

Stock Code: 1504



TECO ELECTRIC & MACHINERY CO., LTD

GENERAL SHAREHOLDERS MEETING 2015

JUNE 11, 2015

AGENDA

Market Observation Post System:

<http://newmops.twse.com.tw>

TECO website:

<http://www.teco.com.tw>

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) ELECTION.....	7
(4) DISCUSSION .....	8
(5) EXTEMPORE MOTIONS .....	8
3. ATTACHMENTS.....	9
(1) Business Report for 2014 .....	10
(2) Inspection Report of Audit Committee for 2014 .....	13
(3) Financial Statements and Auditors' Report for 2014 .....	14
(4) Distribution of 2014 Profits .....	30
(5) Offering of Unsecured Corporate Bonds .....	31
(6) List of Candidates of Directors .....	32
(7) Plan to remove non-competition obligation.....	36
4. APPENDICES.....	45
(1) Articles of Incorporation.....	46
(2) Rules Governing Shareholders' Meeting .....	56
(3) Rules Governing Election of Directors.....	59
(4) Ethical Corporate Management Best Practice Principles .....	61
(5) Corporate Social Responsibility Best Practice Principles .....	65
(6) Corporate Governance Best Practice Principles.....	72
(7) Rules of Ethical Conduct to Directors and Managers .....	103
(8) Shareholding of All Directors .....	108
(9) Notes .....	109

TECO Electric & Machinery Co., Ltd.

**General Shareholders Meeting 2015**

**Meeting Procedure**

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

# TECO Electric & Machinery Co., Ltd.

## General Shareholders Meeting 2015

### Agenda

Time: 09:00am, June 11, 2015 (Thursday)

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

1. Meeting called to order
2. Addresses by the Chairman.
3. Reports:
  - 3.1 Business Report for 2014
  - 3.2 Inspection Report of Audit Committee for 2014
  - 3.3 Offering of Unsecured Corporate Bonds
  - 3.4 Establishment of Ethical Corporate Management Best Practice Principles
  - 3.5 Establishment of Corporate Social Responsibility Best Practice Principles
  - 3.6 Amendment to Corporate Governance Best Practice Principles
  - 3.7 Amendment to Rules of Ethical Conduct to Directors and Managers
4. Ratification:
  - 4.1 Business Report and Financial Statements for 2014
  - 4.2 Distribution of 2014 Profits
5. Election:
  - 5.1 Election of the 24rd term Board of Directors
- ※ After discussion of each proposal of Ratification, voting for all proposals of Ratification and Election will take place at the same time. Vote counting will be conducted separately.
6. Discussion:
  - 6.1 Plan to remove the restrictions on non-competition obligation of the 24<sup>th</sup> term of Board of Directors
7. Extempore motion(s).
8. Meeting adjourned.

## **Reports**

1. Business report for 2014 (pages 10-12)
2. Inspection Report of Audit Committee for 2014 (page 13)
3. Offering of Unsecured Corporate Bonds (page 31)
4. Establishment of Ethical Corporate Management Best Practice Principles (page 61)
5. Establishment of Corporate Social Responsibility Best Practice Principles (page 65)
6. Amendment to Corporate Governance Best Practice Principles (For the comparison between the revision and the original, please refer to pages 88-102)
7. Amendment to Rules of Ethical Conduct to Directors and Managers ( For the comparison between the revision and the original, please refer to pages 106-107)

## **Ratification**

### **Proposal 1:**

Business Report and Financial Statements for 2014 (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 2014, 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 14-29 for the Auditors' Report and the Financial Statements.

### **Proposal 2:**

Distribution of 2014 profits (proposed by the board of directors)

#### **Explanatory note:**

1. The board of directors plans to appropriate NT\$2,202,962,175 from allocable earnings in 2014 for dividend payout, capable of paying NT\$1.1 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 30 for the detailed profit distribution plan.

