

Stock Code: 1504



TECO ELECTRIC & MACHINERY CO., LTD

GENERAL SHAREHOLDERS MEETING 2017

JUNE 16, 2017

AGENDA

Time: 09:00am, June 16, 2017 (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.

Table of Contents

1. MEETING PROCEDURE.....	3
2. MEETING AGENDA	4
(1) REPORTS	5
(2) RATIFICATION	6
(3) DISCUSSION	7
(4) EXTEMPORE MOTIONS	8
3. ATTACHMENTS.....	9
(1) Business Report for 2016	10
(2) Inspection Report of Audit Committee for 2016	13
(3) Financial Statements and Auditors' Report for 2016	14
(4) Distribution of 2016 Profits	43
(5) The comparison between the revision and the original of Procedure for Acquisition or Disposal of Assets	44
4. APPENDICES.....	60
(1) Articles of Incorporation.....	61
(2) Rules Governing Shareholders' Meeting	71
(3) Corporate Governance Best Practice Principles.....	75
(4) Ethical Corporate Management Best Practice Principles	93
(5) Corporate Social Responsibility Best Practice Principles	99
(6) Procedure for Acquisition or Disposal of Assets	106
(7) Shareholding of All Directors	126
(8) Notes	127

TECO Electric & Machinery Co., Ltd.

General Shareholders Meeting 2017

Meeting Procedure

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

TECO Electric & Machinery Co., Ltd.

General Shareholders Meeting 2017

Agenda

Time: 09:00am, June 16, 2017(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 2016
 - 3.2 Inspection Report of Audit Committee for 2016
 - 3.3 Remuneration distribution to employees and directors for 2016
 - 3.4 Amendment to Corporate Governance Best Practice Principles
 - 3.5 Amendment to Ethical Corporate Management Best Practice Principles
 - 3.6 Amendment to Corporate Social Responsibility Best Practice Principles
 4. Ratification
 - 4.1 Business Report and Financial Statements for 2016
 - 4.2 Distribution of 2016 Profits
 5. Discussion
 - 5.1 Amendment to Procedure for Acquisition or Disposal of Assets
- ※ After being discussed case by case, voting for the Ratification and Discussion will take place at the same time. Vote counting will be conducted separately.
6. Extempore motion(s)
 7. Meeting adjourned

Reports

1. Business report for 2016 (pages 10-12)
2. Inspection Report of Audit Committee for 2016 (page 13)
3. Remuneration distribution to employees and directors for 2016

Explanatory note:

In 2016, income before tax is NT\$ 3,622,424 thousands, and remuneration to employees is proposed to be NT\$ 283,999 thousands, whilst remuneration to directors is proposed to be NT\$ 125,333 thousands. The remuneration would be distributed in cash.

4. Amendment to Corporate Governance Best Practice Principles (page 75-92)
5. Amendment to Ethical Corporate Management Best Practice Principles (page 93-98)
6. Amendment to Corporate Social Responsibility Best Practice Principles (page 99-105)

Ratification

Proposal 1:

Business Report and Financial Statements for 2016 (proposed by the board of directors)

Explanatory note:

1. The Board of Directors entrusted certified public accountants Audrey Tseng and Dexter Chang with Pricewaterhouse Coopers to audit and certify the Business Report and Financial Statements (includes Consolidated Financial Statements) for 2016, both of which were subsequently inspected by Audit Committee and are hereby submitted for ratification.
2. Please see pages 10-12 for the business report and pages 14-42 for the Auditors' Report and the Financial Statements.

Proposal 2:

Distribution of 2016 profits (proposed by the board of directors)

Explanatory note:

1. The board of directors plans to appropriate NT\$1,762,369,740 from distributable earnings in 2016 for dividend payout, capable of paying NT\$0.88 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 43 for the detailed profit distribution plan.

Discussion

Proposal 1:

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

Explanatory note:

1. According to Financial Supervisory Commission No. 1060001296, February 9, 2017, the company propose to revise the related measures of Procedure for Acquisition or Disposal of Assets.
2. For the comparison between the revision and the original, please refer to pages **44-59** and **106-125**.

Extempore Motion(s)

Meeting Adjourned

Attachments

1. Business Report for 2016 on pages 10-12.
2. Inspection Report of Audit Committee for 2016 on page 13.
3. Financial Statements and Auditors' Report for 2016 on pages 14-42.
4. Distribution of 2016 Profits on page 43.
5. The comparison between the revision and the original of Procedure for Acquisition or Disposal of Assets on pages 44-59.

Business Report

Dear Shareholders,

Stuck in "low-growth" trap, the global economy declined by 2.4% in 2016, the worst performance since the global financial tsunami. Strength of recovery in the U.S., Japan, and Europe failed to meet expectation and growth in China and emerging economies slowed down, which, plus uncertainty resulting from Brexit, dampened demand on the electric-machinery market. However, thanks to years of effort in energy conservation, carbon abatement, smart application, and automation, the company still managed to take advantage of new business opportunities, thereby retaining steady profits.

A. Review of Business Performance in 2016

Analysis of the company's business performance in 2016 follows:

a. Parent Company

Unit: NT\$ thousand

	2016	2015	Change
Sales revenue	20,274,047	21,809,717	(7.04%)
Operating profit	1,615,152	1,617,491	(0.14%)
Profit for the year	3,481,480	3,177,291	9.57%

Regarding revenue, benefited from replacement demand and energy-performance subsidies, sales of air conditioner expanded further in 2016, when revenue of power business also grew substantially, thanks to income listed quarterly, in line with progress in the construction, from major engineering projects. Revenues from other businesses, though, dropped, due to decline in global demand for infrastructural projects, shrinking investments in oil- and mineral-related lines, insufficient orders and languid sales of electric-machinery products. The company's overall revenue dropped by 7% in 2016.

Due to increased shares of higher-margin custom products and variable-frequency products, the company's gross margin advanced by one percentage point in the year. Meanwhile, operating expense decreased by NT\$100 million, thanks to continuous rationalization of personnel and other expenses. As a result, operating income only dropped slightly. As for non-operating income and expense, the company saw investment returns, thanks to increased investment returns from the merger of Century Development Corp. and the company's Italian subsidiary Motovario, plus income from disposal of stakes in Straits Construction Investment (Holdings) and Hangzhou Xizi-IUK Parking System Co.,Ltd. Overall net profit grew by 9.57%.

As for R&D, the company successfully developed a number of new products, including large-scale water-recycling pump motor, medium-voltage variable-frequency motor for industry-grade chiller, IE4 motor for Japan and China, anti-dust blast motor, netcom inverter, cloud-end EMS, and R32-coolant series

models. Thanks to its heavy R&D investments, the company won Taiwan Excellent Award for six items and 23 domestic and foreign patents.

b. Consolidated Financial Statements

Unit: NT\$ thousand

	2016	2015	Change
Sales revenue	49,923,836	48,598,573	3%
Operating profit	4,189,481	3,787,627	11%
Profit for the year	4,036,998	3,514,116	15%
Total comprehensive income for the year	4,360,290	560,158	678%

Consolidated sales revenue grew by 3% in 2016, due to the acquisition of Century Development and Motovario, while Operating profit grew by 11%. The growth of Unrealized gain on valuation of available-for-sale financial assets resulted into higher Total comprehensive income for the year. Overall, Profit for the year grew by 15% and Total comprehensive income for the year grew by 678%.

B. Outline of 2017 Business Plan

Major domestic and foreign forecast bodies predict that the global economy will grow by 2.4-3.3% in 2017, higher than 2016. International prices of raw materials, including oil and metal, have stabilized, helping oil/gas and mineral customers to attain steady revenue growth, which will benefit the company's sales. Taiwan's economy will also perform better than 2016, with growth forecast reaching 1.5-1.8%. In addition, the government is pushing "accelerated transformation of industrial structure" and "expansion of infrastructural investments" programs, boosting domestic investments and growth, which will benefit the company's business for electric-machinery products and engineering projects.

In 2017, the company will develop around a number of axes, including sales of systematic products, simplification and improvement of existing product lines, and continuing dedication to smart products, automated production equipment, and other related products, such as G2-servo electric machinery, so as to enhance the company's overall product competitiveness. In addition, the company will step into the realm of PV ESCO, installing PV panels on the roofs of the group's factories, on top of micro grids and smart energy management system, key applications for smart city, which have been developed by the company. Regarding electric machinery, the company will roll out IP66 water- and dust-proof anti-blast motor and E510s IP20 inverters, which have obtained EU functional-safety certification. As for home appliances, the company will launch air conditioners featuring CSPF-grade energy performance. The aforementioned new products will inject fresh growth momentum for the group. Meanwhile, the company will invest further in India, Africa, and ASEAN, consolidating overseas business network and expanding global deployment.

The company has been granted the golden award of Taiwan Corporate Sustainability Awards (TCSA) for the TOP50 category for three years in a row, and the corporate

citizen award by Commonwealth magazine, in addition to top 5% in corporate-governance evaluation. As an advocate for sustainable development in the electric-machinery industry, the company will, in adherence to its integrity-based management concept and conformance to the global current of energy conservation and carbon abatement, dedicate to the development of smart environment-friendly products and march towards the goal of becoming a global corporate guidepost, thereby creating maximum benefits for shareholders and paying back our shareholders and investing public, in return for their long-term 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 2016 (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 2017

TECO Electric & Machinery Co., Ltd

Audit Committee Convener : Ting-Wong, Cheng

Date: March 24, 2017

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, 2016 and 2015, 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, 2016 and 2015, and their financial performance and cash flows for the years then ended, in conformity with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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 parent company only financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

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, and it exist in subsidiaries(listed as investments accounted for under equity method). Thus, we consider the revenue recognition of motor division a key audit matter.

How our audit addressed the matter

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

1. Checking 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 examine 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, 2016, the balance of investments accounted for under equity method was \$5,012,878,000. 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 Electric & Machinery Co., Ltd. assesses the impairment of investment in premium using the recoverable amount generated from the cash flow forecast discounted of 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 a key matter.

How our audit addressed the matter aud

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

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

Business combination - acquisition of Century Development Corporation

Description

Please refer to Note 4(33) for accounting policies on business combination. As stated in Note 6(32) of the parent company only financial statements, the TECO Electric & Machinery Co., Ltd. acquired 12.12% of the ordinary shares of Century Development Corporation for cash of \$462,233,000 in February 2016. Including the previously held 40.63% stake in the TECO Electric & Machinery Co., Ltd., the total holdings of the Company increased to 52.75% and accordingly, the Company obtained control over Century Development Corporation. Century Development Corporation is engaged in domestic and foreign industrial areas and site investment and development including of consulting, planning, development management and leasing business. In determining the fair value of the real property and land right held from the business combination, management has commissioned a valuation expert to evaluate the fair value and prepare a fair value allocation report, which is measured and assessed on the

acquisition The identifiable assets of the Company and the liabilities assumed, which will be completed within one year after the business combination. In addition, the transaction is a phased merger of enterprises. The Company in accordance with the fair value of the acquisition date to measure its previously held by the acquirer's interest. As Century Development Corporation's common stock is not quoted in active market, the management department of the Department of external experts to evaluate the assessment of the fair value of the way. The evaluation of the fair value of the common stock in the absence of the active market quotation involves the judgment results and the evaluation results have a significant effect on the valuation of the business combination. Thus, we consider the valuation of said acquisition a key audit matter.

How our audit addressed the matter

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

1. Checking acquisition contract and certificate of proceeds paid to ascertain accuracy of counter whether the party and cash amount details.
2. Checking the record process for the accuracy of accounting process of acquisition that divided into several steps.
3. Assessing the accuracy of parameter and calculation, and the approach that management used in evaluating the fair value of Century Development Corporation.
4. Assessing the qualifications of the management committee in appointing the valuation experts, and evaluating the appropriateness of the parameters and models used.

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 \$ 4,037,283,000 and \$ 8,265,099,000, constituting 6% and 12% of the related total assets as of December 31, 2016 and 2015, respectively, and the comprehensive income amounting to \$ 60,193,000 and \$ 290,837,000, constituting 2% and 81% 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 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 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 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 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 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 Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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 consolidated 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.

PricewaterhouseCoopers, Taiwan

March 24, 2017

The accompanying 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 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
YEARS ENDED DECEMBER 31

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Assets	Notes	December 31, 2016		December 31, 2015		
		AMOUNT	%	AMOUNT	%	
Current assets						
1100	Cash and cash equivalents	6(1) and 8	\$ 760,582	1	\$ 1,111,218	2
1110	Financial assets at fair value	6(2)(23)				
	through profit or loss - current		30,832	-	-	-
1150	Notes receivable, net	6(4)(5)	355,078	1	309,109	1
1160	Notes receivable - related parties	7	338,482	-	279,145	-
1170	Accounts receivable, net	6(5)	1,941,337	3	1,576,044	2
1180	Accounts receivable - related	6(8) and 7				
	parties		1,474,255	2	1,556,391	2
1190	Receivables from customers on	6(7)				
	construction contracts		1,112,235	2	730,166	1
1200	Other receivables		58,077	-	47,622	-
1210	Other receivables - related parties	6(8) and 7	1,251,437	2	1,226,378	2
130X	Inventory	6(6)	2,993,682	4	2,941,725	4
1410	Prepayments		23,994	-	20,063	-
1470	Other current assets	6(1) and 8	259,162	-	319,424	1
11XX	Total current assets		10,599,153	15	10,117,285	15
Non-current assets						
1523	Available-for-sale financial assets	6(3)				
	- non-current		5,723,592	8	4,227,347	6
1550	Investments accounted for under	6(8) and 7				
	equity method		46,963,822	67	46,389,595	69
1600	Property, plant and equipment	6(9) and 7	3,643,481	5	3,877,206	6
1760	Investment property - net	6(10)	2,209,428	3	2,059,317	3
1840	Deferred income tax assets	6(27)	733,286	1	624,028	1
1900	Other non-current assets	6(11)	311,868	1	302,936	-
15XX	Total non-current assets		59,585,477	85	57,480,429	85
1XXX	Total assets		\$ 70,184,630	100	\$ 67,597,714	100

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
YEARS ENDED DECEMBER 31

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Liabilities and Equity	Notes	December 31, 2016		December 31, 2015	
			AMOUNT	%	AMOUNT	%
	Current liabilities					
2100	Short-term borrowings	6(12)	\$ 477,670	1	\$ 3,354,685	5
2120	Financial liabilities at fair value through profit or loss - current	6(13)(23)	-	-	1,962	-
2150	Notes payable		9,141	-	14,267	-
2160	Notes payable - related parties	7	169,722	-	184,663	-
2170	Accounts payable		3,406,292	5	2,659,470	4
2180	Accounts payable - related parties	7	1,258,472	2	1,159,348	2
2190	Payables to customers on construction contracts	6(7)	182,598	-	343,133	-
2200	Other payables	6(29)	2,595,906	4	2,485,286	4
2220	Other payables - related parties	7	376,716	1	119,214	-
2230	Current income tax liabilities	6(27)	297,153	-	343,926	-
2250	Provisions for liabilities - current		71,778	-	41,265	-
2300	Other current liabilities	6(14)	184,135	-	1,719,616	3
21XX	Total current liabilities		<u>9,029,583</u>	<u>13</u>	<u>12,426,835</u>	<u>18</u>
	Non-current liabilities					
2530	Corporate bonds payable	6(14)	3,000,000	4	3,000,000	5
2540	Long-term borrowings	6(15)	5,690,598	8	2,059,706	3
2570	Deferred income tax liabilities	6(27)	1,011,652	1	830,297	1
2600	Other non-current liabilities	6(16)	1,721,230	3	1,816,834	3
25XX	Total non-current liabilities		<u>11,423,480</u>	<u>16</u>	<u>7,706,837</u>	<u>12</u>
2XXX	Total liabilities		<u>20,453,063</u>	<u>29</u>	<u>20,133,672</u>	<u>30</u>
	Equity					
	Share capital	6(17)				
3110	Share capital - common stock		20,026,929	29	20,026,929	30
	Capital surplus	6(18)				
3200	Capital surplus		7,671,889	10	7,638,417	11
	Retained earnings	6(19)(27)				
3310	Legal reserve		5,730,071	8	5,412,342	8
3320	Special reserve		3,640,779	5	3,640,779	5
3350	Unappropriated retained earnings		11,816,689	17	10,310,158	15
	Other equity interest	6(20)				
3400	Other equity interest		1,166,773	2	756,980	1
3500	Treasury stocks	6(8)(17)	(321,563)	-	(321,563)	-
3XXX	Total equity		<u>49,731,567</u>	<u>71</u>	<u>47,464,042</u>	<u>70</u>
	Commitments and Contingent Liabilities	9				
	Subsequent Events	11				
3X2X	Total liabilities and equity		<u>\$ 70,184,630</u>	<u>100</u>	<u>\$ 67,597,714</u>	<u>100</u>

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 24, 2017.

