the directors and the objective requirements for their duties independently.

Makeup of the membership of the board of directors should be diversified. In addition to limit capping the seats on the board of directors filled by the company's managerial staffers at one third of the total, proper diversification guidelines should be formulated, considering the company's operation, business type, and development need, which should contain, but not limited to, the following two criteria:

Basic conditions and values: gender, age, nationality, and culture, among others
Professional knowledge and skill: professional background (such as law, accounting, industry, finance, marketing, and technology), professional skill, and industrial experience, among others.

The board of directors should evaluate cautiously the aforementioned qualifications and conditions, as well as willingness of nominees, before putting forth the list of candidates for directors.

For the makeup of the board of directors, attention should be paid to gender equality and knowledge, skills, and specialties needed for the fulfillment of their duties. In order to achieve the target of corporate governance, the board of directors as a whole should possess the following capabilities:

1. Ability to make operational judgment;
2. Ability to perform accounting and financial analysis;
3. Ability to conduct management administration;
4. Ability to conduct crisis management;
5. Possession of industrial knowledge;
6. Possession of perspective of international market;
7. Ability to lead; and
8. Ability to make decisions.

Article 21

Based upon the principles to safeguard shareholders' right and treat shareholders with fairness, the Company shall incorporate a fair, just, and open procedure for the election of directors, and adopt the cumulative voting mechanism in order to fully reflect shareholders' views, according to the Company Law.

Except as otherwise approved by the competent authority, one half of the directors of the Company shall not be the spouse or a relative within the second degree to any of the other directors.

Where the number of directors of the Company falls below five, new directors shall be elected at the immediate following shareholders meeting. However, if the number of vacancies on the Board of Directors amount to one third of the total seats, an extraordinary shareholders meeting shall be convened within 60 days to elect new directors.

The aggregate shareholding percentage of all of the directors of the Company shall comply with the laws and regulations. Restrictions on the share transfer of each director and the creation, release, or changes of any pledges over the shares held by each director shall be subject to the relevant laws and regulations, and the relevant information shall be fully disclosed.

Article 22

The company specifies that election of directors shall adopt the nomination system in Articles in incorporation in accordance with the Company Law, the qualifications, education, working experience, background and the existence of any other matters set forth in Article 30 of the Company Act with respect to the candidates recommended by shareholders or directors shall be reviewed in advance and the result thereof be provided to shareholders for their reference, so that qualified directors will be elected.

Article 23

Clear distinctions shall be drawn between the responsibilities and duties of the chairman of the board of the Company and those of its general manager.

It would be inappropriate for the chairman of the Board of Directors to also act as the general manager. If the chairman also acts as the general manager or they are spouses or relatives within one degree of consanguinity, it would be advisable that the number of independent directors be increased.

The company should delineate clearly the responsibilities of the functional committees it sets up.

Subchapter 2 Independent Directors

Article 24

The Company may establish independent directors who each shall have necessary special knowledge, in accordance with Articles of Incorporation. In addition to complying with related laws/regulations, there shouldn't be anyone serving as director (or independent director) or supervisor for more than five companies listed on the centralized market or over-the-counter market. Limitations shall be prescribed with respect to the shareholding and taking of concurrent jobs by the independent directors who shall maintain their independency in the course of performing their duties and functions and shall in no way act in direct or indirect conflict of interests against the Company.

The independent directors shall be elected by the shareholders in accordance with Article 192-1 of the Company Act from among the candidates determined by nomination. The election of independent directors shall be provided in the Articles of Incorporation. Directors and independent directors of the Company shall be elected at the same election in accordance with Article 198 of the Company Act with the director elects and independent directors elects calculated separately.

According to the aforementioned regulation, the company has specified that it has to explain reasons for nominating candidates for independent directors who have been on the position for three terms, when publicizing the result of review for the nomination of candidates for independent directors, and present the explanation to the shareholders' meeting to secure their approval.

In case the company, affiliates, and organizations nominate directors, supervisors, or managers of other company, its group affiliates, and organizations as candidates for independent directors on a reciprocal basis, specify the status and explain the qualifications of the candidates. If they are elected, specify their votes.

The aforementioned affiliates and organizations cover subsidiaries of companies listed on the stock exchange or over-the-counter markets, legal entities with 50% of funds coming from direct or indirect donations by those companies, or institutions or judicial persons in which those companies have actual control.

No independent director may exchange his or her capacity of the independent director of the Company with any non-independent director of the Company during their term of office.

Where the number of independent directors of the Company falls below the number provided in the first paragraph or the Articles of Incorporation, new independent directors shall be elected at the immediate following shareholders meeting to fill the vacancies. However, if all of the independent directors are dismissed, an extraordinary shareholders meeting shall be convened within 60 days to elect new independent directors.

The special qualification, independency of, and the limitations on the shareholding and taking of concurrent jobs by and the nomination of candidates of independent directors another matters for compliance shall be in accordance with the Securities and Exchange Act, Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies, and the relevant rules established by the TSEC or the GTSM.

Article 25

The Company (if any) shall submit the following matters to the meeting of the Board of Directors for approval in line with the requirement of the Securities & Exchange Act. Any opposition or qualified opinion expressed by the independent directors shall be indicated in the minutes of the relevant meeting of the Board of Directors.

1. Establishment of or amendment to the internal control system and the evaluation of the effectiveness of internal control system proposed pursuant to Article 14-1 of the Securities and Exchange Act;
2. Establishment of or amendment to the procedures for major financial and business transactions such as acquisition or disposal of assets, derivatives transaction, lending, and endorsements or providing guarantees;
3. Matters involving personal interests of the directors;
4. Major assets or derivatives transactions;
5. Major lending, endorsement or guarantee proposed;
6. Raising of capital fund by fund-taking, public offering or private placement of equity securities.
7. Engagement, discharge of or consideration paid to the certified public accountant;
8. Appointment and discharge of financial, accounting or internal auditing officers;
9. Other important matters of the Company or required by the competent authority

Article 26

The Company shall clearly establish the scope of functions and duties of the independent directors and empower them with support of human and logistics resources to them to facilitate their exercise of their power and functions. Neither the Company nor any of the other members of the Board of Directors shall restrain or in any way obstruct the performance of functions and duties by the independent director.