## **Election**

### **Proposal 1**

Election of the 24rd term Board of Directors (proposed by the board of directors)

#### **Explanatory note:**

1. The term of the company's 23<sup>rd</sup> board of directors will expire on June 14, 2015. The company plans to earlier re-elect 24<sup>th</sup> term directors, who will assume offices immediately upon election and replace the original ones, according to Article 199-1 of the Company Law.
2. According to the Articles of Incorporation, the board of directors has 15seats, with a three-year term, which can be continued via election. Three seats are reserved for independent directors, who together form the Audit committee. Election of directors shall adopt nomination system and is also carried out according to article 192-1 of the Company Law. Term of period of newly elected directors is starting from June 11<sup>th</sup>, 2015 to June 10<sup>th</sup> 2018.
3. Please see P.32-35 of this agenda for the List of Candidates of Directors, their shareholding and educational background.
4. Please see P.59-60 of this agenda for "Rules Governing Election of Directors".

---

**Discussion**

---

**Proposal 1:**

Plan to remove non-competition obligation on 24th board of directors (proposed by the board of directors)

**Explanatory note:**

1. Article 209 of Company Law stipulates that “For behaviors of their own or others within the company’s business scope, the Directors shall explain their importance of their conducts during the Shareholders’ Meeting and obtain its approval.”
2. Some newly elected members of the 24th board of directors (including Independent Directors) have invested in or are managing other companies with identical or similar business scope of the company, in addition to being directors of those companies. The board of directors plans to remove the non-competition obligation on newly elected directors, pending approval of shareholders’ meeting, according to article 209 of the Company Law.
3. Please see P.36-44 for planning to remove non-competition obligation on 24th board of directors,

---

**Extempore Motion(s)**

---

---

**Meeting Adjourned**

---



---

## **Attachments**

---

1. Business Report for 2014 on pages 10-12.
2. Inspection Report of Audit Committee for 2014 on page 13.
3. Financial Statements and Auditors' Report for 2014 on pages 14-29
4. Distribution of 2014 Profits on page 30
5. Offering of Unsecured Corporate Bonds on page 31
6. List of Candidates of Directors on page 32-35.
7. Plan to remove the restrictions on non-competition obligation of the 24<sup>th</sup> term of Board of Directors on page 36-44.

## **Business Report**

### **Dear Shareholders,**

Looking back at 2014, the global economy was overshadowed by deflation on a number of factors, including continuing structural adjustment worldwide triggered by the global financial tsunami, economic slowdown of China, financial turmoil resulting from strained political situation, and price plunge of raw materials. On the domestic front, Taiwan's GDP expanded by 3.74% in 2014, on a number of favorable factors, including expansion of mobile devices and smart-technological applications, demand for automated production equipment, and oil-price plunge, which more than offset the adverse factors of the depreciation of the Japanese and the food-safety turmoil. The company's order intake and revenue, however, was subject to the influence of a number of adverse factors, including decline in civil-engineering works and new housing starts and the impact of the gas explosion in Kaohsiung on petrochemical investments. In the face of the high uncertainty of the overall economic environment, the company, thanks to the concerted effort of staffers, however, still managed to rake in business benefits and current net profits at record-high level in recent years.

### **A. Review of Business Performance in 2014**

Analysis of the company's business performance in 2014 follows:

#### a. Parent Company

Unit: NT\$ thousand

	2014	2013	Change
Net revenue	24,256,762	25,604,449	(5%)
Operating income	1,953,819	1,712,416	14%
Net profits	4,066,924	3,759,872	8%
Comprehensive income	8,456,178	4,464,419	89%

The company's revenue dropped 5% in 2014, as international oil and raw-materials prices plunged, leading to decrease in the demand of industrial supply chains, which dampened order and sales of motors. Another factor is sluggish investment in domestic civil-engineering works and new housing starts, with budget for civil-engineering works dropping to 12-year low, which dampened sales of the company engineering and power equipment.

The company's gross margin raised by two percentage in 2014, thanks to the export of high-margin motors, commercial air conditioners, and energy-conserving home appliances, whose share in revenue advanced, plus the favorable effect of exchange rates. Even with less revenues, the company's operating income increased by 14% in 2014 over the 2013 level through the achievement in reducing expenses.