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

Items	Notes	Year ended December 31			
		2016		2015	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(21) and 7	\$ 20,274,047	100	\$ 21,809,717	100
5000 Operating costs	6(6)(16)(25)(26) and 7	(15,500,989)	(77)	(16,971,458)	(78)
5900 Net operating margin		4,773,058	23	4,838,259	22
5910 Unrealized profit from sales	7	(584,325)	(3)	(550,823)	(3)
5920 Realized profit from sales		550,823	3	559,116	3
5950 Net operating margin		4,739,556	23	4,846,552	22
Operating expenses	6(16)(25)(26) and 7				
6100 Selling expenses		(1,862,294)	(9)	(1,930,798)	(9)
6200 General and administrative expenses		(577,374)	(3)	(565,761)	(3)
6300 Research and development expenses		(684,736)	(3)	(732,502)	(3)
6000 Total operating expenses		(3,124,404)	(15)	(3,229,061)	(15)
6900 Operating profit		1,615,152	8	1,617,491	7
Non-operating income and expenses					
7010 Other income	6(2)(10)(13)(22) and 7	514,376	3	404,789	2
7020 Other gains and losses	6(3)(23) and 7	(464,090)	(2)	(566,415)	(2)
7050 Finance costs	6(24) and 7	(127,580)	(1)	(135,806)	(1)
7070 Share of profit of subsidiary, associates and joint ventures accounted for under equity method	6(8)	2,084,566	10	2,186,385	10
7000 Total non-operating income and expenses		2,007,272	10	1,888,953	9
7900 Profit before income tax		3,622,424	18	3,506,444	16
7950 Income tax expense	6(27)	(140,944)	(1)	(329,153)	(1)
8200 Profit for the year		\$ 3,481,480	17	\$ 3,177,291	15
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)	(\$ 20,771)	-	(\$ 56,367)	-
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		(34,295)	-	726	-
8310 Components of other comprehensive loss that will not be reclassified to profit or loss		(55,066)	-	(55,641)	-
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)	(1,164,215)	(6)	(398,150)	(2)
8362 Other comprehensive income, before tax, available-for-sale financial assets	6(3)(20)	1,651,872	8	102,005	1
8380 Share of other comprehensive income of subsidiary, associates and joint ventures accounted for under equity method	6(20)	(177,296)	(1)	(2,524,687)	(12)
8399 Income tax relating to the components of other comprehensive income	6(20)(27)	99,432	1	58,248	-
8360 Components of other comprehensive (loss) income that will be reclassified to profit or loss		409,793	2	(2,762,584)	(13)
8300 Other comprehensive (loss) income for the year		\$ 354,727	2	(\$ 2,818,225)	(13)
8500 Total comprehensive income for the year		\$ 3,836,207	19	\$ 359,066	2
Earnings per share (in dollars)	6(28)				
9750 Basic earnings per share		\$ 1.76		\$ 1.60	
9850 Diluted earnings per share		\$ 1.75		\$ 1.60	

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 24, 2017.

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Notes	Retained Earnings					Other equity interest			Total equity	
	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		
2015										
Balance at January 1, 2015	\$ 20,026,929	\$ 7,600,552	\$ 5,005,650	\$ 3,737,786	\$ 9,701,155	\$ 352,932	\$ 3,166,632	(\$ 321,563)	\$ 49,270,073	
Appropriations of 2014 net income (Note)	6(19)									
Reversal of special reserve	-	-	-	(97,007)	97,007	-	-	-	-	
Legal reserve	-	-	406,692	-	(406,692)	-	-	-	-	
Cash dividends	-	-	-	-	(2,202,962)	-	-	-	(2,202,962)	
Effect of changes in the net equity of associates and joint ventures accounted for under the equity method	-	10,005	-	-	-	-	-	-	10,005	
Differences between the price for acquisition or disposal of subsidiaries and carrying amount	6(8)	27,860	-	-	-	-	-	-	27,860	
Other comprehensive loss for the year	6(20)	-	-	-	(56,367)	(339,902)	102,005	-	(294,264)	
Share of other comprehensive loss of subsidiary, associates and joint venture accounted for under the equity method	6(20)	-	-	-	726	-	(2,524,687)	-	(2,523,961)	
Net income for the year		-	-	-	3,177,291	-	-	-	3,177,291	
Balance at December 31, 2015		<u>\$ 20,026,929</u>	<u>\$ 7,638,417</u>	<u>\$ 5,412,342</u>	<u>\$ 3,640,779</u>	<u>\$ 10,310,158</u>	<u>\$ 13,030</u>	<u>\$ 743,950</u>	<u>(\$ 321,563)</u>	<u>\$ 47,464,042</u>
Year 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
New Item	6(19)									
New Item		-	-	317,729	-	(317,729)	-	-	-	
New Item		-	-	-	-	(1,602,154)	-	-	(1,602,154)	
New Item		-	33,472	-	-	-	-	-	33,472	
New Item	6(20)	-	-	-	-	(20,771)	(1,064,783)	1,651,872	566,318	
New Item	6(20)	-	-	-	-	(34,295)	-	(177,296)	(211,591)	
Profit (loss)		-	-	-	-	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>

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

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 24, 2017.

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, except as otherwise indicated)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 3,622,424	\$ 3,506,444
Adjustments			
Adjustments to reconcile profit (loss)			
Net gain on financial assets at fair value through profit or loss	6(2)(23)	(30,832)	(33,672)
Net loss (gain) on financial liabilities at fair value through profit or loss	6(13)(23)	(1,316)	1,962
Provision for doubtful accounts	6(5)	1,005	1,663
Provision for (reversal of) decline in value of inventories	6(6)	107,609	36,755
Interest income	6(22)	(29,661)	(28,640)
Interest expense	6(24)	123,462	115,847
Dividend income	6(22)	(197,377)	(84,084)
Impairment loss	6(3)(23)	96,190	308,328
Loss on disposal of investments	6(23)	(23,971)	31,878
Changes in unrealized (gain) loss from downstream sales		33,503	(8,293)
Profit or loss reclassified from other comprehensive income of associates and joint ventures accounted for under equity method that is recognised prior to obtaining control		-	21,547
Share of profit of associates and joint ventures accounted for under the equity method	6(8)	(2,084,566)	(2,186,385)
Depreciation, amortization and net gain or loss on disposal of property, plant and equipment, net	6(9)(10)(23)(25)	416,926	416,374
Foreign currency exchange (gain) loss on bonds payable		1,620	(29,100)
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current		-	54,678
Notes receivable		(46,099)	(55,818)
Notes receivable - related parties		(59,337)	133,244
Accounts receivable		(366,169)	185,835
Accounts receivable - related parties		82,136	374,897
Receivables from customers on construction contract		(382,069)	38,227
Other receivables		(10,455)	644
Other receivables - related parties		(45,825)	(22,107)
Inventories		(159,566)	306,285
Prepayments		(3,931)	(5,402)
Other current asset		65,081	61,116
Changes in operating liabilities			
Financial liabilities at fair value through profit or loss-current		(646)	-
Notes payable		(5,126)	(5,803)
Notes payable - related parties		(14,941)	1,914
Accounts payable		746,822	(781,791)
Accounts payable - related parties		99,124	(321,935)
Payables to customers on construction contract		(160,535)	84,024
Other payables		132,180	(99,412)
Other payables - related parties		(22,498)	(23,507)
Provisions for liabilities		30,513	(2,357)
Other current liabilities		(36,981)	(53,674)
Other non-current liabilities		(127,320)	(11,167)
Cash inflow generated from operations		1,749,374	1,928,515
Interest received	6(22)	29,661	28,640
Dividends received		721,221	965,897
Payment of interest		(156,677)	(89,489)
Payment of income tax		(16,188)	(123,447)
Net cash flows from operating activities		2,327,391	2,710,116

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, except as otherwise indicated)

	Notes	2016	2015
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in other receivables - related parties		\$ 20,766	(\$ 29,222)
Decrease in pledged fixed deposit	8	(4,819)	920
Proceeds from disposal of available-for-sale financial assets - non-current		111,241	95,807
Increase in available-for-sale financial assets - non-current		(66,557)	(37,560)
Increase in investments accounted for under equity method		(339,672)	(4,063,078)
Proceeds from disposal of property, plant and equipment		1,858	4,999
Acquisition of property, plant and equipment	6(9)(10)(29)	(302,551)	(309,740)
Increase in deferred expenses		(11,041)	(2,340)
(Increase) decrease in refundable deposits		594	(34,397)
Increase in other non-current assets		(19,449)	(69,486)
Net cash flows used in investing activities		(609,630)	(4,444,097)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from short-term loans		(2,877,015)	3,225,934
(Decrease) increase in other payables - related parties financing		280,000	(643,480)
Proceeds from issuance of bonds payable		-	3,000,000
NewItem		(1,500,120)	-
(Decrease) increase in long-term loans		3,630,892	(3,329,876)
Cash dividends paid	6(19)	(1,602,154)	(2,202,962)
Net cash flows (used in) from financing activities		(2,068,397)	49,616
Net decrease in cash and cash equivalents		(350,636)	(1,684,365)
Cash and cash equivalents at beginning of year		1,111,218	2,795,583
Cash and cash equivalents at end of year		<u>\$ 760,582</u>	<u>\$ 1,111,218</u>

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 24, 2017.

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. a (the “Group”) as at December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and 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, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2016 and 2015, and their financial performance and cash flows for the years then ended, in conformity with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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.

Revenue recognition of export sales of motor division

Description

Please 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. Teco Group disclosed the financial information of motor division and home appliance division in the segment financial information. Motor division handles the manufacturing and sales of various machinery, equipment and motors. The sales revenue of the motor division amounted to \$30,413,219,000, representing 61% of the total sales revenue for the year ended December 31, 2016. The clients of motor division are from China, America, South-East Asia and Europe and the sales terms vary for different clients. Thus, we consider the revenue recognition of motor division a key audit matter.

How our audit addressed the matter

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

1. Checking 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 examine whether the export sales recognized actually existed.

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

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 group. As of December 31, 2016, the balance of goodwill was \$5,012,878,000. Please refer to Note 4(21) of the consolidated 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 goodwill.

Teco Group assesses the impairment of goodwill using the recoverable amount generated from the cash flow forecast discounted of 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 goodwill a key audit matter.

How our audit addressed the matter

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

1. Inspecting whether the valuation model used by The Group is reasonable.
2. Inspecting whether the future cash flows of valuation model is in accordance with Motovario S.p.A's operation plan, and reviewing the results of operation plan prepared by management in the past.
3. Evaluating the reasonableness of major assumptions (including the expected growth rate and discount rate) used in the model.
4. Assessing the sensitivity analysis of management's future cash flows for the above significant assumptions and confirming whether management has adequately addressed the possible impact of the estimated uncertainty of the impairment assessment.

Business combination - acquisition of Century Development Corporation

Description

Please refer to Note 4(36) for accounting policies on business combination. As stated in Note 6(32) of the consolidated financial statements, the Group acquired 12.12% of the ordinary shares of Century Development Corporation for cash of \$462,233,000 in February 2016. Including the previously held 40.63% stake in the Group, the total holdings of the Group increased to 52.75% and accordingly, the Group obtained control over Century Development Corporation. Century Development Corporation is engaged in domestic and foreign industrial areas and site investment and development including of

consulting, planning, development management and leasing business. In determining the fair value of the real property and land right held from the business combination, management has commissioned a valuation expert to evaluate the fair value and prepare a fair value allocation report, which is measured and assessed on the acquisition. The identifiable assets of the Group and the liabilities assumed, which will be completed within one year after the business combination. In addition, the transaction is a phased merger of enterprises. The Group in accordance with the fair value of the acquisition date to measure its previously held by the acquirer's interest. As Century Development Corporation's common stock is not quoted in active market, the management department of the Department of external experts to evaluate the assessment of the fair value of the way. The evaluation of the fair value of the common stock in the absence of the active market quotation involves the judgment results and the evaluation results have a significant effect on the valuation of the business combination. Thus, we consider the valuation of said acquisition a key audit matter.

How our audit addressed the matter

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

1. Checking acquisition contract and certificate of proceeds paid to ascertain accuracy of counter whether the party and cash amount details.
2. Checking the record process for the accuracy of accounting process of acquisition that divided into several steps.
3. Assessing the accuracy of parameter and calculation, and the approach that management used in evaluating the fair value of Century Development Corporation.
4. Assessing the qualifications of the management committee in appointing the valuation experts, and evaluating the appropriateness of the parameters and models used.

Other matter – audit 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. The financial statements of these subsidiaries reflect total assets of \$3,517,300,000 and \$11,314,418,000, constituting 4% and 13% of the consolidated total assets as of December 31, 2016 and 2015, respectively, and total operating revenues of \$2,065,558,000 and \$3,074,913,000, constituting 4% and 6% of

consolidated total operating revenues for the years then ended, respectively. These investments accounted for under the equity method amounted to \$2,445,113,000 and \$4,040,747,000, constituting 5% and 13% of consolidated total assets as of December 31, 2016 and 2015, respectively, the credit balance of investments accounted for under equity method amounted for \$55,400,000 and \$28,270,000, both constituting 0% of consolidated total assets as of December 31, 2016 and 2015, respectively, and the share of profit of associates and joint ventures accounted for under the equity method amounted to \$29,987,000 and \$94,683,000, constituting 1% and 17% of the consolidated total comprehensive income for the years then ended, respectively. Those financial statements were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein is based solely on the audit reports of the other independent accountants.

Other matter –Parent company only financial reports

We have audited the parent company only financial statements of TECO Electric & Machinery Co., Ltd. as of and for the years ended December 31, 2016 and 2015, and have expressed a modified unqualified opinion on such financial statements.

Responsibilities of management and the Board of Directors for the consolidated financial statements

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

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

The Board of Directors, including audit committee, are responsible for overseeing the Group’s financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 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 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 consolidated 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.