The Company shall stipulate expressly the compensation of the directors based upon related regulation. Different but reasonable compensation from that of other directors may be set forth for the independent directors.

Subchapter 3 Functional Committees

Article 27

For the purpose of developing healthy monitoring functions and strengthening management mechanisms, the Board of Directors of the Company may, taking into account the basis of the size and business nature of the corporate, board size and the number of the independent directors, set up audit, salary, nomination, compensation or any other functional committees and have them stipulated in the Articles of Incorporation.

Functional committees shall be responsible to the Board of Directors and submit the proposals to the meeting of the Board of Directors for approval. Exercise of the duties of supervisor by the audit committee according to item 4-4 of article 14, Securities and Exchange Act, is excluded.

Functional committees shall adopt regulations governing the exercise of their power and duty to be approved by the Board of Directors. The regulations governing the exercise of their power and duty shall provide the number of members of each committee, their term of office, functions and duties, meeting rules, resources to be provided by the Company to facilitate the performance of their functions and duties.

Article 28

The Company shall set up the audit committee or supervisors. The audit committee shall be formed by all of the independent directors, whose number shall be no less than three with one of them to act as the convener and at least one of them shall have professional expertise in accounting and finance.

The Securities and Exchange Act, Company Act, other laws and regulations and these Principles applicable to supervisors shall operate to the audit committee with necessary and appropriate alteration.

The following matters shall be approved by the majority of the entire body of the audit committee and then submitted to the meeting of the Board of Directors for resolution, in which case Article 25 of these Principles shall not apply:

1. Establishment of or amendment to the internal control system and the evaluation of the effectiveness of internal control system proposed pursuant to Article 14-1 of the Securities and Exchange Act;
2. Evaluation of the efficiency of the internal control system;
3. Establishment of or amendment to the procedures for major financial and business transactions such as acquisition or disposal of assets, derivatives transaction, lending, and endorsements or providing guarantees;
4. Matters involving personal interests of the directors;
5. Major assets or derivatives transactions;

6. Major lending, endorsement or guarantee proposed;
 7. Raising of capital fund by fund-taking, public offering or private placement of equity securities.
 8. Engagement, discharge of or consideration paid to the certified public accountant;
 9. Appointment and discharge of financial, accounting or internal auditing officers;
 10. Annual and semi-annual financial reports; and
 11. Other important matters of the Company or required by the competent authority
- The audit committee and its independent director members shall act in accordance with the Securities and Exchange Act, Regulations Governing the Exercise of Powers by Audit Committees of Public Companies and the requirements of the TSEC and the GTSM.

Article 28-1

The company should establish compensations committee, with qualifications of its members, exercise of power, and the formulation of organizational charter conforming to “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is listed on the Stock Exchange or Traded Over the Counter”. Compensations committee should exercise the following powers faithfully in the role of a prudent administrator and submit its proposals to the board of directors for discussion:

1. Formulate and regularly review the policy, system, standards and structure of the performance evaluation and compensations of directors and managerial staffers.
 2. Regularly evaluate and determine the compensations of directors and managerial staffers.
- In exercising the aforementioned powers, compensations committee should follow the following principles:

1. Performance evaluation and compensations of directors and managerial staffers should refer to the general payment levels of peers and take into account individual performance, the company’s business performance, and future risks.
2. Avoid inducing directors and managerial staffers to undertake risky behaviors beyond the limit of the company for the pursuit of compensations.
3. In issuing bonus for short-term performance of directors and ranking managers and paying some variable compensation, industry features and the company’s business nature should be taken into account.

Article 28-2

The company should set up and publicize a reporting channel, for both in-house staffers and outsiders, on top of a system protecting whistleblowers. The complaints should be received and handled by an independent unit, which should keep the materials provided by informants confidential and restrict access to them, according to internal operating procedure and put under the monitoring of internal control system.

Article 29

In order to improve the quality of financial report, the company should institute deputy for accounting chief.

The deputy should undergo advanced study annually, similar to the accounting chief, for betterment of his/her expertise.

Accounting staffers involved in the compilation of financial report should also take over six hours of related courses, as part of the company’s education and training program or held by institutions specializing in advanced study for accounting chiefs.

The Company shall select a professional, responsible and independent certified public

accountant to be its external auditor who shall perform regular reviews of the financial conditions and internal control measures of the company. With regard to the irregularity or deficiency timely discovered and disclosed by the auditor during the review, and the concrete measures for improvement or prevention suggested by the auditor, the Company shall faithfully implement improvement actions, as well as should install communications channel or mechanism for independent directors, members of the auditing committee, and certified public accountants.

The Company shall evaluate the independence and competence of the auditor engaged by the company regularly and no less frequently than once annually. In the event that the Company has engaged the same auditor without replacement for seven years consecutively, or if the auditor is subject to disciplinary actions or other circumstances prejudicial to the independence of the auditor, the Company shall evaluate the necessity of replacing the auditor, and shall submit the evaluation to the board the conclusion of such review.

Article 30

It is advisable that the Company engage a professional and competent legal counsel to provide adequate legal consultation services to the company, or to assist the directors and the management to improve their knowledge of the law, for the purposes of preventing any infraction by the Company or its staff of laws or regulations, and ensuring the corporate governance matters will proceed pursuant to the relevant legal framework and the prescribed procedures.