In nonoperating income/expense, the company's investment income under equity method, increased by NT\$200 million in 2014 than the 2013 level, thanks to

continuing improvement in the performances of invested companies. Overall, the company's current net profits grew 8%.

In R&D, the company also made extraordinary gains in 2014, successfully developed a number of new products, including whole-series IE3 motor, IE3 aluminum-enclosure motor, oil & gas industrial application motor, 1,000 KW medium-voltage inverter, 75V/690 inverter, ACB air circuit breaker, cloud-end air conditioning system, VRF (variable refrigerant flow) air conditioner, high-efficiency R-134a centrifugal chiller, electric-car power charging post, and 21-seat electric car. In addition, the company obtained Taiwan Excellence Award for 18 items and 21 patents certified domestically or abroad.

#### b. Consolidated Financial Statements

	Unit: NT\$ thousand		
	2014	2013	change
Net Revenue	53,820,604	56,618,537	(5%)
Operating Income	4,396,971	4,625,594	(5%)
Net Profits	4,406,231	4,177,256	5%
Total Comprehensive Income	8,999,428	4,951,291	82%
Profit (loss), attributable to:			
Owners of the Parent	4,066,924	3,759,872	8%
Non-controlling Interest	339,307	417,384	(19%)
Comprehensive Income attributable to:			
Owners of the Parent	8,456,178	4,464,419	89%
Non-controlling Interest	543,250	486,872	12%

Due to decline in orders for motors, reduced revenue of engineering units, and business adjustment and order reduction of subsidiary TECOM, the consolidated revenue dropped 5%. Operating income declined by 5% versus the level of Year 2013 due to reduced revenue. The consolidated net nonoperating revenue increased, thanks to disposal of its factory land in Wugu of New Taipei city by subsidiary Dongan and increased investment returns under equity method. The other comprehensive income rose, due to increase in unrealized gain on valuation of available-for-sale financial assets. Overall, consolidated net profits grew 5.5% and consolidated comprehensive income soared 80%.

#### B. Outline of 2015 Business Plan

The Directorate General of Budget, Accounting, and Statistics, under the Executive Yuan, predicts that Taiwan's economy will grow 3.78% in 2015, slightly higher than 2014. However, the company still faces stern challenge for its business in the year, as the domestic civil-engineering market is expected to remain languid, housing starts will drop on the launch of consolidated housing/land tax and expected interest rate increase, and continuous drop in the international prices of international oil, metal, and other raw materials will impact the oil & gas and mining industry. To offset the impact, the company will actively develop new products and new markets, in addition to new business model, to augment growth momentum for revenue.

On the domestic front, in order to enhance the nation's overall energy utilization efficiency, the Ministry of Economic Affairs (MOEA), in addition to continuing subsidies for high-efficiency motors, has banned sales of IE1 motors from 2015. Thanks to the ban and the rollout of cloud-end monitoring and control technology for smart motors, sales of high-efficiency motors by the heavy machinery business is expected to grow conspicuously. The home-appliances business will launch cloud-end smart energy-saving home appliances, which, along with whole-series inverter duty household air conditioners and VRF air conditioners, will enable the company to raise its share in the home-appliances market.

Exports of high-efficiency motors are expected to increase further, as Europe, China, and Japan have publicized schedule for mandatory replacement of low-efficiency motors with high-efficiency models. A number of new products will also hit the market successively, including explosion-proof motor, aluminum-enclosure motor, 510 series inverter, and PLC/SVO. Wind power and electric cars will also begin contributing to revenue. The company has also delivered IDC (Internet Data center) and switchboards abroad. In America, the company's largest overseas outlet, despite the impact of oil price plunge on businesses connected with shale oil, the company's American subsidiary is still actively seeking other business opportunities, taking advantage of the robust economic growth of the U.S. With the European economy having bottomed out, the company will actively tap the replacement market for high-efficiency motors.