PricewaterhouseCoopers, Taiwan

March 24, 2017

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
YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Assets	Notes	December 31, 2016		December 31, 2015	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1) and 8	\$ 13,989,826	15	\$ 14,919,042	18
1110	Financial assets at fair value through profit or loss - current	6(2)	233,508	-	265,984	-
1125	Available-for-sale financial assets - current	6(3) and 8	1,384,099	2	1,462,871	2
1147	Bond investments without active markets - current	6(4)	2,830,572	3	141,551	-
1150	Notes receivable, net	6(5)(6) and 8	1,218,343	1	1,006,151	1
1160	Notes receivable - related parties	7	5,399	-	14,943	-
1170	Accounts receivable, net	6(6) and 8	10,424,905	11	9,329,829	11
1180	Accounts receivable - related parties	7	234,755	-	194,082	-
1190	Receivables from customers on construction contracts	6(8)	1,235,956	1	805,488	1
1200	Other receivables		242,304	-	323,881	-
1210	Other receivables - related parties	7	497,796	1	692,340	1
130X	Inventories, net	6(7) and 8	11,177,041	12	11,755,227	14
1410	Prepayments		471,200	1	333,968	1
1470	Other current assets	6(1) and 8	1,350,606	2	1,047,045	1
11XX	Total current assets		<u>45,296,310</u>	<u>49</u>	<u>42,292,402</u>	<u>50</u>
Total Non-current assets						
1523	Available-for-sale financial assets - non-current	6(3) and 8	11,743,617	13	10,905,909	13
1550	Investments accounted for under the equity method	6(9) and 8	3,871,299	4	5,464,797	6
1600	Property, plant and equipment, net	6(10), 7 and 8	18,463,450	20	15,018,217	18
1760	Investment property, net	6(11)	3,073,386	3	2,561,444	3
1780	Intangible assets	6(12)(32)	5,636,766	6	5,541,844	7
1840	Deferred income tax assets	6(30)	1,194,242	1	1,183,247	1
1900	Other non-current assets	6(13) and 8	3,094,886	4	1,466,392	2
15XX	Non-current assets		<u>47,077,646</u>	<u>51</u>	<u>42,141,850</u>	<u>50</u>
1XXX	Total assets		<u>\$ 92,373,956</u>	<u>100</u>	<u>\$ 84,434,252</u>	<u>100</u>

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Liabilities and Equity	Notes	December 31, 2016		December 31, 2015	
			AMOUNT	%	AMOUNT	%
	Current liabilities:					
2100	Short-term borrowings	6(14) and 8	\$ 3,078,361	4	\$ 6,619,012	8
2120	Financial liabilities at fair value through profit or loss - current	6(15)	-	-	15,043	-
2150	Notes payable		163,161	-	112,098	-
2160	Notes payable - related parties	7	7,611	-	1,313	-
2170	Accounts payable		7,511,353	8	6,628,882	8
2180	Accounts payable - related parties	7	99,117	-	95,766	-
2190	Payables to customers on construction contracts	6(8)	202,021	-	367,467	-
2200	Other payables	6(16)	4,998,690	6	4,863,815	6
2230	Current income tax liabilities	6(30)	550,441	1	555,477	1
2250	Provisions for liabilities - current		272,234	-	256,979	-
2300	Other current liabilities	6(17)(18)	2,075,856	2	3,199,186	4
21XX	Total current liabilities		<u>18,958,845</u>	<u>21</u>	<u>22,715,038</u>	<u>27</u>
	Non-current liabilities:					
2530	Corporate bonds payable	6(17)	3,000,000	3	3,000,000	3
2540	Long-term borrowings	6(18) and 8	9,428,570	10	2,300,299	3
2550	Provisions for liabilities - non-current		250,317	-	230,265	-
2570	Deferred income tax liabilities	6(30)	2,485,443	3	2,317,721	3
2600	Other non-current liabilities	6(9)(19)	2,526,238	3	2,438,425	3
25XX	Total non-current liabilities		<u>17,690,568</u>	<u>19</u>	<u>10,286,710</u>	<u>12</u>
2XXX	Total liabilities		<u>36,649,413</u>	<u>40</u>	<u>33,001,748</u>	<u>39</u>
	Equity attributable to owners of parent					
	Share capital					
3110	Common stock	6(20)	20,026,929	22	20,026,929	24
	Capital surplus					
3200	Capital surplus	6(21)	7,671,889	8	7,638,417	8
	Retained earnings					
3310	Legal reserve	6(22)(30)	5,730,071	6	5,412,342	7
3320	Special reserve		3,640,779	4	3,640,779	4
3350	Unappropriated retained earnings		11,816,689	13	10,310,158	12
	Other equity interest					
3400	Other equity interest	6(23)	1,166,773	1	756,980	1
3500	Treasury stocks	6(20) and 8	(321,563)	-	(321,563)	-
31XX	Equity attributable to owners of the parent		<u>49,731,567</u>	<u>54</u>	<u>47,464,042</u>	<u>56</u>
36XX	Non-controlling interest		<u>5,992,976</u>	<u>6</u>	<u>3,968,462</u>	<u>5</u>
3XXX	Total equity		<u>55,724,543</u>	<u>60</u>	<u>51,432,504</u>	<u>61</u>
	Commitments and contingent liabilities:					
	Subsequent events					
3X2X	Total liabilities and equity		<u>\$ 92,373,956</u>	<u>100</u>	<u>\$ 84,434,252</u>	<u>100</u>

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 24, 2017.

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

Items	Notes	Year ended December 31				
		2016		2015		
		AMOUNT	%	AMOUNT	%	
4000	Sales revenue	6(24) and 7	\$ 49,923,836	100	\$ 48,598,573	100
5000	Operating costs	6(7)(19)(28)(29) and 7	(36,788,304)	(74)	(36,203,039)	(74)
5900	Net operating margin		13,135,532	26	12,395,534	26
5910	Unrealized loss from sales		(6,625)	-	(5,488)	-
5920	Realized profit from sales		5,488	-	10,265	-
5950	Net operating margin		13,134,395	26	12,400,311	26
	Operating expenses	6(19)(28)(29)				
6100	Selling expenses		(4,495,731)	(9)	(4,155,857)	(9)
6200	General and administrative expenses		(3,055,579)	(6)	(3,021,603)	(6)
6300	Research and development expenses		(1,393,604)	(3)	(1,435,224)	(3)
6000	Total operating expenses		(8,944,914)	(18)	(8,612,684)	(18)
6900	Operating profit		4,189,481	8	3,787,627	8
	Non-operating income and expenses					
7010	Other income	6(4)(25) and 7	1,160,006	2	1,361,206	3
7020	Other gains and losses	6(2)(3)(11)(15)(26)(3 2)	(43,705)	-	(511,807)	(1)
7050	Finance costs	6(10)(27)	(282,231)	-	(227,691)	(1)
7060	Share of profit of associates and joint ventures accounted for under the equity method	6(9)	(90,260)	-	153,936	-
7000	Total non-operating income and expenses		743,810	2	775,644	1
7900	Profit before income tax		4,933,291	10	4,563,271	9
7950	Income tax expense	6(30)	(896,293)	(2)	(1,049,155)	(2)
8200	Profit for the period		\$ 4,036,998	8	\$ 3,514,116	7

(Continued)

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

Items	Notes	Year ended December 31				
		2016		2015		
		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)	(\$ 52,979)	-	(\$ 61,881)	-
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		(11,532)	-	(6,113)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(30)	2,270	-	2,852	-
8310	Components of other comprehensive income that will not be reclassified to profit or loss		(62,241)	-	(65,142)	-
Other comprehensive income that will be reclassified to profit or loss						
8361	Currency translation differences of foreign operations	6(23)	(1,218,203)	(2)	(398,131)	(1)
8362	Unrealized gain (loss) on valuation of available-for-sale financial assets	6(3)(23)	1,501,773	3	2,540,151	(5)
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)	2,421	-	8,826	-
8399	Income tax relating to the components of other comprehensive income that will be reclassified	6(30)	99,542	-	58,292	-
8360	Components of other comprehensive income that will be reclassified to profit or loss		385,533	1	2,888,816	(6)
8300	Other comprehensive income (loss) for the period		\$ 323,292	1	(\$ 2,953,958)	(6)
8500	Total comprehensive income for the period		\$ 4,360,290	9	\$ 560,158	1
Profit attributable to:						
8610	Owners of the parent		\$ 3,481,480	7	\$ 3,177,291	6
8620	Non-controlling interest		555,518	1	336,825	1
			\$ 4,036,998	8	\$ 3,514,116	7
Comprehensive income attributable to:						
8710	Owners of the parent		\$ 3,836,207	8	\$ 359,066	1
8720	Non-controlling interest		524,083	1	201,092	-
			\$ 4,360,290	9	\$ 560,158	1
Earnings per share (in dollars)						
9750	Basic earnings per share	6(31)	\$ 1.76		\$ 1.60	
9850	Diluted earnings per share		\$ 1.75		\$ 1.60	

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 24, 2017.

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

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 4,933,291	\$ 4,563,271
Adjustments			
Adjustments to reconcile profit (loss)			
Net loss (gain) on financial assets at fair value through profit or loss	6(2)(26)	(12,017)	(56,530)
Net loss on financial liabilities at fair value through profit or loss	6(15)(26)	(1,214)	14,620
(Reversal of) provision for allowance for doubtful accounts	6(6)	(11,722)	39,009
Provision for decline in value of inventories	6(7)	52,253	136,665
Interest income	6(25)	(172,217)	(178,084)
Dividend income	6(25)	(560,089)	(476,663)
Interest expense	6(27)	282,231	227,691
Depreciation and amortization	6(10)(11)(28)	1,549,723	1,307,539
Gain on disposal of investments	6(24)(26)	(619,104)	(177,504)
Loss on disposal of property, plant and equipment	6(26)	(687)	10,233
Impairment loss	6(3)(26)	127,277	412,195
Share of profit of associates and joint ventures accounted for under the equity method	6(9)	90,260	(153,936)
Foreign currency exchange loss (gain) of bonds payable		1,620	(29,100)
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current		44,493	108,945
Notes receivable		(212,164)	67,433
Notes receivable - related parties		9,544	84,189
Accounts receivable		(1,060,196)	504,850
Accounts receivable - related parties		(18,936)	389,858
Receivables from customers on construction contracts		(414,111)	38,847
Other receivables		178,066	(63,257)
Other receivables - related parties		23,411	9,242
Inventories		525,933	982,140
Prepayments		(111,621)	(82,285)
Other current assets		(127,198)	81,192
Changes in operating liabilities			
Notes payable		49,516	(7,824)
Notes payable - related parties		(444)	(7,537)
Accounts payable		820,574	(1,857,814)
Accounts payable - related parties		3,351	2,178
Payables to customers on construction contracts		(187,308)	76,126
Other payables		72,845	164,156
Provisions for liabilities		35,307	67,746
Other current liabilities		(372,607)	(270,965)
Other non-current liabilities		7,705	(141,878)
Cash inflow generated from operations		4,925,765	5,784,748
Interest received	6(25)	172,217	178,084
Dividend received	6(25)	706,416	651,005
Interest paid	6(27)	(282,231)	(227,691)
Income tax paid	6(30)	(671,738)	(844,718)
Net cash flows from operating activities		<u>4,850,429</u>	<u>5,541,428</u>

(Continued)

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

	Notes	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in other receivables-related parties	7	\$ 216,500	\$ -
(Increase) decrease in available-for-sale financial assets - current		11,067	(142,407)
(Increase) decrease in bond investments without active market		(2,689,021)	(19,011)
Increase in pledged demand and fixed deposits	8	(13,811)	(282,598)
Proceeds from disposal of available-for-sale financial assets - non-current		925,473	699,142
Acquisition of available-for-sale financial assets - non-current		(150,622)	(80,449)
Increase in investments accounted for under the equity method		(91,829)	(370,784)
Acquisition of property, plant and equipment	6(10)(33)	(1,464,972)	(1,696,681)
Proceeds from disposal of property, plant and equipment		63,713	28,591
Acquisition of intangible assets		(225,070)	(167,084)
Decrease in restricted assets		511	(219)
(Increase) decrease in other non-current assets		(627,777)	57,590
Net cash inflow (outflow) on acquisitions of subsidiaries	6(32)(33)	266,268	(3,894,036)
Net cash flows used in investing activities		(3,779,570)	(5,867,946)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (Decrease) in short-term loans		(3,540,651)	3,726,661
Increase (decrease) in long-term loans		5,588,166	(5,793,025)
Repayment of bonds payable		(1,500,200)	-
Proceeds from issuance of bonds payable	6(17)	-	3,000,000
Cash dividends paid	6(22)	(1,602,154)	(2,202,962)
Net cash flows used in financing activities		(1,054,839)	(1,269,326)
Exchange rate effect		(945,236)	(686,804)
Net decrease in cash and cash equivalents		(929,216)	(2,282,648)
Cash and cash equivalents at beginning of year		14,919,042	17,201,690
Cash and cash equivalents at end of year		\$ 13,989,826	\$ 14,919,042

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 24, 2017.

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

E q u i t y a t t r i b u t a b l e t o o w n e r s o f t h e p a r e n t

Notes	Share capital - common stock	Capital surplus	Retained Earnings			Other equity interest		Treasury stocks	Total	Non-controlling interest	Total equity	
			Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets					
Year ended December 31, 2015												
	Balance at January 1, 2015	\$ 20,026,929	\$ 7,600,552	\$ 5,005,650	\$ 3,737,786	\$ 9,701,155	\$ 352,932	\$ 3,166,632	(\$321,563)	\$ 49,270,073	\$ 4,018,649	\$ 53,288,722
6(22)	Appropriations of 2014 net income	-	-	-	(97,007)	97,007	-	-	-	-	-	-
	Reversal of special reserve	-	-	-	(97,007)	97,007	-	-	-	-	-	-
	Legal reserve	-	-	406,692	-	(406,692)	-	-	-	-	-	-
	Cash dividends	-	-	-	-	(2,202,962)	-	-	(2,202,962)	-	-	(2,202,962)
	Effect of changes in net equity of associates and joint ventures amount for under the equity method	-	10,005	-	-	-	-	-	-	10,005	-	10,005
	Difference between the price for acquisition or disposal of subsidiaries and carrying amount	-	27,860	-	-	-	-	-	-	27,860	-	27,860
	Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(251,279)	(251,279)
6(23)	Other comprehensive income for the year	-	-	-	-	(55,641)	(339,902)	(2,422,682)	-	(2,818,225)	(135,733)	(2,953,958)
6(22)	Profit for the year	-	-	-	-	3,177,291	-	-	-	3,177,291	336,825	3,514,116
	Balance at December 31, 2015	<u>\$ 20,026,929</u>	<u>\$ 7,638,417</u>	<u>\$ 5,412,342</u>	<u>\$ 3,640,779</u>	<u>\$ 10,310,158</u>	<u>\$ 13,030</u>	<u>\$ 743,950</u>	<u>(\$321,563)</u>	<u>\$ 47,464,042</u>	<u>\$ 3,968,462</u>	<u>\$ 51,432,504</u>
For the six-month period ended June 30, 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
6(22)	Appropriation of 2015 net income	-	-	-	-	-	-	-	-	-	-	-
	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 amount for under the equity method	-	33,472	-	-	-	-	-	-	33,472	-	33,472
	Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	1,500,431	1,500,431
6(23)	Other comprehensive income for the period	-	-	-	-	(55,066)	(1,064,783)	1,474,576	-	354,727	(31,435)	323,292
6(22)	Profit for the period	-	-	-	-	3,481,480	-	-	-	3,481,480	555,518	4,036,998
	Balance at June 30, 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>

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 24, 2017.

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

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

(Continued)

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

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

TECO Electric & Machinery Co., Ltd.

Distribution of 2016 Profits

(In NT \$)

Item	Amount
Accumulated undistributed profit as of the beginning of the period	8,390,274,224
Less: Retained earnings after adjustment in 2016	(55,064,738)
Accumulated undistributed earnings after adjustment	8,335,209,486
Add: Net Profit after tax in 2016	3,481,479,502
Less : Legal Reserve	(348,147,950)
Total distributable earnings	11,468,541,038
Profit available for distribution for the period:	
Profit-sharing to shareholders	1,762,369,740
(Dividend per share)	0.88
Undistributed profit as of the end of 2016	9,706,171,298
Note :	
1. Defined Pension Obligation actuarial gains and losses, and recognized as Other comprehensive income including it into retained earnings	

Notes:

1. Dividend per share in 2016 is NT\$0.88 and all dividends distributed this year shall be cash dividend.
2. The profit distributed this period will be distributed from the distributable earnings received in 2016 and from the accumulated undistributed profits from previous years where there is a shortfall.
3. In the event of any change to the total number of outstanding shares as a result of 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.