In the event that the directors or the management are involved in litigation as a result of performing his or her duties as provided by the law or arising from shareholders disputes, the Company shall retain a legal counsel to provide assistance depending on the circumstances. The audit committee or the independent director member thereof may retain the legal counsel, certified public account or other professional personnel on behalf of the Company to perform necessary audit or provide consultation with respect to the matters concerning the exercise of powers and duties.

Subchapter 4 Rules for the Proceedings of Board Meetings and the Decision- Making Procedures

Article 31

The Board of Directors shall meet no less frequently than once every quarter and at any time in case of emergency. The notice of meeting shall indicate the agenda of the meeting and be sent to all directors and supervisors seven days prior to the scheduled meeting date.

The Company shall adopt the rules for proceedings of board meetings and the agenda, relevant operational procedure, meeting minutes, public notice and other matters for compliance shall be in accordance with the Regulations Governing Procedure for Board of Directors Meetings of Public Companies.

Article 32

A director shall exercise a high degree of self-discipline. In cases involving interests of himself/herself or of the legal entities he/she represents, should explain key contents of the involvement at the next meeting of the board of directors. And shall voluntarily abstain from discussion and voting as well as evade during discussion and voting, for himself or herself or as proxy for another director, on a proposal submitted to the Board of Directors that risks the involvement of the director's own interest to the detriment of the interest of the company. The directors shall practice self-discipline as to their internal relationship and must not support each other in an inappropriate manner.

The matters that a director shall voluntarily abstain from voting shall be clearly set forth in the

rules for the proceedings of board meetings.

Article 33

There should be at least one independent director attending meetings of the board of directors in person. Whole independent directors should attend the meeting when submitting the matter to seek the approval pursuant to Article 35-1 of this principle. The independent director who cannot to attend the meeting in person, should designate other independent directors as their proxies at the meetings of the board of directors. Any opposition or qualified opinion expressed by the independent director at the meeting of the Board of

Directors shall be indicated in the minutes of the meeting. Except with a good cause given, the independent director shall, produce his/her opinion in writing in advance if he/she is unable to express his/her opinion at the meeting of the Board of Directors in person, and such written opinion shall be indicated in the minutes of the meeting.

In either of the following cases, the resolution adopted by the meeting of the Board of Directors shall be indicated in the minutes of the meeting and reported for public disclosure on the Market Observation Post System before the start of next trading session from the meeting date on the website designated by the competent authority.

1. There is opposition or qualified opinion from the independent directors, which has been recorded or made with a written statement.
2. There is any matter which has not been approved by the audit committee of the Company but has been approved by two thirds of all directors.

During the proceeding of the board meetings, managers from the relevant departments who are not directors shall sit in at the meetings, make report on the current business conditions of the Company and respond to inquiries raised by the directors. Where necessary, the Company may invite certified public accountants, legal counsels or other professional personnel to sit in at the meetings so as to assist the directors in understanding the conditions of the Company for the purpose of adopting an appropriate resolution.

Article 34

Staff personnel of the Company attending board meetings shall collect and correctly record the meeting minutes in detail, and the summary, method of resolution, and voting results of all the proposals submitted to the board meeting in accordance with relevant regulations.

The board meeting minutes shall be signed or sealed by the chairman and secretary of the meeting and distributed to each of the directors of the Company within 20 days after the meeting. The directors' attendance record constitutes an integral part of the meeting minutes and shall be treated as important corporate records and kept safely through the life of the Company.

The meeting minutes may be produced, distributed and kept electronically.

The entire process of each board meeting shall be taped or video-recorded with the tape or video recording kept for a term of at least five years. The tape or video recording may be kept electronically.

In case of any lawsuit arising from the resolution adopted by the Board of Directors, the keeping of the tape or video recording of the relevant board meeting shall continue without regard to the expiration of the time period of record keeping provided in the preceding paragraph.

The tape- or video-recording of the board meeting held by teleconference constitutes an integral part of the meeting minutes and shall be kept permanently.

Where a resolution of the Board of Directors is held in contravention of laws, regulations, Articles of Incorporation, or resolutions adopted in the shareholders' meeting, and thus causes an injury to the Company, dissenting directors whose dissent can be proven by meeting minutes or written statements will not be liable for damages.

Article 35

The Company shall submit these matters to the meeting of the Board of Directors for discussion:

1. Business plan.
2. Annual and semi-annual financial reports. The requirement doesn't apply to semiannual financial report which needs not auditing and certification by certified public accountants according to the law.
3. Establishment of internal control policy and the revision, and the evaluation of the effectiveness of internal control system thereof proposed pursuant to Article 14-1 of the Securities and Exchange Act.
4. Procedures for handling major financial matters including the acquisition or disposal of assets, financial derivatives transactions, provision of loans, endorsement or guaranty to other persons, which should be prescribed and amended pursuant to Article 36-1 of the Securities and Exchange Act.
5. Raising of capital fund by fund-taking, public offering or private placement of securities.
6. Structure and system of remuneration for managers and directors
7. Appointment and discharge of financial, accounting or internal auditing officers.
8. Donations to stakeholders or major donations to non-stakeholders. However, public-benefit donations for emergent relief for major natural disasters should be submitted to the next meeting of the board of directors for acknowledgement.
9. Important matters which should be resolved or reported to the Board of Directors pursuant to Article 14-3 of the Securities and Exchange Act, other laws and regulations or the Articles of Incorporation of the Company or the requirement of the competent authority.

Except for the matters provided in the foregoing paragraph which should be submitted to the meeting of the Board of Directors for discussion, the level, content or scope of authorization conferred upon the designate of the Board of Directors pursuant to the laws and regulations or the Articles of Incorporation of the Company to exercise the functions of the Board of Directors during the recess of the meeting of the Board of Directors shall be clearly specified and no general authorization is allowed during the recess.

Article 36

The Company shall ask the appropriate corporate department or personnel to handle matters and implement actions pursuant to the Board of Directors' resolutions in a way consistent with the program schedule and objectives. It shall also follow up on these matters and faithfully review their implementation.