In sum, the company will face up to various challenges, both abroad and domestically, in seeking revenue and profit growth, while implementing norms of corporate governance and fulfilling corporate social responsibility. In 2014, the company was the nation's foremost electric-machinery manufacturer, according to the study on the Top 2,000 enterprises conducted by the Commonwealth magazine, in addition to being the champion, for the third year in row, in the traditional industry category for the corporate citizen award granted by the Commonwealth magazine, as well as the champion for the category of big-enterprise technology, the Taiwan Corporate Sustainability Awards. Adhering to the management concept of integrity and conforming to the global energy-conservation and carbon-abatement current, the company will dedicated to pushing energy-conserving and environment-friendly products, so as to maximize shareholders' interests and provide payback fully to shareholders and investing public, in return to their longtime 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 2013 (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 2015

TECO Electric & Machinery Co., Ltd

Audit Committee Convener : Tain-Jy, Chen

Date: March 20, 2015

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To TECO Electric & Machinery Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of TECO Electric & Machinery Co., Ltd. as of December 31, 2014 and 2013, and the related non-consolidated statements of comprehensive income, of changes in stockholders' equity and of cash flows for the years then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits. As described in Note 6(8) to the non-consolidated financial statements, we did not audit the financial statements of certain investee companies accounted for under the equity method. These investments amounted to \$4,349,311,000 and \$4,073,049,000, constituting 6% and 7% of the related total assets as of December 31, 2014 and 2013, respectively, the related credit investments balance amounted to \$11,948,000 and \$11,987,000, both constituting 0% of the related total assets as of December 31, 2014 and 2013, respectively, and the comprehensive income amounted to \$222,402,000 and \$203,036,000, constituting 3% and 5% of the total comprehensive income for the years then ended, respectively. The financial statements of these investee companies were audited by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included in the non-consolidated financial statements and information disclosed in Note 13 relative to these investees, is based solely on the reports of the other independent accountants.

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

In our opinion, based on our audits and the reports of other independent accountants, the non-consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of TECO Electric & Machinery Co., Ltd. as of December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended, in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers".

PricewaterhouseCoopers, Taiwan

March 20, 2015

---

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

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

TECO ELECTRIC & MACHINERY CO., LTD.  
NON-CONSOLIDATED BALANCE SHEETS  
DECEMBER 31  
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2014		December 31, 2013	
		AMOUNT	%	AMOUNT	%
<b>Current assets</b>					
Cash and cash equivalents	6(1)	\$ 2,795,583	4	\$ 2,560,050	4
Financial assets at fair value through profit or loss - current	6(2)	21,006	-	5,355	-
Notes receivable, net	6(4)(5)	252,766	-	223,550	-
Notes receivable - related parties	7	412,389	1	431,628	1
Accounts receivable, net	6(5)	1,764,143	3	1,926,211	3
Accounts receivable - related parties	6(8) and 7	1,931,288	3	2,033,521	3
Receivables from customers on construction contracts	6(7)	768,393	1	744,268	1
Other receivables		48,266	-	28,376	-
Other receivables - related parties	6(8) and 7	1,175,049	2	849,167	2
Inventory	6(6)	3,284,765	5	3,340,885	6
Prepayments		14,661	-	36,476	-
Other current assets	6(1) and 8	381,460	-	321,353	1
<b>Total current assets</b>		<u>12,849,769</u>	<u>19</u>	<u>12,500,840</u>	<u>21</u>
<b>Non-current assets</b>					
Available-for-sale financial assets - non-current	6(3)	4,523,795	7	5,204,652	9
Investments accounted for under equity method	6(8) and 7	43,887,642	64	35,563,399	60
Property, plant and equipment	6(9) and 7	3,959,960	6	3,592,858	6
Investment property - net	6(10)	2,081,331	3	1,920,727	3
Deferred income tax assets	6(28)	571,748	1	729,762	1
Other non-current assets	6(11)	252,936	-	269,148	-
<b>Total non-current assets</b>		<u>55,277,412</u>	<u>81</u>	<u>47,280,546</u>	<u>79</u>
<b>Total assets</b>		<u>\$ 68,127,181</u>	<u>100</u>	<u>\$ 59,781,386</u>	<u>100</u>