Comparison of Current Provision and Proposed Amendment to

Procedure for Acquisition or Disposal of Assets

Proposed Provision	Current Amendment	Note
<p>Article 7 Procedure for acquisition or disposal of real property or other fixed assets</p> <p>1. Evaluation and procedure of operation</p> <p>Acquisition or disposal of real property and equipments by the Company shall be in accordance with the Company's internal control policy pertaining to the revolving of fixed assets.</p> <p>2. Procedure for determining the terms of transaction and approval of transaction</p> <p>2.1 The terms and transaction price of the acquisition or disposal of real property shall be determined by reference to, among others, the posted current value, appraised value, and the actual transaction price of other real property located nearby. Transactions with a value of less than TWD50 million may precede with the approval of the President. Transactions with a value of between TWD50 million and TWD100 million each may proceed with the approval of the Chairman of the Board of Directors and shall be reported to the immediately subsequent meeting of the Board of Directors. Transactions with a value of over TWD100 million must be approved by the Board of Directors in advance.</p> <p>2.2 Acquisition or disposal of equipments shall be conducted by way of issuing request for proposal, price competition under restricted tendering, and price negotiation under single</p>	<p>Article 7 Procedure for acquisition or disposal of real property or other fixed assets</p> <p>1. Evaluation and procedure of operation</p> <p>Acquisition or disposal of real property and equipments by the Company shall be in accordance with the Company's internal control policy pertaining to the revolving of fixed assets.</p> <p>2. Procedure for determining the terms of transaction and approval of transaction</p> <p>2.1 The terms and transaction price of the acquisition or disposal of real property shall be determined by reference to, among others, the posted current value, appraised value, and the actual transaction price of other real property located nearby. Transactions with a value of less than TWD50 million may precede with the approval of the President. Transactions with a value of between TWD50 million and TWD100 million each may proceed with the approval of the Chairman of the Board of Directors and shall be reported to the immediately subsequent meeting of the Board of Directors. Transactions with a value of over TWD100 million must be approved by the Board of Directors in advance.</p> <p>2.2 Acquisition or disposal of equipments shall be conducted by way of issuing request for proposal, price competition under restricted tendering, and price negotiation under single</p>	

<p>tendering or bidding. The approval thereof shall be in accordance with the Schedule of Functions and Authority compiled pursuant to the relevant bylaws of the Company.</p> <p>2.3 Where the acquisition or disposal of assets by the Company in accordance with the relevant procedure or other laws must be approved by the Board of Directors in advance, the opposition expressed by the Director with written record thereof taken or in writing shall be submitted to Audit Committee. On the acquisition or disposal of assets duly proposed to the Board of Directors for approval, opinion expressed by the Independent Director shall be sufficiently considered with their concurrence or dissent expressed and the reason therefore duly recorded in the meeting minutes.</p> <p>3. Unit in charge of execution of transaction Upon approval of the proposed acquisition or disposal of real property or equipments pursuant to the preceding paragraph, the responsible department and the Corporate Finance & Management Division shall take charge of the execution thereof.</p> <p>4. Appraisal report on real property or equipments Where the transaction value of the acquisition or disposal of real property or equipments amounts to 20% or more of the paid-in capital of the Company or TWD300 million or more, an appraisal report produced by a professional appraiser must be obtained before the date the fact happens in accordance with the following, except in cases where the transaction counterpart is a government <u>institutions</u>, or the transaction is an entrusted</p>	<p>tendering or bidding. The approval thereof shall be in accordance with the Schedule of Functions and Authority compiled pursuant to the relevant bylaws of the Company.</p> <p>2.3 Where the acquisition or disposal of assets by the Company in accordance with the relevant procedure or other laws must be approved by the Board of Directors in advance, the opposition expressed by the Director with written record thereof taken or in writing shall be submitted to Audit Committee. On the acquisition or disposal of assets duly proposed to the Board of Directors for approval, opinion expressed by the Independent Director shall be sufficiently considered with their concurrence or dissent expressed and the reason therefore duly recorded in the meeting minutes.</p> <p>3. Unit in charge of execution of transaction Upon approval of the proposed acquisition or disposal of real property or equipments pursuant to the preceding paragraph, the responsible department and the Corporate Finance & Management Division shall take charge of the execution thereof.</p> <p>4. Appraisal report on real property or equipments Where the transaction value of the acquisition or disposal of real property or equipments amounts to 20% or more of the paid-in capital of the Company or TWD300 million or more, an appraisal report produced by a professional appraiser must be obtained before the date the fact happens in accordance with the following, except in cases where the transaction counterpart is a government <u>agencies</u>, or the transaction is an entrusted construction project on a</p>	<p>Change government agencies to government institutions, in line with the revision of the statute by the Financial Supervisory Commission</p>
---	---	--

<p>construction project on a self-owned land or a leased land, or the objects to be acquired or disposed of is equipment for business purpose.</p> <p>4.1 Where the transaction price shall be determined by reference to any restricted, designated price or special price for whatever special reason, the transaction and all subsequent changes to the terms thereof (if any) must be submitted to the Board of Directors for approval in advance.</p> <p>4.2 Where the transaction value amounts to TWD1 billion or more, the appraisal shall be conducted by two or more professional appraisers.</p> <p>4.3 If the appraisal conducted by the professional appraiser runs into either of the following conditions, except the appraisal value of the acquired assets is higher than the trading value or the appraisal value of the disposed assets is lower than the trading value, subsequent handling by certified public accountant in accordance with the No. 20 Statement of Financial Accounting Standards published by ARD Foundation should be sought for as well as its opinion with respect to the reasons accounting for the price difference and the acceptability of the transaction price:</p> <p>4.3.1 The amount difference between the appraised value and the transaction value amounts to 20% of the transaction value.</p> <p>4.3.2 The amount difference among the appraised values as a result of the appraisals conducted by two or more professional appraiser's amounts to 10% or more of the transaction value.</p>	<p>self-owned land or a leased land, or the objects to be acquired or disposed of is equipment for business purpose.</p> <p>4.1 Where the transaction price shall be determined by reference to any restricted, designated price or special price for whatever special reason, the transaction and all subsequent changes to the terms thereof (if any) must be submitted to the Board of Directors for approval in advance.</p> <p>4.2 Where the transaction value amounts to TWD1 billion or more, the appraisal shall be conducted by two or more professional appraisers.</p> <p>4.3 If the appraisal conducted by the professional appraiser runs into either of the following conditions, except the appraisal value of the acquired assets is higher than the trading value or the appraisal value of the disposed assets is lower than the trading value, subsequent handling by certified public accountant in accordance with the No. 20 Statement of Financial Accounting Standards published by ARD Foundation should be sought for as well as its opinion with respect to the reasons accounting for the price difference and the acceptability of the transaction price:</p> <p>4.3.1 The amount difference between the appraised value and the transaction value amounts to 20% of the transaction value.</p> <p>4.3.2 The amount difference among the appraised values as a result of the appraisals conducted by two or more professional appraiser's amounts to 10% or more of the transaction value.</p> <p>4.4 The appraisal report date and</p>	
---	--	--

<p>4.4 The appraisal report date and the date of creation of the transaction contract conducted by professional appraiser must not be apart for more than 3 months. Notwithstanding, if the same posted present value has been adopted to calculate the value and the above two dates are less than 6 months apart, the written opinion of the original professional appraiser may be sought.</p> <p>4.5 Where the Company has acquired or disposed of the asset by auction by the court, the relevant written evidence document issued by the court may operate in place of the appraisal report or certified public accountant's opinion.</p> <p>5. The aforementioned trading value should be calculated according to Article 15.1.5. The period is the one year before the occurrence of the trading. The obtaining of appraisal report or CPA's opinions can not be included.</p>	<p>the date of creation of the transaction contract conducted by professional appraiser must not be apart for more than 3 months. Notwithstanding, if the same posted present value has been adopted to calculate the value and the above two dates are less than 6 months apart, the written opinion of the original professional appraiser may be sought.</p> <p>4.5 Where the Company has acquired or disposed of the asset by auction by the court, the relevant written evidence document issued by the court may operate in place of the appraisal report or certified public accountant's opinion.</p> <p>5. The aforementioned trading value should be calculated according to Article 15.1.5. The period is the one year before the occurrence of the trading. The obtaining of appraisal report or CPA's opinions can not be included.</p>	
<p>Article 11 Procedure for acquisition or disposal of intangible assets</p> <p>1. Evaluation and procedure for operation The acquisition or disposal of intangible assets by the Company shall be conducted in accordance with the Company's internal control policy pertaining to the revolving of fixed assets.</p> <p>2. Terms of transaction and procedure for approval of transaction</p> <p>2.1 The terms and transaction price of the proposed acquisition or disposal of intangible assets shall be determined by reference</p>	<p>Article 11 Procedure for acquisition or disposal of intangible assets</p> <p>1. Evaluation and procedure for operation The acquisition or disposal of intangible assets by the Company shall be conducted in accordance with the Company's internal control policy pertaining to the revolving of fixed assets.</p> <p>2. Terms of transaction and procedure for approval of transaction</p> <p>2.1 The terms and transaction price of the proposed acquisition or disposal of intangible assets shall be determined by reference</p>	

<p>to the evaluation report produced by an expert or the fair market value. Transactions with a transaction value of less than TWD30 million each may proceed with the approval of the President. Transactions with a value of between TWD30 million and TWD60 million may proceed with the approval of the Chairman and shall be reported to the immediate subsequent meeting of the Board of Directors. Transactions with a value of over TWD60 million each must be approved by the Board of Directors in advance.</p> <p>2.2 Where the acquisition or disposal of assets by the Company in accordance with the relevant procedure or other laws must be approved by the Board of Directors in advance, the opposition expressed by the Director with written record thereof taken or in writing shall be submitted to Audit Committee. On the acquisition or disposal of assets duly proposed to the Board of Directors for approval, opinion expressed by the Independent Director shall be sufficiently considered with their concurrence or dissent expressed and the reason therefore duly recorded in the meeting minutes.</p> <p>3. Unit in charge of execution of transaction Upon approval of the proposed acquisition or disposal of membership or intangible assets or other fixed assets pursuant to the preceding paragraph, the responsible department and the Corporate Finance & Management Division shall take charge of the execution thereof.</p> <p>4. Expert evaluation report on membership or intangible assets Except the transaction with</p>	<p>to the evaluation report produced by an expert or the fair market value. Transactions with a transaction value of less than TWD30 million each may proceed with the approval of the President. Transactions with a value of between TWD30 million and TWD60 million may proceed with the approval of the Chairman and shall be reported to the immediate subsequent meeting of the Board of Directors. Transactions with a value of over TWD60 million each must be approved by the Board of Directors in advance.</p> <p>2.2 Where the acquisition or disposal of assets by the Company in accordance with the relevant procedure or other laws must be approved by the Board of Directors in advance, the opposition expressed by the Director with written record thereof taken or in writing shall be submitted to Audit Committee. On the acquisition or disposal of assets duly proposed to the Board of Directors for approval, opinion expressed by the Independent Director shall be sufficiently considered with their concurrence or dissent expressed and the reason therefore duly recorded in the meeting minutes.</p> <p>3. Unit in charge of execution of transaction Upon approval of the proposed acquisition or disposal of membership or intangible assets or other fixed assets pursuant to the preceding paragraph, the responsible department and the Corporate Finance & Management Division shall take charge of the execution thereof.</p> <p>4. Expert evaluation report on membership or intangible assets Except the transaction with</p>	<p>Change government</p>
---	---	--------------------------

<p>government <u>institutions</u>, where the transaction value of the acquisition or disposal of membership or intangible asset by the Company amounts to 20% of the paid-in capital of the Company or TWD300 million, the opinion of a certified public accountant on the acceptability of the proposed transaction price should be sought for before the date the fact happens, who shall act in accordance with the No. 20 Statement of Auditing Standards published by the ARD Foundation.</p> <p>5. The aforementioned trading value should be calculated according to Article 15.1.5. The period is the one year before the occurrence of the trading. The obtaining of appraisal report or CPA's opinions can be excluded.</p>	<p>transaction value of the acquisition or disposal of membership or intangible asset by the Company amounts to 20% of the paid-in capital of the Company or TWD300 million, the opinion of a certified public accountant on the acceptability of the proposed transaction price should be sought for before the date the fact happens, who shall act in accordance with the No. 20 Statement of Auditing Standards published by the ARD Foundation.</p> <p>5. The aforementioned trading value should be calculated according to Article 15.1.5. The period is the one year before the occurrence of the trading. The obtaining of appraisal report or CPA's opinions can be excluded.</p>	<p>agencies to government institutions, in line with the revision of the statute by the Financial Supervisory Commission</p>
<p>Article 14 Procedure for handling merger, spin-off, acquisition or assignment of shares</p> <p>1. Evaluation and procedure of operation</p> <p>1.1 The Company shall, for the purpose of a merger, spin-off, acquisition or assignment of shares, call a meeting of the legal counsel, certified public accountant and underwriter for joint discussion to determine the timetable of the legal proceeding and organize a special group to execute the legal proceeding. The Company shall also seek the opinion of the certified public accountant, legal counsel or underwriter with respect to the acceptability of the proposed swap ratio, acquisition price or, cash or other property to be distributed to the shareholders and submit the same to the meeting of the Board of Directors for approval. <u>The company need not obtain reasonable opinions</u></p>	<p>Article 14 Procedure for handling merger, spin-off, acquisition or assignment of shares</p> <p>1. Evaluation and procedure of operation</p> <p>1.1 The Company shall, for the purpose of a merger, spin-off, acquisition or assignment of shares, call a meeting of the legal counsel, certified public accountant and underwriter for joint discussion to determine the timetable of the legal proceeding and organize a special group to execute the legal proceeding. The Company shall also seek the opinion of the certified public accountant, legal counsel or underwriter with respect to the acceptability of the proposed swap ratio, acquisition price or, cash or other property to be distributed to the shareholders and submit the same to the meeting of the Board of Directors for approval.</p>	<p>There is no need to solicit opinions of experts on reasonableness of the ratio of share swap, as, according to the FSC's suggestion, acquisition of 100% owned subsidiaries or merger of 100% owned subsidies, on the basis of Enterprises Mergers and Acquisitions Act, is tantamount in essence to corporate restructuring of a</p>

<p><u>from experts, as mentioned above, for acquiring subsidiaries 100% owned, in terms of issued shares or paid-in capital, by the company directly or indirectly or merger of subsidiaries 100% owned, in terms of issued shares or paid-in capital, by the company directly.</u></p> <p>1.2 The Company shall, prior to the convention of the relevant Shareholders Meeting, produce the document on disclosure of the material agreement and relevant matters on the proposed merge, spin-off or acquisition and submit such document to all shareholders together with the expert opinion provided in paragraph 1.1 of this Article and the meeting minutes as reference for the shareholders to determine to or not to approve the proposed merger, spin-off or acquisition, except in case where a relevant resolution adopted by the Shareholders Meeting is not legally required. If any of the participant companies is unable to convene the meeting, or to obtain the resolution of its shareholders meeting on the proposed merger, spin-off or acquisition because the number of shares represented at the meeting fell short of the quorum for the meeting or the proposal is denied by the meeting, the participant companies shall promptly give a public explanation of the cause, the subsequent handling and reschedule a date for convening the shareholders meeting.</p> <p>2. Other matters for attention</p> <p>2.1 Date of convention of the relevant meeting of the Board of Directors: Except as otherwise provided by law or there being any special factor which has been approved by the FSC, companies participating in the merger, spin-off or acquisition shall</p>	<p>1.2 The Company shall, prior to the convention of the relevant Shareholders Meeting, produce the document on disclosure of the material agreement and relevant matters on the proposed merge, spin-off or acquisition and submit such document to all shareholders together with the expert opinion provided in paragraph 1.1 of this Article and the meeting minutes as reference for the shareholders to determine to or not to approve the proposed merger, spin-off or acquisition, except in case where a relevant resolution adopted by the Shareholders Meeting is not legally required. If any of the participant companies is unable to convene the meeting, or to obtain the resolution of its shareholders meeting on the proposed merger, spin-off or acquisition because the number of shares represented at the meeting fell short of the quorum for the meeting or the proposal is denied by the meeting, the participant companies shall promptly give a public explanation of the cause, the subsequent handling and reschedule a date for convening the shareholders meeting.</p> <p>2. Other matters for attention</p> <p>2.1 Date of convention of the relevant meeting of the Board of Directors: Except as otherwise provided by law or there being any special factor which has been approved by the FSC, companies participating in the merger, spin-off or acquisition shall convene the meeting of the board of directors and the shareholders meeting on</p>	<p>business group.</p>
--	--	------------------------