The Board of Directors shall ensure full control of the implementation and progress of these matters and make a report in subsequent meetings so as to ensure that the board's management decisions are faithfully implemented.

Subchapter 5 Fiduciary Duty, Duty of Care and Responsibility of Directors

Article 37

Members of the board shall faithfully conduct corporate affairs and exercise the due care of a good administrator. In conducting the affairs of the Company, they shall exercise their power with a heightened level of self-discipline and prudential attitude in accordance with the resolution adopted by the Board of Directors except those matters which must be adopted by

the shareholders meeting pursuant to the relevant laws and regulations or the Articles of Incorporation of the Company.

Where the resolution to be adopted by the Board of Directors involves major policy directions and the corporate management, the Board of Directors shall carefully consider with no adverse effect of any kind on the implementation and effectiveness of corporate governance. Independent directors shall perform their duties in accordance with relevant laws, regulations and the company's articles of incorporation so as to protect the interest of the company and shareholders.

The company should formulate measures and procedure for evaluating the performance of the board of directors. The board of directors should evaluate regularly the annual performances of the board of directors, functional committees, and individual directors.

Article 38

If a resolution of the Board of Directors violates law, regulations or the company's articles of incorporation, at the request of shareholders holding shares continuously for a year or an independent director to discontinue the implementation of the resolution, members of the board shall take appropriate measures or discontinue the implementation of such resolution as soon as possible.

Upon discovering any threat of the company suffering material injury, members of the board shall immediately report to the audit committee or the independent directors of the audit committee in accordance with the foregoing paragraph.

Article 39

According to the Articles of Incorporation or resolution adopted in the shareholders' meeting, the Company may take out liability insurance for directors with respect to their liabilities resulting from exercising their duties during their terms of office so as to reduce and disperse the risk of material harm to the Company and shareholders arising from the fault or negligent conduct of the directors.

After taking out or extending liability insurance for directors, the company should report the insured amount, coverage, premium, and other important contents of the insurance policy to the next meeting of the board of directors.

Article 40

Members of the board are advised to participate in training courses of finance, business, commerce, accounting or law which cover subjects relating to corporate governance upon becoming directors and throughout their terms of occupancy. They shall also ensure that company employees will enhance their professionalism and knowledge of the law at all levels.

Chapter IV Respecting Stakeholders' Rights

Article 41

The Company shall maintain channels of communication with its banks, other creditors, employees, consumers, suppliers, community or other stakeholders and shall respect and safeguard their legal rights. It would be advisable to install dedicated section for stakeholders on the company's website. When any of a stakeholder's legal rights is harmed upon, the Company shall handle such matter in a proper manner and in good faith.

Article 42

The Company shall provide sufficient information to banks and its other creditors to facilitate their evaluation of the operational and financial conditions of the company and decision-making process. When any of their legal rights or interest is harmed upon, the company shall respond with a responsible attitude and assist creditors in obtaining compensation through proper means.

Article 43

The Company shall establish channels of communication with employees and encourage employees to communicate directly with the management, directors or the audit committee so as to reflect employees' opinions about the management, financial conditions and material decisions of the company concerning employee welfare.

Article 44

In developing its normal business and maximizing the shareholders' interest, the Company shall pay attention to consumers' interests, environmental protection of community and public interest issues, and shall have high regard for the social responsibility of the company.

Chapter V Improving Information Transparency

Subchapter 1 Enhancing Information Disclosure

Article 45

Publication of information is the major responsibility of the Company. The Company shall perform its obligations faithfully in accordance with the relevant laws, and related TSEC and GTSM rules.

The Company shall establish an internet-based reporting system for public information, appoint personnel responsible for gathering and disclosing the information, and establish a spokesperson system so as to ensure the proper and timely disclosure of information about policies that might affect the decisions of shareholders and stakeholders.

Article 46

In order to enhance the accuracy and timeliness of the material information disclosed, the Company shall appoint a spokesperson and acting spokesperson(s) who understand thoroughly the company's financial and business conditions and who are capable of coordinating among departments for gathering relevant information and representing the company in making statements independently.

The Company shall appoint one or more acting spokesperson who shall represent the company, when the spokesperson cannot perform his/her duties, in making statements independently, provided that the order of authority is established to avoid any confusion.

In order to implement the spokesperson system, the Company shall unify the process of making external statements and require the management and employees to maintain the confidentiality of financial and operational secrets and prohibit disclosure thereof by them at will.

The Company shall disclose the relevant information regarding any change to the position of a spokesperson or acting spokesperson upon such change.

Article 47

In order to keep shareholders and stakeholders fully informed, it is advisable that the Company utilizes the convenience of the Internet and set up a website containing the information regarding the company's finance, operation and corporate governance. It is also advisable to contain the finance, corporate governance, and other information in English as well.

To avoid misleading information, the aforesaid website shall be maintained by specified personnel, and the recorded information shall be accurate, in detail and updated timely.

Article 48

The Company shall hold an institutional investor meeting in compliance with the regulations of the TSEC and GTSM, and it should make audio or video record the meeting. The financial and business information disclosed in the institutional investor meeting shall be disclosed on Market Observation Post System and provided for inquiry through the website established by the company or other channels according to the TSEC or GTSM rules.

Subchapter 2 Disclosure of Information on Corporate Governance

Article 49

The Company shall disclose the following information regarding corporate governance in the fiscal year in accordance with laws and regulations of the TSEC and GTSM.