<p>convene the meeting of the board of directors and the shareholders meeting on the same day to adopt the resolution on the matters in connection with the proposed merger, spin-off or acquisition. Except as otherwise provided by law or there being any special factor which has been approved by the Financial Supervisory Commission, companies participating in the assignment of shares shall convene the meeting of the board of directors on the same day. Companies participating in the merger, spin-off, acquisition or assignment of shares whose stocks are traded on the stock exchange or the over-the-counter market shall maintain complete written record on the following materials and keep the same for a term of five years.</p> <p>2.1.1 Basic personal information: including all personnel who participate in the execution of the merger, spin-off, acquisition or assignment of shares before the relevant information was publicly released, including their titles, names, and identification card (or passport) number.</p> <p>2.1.2 Dates of important matters including, among others, execution of the relevant memorandum of intent (MOI) or memorandum of understanding (MOU), engagement of financial or legal counsel, execution of the relevant contract(s) and the date of the relevant meeting of the Board of Directors.</p> <p>2.1.3 Important documents and meeting records on, among others, the proposed merger, spin-off, acquisition or assignment of shares, and the relevant MOI or MOU, important contract(s) and minutes of the relevant meeting of the Board of Directors. Companies participating in the merger, spin-off, acquisition or assignment of shares, whose</p>	<p>the same day to adopt the resolution on the matters in connection with the proposed merger, spin-off or acquisition. Except as otherwise provided by law or there being any special factor which has been approved by the Financial Supervisory Commission, companies participating in the assignment of shares shall convene the meeting of the board of directors on the same day. Companies participating in the merger, spin-off, acquisition or assignment of shares whose stocks are traded on the stock exchange or the over-the-counter market shall maintain complete written record on the following materials and keep the same for a term of five years.</p> <p>2.1.1 Basic personal information: including all personnel who participate in the execution of the merger, spin-off, acquisition or assignment of shares before the relevant information was publicly released, including their titles, names, and identification card (or passport) number.</p> <p>2.1.2 Dates of important matters including, among others, execution of the relevant memorandum of intent (MOI) or memorandum of understanding (MOU), engagement of financial or legal counsel, execution of the relevant contract(s) and the date of the relevant meeting of the Board of Directors.</p> <p>2.1.3 Important documents and meeting records on, among others, the proposed merger, spin-off, acquisition or assignment of shares, and the relevant MOI or MOU, important contract(s) and minutes of the relevant meeting of the Board of Directors. Companies participating in the merger, spin-off, acquisition or assignment of shares, whose stocks are traded on the stock exchange or the over-the-counter market shall each, within two days</p>	
---	--	--

<p>stocks are traded on the stock exchange or the over-the-counter market shall each, within two days from the date following the adoption of the relevant resolution by the meeting of their Board of Directors, make a report online of the information provided in subparagraphs 1 and 2 of the preceding paragraph in the required form and substance to the Financial Supervisory Commission.</p> <p>Companies participating in the merger, spin-off, acquisition or assignment of shares, whose stocks are traded on the stock exchange or the over-the-counter market shall enter into the relevant agreement with companies participating in the merger, spin-off, acquisition or assignment of shares, whose stocks are not traded on the stock exchange or the over-the-counter market (if any) and make the report provided in the two preceding paragraphs.</p> <p>2.2 Prior non-disclosure agreement:</p> <p>All persons who participate in or have knowledge about the Company's project of merger, spin-off, acquisition or assignment of shares shall each sign a non-disclosure agreement to undertake that they will not externally disclose the project before the Company makes the relevant public disclosure and that they will not buy or sell any stocks or equity securities of any company involved in the proposed merger, spin-off, acquisition or assignment of shares, either in their own name or using any other person's name to do so.</p> <p>2.3 Determination and change of the proposed swap ratio or acquisition price: Each participant company shall</p>	<p>from the date following the adoption of the relevant resolution by the meeting of their Board of Directors, make a report online of the information provided in subparagraphs 1 and 2 of the preceding paragraph in the required form and substance to the Financial Supervisory Commission.</p> <p>Companies participating in the merger, spin-off, acquisition or assignment of shares, whose stocks are traded on the stock exchange or the over-the-counter market shall enter into the relevant agreement with companies participating in the merger, spin-off, acquisition or assignment of shares, whose stocks are not traded on the stock exchange or the over-the-counter market (if any) and make the report provided in the two preceding paragraphs.</p> <p>2.2 Prior non-disclosure agreement:</p> <p>All persons who participate in or have knowledge about the Company's project of merger, spin-off, acquisition or assignment of shares shall each sign a non-disclosure agreement to undertake that they will not externally disclose the project before the Company makes the relevant public disclosure and that they will not buy or sell any stocks or equity securities of any company involved in the proposed merger, spin-off, acquisition or assignment of shares, either in their own name or using any other person's name to do so.</p> <p>2.3 Determination and change of the proposed swap ratio or acquisition price: Each participant company shall seek the opinion of the certified public accountant, legal counsel or underwriter with respect to the acceptability of the proposed</p>	
--	---	--

<p>seek the opinion of the certified public accountant, legal counsel or underwriter with respect to the acceptability of the proposed swap ratio, acquisition price, or cash or other property to be distributed to shareholders before the meetings of Board of Directors, then submit the same to the Shareholders Meeting. Basically, neither the swap ratio nor the acquisition price shall be changed except in case of the conditions for a change provided in the contract (if any) and such conditions have been publicly disclosed. The swap ratio or acquisition price may be changed in the event of any of the following:</p> <p>2.3.1 The subject securities are issued for capital increase, issuance of convertible bonds, stock grant, and issuance of corporate bond with stock option, issuance of preferred shares with stock option, issuance of share warrant certificates or other equity securities.</p> <p>2.3.2 Any of the participant companies has done any act that may affect the financial operation of the company such as disposal of its material assets.</p> <p>2.3.3 The shareholders' equity or securities price of any of the participant companies has been affected by, among others, a major disaster or material technical change.</p> <p>2.3.4 Any of the participant companies has adjusted legal buy-back of treasury stocks.</p> <p>2.3.5 The principal participant companies or the number of participant companies has changed.</p> <p>2.3.6 The contract has provided the other conditions for changes and such conditions have been publicly disclosed.</p> <p>2.4 Provision of the contract: The contract on the proposed merger, spin-off, acquisition or assignment of shares shall</p>	<p>swap ratio, acquisition price, or cash or other property to be distributed to shareholders before the meetings of Board of Directors, then submit the same to the Shareholders Meeting. Basically, neither the swap ratio nor the acquisition price shall be changed except in case of the conditions for a change provided in the contract (if any) and such conditions have been publicly disclosed. The swap ratio or acquisition price may be changed in the event of any of the following:</p> <p>2.3.1 The subject securities are issued for capital increase, issuance of convertible bonds, stock grant, and issuance of corporate bond with stock option, issuance of preferred shares with stock option, issuance of share warrant certificates or other equity securities.</p> <p>2.3.2 Any of the participant companies has done any act that may affect the financial operation of the company such as disposal of its material assets.</p> <p>2.3.3 The shareholders' equity or securities price of any of the participant companies has been affected by, among others, a major disaster or material technical change.</p> <p>2.3.4 Any of the participant companies has adjusted legal buy-back of treasury stocks.</p> <p>2.3.5 The principal participant companies or the number of participant companies has changed.</p> <p>2.3.6 The contract has provided the other conditions for changes and such conditions have been publicly disclosed.</p> <p>2.4 Provision of the contract: The contract on the proposed merger, spin-off, acquisition or assignment of shares shall provide the matters set forth below, except those in accordance with the provision of Article 317-1 of the Company Act and Article 22</p>	
--	--	--

<p>provide the matters set forth below, except those in accordance with the provision of Article 317-1 of the Company Act and Article 22 of the Business Merger Act:</p> <p>2.4.1 Handling of defaults.</p> <p>2.4.2 The procedure for issuance of equity securities or buy-back of treasury shares adopted by the company to extinct as a result of the proposed merger or to spin off.</p> <p>2.4.3 The amount of treasury stocks the participant company may legally buy back after the swap ratio record date and such company's procedure therefore.</p> <p>2.4.4 Ways to handle matters arising from a change of the principal participant company or the number of participant companies.</p> <p>2.4.5 The schedule for executing the project and the scheduled date of completion.</p> <p>2.4.6 Procedure for handling relevant matters and the date to duly convene the relevant Shareholders Meeting in case the project is not completed as scheduled.</p> <p>2.5 Change of the participant companies: Where, after any of the companies participating in the proposed merger, spin-off, acquisition or assignment of shares has publicly disclosed the information, there is another company to participate in the proposed merger, spin-off, acquisition or assignment of shares, the original participant companies each shall re-new all relevant proceedings or legal acts except in the case of there being reduction in the number of the original participant companies and the Board of Directors is authorized to act accordingly by the resolution of the Shareholders Meeting.</p> <p>2.6 The Company shall enter into an agreement with the participant</p>	<p>of the Business Merger Act:</p> <p>2.4.1 Handling of defaults.</p> <p>2.4.2 The procedure for issuance of equity securities or buy-back of treasury shares adopted by the company to extinct as a result of the proposed merger or to spin off.</p> <p>2.4.3 The amount of treasury stocks the participant company may legally buy back after the swap ratio record date and such company's procedure therefore.</p> <p>2.4.4 Ways to handle matters arising from a change of the principal participant company or the number of participant companies.</p> <p>2.4.5 The schedule for executing the project and the scheduled date of completion.</p> <p>2.4.6 Procedure for handling relevant matters and the date to duly convene the relevant Shareholders Meeting in case the project is not completed as scheduled.</p> <p>2.5 Change of the participant companies: Where, after any of the companies participating in the proposed merger, spin-off, acquisition or assignment of shares has publicly disclosed the information, there is another company to participate in the proposed merger, spin-off, acquisition or assignment of shares, the original participant companies each shall re-new all relevant proceedings or legal acts except in the case of there being reduction in the number of the original participant companies and the Board of Directors is authorized to act accordingly by the resolution of the Shareholders Meeting.</p> <p>2.6 The Company shall enter into an agreement with the participant</p>	
---	---	--

<p>company which is not a public company and set the date to convene the relevant meeting of the Board of Directors, execute the prior non-disclosure agreement, and act accordingly in consideration of the change of the participant companies in accordance with paragraphs 2.1, 2.2 and 2.5 of this Article.</p>	<p>consideration of the change of the participant companies in accordance with paragraphs 2.1, 2.2 and 2.5 of this Article.</p>	
<p>Article 15 Procedure for public disclosure reports</p> <p>1. Matters which should be reported for public disclosure and the relevant standards</p> <p>1.1 Acquisition of real property, or disposal of properties with, related parties, or acquisition of non-property assets from, or disposal of non-property assets with, related parties with the trading value exceeding 20% of the company's paid-in capital or 10% of total assets, or NT\$300 million. However, trading in government bonds or bonds with repurchase and resale agreements, or subscription or repurchase of money market funds by domestic securities investment trust enterprises and subscription or redemption of domestic money-market funds <u>issued by Securities Investment Trust Enterprises</u> are not included.</p> <p>1.2 Merger, spin-off, acquisition or assignment of shares.</p> <p>1.3 The amount of loss incurred from the derivatives transaction exceeds the limit on loss from all contracts or the relevant individual contract provided in the relevant handling procedure.</p> <p>1.4 The subject asset to be acquired or disposed of is</p>	<p>Article 15 Procedure for public disclosure reports</p> <p>1. Matters which should be reported for public disclosure and the relevant standards</p> <p>1.1 Acquisition of real property, or disposal of properties with, related parties, or acquisition of non-property assets from, or disposal of non-property assets with, related parties with the trading value exceeding 20% of the company's paid-in capital or 10% of total assets, or NT\$300 million. However, trading in government bonds or bonds with repurchase and resale agreements, or subscription or repurchase of money market funds by domestic securities investment trust enterprises and subscription or redemption of domestic money-market funds are not included.</p> <p>1.2 Merger, spin-off, acquisition or assignment of shares.</p> <p>1.3 The amount of loss incurred from the derivatives transaction exceeds the limit on loss from all contracts or the relevant individual contract provided in the relevant handling procedure.</p> <p>1.4 Assets transactions or disposals of credit claims in</p>	<p>In line with textual revision by the Financial Supervisory Commission (FSC)</p>

<p>equipment for business use and the transaction counterpart is a non-related party and the transaction value is <u>above TWD 1 billion</u>.</p> <p>1.5 The subject real property is to be acquired or disposed of by the construction business division of the Company for construction use and the transaction counterpart is a non-related party and the transaction value is <u>above TWD500 million</u>.</p> <p>1.6 The subject real property to be acquired is a building is to be constructed on a self-owned land, leased land, jointly constructed and shared by units, jointly constructed and shared by percentage, jointly constructed and sold by units and the anticipated transaction value is <u>above TWD500 million</u>.</p> <p>1.7 Assets transactions or disposals of credit claims in financial institutions or investment in PRC other than those provided in the preceding six subparagraphs, the transaction value of which amounts to 20% of the paid-in capital of the Company or TWD300 million each, except for these transactions:</p> <p>1.7.1 The transaction is the purchase or sale of government bonds.</p> <p>1.7.2 Professional investors, who trade in securities at domestic or overseas stock exchanges or business outlets of securities firms, or subscribe to common corporate bonds and common financial bonds without stock right on the domestic primary market, security brokers who subscribe to securities out of the need for underwriting business or in the capacity as a assisting or recommending security firm for share listing on the Emerging</p>	<p>financial institutions or investment in PRC other than those provided in the preceding <u>three</u> subparagraphs, the transaction value of which amounts to 20% of the paid-in capital of the Company or TWD300 million each, except for these transactions:</p> <p>1.4.1 The transaction is the purchase or sale of government bonds.</p> <p>1.4.2 The transaction is for investment purposes only of securities traded on local or foreign stock exchange or over-the-counter market or obtaining of securities by securities firms on the primary market.</p> <p>1.4.3 The subject asset to be acquired or disposed of is bond with re-purchase, re-sale agreements. Subscription to and redemption of domestic money-market funds</p> <p>1.4.4 The subject asset to be acquired or disposed of is equipment for business use and the transaction counterpart is a non-related party and the transaction value is less than TWD500 million.</p> <p>1.4.5 The subject real property is to be acquired or disposed of by the construction business division of the Company for construction use and the transaction counterpart is a non-related party and the transaction value is less than TWD500 million.</p> <p>1.4.6 The subject real property to be acquired is a building is to be constructed on a self-owned land, leased land, jointly constructed and shared by units, jointly constructed and shared by percentage, jointly constructed and sold by units and the anticipated transaction value is less than TWD500 million.</p> <p>1.5 The transaction value provided in previous paragraph</p>	<p>Based upon the consideration of FSC, to avoid over frequent declaration of large scale corporation reducing materiality of information disclosure, disclosure standard was revised and relocated to 1.4</p> <p>Original 1.4.5 and 1.4.6 were relocated to 1.5 and 1.6</p> <p>Original 1.4.1,.1.4.2 and 1.4.3 were relocated to 1.7</p>
---	--	---

<p>Stock Market, according to the regulations of the ROC Greta Market (over-the-counter market)</p> <p>1.7.3 The subject asset to be acquired or disposed of is bond with re-purchase, re-sale agreements. Subscription to and redemption of domestic money-market funds <u>issued by Securities Investment Trust Enterprises.</u></p> <p>1.8 The transaction value provided in previous paragraph 1.8 above shall be calculated as follows, where within one year means within the year immediately preceding the date of occurrence of the proposed transaction, excluding the items which have been publicly disclosed.</p> <p>1.8.1 The value of each transaction.</p> <p>1.8.2 The total value of the property of the same nature acquired from or transferred to the same transaction counterpart within one year.</p> <p>1.8.3 The total value of the real property under the same development project acquired or disposed of within one year (the sum acquired and the sum disposed of shall be calculated separately).</p> <p>1.8.4 The total value of the same specific securities acquired or disposed of within one year (the sum acquired and the sum disposed of shall be calculated separately).</p> <p>1.9 The calculation for 10% of total assets, as referred in the handling procedure, is based on the sum of assets included in recent alone-basis financial reports, formulated according to the "Regulations Governing the</p>	<p>1.5 above shall be calculated as follows, where within one year means within the year immediately preceding the date of occurrence of the proposed transaction, excluding the items which have been publicly disclosed.</p> <p>1.5.1 The value of each transaction.</p> <p>1.5.2 The total value of the property of the same nature acquired from or transferred to the same transaction counterpart within one year.</p> <p>1.5.3 The total value of the real property under the same development project acquired or disposed of within one year (the sum acquired and the sum disposed of shall be calculated separately).</p> <p>1.5.4 The total value of the same specific securities acquired or disposed of within one year (the sum acquired and the sum disposed of shall be calculated separately).</p> <p>1.6 The calculation for 10% of total assets, as referred in the handling procedure, is based on the sum of assets included in recent alone-basis financial reports, formulated according to the "Regulations Governing the Preparation of Financial. For stocks without par value or with par value other than NT\$10, the calculation of 20% of paid-in capital for transaction value, as referred in the procedure, is based on 10% of the owner's equity of the parent firm.</p> <p>2. Time period for making public disclosure</p> <p>If the acquisition or disposal of assets involves any item which should be published pursuant to</p>	<p>In line with textual revision by the Financial Supervisory Commission (FSC)</p>
--	--	--

<p>Preparation of Financial. For stocks without par value or with par value other than NT\$10, the calculation of 20% of paid-in capital for transaction value, as referred in the procedure, is based on 10% of the owner's equity of the parent firm.</p>	<p>paragraph 1 of this Article and the transaction value meets the public disclosure standards provided in this Article, the Company shall make a public disclosure on such acquisition or disposal of assets within two days following the date of occurrence of such transaction.</p>	
<p>2. Time period for making public disclosure</p> <p>If the acquisition or disposal of assets involves any item which should be published pursuant to paragraph 1 of this Article and the transaction value meets the public disclosure standards provided in this Article, the Company shall make a public disclosure on such acquisition or disposal of assets within two days following the date of occurrence of such transaction.</p>	<p>3. Procedure for making public disclosure</p> <p>3.1 The Company shall cause the relevant information publicly disclosed on the website designated by the Financial Supervisory Commission.</p> <p>3.2 The Company shall on a monthly basis make a report on the derivatives transactions conducted in the month by itself and its local subsidiaries which are not public companies on the website designated by the FSC in the form and substance required by the tenth day the following month.</p>	
<p>3. Procedure for making public disclosure</p> <p>3.1 The Company shall cause the relevant information publicly disclosed on the website designated by the Financial Supervisory Commission.</p> <p>3.2 The Company shall on a monthly basis make a report on the derivatives transactions conducted in the month by itself and its local subsidiaries which are not public companies on the website designated by the FSC in the form and substance required by the tenth day the following month.</p> <p>3.3 The Company shall renew the entire public disclosure report in case the public disclosure report made contains any error or omission <u>within 2 days counting inclusively from the date of</u></p>	<p>3.3 The Company shall renew the entire public disclosure report in case the public disclosure report made contains any error or omission.</p> <p>3.4 The Company shall keep all agreements, meeting minutes, reference record book, appraisal report, opinions of the certified public account, legal counsel or underwriter in the Company relating to the acquisition or disposal of any asset for a term of at least five years except as otherwise provided by law.</p> <p>3.5 In the event of any of the following after submitting the public disclosure report in accordance with the preceding paragraph, the Company shall, within two days following the occurrence of such event, publicly disclose the relevant information on the website designated by the</p>	<p>Additional correction for disclosure date,</p>

<p><u>occurrence of the event.</u></p> <p>3.4 The Company shall keep all agreements, meeting minutes, reference record book, appraisal report, opinions of the certified public accountant, legal counsel or underwriter in the Company relating to the acquisition or disposal of any asset for a term of at least five years except as otherwise provided by law.</p> <p>3.5 In the event of any of the following after submitting the public disclosure report in accordance with the preceding paragraph, the Company shall, within two days following the occurrence of such event, publicly disclose the relevant information on the website designated by the Financial Supervisory Commission:</p> <p>3.5.1 There is change to the relevant original signed agreement(s) or the original signed agreement(s) is terminated or rescinded.</p> <p>3.5.2 The proposed merger, spin-off, acquisition or assignment of shares is not completed as scheduled under the relevant agreement.</p> <p>3.5.3 There are changes for the original reporting.</p>	<p>Financial Supervisory Commission:</p> <p>3.5.1 There is change to the relevant original signed agreement(s) or the original signed agreement(s) is terminated or rescinded.</p> <p>3.5.2 The proposed merger, spin-off, acquisition or assignment of shares is not completed as scheduled under the relevant agreement.</p> <p>3.5.3 There are changes for the original reporting.</p>	<p>in line with revision by the Financial Supervisory Commission (FSC)</p>
<p>Article 19 This Procedure was established on 11 August 1989 and subsequently amended as follows: (omission) <u>and the tenth amendment on 16 June 2017.</u></p>	<p>Article 19 This Procedure was established on 11 August 1989 and subsequently amended as follows: (omission)</p>	<p>Addition of the date for the current revision</p>

Appendices

1. Articles of Incorporation on pages 61-70
2. Rules Governing Shareholders' Meeting on pages 71-74
3. Corporate Governance Best Practice Principles on pages 75-92
4. Ethical Corporate Management Best Practice Principles on page 93-98
5. Corporate Social Responsibility Best Practice Principles on page 99-105
6. Procedure for Acquisition or Disposal of Assets on page 106-125
7. Shareholding of All Directors on page 126
8. Notes on page 127

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.

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 a 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.

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 and other 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 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 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 28-1

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

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 Directors pursuant to Article 14-3 of the Securities and Exchange Act and he/she shall not entrust a non-independent director to act on his/her behalf at the meeting. 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 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

TECO Electric & Machinery Co., Ltd.

Ethical Corporate Management Best Practice Principles

Article 1 (objective, application targets, and scope)

For the company's sustainable development and establishment of a corporate culture featuring ethical corporate management, the company formulates the guidelines, patterned after the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" The principles are also applicable to subsidiaries, corporate bodies with over 50% of funds coming from the donations of the company, and other institutions, corporations, and organizations under actual control of the company.

Article 2 (ban on unethical behaviors)

When conducting business acts, the company's directors, managements, or persons exercising actual control ("company staffers" in short, in the following), should not directly or indirectly provide, pledge, request, to accept any irregular benefit or conduct unethical acts, including those violating the ethical principle, the law, or the obligations of trust, in order to secure or retain interests ("unethical acts" in short, in the following).

Targets of the aforementioned acts include public functionaries, political candidates, party staffers or cadres, and any enterprise or institution, owned by government or private parties, and their directors, managers, persons exercising actual control, or other stake holders.

Article 3 (types of interests)

Interests mentioned in the principles refer to any valuable object in various forms or names, including money, gift, commission, position, service, preferential treatment, or kickback, excluding, however, those associated with normal social activities or customs, carried out occasionally without involving specific right or obligation.

Article 4 (legal compliance)

As a prerequisite for ethical corporate management, the company should abide by Company Law, Securities Transaction Law, Business Accounting Law, Political Donation Law, Statute on Incrimination of Corruption," "Government Procurement Law," "Law on Avoiding Conflict of Interest by Public Functionaries," and other laws/regulations on listed firms and other business acts.

Article 5 (policy)

Based on the concept of clean, transparent, and accountable management, the company has formulated the basic policy of ethical management, on top of establishing good corporate governance and risk-management system, so as to create a management environment conducive to sustainable development.

Article 6 (precautionary program)

Formulating integrity-oriented management policy and clearly institute in detail concrete integrity-oriented management methods and program preventing dishonest behaviors, including operating procedure, behavioral guidelines, and education/training.

In formulating the precautionary program, the company should comply with the

laws/regulations of the localities housing the operations of the company and the enterprises and organizations under the auspices of the group.

Article 7 (scope for Ethical Corporate Management Best Practice Principles)

The company's precautionary program should contain precautionary measures against the following behaviors:

1. Bribing and reception of bribes;
2. Providing illegal political donations;
3. Improper charitable donations or sponsorship;
4. Providing or receiving improper gifts, treatment, or other improper benefits.

Article 8 (commitments and implementation)

The board of directors and the management should commit to actively implementing the commitment of policy of ethical corporate management, as demonstrated in the company's regulations and external documents, in internal management and external business activities.

Article 9 (business activities based on ethical corporate management)

The company conducts business activities in a fair and transparent manner based upon Ethical Corporate Management Best Practice Principles.

Prior to business dealings, the company will take into account the legality and record of unethical behaviors of agents, suppliers, clients, or other business partners, avoiding dealing with those with record of unethical behaviors.

Major contracts signed by the company with agents, suppliers, clients, or other business partners should contain the policy of ethical corporate management and a clause warranting termination or revocation of the contracts whenever the transaction party is proved to have involved in unethical behaviors.

Article 10 (forbidding bribing and bribe taking)

When exercising their duties, the company's staffers should not directly or indirectly provide, pledge, request, or accept any form of irregular benefit, including bribe, kickback, commission, smoothing-over fee, or other means, in dealing with customers, agents, contractors, suppliers, public functionaries, or other stake holders, unless the acts comply with local laws.

Article 11 (ban on provision of illegal political donations)

Direct or indirect donation by the company and company staffers to political parties or organizations or individuals partaking political activities should comply with the Political Donations Act and should not be made in exchange with business interests or trading advantages.

Article 12 (ban on improper charitable donation or sponsorship)

The company's staffers should comply with laws/regulations and internal operating procedure when making charitable donation or sponsorship and should not use such donation/sponsorship as guise for bribery.

Article 13 (ban on improper gifts, improper treatment, or other irregular benefits)

The company and company's staffers should not directly or indirectly provide or accept any improper gift, improper treatment, or other irregular benefits, as a means for establishing business relationship or affecting business dealings.

Article 14 (Forbid infringement on intellectual properties)

The company and its staff should abide by intellectual property-related laws/regulations, internal operating procedure of the company, and contracts. Without the consent of IP owners, behaviors should be forbidden concerning the usage, leakage, disposal, damage, or other forms of infringement on, of IP.

Article 15 (Forbid engagement in unfair competition)

When undertaking business activities, the company should abide by competition-related laws/regulations, without fixing prices, manipulating bidding, restricting output and quota, or sharing or dividing market via allocation of customers, suppliers, business areas, or business category.

Article 16 (Prevent products or services harming stakeholders)

The company and its staff should abide by related law/regulation and international criteria in R&D, procurement, manufacturing, provision, and sale of merchandises and services; assure information transparency and safety of merchandises and services, formulate and publicize policy safeguarding the interests of consumers and other stakeholders, as well as its enforcement in business activities, so as to prevent merchandises or services harming directly or indirectly the interests, health, and safety of consumers and other stakeholders. Merchandises should be recalled and services suspended, should there be facts proving their threat, either directly or indirectly, on the safety and health of consumers and other stakeholders.

Article 17 (organizations and duties)

In fulfilling the obligation of notice as a good manager, the company's board of directors should push the company in preventing unethical behaviors and constantly review the result of implementation for constant improvement, so as to assure the materialization of the company's policy of ethical corporate management.

To assure sound management, Legal & Compliance Division should jointly formulate policy of ethical corporate management, with the auditing unit responsible for supervising and reporting to the board of directors regularly.

1. Assist in the incorporation of integrity and ethnic value into the company's management strategy and formulate measures preventing irregularities, to assure integrity-oriented management, in line with the stipulations of laws/regulations.
2. Formulate programs preventing dishonest behaviors, which include standard operating procedures and behavioral guidelines for works and businesses.
3. Plan internal organization, personnel structure, and responsibilities, including mechanism of mutual supervision and check-and-balance for business activities involving higher risk for dishonest behaviors.

4. Pushing and coordinating the promotion and training of integrity-oriented policy
5. Plan the setup of a reporting system, to assure effective enforcement.
6. Assist the board of directors and management in checking and evaluating the effectiveness for the operation of the precautionary measures, meant to assure the enforcement of integrity-oriented management policy, on top of periodic evaluation of the abidance of related workflow before reporting the finding.

Article 18 (legal compliance in business activities)

When conducting business activities, the company's staffers should comply with laws, regulations and the precautionary program.

Article 19 (avoidance of conflict of interests)

The company should formulate the policy of preventing conflict of interests, so that the company can identify, supervise and manage the risk of dishonest behavior resulted from interest conflict, and provides proper channels for the company's staffers and other stakeholders related to the attendee of Board of Director to explain potential conflict of interests with the company on their own.

Out of high extent of self discipline, the company's directors can express opinions and reply inquiries but should not participate in discussion and voting on items, while absenting themselves from the discussion and voting, on the agenda of the board of directors which involve their own interests or the interests of the legal entities which they represent. Directors should not exercise voting rights on behalf of involved directors on such items. For self discipline, they should not give improper support to each other.

The company's staffers should not take advantage of their positions or influence in helping themselves, spouses, parents, offspring, or any other party obtain improper benefits.

Article 20 (accounting and internal control)

The company should establish effective accounting system and internal-control system, meant to prevent business activities with higher risk of ethical behaviors, so as to assure continuing effectiveness in the design and execution of the systems.

The company's in-house auditors should regularly check the compliance of the aforementioned systems with laws/regulations and produce auditing reports for submission to the board of directors, and appoint CPA to certify. The professional should be appointed to assist if necessary.

Article 21 (operational procedure and behavioral guide)

In line with the operational procedure and behavioral norm in the program for preventing unethical behaviors stipulated in article 6, the company formulates items of notice for staffers in conducting business activities as the following:

1. Criteria in determining provision or acceptance of improper benefits;
2. Procedure for provision of legal political donations;
3. Procedure and value criteria for rightful charitable donation or sponsorship;
4. Regulations on avoiding job-related conflict of interest, procedure for the reporting and handling of such cases;
5. Regulations on the confidentiality of job-related secrets and sensitive business information;

6. Regulations and handling procedure on suppliers, customers, business partners with unethical behaviors;
7. Procedure for handling violation of the ethical corporate management principles;
8. Discipline and penalties on offenders of the ethical corporate management principles.

Article 22 (education, training, and evaluation)

The company's chairman, president, or ranking managers should convey the importance of integrity to directors, employees, and agents regularly.

The company holds education, training, and promotion for staffers regularly. And invite the counterparty of commercial activity to attend, so that they can fully understand the determination company's ethical corporate, policy, precautionary and the consequences of violation of honest behavior.

To materialize the policy of ethical corporate management, the company has listed the policy as a criterion in evaluating staffers' performance at end of year

Article 23 (informing)

The company should institute a concrete reporting system for substantive enforcement, with its contents covering:

1. Set up and publicize independent internal mailbox and dedicated line, or entrust an independent body to do so, for use by in-house staffers or outsiders.
2. Appoint specialized staffer(s) or unit for receiving complaints and submit complaints involving directors or ranking managers to independent directors, on top of categorizing complaints and instituting standard investigative procedure.
3. The reception, investigation, and findings, as well as production of related literature, of complaints, should be put on record and kept.
4. The identify of informants and contents of complaints should be kept in confidentiality.
5. Protect informants from improper treatments for their complaints.
6. Incentives for whistleblowers

The company's auditing unit is in charge of receiving complaints and would produce report for informing independent director(s) in written form after discovering major offenses or potential damage for the company.

Article 24 (Penalty and complaint system)

The company should set up clear-cut punitive and complaining system and penalize those violating the integrity-oriented policy according to the company's regulations, on top of disclosing timely the title/name of the offender, date and contents of the offense, and handling of the case on the company's website. The identify of informants and contents of their complaints should be kept secret.

Article 25 (information disclosure)

The company establish and push quantification of integrity-oriented management and continuously analyze and evaluate performance for the enforcement of the policy, publicizes

the status in executing the principles on its website and in its annual report and public statement, on top of posting contents of guidelines for integrity-oriented management on the Market Observation Post System.

Article 26 (review of ethical corporate management and measures)

The company should constantly notice the development of the norms on ethical corporate management, both abroad and on the domestic front, and encourage staffers to put forth suggestions for review and improvement of the principles, so as to boost the effect of the company's ethical management.

Article 27 (implementation)

The principles are put into practice after approval by the board of directors before being submitted to the audit committee for reference and reported to the shareholders' meeting. The same procedure applies to the revision of the principles.

When the board of directors discusses the guidelines for integrity-oriented management, in line with the aforementioned regulation, it should take into account the opinions of independent directors and put opposing opinions or reservation on record in the minutes of the meeting. When independent directors cannot attend the meeting of the board of directors to express their opposition or reservation, due to some justified reason, they should put forth their opinions in written form, which should be put on record in the minutes of the meeting.