1. Corporate governance framework and rules;
2. Ownership structure and shareholders' equity (including clear dividend payout policy);
3. Structure, professionalism and independence of the Board of Directors;
4. Responsibility of the Board of Directors and managerial personnel;
5. Composition, duties and independence of audit committee;
6. Composition, duties and operating status of compensations committee
7. Compensation paid to chairman, president and vice president, analysis of ratio between total compensation and net profit of individual financial statement, compensation policy, standard and combination, the procedure of compensation decision, and relation between performance and future risk. Compensation of individual director should be disclosed under particular situation.
8. The progress of training of directors;
9. Stakeholders' rights, relationships, complaint system, concerning issue and appropriate feedback mechanism;
10. Details of the events subject to information disclosure required by law and regulations;
11. The enforcement of corporate governance, deficiency between the corporate governance principles implemented by the company and the Principles, and the reason for the deficiency; and
12. Other information regarding corporate governance

The Company is advised, according to the actual performance of the corporate governance system, to disclose the plans and measures to improve its corporate governance system through appropriate mechanisms.

Chapter VI Ancillary Rules

Article 50

The Company shall at all times monitor domestic and international development of corporate governance and thereby review and improve the company's corporate governance

mechanism so as to enhance the performance of corporate governance.

Article 51

The establishment of these Principles and all subsequent amendments thereto shall be approved by the Board of Directors of the Company and reported to the shareholders' meeting.

Article 52

These Rules were approved by Board of Directors and came into force on 25 March 2008.

The first amendment of the Rule on 26 March 2013.

The second amendment of the Rule on 22 December 2014.

The third amendment of the Rule on 20 March 2015.

The fourth amendment of the Rule on 23 December 2016

The fifth amendment of the Rule on 13 November 2017

TECO Electric & Machinery Co., Ltd.

Comparison of Current Provision and Proposed Amendment to

Corporate Governance Best Practice Principles

Proposed Provision	Current Amendment	Note
<p>Article 24</p> <p>The Company may establish independent directors who each shall have necessary special knowledge, in accordance with Articles of Incorporation. In addition to complying with related laws/regulations, there shouldn't be anyone serving as director (or independent director) or supervisor for more than five companies listed on the centralized market or over-the-counter market. Limitations shall be prescribed with respect to the shareholding and taking of concurrent jobs by the independent directors who shall maintain their independency in the course of performing their duties and functions and shall in no way act in direct or indirect conflict of interests against the Company.</p> <p>The independent directors shall be elected by the shareholders in accordance with Article 192-1 of the Company Act from among the candidates determined by nomination. The election of independent directors shall be provided in the Articles of Incorporation. Directors and independent directors of the Company shall be elected at the same election in accordance with Article 198 of the Company Act with the director elects and independent directors elects calculated separately.</p> <p><u>According to the aforementioned regulation, the company has specified that it has to explain reasons for nominating candidates for independent directors who have been on the</u></p>	<p>Article 24</p> <p>The Company may establish independent directors who each shall have necessary special knowledge, in accordance with Articles of Incorporation. In addition to complying with related laws/regulations, there shouldn't be anyone serving as director (or independent director) or supervisor for more than five companies listed on the centralized market or over-the-counter market. Limitations shall be prescribed with respect to the shareholding and taking of concurrent jobs by the independent directors who shall maintain their independency in the course of performing their duties and functions and shall in no way act in direct or indirect conflict of interests against the Company.</p> <p>The independent directors shall be elected by the shareholders in accordance with Article 192-1 of the Company Act from among the candidates determined by nomination. The election of independent directors shall be provided in the Articles of Incorporation. Directors and independent directors of the Company shall be elected at the same election in accordance with Article 198 of the Company Act with the director elects and independent directors elects calculated separately.</p>	<p>In addressing both the independence and experience of independent directors, add item 3 specifying that the company should explain reasons for nominating candidates for independent directors who have been on the position for three terms, when publicizing the result of review for the nomination of candidates for independent directors, and present the explanation to the shareholders' meeting to secure their approval.</p>

position for three terms, when publicizing the result of review for the nomination of candidates for independent directors, and present the explanation to the shareholders' meeting to secure their approval.

In case the company, affiliates, and organizations nominate directors, supervisors, or managers of other company, its group affiliates, and organizations as candidates for independent directors on a reciprocal basis, specify the status and explain the qualifications of the candidates. If they are elected, specify their votes.

The aforementioned affiliates and organizations cover subsidiaries of companies listed on the stock exchange or over-the-counter markets, legal entities with 50% of funds coming from direct or indirect donations by those companies, or institutions or judicial persons in which those companies have actual control.

No independent director may exchange his or her capacity of the independent director of the Company with any non-independent director of the Company during their term of office.

Where the number of independent directors of the Company falls below the number provided in the first paragraph or the Articles of Incorporation, new independent directors shall be elected at the immediate following shareholders meeting to fill the vacancies. However, if all of the independent directors are dismissed, an extraordinary shareholders meeting shall be convened within 60 days to elect new independent directors.

In case the company, affiliates, and organizations nominate directors, supervisors, or managers of other company, its group affiliates, and organizations as candidates for independent directors on a reciprocal basis, specify the status and explain the qualifications of the candidates. If they are elected, specify their votes.

The aforementioned affiliates and organizations cover subsidiaries of companies listed on the stock exchange or over-the-counter markets, legal entities with 50% of funds coming from direct or indirect donations by those companies, or institutions or judicial persons in which those companies have actual control.

No independent director may exchange his or her capacity of the independent director of the Company with any non-independent director of the Company during their term of office.

Where the number of independent directors of the Company falls below the number provided in the first paragraph or the Articles of Incorporation, new independent directors shall be elected at the immediate following shareholders meeting to fill the vacancies. However, if all of the independent directors are dismissed, an extraordinary shareholders meeting shall be convened within 60 days to elect new independent directors.