Article 28 (supplement)

The principles were formulated on August 14, 2014.

The principles were amended on December 23, 2016

TECO Electric & Machinery Co., Ltd.

Corporate Social Responsibility Best Practice Principles

Chapter one General rules

Article 1

For fulfilling corporate social responsibility and prod the progress of economy, environment, and society, as a means of achieving sustainable development, the company formulates the practical principles for compliance by staffers.

Article 2

The principles are applicable to overall business activities of the company and other enterprises of the group.

Alongside engagement in corporate management, the company should actively fulfill corporate social responsibility, in line with the international trend, thereby contributing, as a corporate citizen, to the nation's economic development and improvement of the life quality of staffers, community, and society, in addition to creating an edge based on corporate responsibility.

Article 3

In fulfilling corporate social responsibility, the company should notice the interests of stakeholders and in quest of sustainable development and profits, it should keep an eye on the factors of environment, social needs, and corporate governance, incorporating them into the company's management objective and business activities.

Article 4

In fulfilling corporate social responsibility, the company should abide by the following principles:

1. materialization of corporate governance;
2. creating sustainable environment;
3. upholding public benefits of the society;
4. intensifying information disclosure on corporate social responsibility.

Article 5

The company should take into account relationship between development trend for corporate social responsibility, both abroad and on domestic front, and its core businesses, as well as the effect of the business activities of the company and the group's other enterprises on stakeholders, in formulating the policy, system, and management objects and action plan on corporate social responsibility, which should be reported to shareholders' meeting following approval by the board of directors.

The board of directors should review proposals on corporate social responsibility raised by shareholders and consider putting them on the agenda of shareholders' meeting.

Chapter two Materialization of corporate governance

Article 6

For the sake of sound corporate governance, the company should abide by "Corporate Governance Best Practice Principles", "Ethical Corporate Management Best Practice Principles", as well as "Rules of Ethical Conduct to Directors and Managers"

Article 7

In line with the obligation of notice for a good manager, the company's directors should push the company in pushing the fulfillment of social responsibility and constantly review the effect of execution for continuing improvement, so as to assure materialization of the policy on corporate social responsibility.

In fulfilling the corporate social responsibility for the company, the board of directors should consider about stakeholder's benefits adequately, and carry out the following affairs:

1. putting forth mission or vision for corporate social responsibility and formulating policy, system, or management objective for corporate social responsibility;
2. incorporating corporate social responsibility into the company's business activities and development direction, and formulating action plan on corporate social responsibility;
3. assuring current and accurate disclosure of information on corporate social responsibility;

The board of directors authorizes ranking management to handle the economic, environmental, and social issues arising from business activities. The management should designate specific staffers to handle the issues according to specific flow and report the results to the board of directors.

Article 8

The company should regularly hold education and training on fulfillment of corporate social responsibility, including affairs related to item 2 of the previous article.

Article 9

For sound management of corporate social responsibility, the company should designate unit, either on dedicated or part-time basis, for pushing corporate social responsibility, and formulating and executing policy, system, related management objective, and action plan on corporate social responsibility. The unit should report to the board of directors regularly.

The company should formulate reasonable compensation policy, conforming to the organization's strategic objective and the interests of stakeholders.

Performance-evaluation system for staffers should blend with corporate social responsibility and a clear and effective rewarding and penalty system should be put in place.

Article 10

To uphold the interests of stakeholders, the company should identify stakeholders and set up a section for stakeholders on its website. It should understand reasonable aspiration and demand of stakeholders via proper communications channel and properly address key issues on corporate social responsibility which concern stakeholders.

Chapter three Creating a sustainable environment

Article 11

The company should abide by related laws/regulations and international norms in properly protecting natural environment and should dedicate to upholding a sustainable environment in carrying out business activities and internal management.

Article 12

The company should dedicate to boosting the efficiency in utilizing various resources and using renewable materials to lessen impact on the environment and assure sustainable usage of the earth's resources.

Article 13

The company should establish environment-management system conforming to its industry nature, which should include the following items:

1. collecting and evaluating sufficient and current information on the effect of business activities on natural environment;
2. establishing measurable objective for sustainable environment and regularly review its continuity and relevance;
3. formulating implementation measures, including concrete plan or action plan, and regularly reviewing the effect of implementation.

Article 14

The company should install dedicated environment-management unit or staffers, in charge of formulating, pushing, and upholding environment-management system and action plan, in addition to regularly holding environmental education courses for managers and rank-and-filers.

Article 15

The company should consider the effect of corporate operation on ecological benefits, and push and promote the concept of sustainable consumption, in addition to carrying out various business activities, including R&D, procurement, production, operation, and service, according to the following principles, so as to lessen the impact of corporate operation on natural environment and humanity:

1. reducing consumption of resources and energy caused by products and services;
2. reducing discharge of pollutants, toxins, and wastes, as well as properly disposing wastes;
3. enhancing recyclability and reusability of materials or products;
4. attaining maximum sustainable utilization of renewable resources;
5. increasing endurance of products; boosting the efficacy of products and services.

Article 16

In order to enhance the utilization efficiency of water resources, the company should properly utilize water resources on a sustainable basis and formulate related management measures. The company should construct and strengthen treatment facilities for environmental protection, so as to avoid polluting water, air, and soil, and should make utmost efforts in lessening adverse effect on human health and environment by embracing optimal feasible technologies for combating and containing pollution.

Article 17

The company should embrace universal standards or guidance, applicable both abroad and on domestic front, in carrying out and disclosing corporate greenhouse gases, with the scope covering:

1. direct emission of greenhouse gases: greenhouse-gas emission sources are owned or controlled by the company;
2. indirect emission of greenhouse gases: greenhouse gases result from energy utilization, including procured power supply, heat, or steam.

The company should notice the effect of climate change on business activities and, based on business status and check on greenhouse-gas emission, formulates strategy for energy conservation and carbon/greenhouse-gas abatement, in addition to incorporate carbon right into the company's strategic planning for carbon abatement, so as to lessen the effect of the company's business activities on climate change.

Chapter four Upholding public benefits of the society

Article 18

The company should abide by related laws/regulations and international covenant on human rights, including gender equality, working right, and ban on discrimination.

In order to fulfill its responsibility in protecting human rights, the company should formulate related management policies and procedures, including:

1. putting forth corporate human-right policy or statement;
2. evaluating the effect of corporate business activities and internal management on human rights and formulating corresponding handling procedure;
3. regularly reviewing corporate human-right policy or statement;
4. disclosing handling procedure for related stakeholders, in case of infringement of human rights.

The company should uphold labor rights acknowledged internationally, including freedom for association, right of group consultation, care for underprivileged groups, ban on child labor, removal of forced labor in various forms, and removal of management-labor and employment discrimination, in addition to assuring absence of discriminatory treatment in policy of human-resources utilization, in terms of gender, ethnicity, social and economic class, age, marriage, and family, so as to achieve equality and fairness in employment conditions, compensation, fringe benefits, training, performance evaluation, and promotion.

For infringement of labor rights, the company should provide effective and proper mechanism for filing complaints and assure equality and transparency in the process of petition. The petition channel should be clear, simple, convenient, and unblocked. The company should respond properly to the petitions of staffers.

Article 19

The company should provide staffers information, helping them understand labor law and labor rights in the host country of their works.

Article 20

The company should provide staffers a safe and healthy working environment, including the provision of necessary health and first-aid facilities, and dedicate to removing potential hazards to the safety and health of staffers, so as to prevent vocational accidents.

The company should conduct regularly safety and health education and training for staffers.

Article 21

The company should create a good environment for the career development of staffers and establish an effective plan for fostering the capabilities of staffers for career development.

The company should embrace a policy reflecting the fruits of its management in staffers' compensations, so as to facilitate the recruitment, retention, and motivation of staffers, thereby achieving the company's sustainable development.

Article 22

The company should set up channels for communications with staffers regularly, thereby keeping them posted on the company's management and decision making and enabling them to express opinions accordingly.

The company should respect the right of labor representatives in consultation for working conditions and provide staffers necessary information and hardware facilities, to facilitate consultation and cooperation among employers, staffers, and labor representatives.

The company should inform via reasonable manner staffers material changes in the company's operation.

Article 22-1

The company should treat customers or consumers in a fair and reasonable manner, in line with the features of its products, services, and industry, in addition to formulating strategy and measures for enforcement.

Examples for the aforementioned fair and reasonable treatment follow:

1. Enter into contracts on the principles of mutual benefit, fairness, and integrity.
2. Fulfill the commission of customers carefully and faithfully.
3. Avoid exaggerated and false ads.
4. Assure provision of merchandises or services which are suited to customers or consumers.
5. Fully explain major contents, as well as potential risks, of the merchandises or services provided.
6. Consider in balance the interests of customers or consumers and the achievement of business goal when formulating commission system for salespersons.
7. Offer customers or consumers unobstructed channel for complaints and make substantive responses.
8. Professional businesses should be undertaken by staffers with professional qualifications or professional certificates.

Article 23

The company should be accountable for its products and services and have ethical consideration in marketing. In the flow of R&D, procurement, production, operation, and service, it should assure the transparency and safety of information on products and services, to prevent products and services from jeopardizing the interests, health, and safety of consumers.

Article 24

The company should abide by laws/regulations on industries in assuring the quality of products and services.

The company should abide by related laws/regulations and international criteria in the marketing and labeling of products and services and should abstain from deception, misleading, fraud, or any other behavior which betrays consumers' trust and jeopardize their rights and interests.

Article 25

The company should evaluate and manage various risks which could disrupt its operation and lessen the latter's effect on consumers and the society, should it happen.

The company should set up transparent and effective channel for consumers to file

complaints on products and services and address such complaints instantly in a fair manner, in addition to upholding consumers' privacy by protecting the secrecy of their personal data, according to law for production of personal data and other related laws/regulations.

Article 26

The company should evaluate the environmental and social effect of its procurements on the supplying communities and should cooperate with suppliers in fulfilling corporate responsibility concertedly.

Prior to business dealings, the company should ascertain whether the suppliers have record adversely affecting environment and society and should avoid dealings which run counter to its policy on corporate social responsibility.

Article 27

The company should take part in the activities of civil organizations, charities, and municipal governments in communal development and education, via stock investment, business activities, physical donations, corporate voluntary services, or other professional services for public benefits, invest resources in organizations which employ business model in solving social or environmental issues, so as to bolster communal development.

Chapter five Strengthen information disclosure on corporate social responsibility

Article 28

The company should publicize information according to related laws/regulations and practical principles on corporate governance, in addition to fully disclosing critical and reliable information on corporate social responsibility, so as to enhance information transparency.

The company should disclose the following information related to corporate social responsibility:

1. policy, system, or management objective and action plan related to corporate social responsibility, approved by the board of directors;
2. risk and effect on the company's operation and finance caused by materializing corporate governance, creating sustainable environment, and upholding public benefits of the society.
3. objective and measures formulated by the company for fulfilling corporate social responsibility, as well as the result of performance;
4. major stakeholders and issues of their concern;
5. management and performance of major suppliers on environment and key social issues;
6. other information related to corporate social responsibility.

Article 29

The company should embrace criteria or principles with universal acknowledgement internationally in compiling report on corporate social responsibility, so as to disclose progress in pushing corporate social responsibility, and should attain confirmation or guarantee from third party, to enhance information reliability. The report should contain:

1. policy, system, or related management objective and action plan on corporate social responsibility;
2. major stakeholders and issues of their concern;
3. result and review of the company's performance in materializing corporate governance, developing sustainable environment, upholding public benefits of society, and boosting economic development.
4. improvement direction and objective.

Chapter six Supplements

Article 30

The company should constantly notice development in related principles on corporate social responsibility, both abroad and on domestic front, and changes in business environment, for

reviewing and improving the company's system on corporate social responsibility, so as to enhance the performance in fulfilling corporate social responsibility.

Article 31

Formulation and revision of the principles should be approved by the board of directors and reported to shareholders' meeting.

Article 32

The principles have been put into practice following approval by the board of directors on March 20, 2015 for implementation.

The first amendment of the principle on 23 December 2016.

TECO Electric & Machinery Co., Ltd.

Procedure for Acquisition or Disposal of Assets

Article 1 Purpose

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

Article 2 Legal authority

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

Article 3 Scope of assets

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

Article 4 Definition

1. Derivatives means the forward contracts, options contracts, futures contracts, hedge margin contracts, swaps contracts, and compound contracts of the combination of the above the value of which is derived from assets, interest rates, exchange rate, indices or other interests. Forward contracts do not include insurance contracts, performance guaranty contracts, after-sale service contracts, long-term leases and long-term purchase (sale) contracts.
2. Assets acquired or disposed of as a result of legal merger, spin-off, acquisition or assignment of shares means the assets acquired from or disposed of as a result of a merger, spin-off or acquisition conducted in accordance with the Business Merger and Acquisition Act, Financial Holding Company Act, Financial Institutions Merger Act or other laws, or the stocks of another company acquired by issuing new shares pursuant to the eighth paragraph of Article 156 of the Company Act.

3. A related party & *subsidiary* means the party defined in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers.

4. A professional appraiser means real property appraisers or any other service which is legally authorized to appraise real property and equipments for business.

5. Date of occurrence means the transaction contracting date, payment date, the entrusted transaction closing date, transfer date, board resolution date or other date on which the transaction counterpart and the transaction value may be sufficiently ascertained, whichever is earlier. Notwithstanding, where the investment must be approved by the competent authority in advance, the date of occurrence shall mean the earlier of the above date applicable and the date of approval by the competent authority.

6. PRC investment means the investment made in the People's Republic of China in accordance with the Regulations Governing Approval of Investments or Technical Cooperation Conducted in the People's Republic of China prescribed by the Investment Commission, Ministry of Economic Affairs.

7. Within one year means the year counted backward from the date of acquisition or disposal of the asset in issue, excluding the items which have been publicly disclosed.

8. The most recent certified financial statements means the latest financial statements certified or audited by a certified public accountant and duly published immediately before the acquisition or disposal of assets in issue.

Article 5

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

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

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

2. Long- and short-term securities: The total investment amount (means the original investment amount) shall not exceed the amount of shareholders' equity represented in the most recent certified financial statements.

3. The total amount of investment in any specific marketable securities (means the original investment amount) shall not exceed 30% of the amount of shareholders' equity represented in the most recent certified financial statements.

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

1. Non-business purpose real property: The total amount shall not exceed 20% of the amount of shareholders' equity represented in the most recent certified financial statements of the subsidiary concerned. The total amount of investment in any specific short-term securities shall not exceed 5% of the amount of the above shareholders' equity.

2. Long- and short-term securities: The total investment amount (means the original investment amount) shall not exceed the amount of shareholders' equity represented in the most recent certified financial statements of the subsidiary concerned.

3. The total amount of investment in any specific marketable securities (means the original investment amount) shall not exceed 30% of the amount of shareholders' equity represented in the most recent certified financial statements of the subsidiary concerned.

Article 6

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

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

1. Evaluation and procedure of operation

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

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

2.1 The terms and transaction price of the acquisition or disposal of real property shall be determined by reference to, among others, the posted current value, appraised value, and the actual transaction price of other real property located nearby. Transactions with a value of less than TWD50 million may precede with the approval of the President. Transactions with a value of between TWD50 million and TWD100 million each may proceed with the approval of the Chairman of the Board of Directors and shall be reported to the immediately subsequent meeting of the Board of Directors. Transactions with a value of over TWD100 million must be approved by the Board of Directors in advance.

2.2 Acquisition or disposal of equipments shall be conducted by way of issuing request for proposal, price competition under restricted tendering, and price negotiation under single tendering or bidding. The approval thereof shall be in accordance with the Schedule of Functions and Authority compiled pursuant to the relevant bylaws of the Company.

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

3 Unit in charge of execution of transaction

Upon approval of the proposed acquisition or disposal of real property or equipments pursuant to the preceding paragraph, the responsible department and the Corporate Finance & Management Division shall take charge of the execution thereof.

4. Appraisal report on real property or other fixed asset

Where the transaction value of the acquisition or disposal of real property or equipments amounts to 20% or more of the paid-in capital of the Company or TWD300 million or more, an appraisal report produced by a professional appraiser must be obtained before the date the fact happens in accordance with the following, except in cases where the transaction

counterpart is a government institutions, or the transaction is an entrusted construction project on a self-owned land or a leased land, or the objects to be acquired or disposed of is equipment for business purpose.