<p>The special qualification, independency of, and the limitations on the shareholding and taking of concurrent jobs by and the nomination of candidates of independent directors another matters for compliance shall be in accordance with the Securities and Exchange Act, Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies, and the relevant rules established by the TSEC or the GTSM.</p>	<p>The special qualification, independency of, and the limitations on the shareholding and taking of concurrent jobs by and the nomination of candidates of independent directors another matters for compliance shall be in accordance with the Securities and Exchange Act, Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies, and the relevant rules established by the TSEC or the GTSM.</p>	
<p>Article 25</p> <p>The Company (if any) shall submit the following matters to the meeting of the Board of Directors for approval in line with the requirement of the Securities & Exchange Act. Any opposition or qualified opinion expressed by the independent directors shall be indicated in the minutes of the relevant meeting of the Board of Directors.</p> <ol style="list-style-type: none"> 1. Establishment of or amendment to the internal control system <u>and the evaluation of the effectiveness of internal control system</u> proposed pursuant to Article 14-1 of the Securities and Exchange Act; 2. Establishment of or amendment to the procedures for major financial and business transactions such as acquisition or disposal of assets, derivatives transaction, lending, and endorsements or providing guarantees; 3. Matters involving personal interests of the directors; 4. Major assets or derivatives transactions; 5. Major lending, endorsement or guarantee proposed; 6. Raising of capital fund by fund-taking, public offering or 	<p>Article 25</p> <p>The Company (if any) shall submit the following matters to the meeting of the Board of Directors for approval in line with the requirement of the Securities & Exchange Act. Any opposition or qualified opinion expressed by the independent directors shall be indicated in the minutes of the relevant meeting of the Board of Directors.</p> <ol style="list-style-type: none"> 1. Establishment of or amendment to the internal control system proposed pursuant to Article 14-1 of the Securities and Exchange Act; 2. Establishment of or amendment to the procedures for major financial and business transactions such as acquisition or disposal of assets, derivatives transaction, lending, and endorsements or providing guarantees; 3. Matters involving personal interests of the directors; 4. Major assets or derivatives transactions; 5. Major lending, endorsement or guarantee proposed; 6. Raising of capital fund by fund-taking, public offering or 	<p>Add item 1 of article 1 incorporating the requirement in article 14-5 of the "Securities and Exchange Act" that listing of "the evaluation of the effectiveness of internal control system" as a right of the auditing committee is an important matter and as such should be presented to the board of directors for discussion.</p>

<p>private placement of equity securities.</p> <p>7. Engagement, discharge of or consideration paid to the certified public accountant;</p> <p>8. Appointment and discharge of financial, accounting or internal auditing officers;</p> <p>9. Other important matters of the Company or required by the competent authority</p>	<p>private placement of equity securities.</p> <p>7. Engagement, discharge of or consideration paid to the certified public accountant;</p> <p>8. Appointment and discharge of financial, accounting or internal auditing officers;</p> <p>9. Other important matters of the Company or required by the competent authority</p>	
<p>Article 28</p> <p>The Company shall set up the audit committee or supervisors. The audit committee shall be formed by all of the independent directors, whose number shall be no less than three with one of them to act as the convener and at least one of them shall have professional expertise in accounting and finance.</p> <p>The Securities and Exchange Act, Company Act, other laws and regulations and these</p> <p>Principles applicable to supervisors shall operate to the audit committee with necessary and appropriate alteration.</p> <p>The following matters shall be approved by the majority of the entire body of the audit committee and then submitted to the meeting of the Board of Directors for resolution, in which case Article 25 of these Principles shall not apply:</p> <p>1. Establishment of or amendment to the internal control system <u>and the evaluation of the effectiveness of internal control system</u> proposed pursuant to Article 14-1 of the Securities and Exchange Act;</p> <p>2. Evaluation of the efficiency of the internal control system;</p> <p>3. Establishment of or amendment to the procedures for major financial and business transactions such as acquisition</p>	<p>Article 28</p> <p>The Company shall set up the audit committee or supervisors. The audit committee shall be formed by all of the independent directors, whose number shall be no less than three with one of them to act as the convener and at least one of them shall have professional expertise in accounting and finance.</p> <p>The Securities and Exchange Act, Company Act, other laws and regulations and these</p> <p>Principles applicable to supervisors shall operate to the audit committee with necessary and appropriate alteration.</p> <p>The following matters shall be approved by the majority of the entire body of the audit committee and then submitted to the meeting of the Board of Directors for resolution, in which case Article 25 of these Principles shall not apply:</p> <p>1. Establishment of or amendment to the internal control system proposed pursuant to Article 14-1 of the Securities and Exchange Act;</p> <p>2. Evaluation of the efficiency of the internal control system;</p> <p>3. Establishment of or amendment to the procedures for major financial and business</p>	<p>Add item 1 of article 1 incorporating the requirement in article 14-5 of the "Securities and Exchange Act" that listing of "the evaluation of the effectiveness of internal control system" as a right of the auditing committee is an important matter and as such should be presented to the board of directors for discussion.</p>

<p>or disposal of assets, derivatives transaction, lending, and endorsements or providing guarantees;</p> <p>4. Matters involving personal interests of the directors;</p> <p>5. Major assets or derivatives transactions;</p> <p>6. Major lending, endorsement or guarantee proposed;</p> <p>7. Raising of capital fund by fund-taking, public offering or private placement of equity securities.</p> <p>8. Engagement, discharge of or consideration paid to the certified public accountant;</p> <p>9. Appointment and discharge of financial, accounting or internal auditing officers;</p> <p>10. Annual and semi-annual financial reports; and</p> <p>11. Other important matters of the Company or required by the competent authority</p> <p>The audit committee and its independent director members shall act in accordance with the Securities and Exchange Act, Regulations Governing the Exercise of Powers by Audit Committees of Public Companies and the requirements of the TSEC and the GTSM.</p>	<p>transactions such as acquisition or disposal of assets, derivatives transaction, lending, and endorsements or providing guarantees;</p> <p>4. Matters involving personal interests of the directors;</p> <p>5. Major assets or derivatives transactions;</p> <p>6. Major lending, endorsement or guarantee proposed;</p> <p>7. Raising of capital fund by fund-taking, public offering or private placement of equity securities.</p> <p>8. Engagement, discharge of or consideration paid to the certified public accountant;</p> <p>9. Appointment and discharge of financial, accounting or internal auditing officers;</p> <p>10. Annual and semi-annual financial reports; and</p> <p>11. Other important matters of the Company or required by the competent authority</p> <p>The audit committee and its independent director members shall act in accordance with the Securities and Exchange Act, Regulations Governing the Exercise of Powers by Audit Committees of Public Companies and the requirements of the TSEC and the GTSM.</p>	
<p>Article 33</p> <p><u>There should be at least one independent director attending meetings of the board of directors in person. Whole independent directors should attend the meeting when submitting the matter to seek the approval pursuant to Article 35-1 of this principle. The independent director who cannot to attend the meeting in person, should</u></p>	<p>Article 33</p> <p>The independent director shall personally attend the meeting of the Board of Directors to express his/her opinion with respect to the matter which should be submitted to the Board of</p> <p>Directors pursuant to Article 14-3 of the Securities and Exchange Act and he/she shall not entrust a non-independent director to act</p>	<p>To clarify the rights of independent directors and intensify their participation in the operation of the board of directors, revise item 1 specifying that there should</p>

<p><u>designate other independent directors as their proxies at the meetings of the board of directors.</u></p> <p>Any opposition or qualified opinion expressed by the independent director at the meeting of the Board of</p> <p>Directors shall be indicated in the minutes of the meeting. Except with a good cause given, the independent director shall, produce his/her opinion in writing in advance if he/she is unable to express his/her opinion at the meeting of the Board of Directors in person, and such written opinion shall be indicated in the minutes of the meeting.</p> <p>In either of the following cases, the resolution adopted by the meeting of the Board of</p> <p>Directors shall be indicated in the minutes of the meeting and reported for public disclosure on the Market Observation Post System before the start of next trading session from the meeting date on the website designated by the competent authority.</p> <p>1. There is opposition or qualified opinion from the independent directors, which has been recorded or made with a written statement.</p> <p>2. There is any matter which has not been approved by the audit committee of the Company but has been approved by two thirds of all directors.</p> <p>During the proceeding of the board meetings, managers from the relevant departments who are not directors shall sit in at the meetings, make report on the current business conditions of the Company and respond to inquiries raised by the directors.</p>	<p>on his/her behalf at the meeting.</p> <p>Any opposition or qualified opinion expressed by the independent director at the meeting of the Board of</p> <p>Directors shall be indicated in the minutes of the meeting. Except with a good cause given, the independent director shall, produce his/her opinion in writing in advance if he/she is unable to express his/her opinion at the meeting of the Board of Directors in person, and such written opinion shall be indicated in the minutes of the meeting.</p> <p>In either of the following cases, the resolution adopted by the meeting of the Board of</p> <p>Directors shall be indicated in the minutes of the meeting and reported for public disclosure on the Market Observation Post System before the start of next trading session from the meeting date on the website designated by the competent authority.</p> <p>1. There is opposition or qualified opinion from the independent directors, which has been recorded or made with a written statement.</p> <p>2. There is any matter which has not been approved by the audit committee of the Company but has been approved by two thirds of all directors.</p> <p>During the proceeding of the board meetings, managers from the relevant departments who are not directors shall sit in at the meetings, make report on the current business conditions of the Company and respond to inquiries raised by the directors.</p>	<p>be at least one independent director attending meetings of the board of directors in person. Independent directors should designate other independent directors as their proxies at the meetings of the board of directors when they cannot attend the meetings in person.</p>
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Where necessary, the Company may invite certified public accountants, legal counsels or other professional personnel to sit in at the meetings so as to assist the directors in understanding the conditions of the Company for the purpose of adopting an appropriate resolution.	Where necessary, the Company may invite certified public accountants, legal counsels or other professional personnel to sit in at the meetings so as to assist the directors in understanding the conditions of the Company for the purpose of adopting an appropriate resolution.	
Article 35 The Company shall submit these matters to the meeting of the Board of Directors for discussion: <ol style="list-style-type: none"> 1. Business plan. 2. Annual and semi-annual financial reports. The requirement doesn't apply to semiannual financial report which needs not auditing and certification by certified public accountants according to the law. 3. Establishment of internal control policy and the revision, <u>and the evaluation of the effectiveness of internal control system</u> thereof proposed pursuant to Article 14-1 of the Securities and Exchange Act. 4. Procedures for handling major financial matters including the acquisition or disposal of assets, financial derivatives transactions, provision of loans, endorsement or guaranty to other persons, which should be prescribed and amended pursuant to Article 36-1 of the Securities and Exchange Act. 5. Raising of capital fund by fund-taking, public offering or private placement of securities. 6. Structure and system of remuneration for managers and directors 7. Appointment and discharge of financial, accounting or internal 	Article 35 The Company shall submit these matters to the meeting of the Board of Directors for discussion: <ol style="list-style-type: none"> 1. Business plan. 2. Annual and semi-annual financial reports. The requirement doesn't apply to semiannual financial report which needs not auditing and certification by certified public accountants according to the law. 3. Establishment of internal control policy and the revision thereof proposed pursuant to Article 14-1 of the Securities and Exchange Act. 4. Procedures for handling major financial matters including the acquisition or disposal of assets, financial derivatives transactions, provision of loans, endorsement or guaranty to other persons, which should be prescribed and amended pursuant to Article 36-1 of the Securities and Exchange Act. 5. Raising of capital fund by fund-taking, public offering or private placement of securities. 6. Structure and system of remuneration for managers and directors 7. Appointment and discharge of financial, accounting or internal auditing officers. 	Add item 1 of article 1 incorporating the requirement in article 14-5 of the "Securities and Exchange Act" that listing of "the evaluation of the effectiveness of internal control system" as a right of the auditing committee is an important matter and as such should be presented to the board of directors for discussion.