4.1 Where the transaction price shall be determined by reference to any restricted, designated price or special price for whatever special reason, the transaction and all subsequent changes to the terms thereof (if any) must be submitted to the Board of Directors for approval in advance.

4.2 Where the transaction value amounts to TWD1 billion or more, the appraisal shall be conducted by two or more professional appraisers.

4.3 If the appraisal conducted by the professional appraiser runs into either of the following conditions, except the appraisal value of the acquired assets is higher than the trading value or the appraisal value of the disposed assets is lower than the trading value, subsequent handling by certified public accountant in accordance with the No. 20 Statement of Financial Accounting Standards published by Accounting Research and Development Foundation (ARD Foundation) should be sought for as well as its opinion with respect to the reasons accounting for the price difference and the acceptability of the transaction price:

4.3.1 The amount difference between the appraised value and the transaction value amounts to 20% of the transaction value.

4.3.2 The amount difference among the appraised values as a result of the appraisals conducted by two or more professional appraiser's amounts to 10% or more of the transaction value.

4.4 The appraisal report date and the date of creation of the transaction contract conducted by professional appraiser must not be apart for more than 3 months. Notwithstanding, if the same posted present value has been adopted to calculate the value and the above two dates are less than 6 months apart, the written opinion of the original professional appraiser may be sought.

4.5 Where the Company has acquired or disposed of the asset by auction by the court, the relevant written evidence document issued by the court may operate in place of the appraisal report or certified public accountant's opinion.

5. The aforementioned trading value should be calculated according to Article 15.1.5. The period is the one year before the occurrence of the trading. The obtaining of appraisal report or CPA's opinions can not be included.

Article 8

Procedure for acquisition or disposal of marketable securities

1. Evaluation and procedure of operation

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

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

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

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

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

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

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

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

3. Unit in charge of execution

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

4. Expert opinion

4.1 For acquisition or disposal of marketable securities, the company should obtain the audited or reviewed financial statement of the target companies as the reference for

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

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

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

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

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

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

4.1.6 domestic or offshore mutual funds

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

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

4.1.9 the request for purchase of which was submitted prior to the establishment of the mutual fund as provided in the first paragraph of Article 11 of the Securities Investment Trust and Consulting Act and the Order of 1 November 2004 issued by the Financial Supervisory Commission (ref. Jin-Guan-Si-Tze No. 0930005249).

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

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

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

Article 9

Transaction with related parties

1. In addition to the procedure for acquisition or disposal of assets from a related party provided in Article 7-11, requirements with respect to the procedure of approval and evaluation of the acceptability of the terms of transaction. According the stipulations of article 7-11 of the handling procedure, when the trading value exceeds 10% of the company's total

assets, the appraisal report of professional appraisers or the opinions of CPA should be obtained. The substance of the relationship other than the formation as a legal matter must be considered when determining whether the transaction counterpart is a related party

2. Evaluation and procedure of operation

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

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

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

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

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

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

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

2.7 The restrictions and other important arrangements on the transaction.

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

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

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

3. Evaluation of acceptability of the transaction cost

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

3.1.1 The transaction cost shall be the sum of the proposed transaction price plus the

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

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

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

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

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

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

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

3.4.1(2) The terms of the proposed transaction are considered acceptable by reference to the successful transactions of the other floors of the same building or nearby buildings concluded by non-related parties, each of which is of similar square measure to that of the subject real property, and the term of such successful transactions are considered comparable to the relevant terms of the proposed transaction according to the common practice of real property transaction applicable to the area.

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

3.4.2 The Company has produced evidence to prove the terms of the proposed purchase of real property from a related party are comparable to the terms of successful transactions of nearby real property of similar square measure which were concluded by non-related parties

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

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

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

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

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

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

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

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

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

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

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

Article 10 Procedure for acquisition or disposal of membership

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

Article 11

Procedure for acquisition or disposal of intangible assets

1. Evaluation and procedure for operation

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

2. Terms of transaction and procedure for approval of transaction

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

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

3 Unit in charge of execution of transaction

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

4 Expert evaluation report on membership or intangible assets

Except the transaction with government institutions, where the transaction value of the acquisition or disposal of membership or intangible asset by the Company amounts to 20% of the paid-in capital of the Company or TWD300 million, the opinion of a certified public accountant on the acceptability of the proposed transaction price should be sought for before the date the fact happens, who shall act in accordance with the No. 20 Statement of Auditing Standards published by the ARD Foundation.

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

Article 12

Procedure for acquisition or disposal of credit claims in financial institutions

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

Article 13

Procedure for acquisition or disposal of financial derivatives

1. Principle and policy of transaction

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

1.1 Derivatives transactions:

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

1.2 Operational or hedging strategy:

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

1.3 Division of powers and duties:

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

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

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

1.4 Key points of performance evaluation:

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

1.4.2 Non-transaction part shall be evaluated according to their compliance with the relevant

policy and rules for operation of forward foreign exchange of the Company.

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

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

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

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

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

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

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

2. Risk management

2.1 Credit risk management:

In consideration of the changing market, risks management in connection with the operation of derivatives transactions shall be administered in accordance with the following principles: The transaction counterparts shall mainly be well known local or foreign financial institutions. The commodity transacted shall be among those offered by local or foreign financial institutions.

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

2.2 Market risk management:

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

2.3 Liquidity risk management:

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

2.4 Cash flow risk management:

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

2.5 Operational risk management

The transactions shall be conducted within the relevant authorized amount in full compliance with the procedure for operation and put under internal control to prevent operational risks.

The personnel conducting derivatives must not act concurrently as the personnel responsible for making the relevant verification and delivery and vice versa.

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

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

2.6 Commodities risk management

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

2.7 Legal risk management

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

3. Internal audit policy

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

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

Supervisory Commission by the end of May the following year.

4. Periodical evaluation

4.1 The Board of Directors shall authorize high-ranking managerial officers to supervise and evaluate, on a regular basis, the compliance of the procedure for derivatives transactions and the acceptability limits on risks, as well as report to the Board of Directors upon finding of any irregularity in the market value evaluation report (e.g. a position taken having exceeded the limit of loss), and take proper measures in response.

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

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

5.1 The Board of Directors shall appoint high-ranking managerial officers to oversee and control the risks from derivatives transactions from time to time according to the following principles:

5.1.1 Suitability of the current risk management measures and the compliance of the Company's procedure for derivatives transactions should be evaluated on a regular basis.

5.1.2 Necessary measures shall be taken upon finding of any irregularity with respect to the transaction and profit (loss) from the transaction. Such finding must be reported to the Board of Directors immediately and the relevant opinion expressed by the Independent Director shall be heard at the relevant meeting.

5.1 Performance consistency of derivatives transactions with the relevant operation policy and the acceptability limit of risks must be evaluated on a regular basis.

5.3 Where the relevant personnel have been authorized pursuant to the procedure for derivatives transactions to handle the transaction, the transaction shall be reported to the Board of Directors up to date after the transaction.

5.4 The Company shall maintain a derivatives transactions record book in which the type, value, date of the relevant resolution adopted by the meeting of the Board of Directors, and the matters subject to evaluation provided in paragraphs 4.2, 5.1 and 5.2 of this Article of each transaction shall be indicated in detail for reference.

Article 14

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

1. Evaluation and procedure of operation

1.1 The Company shall, for the purpose of a merger, spin-off, acquisition or assignment of shares, call a meeting of the legal counsel, certified public accountant and underwriter for joint discussion to determine the timetable of the legal proceeding and organize a special group to execute the legal proceeding. The Company shall also seek the opinion of the certified public accountant, legal counsel or underwriter with respect to the acceptability of the proposed swap ratio, acquisition price or, cash or other property to be distributed to the shareholders and submit the same to the meeting of the Board of Directors for approval.

1.2 The Company shall, prior to the convention of the relevant Shareholders Meeting,

produce the document on disclosure of the material agreement and relevant matters on the proposed merge, spin-off or acquisition and submit such document to all shareholders together with the expert opinion provided in paragraph 1.1 of this Article and the meeting minutes as reference for the shareholders to determine to or not to approve the proposed merger, spin-off or acquisition, except in case where a relevant resolution adopted by the Shareholders Meeting is not legally required. If any of the participant companies is unable to convene the meeting, or to obtain the resolution of its shareholders meeting on the proposed merger, spin-off or acquisition because the number of shares represented at the meeting fell short of the quorum for the meeting or the proposal is denied by the meeting, the participant companies shall promptly give a public explanation of the cause, the subsequent handling and reschedule a date for convening the shareholders meeting.

2. Other matters for attention

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

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

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

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

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

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

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

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

2.2 Prior non-disclosure agreement:

All persons who participate in or have knowledge about the Company's project of merger, spin-off, acquisition or assignment of shares shall each sign a non-disclosure agreement to undertake that they will not externally disclose the project before the Company makes the relevant public disclosure and that they will not buy or sell any stocks or equity securities of any company involved in the proposed merger, spin-off, acquisition or assignment of shares, either in their own name or using any other person's name to do so.

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

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

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

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

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

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

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

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

2.4 Provision of the contract:

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

2.4.1 Handling of defaults.

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

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

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

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

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

2.5 Change of the participant companies:

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

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

Article 15 Procedure for public disclosure reports

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

1.1 Acquisition of real property, or disposal of properties with, related parties, or acquisition of non-property assets from, or disposal of non-property assets with, related parties with the trading value exceeding 20% of the company's paid-in capital or 10% of total assets, or NT\$300 million. However, trading in government bonds or bonds with repurchase and resale agreements, or subscription or repurchase of money market funds by domestic securities investment trust enterprises and subscription or redemption of domestic money-market funds are not included.

1.2 Merger, spin-off, acquisition or assignment of shares.

1.3 The amount of loss incurred from the derivatives transaction exceeds the limit on loss from all contracts or the relevant individual contract provided in the relevant handling procedure.

1.4 Assets transactions or disposals of credit claims in financial institutions or investment in PRC other than those provided in the preceding three subparagraphs, the transaction value of which amounts to 20% of the paid-in capital of the Company or TWD300 million each, except for these transactions:

1.4.1 The transaction is the purchase or sale of government bonds.

1.4.2 The transaction is for investment purposes only of securities traded on local or foreign stock exchange or over-the-counter market or obtaining of securities by securities firms on the primary market.

1.4.3 The subject asset to be acquired or disposed of is bond with re-purchase, re-sale agreements. Subscription to and redemption of domestic money-market funds

1.4.4 The subject asset to be acquired or disposed of is equipment for business use and the transaction counterpart is a non-related party and the transaction value is less than TWD500 million.

1.4.5 The subject real property is to be acquired or disposed of by the construction business

division of the Company for construction use and the transaction counterpart is a non-related party and the transaction value is less than TWD500 million.

1.4.6 The subject real property to be acquired is a building is to be constructed on a self-owned land, leased land, jointly constructed and shared by units, jointly constructed and shared by percentage, jointly constructed and sold by units and the anticipated transaction value is less than TWD500 million.

1.5 The transaction value provided in previous paragraph 1.5 above shall be calculated as follows, where within one year means within the year immediately preceding the date of occurrence of the proposed transaction, excluding the items which have been publicly disclosed.

1.5.1 The value of each transaction.

1.5.2 The total value of the property of the same nature acquired from or transferred to the same transaction counterpart within one year.

1.5.3 The total value of the real property under the same development project acquired or disposed of within one year (the sum acquired and the sum disposed of shall be calculated separately).

1.5.4 The total value of the same specific securities acquired or disposed of within one year (the sum acquired and the sum disposed of shall be calculated separately).

1.6 The calculation for 10% of total assets, as referred in the handling procedure, is based on the sum of assets included in recent alone-basis financial reports, formulated according to the "Regulations Governing the Preparation of Financial. For stocks without par value or with par value other than NT\$10, the calculation of 20% of paid-in capital for transaction value, as referred in the procedure, is based on 10% of the owner's equity of the parent firm.

2. Time period for making public disclosure

If the acquisition or disposal of assets involves any item which should be published pursuant to paragraph 1 of this Article and the transaction value meets the public disclosure standards provided in this Article, the Company shall make a public disclosure on such acquisition or disposal of assets within two days following the date of occurrence of such transaction.

3. Procedure for making public disclosure

3.1 The Company shall cause the relevant information publicly disclosed on the website designated by the Financial Supervisory Commission.

3.2 The Company shall on a monthly basis make a report on the derivatives transactions conducted in the month by itself and its local subsidiaries which are not public companies on the website designated by the FSC in the form and substance required by the tenth day the following month.

3.3 The Company shall renew the entire public disclosure report in case the public disclosure report made contains any error or omission.

3.4 The Company shall keep all agreements, meeting minutes, reference record book, appraisal report, opinions of the certified public account, legal counsel or underwriter in the Company relating to the acquisition or disposal of any asset for a term of at least five years except as otherwise provided by law.

3.5 In the event of any of the following after submitting the public disclosure report in accordance with the preceding paragraph, the Company shall, within two days following the occurrence of such event, publicly disclose the relevant information on the website designated by the Financial Supervisory Commission:

3.5.1 There is change to the relevant original signed agreement(s) or the original signed agreement(s) is terminated or rescinded.

3.5.2 The proposed merger, spin-off, acquisition or assignment of shares is not completed as scheduled under the relevant agreement.

3.5.3 There are changes for the original reporting.

Article 16

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

1. The subsidiaries of the Company each shall prescribe their own rules for acquisition or disposal of assets pursuant to the Regulations Governing the Acquisition or Disposal of Assets by Public Companies.

2. For a subsidiary of the Company which is not a public company, if the acquisition or disposal of asset by such subsidiary meets the public disclosure standards provided in the paragraph 1 of Article 15, the Company shall make the relevant public disclosure report for such subsidiary.

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

Article 17 Penalty

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

Article 18 Implementation and amendment

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

Article 19

This Procedure was established on 11 August 1989 and subsequently amended as follows:
the first amendment on 30 September 1991;
the second amendment on 26 June 1995;
the third amendment on 28 April 1997;
the fourth amendment on 28 October 1999;

the fifth amendment on 6 June 2003;
the sixth amendment on 13 June 2007;
the seventh amendment on 15 June 2012.
the eighth amendment on 21 June 2013.
and the ninth amendment on 23 June 2014.

TECO Electric & Machinery Co., Ltd.
Shareholding of All Directors

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

Period of suspension of share transfer: April 18 2017 ~ June 16 2017

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 (note)	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%	21,614,831	1.08%
Director	Hsien-Sheng Kuo	20150611	3yrs	9,126,238	0.46%	9,126,238	0.46%
Director	Yaskawa Electric Corporation Representative: Hiroyuki Ougi	20150611	3yrs	29,541,089	1.48%	29,541,089	1.48%
Director	Kuang Yuan Industrial Co., Ltd. Representative: Shih-Chien, Yang	20150611	3yrs	22,033,919	1.10%	22,033,919	1.10%
Director	Tung Kuang Investment Co., Ltd. Representative: Hong-Hsiang, Lin	20150611	3yrs	30,341,364	1.52%	30,341,364	1.52%
Director	Lien Chang Electronic Co., Ltd. Representative: Ming-Feng, Yeh	20150611	3yrs	4,173,000	0.21%	4,173,000	0.21%
Director	Mao Yang Co., Ltd. Representative: Yung-Hsiang, Chang	20150611	3yrs	5,000,893	0.25%	5,000,893	0.25%
Total number of shares held by all Directors				167,838,078	8.38%	167,838,078	8.38%

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

Note: Managing & Independent Director Tian-Jy, Chen resigned on May 12 2016, and Ting-Wong, Cheng was elected as Independent Director in by-election in Annual General Meeting on June 16, 2016. Independent Director Chien-Yuan, Lin was put forward as Managing Director on June 16, 2016.

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 7-18, 2017, which had been posted on the Market Observation Post System of the Taiwan Stock Exchange, according to law.
 - c. The company didn't receive any proposal from shareholders during the period
3. Information on nomination submitted to the shareholders' meeting: Not applicable.