<p>auditing officers.</p> <p>8. Donations to stakeholders or major donations to non-stakeholders. However, public-benefit donations for emergent relief for major natural disasters should be submitted to the next meeting of the board of directors for acknowledgement.</p> <p>9. Important matters which should be resolved or reported to the Board of Directors pursuant to Article 14-3 of the Securities and Exchange Act, other laws and regulations or the Articles of Incorporation of the Company or the requirement of the competent authority.</p> <p>Except for the matters provided in the foregoing paragraph which should be submitted to the meeting of the Board of Directors for discussion, the level, content or scope of authorization conferred upon the designate of the Board of Directors pursuant to the laws and regulations or the Articles of Incorporation of the Company to exercise the functions of the Board of Directors during the recess of the meeting of the Board of Directors shall be clearly specified and no general authorization is allowed during the recess.</p>	<p>8. Donations to stakeholders or major donations to non-stakeholders. However, public-benefit donations for emergent relief for major natural disasters should be submitted to the next meeting of the board of directors for acknowledgement.</p> <p>9. Important matters which should be resolved or reported to the Board of Directors pursuant to Article 14-3 of the Securities and Exchange Act, other laws and regulations or the Articles of Incorporation of the Company or the requirement of the competent authority.</p> <p>Except for the matters provided in the foregoing paragraph which should be submitted to the meeting of the Board of Directors for discussion, the level, content or scope of authorization conferred upon the designate of the Board of Directors pursuant to the laws and regulations or the Articles of Incorporation of the Company to exercise the functions of the Board of Directors during the recess of the meeting of the Board of Directors shall be clearly specified and no general authorization is allowed during the recess.</p>	
<p>Article 52 These Rules were approved by Board of Directors and came into force on 25 March 2008.</p> <p>The first amendment of the Rule on 26 March 2013.</p> <p>The second amendment of the Rule on 22 December 2014.</p> <p>The third amendment of the Rule on 20 March 2015.</p> <p>The fourth amendment of the Rule on 23 December 2016</p> <p><u>The fifth amendment on 13 November 2017.</u></p>	<p>Article 52 These Rules were approved by Board of Directors and came into force on 25 March 2008.</p> <p>The first amendment of the Rule on 26 March 2013.</p> <p>The second amendment of the Rule on 22 December 2014.</p> <p>The third amendment of the Rule on 20 March 2015.</p> <p>The fourth amendment of the Rule on 23 December 2016</p>	<p>Addition of the date for the current revision</p>

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 17 2018 ~ June 15 2018

Title	Name	Date elected (yy.mm.dd)	Term of office	Shareholding when elected		Number of shares held recorded in the shareholders roster as of the date of suspension of share transfer	
				Number of shares held	%	Number of shares held	%
Chairman	Tung Kuang Investment Co., Ltd.. Representative: Chwen-Jy, Chiu	20150611	3yrs	30,341,364	1.52%	30,341,364	1.52%
Managing Director	Tong Ho Gloabl Investment Co., Ltd Representative: Chao-Kai, Liu	20150611	3yrs	2,240,262	0.11%	2,240,262	0.11%
Managing Director	Cheng-Tsung, Huang	20150611	3yrs	15,279,849	0.76%	15,279,849	0.76%
Managing Director	Creative Sensor Inc. Representative: Yu-Ren, Huang	20150611	3yrs	10,000,000	0.50%	10,000,000	0.50%
Managing & Independent Director	Chien-Yuan, Lin	20150611	3yrs	0	0	0	0
Independent Director	Jing-Shown, Wu	20150611	3yrs	0	0	0	0
Independent Director	Ting-Wong, Cheng (note)	20150611	2yrs	0	0	0	0
Director	Mao-Hsiung, Huang	20150611	3yrs	18,486,633	0.92%	18,486,633	0.92%
Director	Po-chih, Huang	20150611	3yrs	21,614,831	1.08%	11,614,831	0.58%
Director	Hsien-Sheng Kuo	20150611	3yrs	9,126,238	0.46%	9,126,238	0.46%
Director	Yaskawa Electric Corporation Representative: Hiroyuki Ougi	20150611	3yrs	29,541,089	1.48%	29,541,089	1.48%
Director	Kuang Yuan Industrial Co., Ltd. Representative: Shih-Chien, Yang	20150611	3yrs	22,033,919	1.10%	22,033,919	1.10%
Director	Tong Kuang Investment Co., Ltd. Representative: Hong-Hsiang, Lin	20150611	3yrs	30,341,364	1.52%	30,341,364	1.52%
Director	Lien Chang Electronic Co., Ltd. Representative: Ming-Feng, Yeh	20150611	3yrs	4,173,000	0.21%	4,173,000	0.21%
Director	Mao Yang Co., Ltd. Representative: Yung-Hsiang, Chang	20150611	3yrs	5,000,893	0.25%	10,000,000	0.50%
Total number of shares held by all Directors				167,838,078	8.38%	162,837,185	8.14%

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 9-18, 2018, which had been posted on the Market Observation Post System of the Taiwan Stock Exchange, according to law.
 - c. The company didn't receive any proposal from shareholders during the period
3. Information on nomination submitted to the shareholders' meeting:
 - a. According to article 192-1 of the Company Law, shareholders could nominate the candidates of board of directors, containing up to the numbers to be elected. Board of directors follows the same rules as well.
 - b. Shareholders can put forth nomination to the shareholders' meeting during April 9-18, 2018, which had been posted on the Market Observation Post System of the Taiwan Stock Exchange, according to law.
 - c. The nomination received by the Company during the period, which had been posted on the Market Observation Post System of the Taiwan Stock Exchange, according to related regulations.