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD.  
NON-CONSOLIDATED BALANCE SHEETS  
DECEMBER 31  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2014		December 31, 2013	
		AMOUNT	%	AMOUNT	%
<b>Total current liabilities</b>					
Short-term borrowings	6(12)	\$ 128,751	-	\$ -	-
Financial liabilities at fair value through profit or loss - current	6(13)	-	-	1,163	-
Notes payable		20,070	-	17,235	-
Notes payable - related parties	7	182,749	-	127,626	-
Accounts payable		3,441,261	5	3,475,462	6
Accounts payable - related parties	7	1,481,283	2	1,494,651	3
Payables to customers on construction contracts	6(7)	259,109	1	217,274	-
Other payables	6(30)	2,582,698	4	2,397,308	4
Other payables - related parties	7	786,201	1	247,851	-
Current income tax liabilities	6(28)	161,960	-	193,387	-
Provisions for liabilities - current		43,622	-	84,750	-
Other current liabilities		274,790	1	259,053	1
<b>Total current liabilities</b>		<u>9,362,494</u>	<u>14</u>	<u>8,515,760</u>	<u>14</u>
<b>Non-current liabilities</b>					
Corporate bonds payable	6(14)	1,527,600	2	1,475,700	3
Long-term borrowings	6(15)	5,389,582	8	4,399,586	7
Deferred income tax liabilities	6(28)	812,525	1	778,921	1
Other non-current liabilities	6(16)	1,810,958	3	1,747,985	3
<b>Total non-current liabilities</b>		<u>9,540,665</u>	<u>14</u>	<u>8,402,192</u>	<u>14</u>
<b>Total liabilities</b>		<u>18,903,159</u>	<u>28</u>	<u>16,917,952</u>	<u>28</u>
<b>Equity</b>					
<b>Share capital</b>	6(18)				
Share capital - common stock		20,026,929	29	19,646,374	33
Advance receipts for share capital		-	-	380,555	1
<b>Capital surplus</b>	6(19)				
Capital surplus		7,600,552	10	7,493,180	12
<b>Retained earnings</b>	6(20)(28)				
Legal reserve		5,005,650	7	4,629,663	8
Special reserve		3,737,786	6	3,737,786	6
Unappropriated retained earnings		9,655,104	14	8,238,933	14
<b>Other equity interest</b>	6(21)				
Other equity interest		3,519,564	6	941,494	(1)
Treasury stocks	6(8)(18)	(321,563)	-	(321,563)	(1)
<b>Total equity</b>		<u>49,224,022</u>	<u>72</u>	<u>42,863,434</u>	<u>72</u>
<b>Commitments and Contingent Liabilities</b>	9				
<b>Subsequent Events</b>	11				
<b>Total liabilities and equity</b>		<u>\$ 68,127,181</u>	<u>100</u>	<u>\$ 59,781,386</u>	<u>100</u>

The accompanying notes are an integral part of these non-consolidated financial statements.  
See report of independent accountants dated March 20, 2015.



**TECO ELECTRIC & MACHINERY CO., LTD.**  
**NON-CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31**  
(Expressed in thousands of New Taiwan dollars, except earning per share data)

Items	Notes	Year ended December 31			
		2014		2013	
		AMOUNT	%	AMOUNT	%
Sales revenue	6(22) and 7	\$ 24,256,762	100	\$ 25,604,449	100
Operating costs	6(6)(16)(20)(26)(27) and 7	( 18,843,170)	( 78)	( 20,344,940)	( 80)
Net operating margin		5,413,592	22	5,259,509	20
Unrealized profit from sales	7	( 559,116)	( 2)	( 520,178)	( 2)
Realized profit on from sales		520,178	2	443,013	2
Net operating margin		5,374,654	22	5,182,344	20
Operating expenses	6(16)(20)(26)(27) and 7				
Selling expenses		( 2,006,624)	( 8)	( 2,017,435)	( 8)
General and administrative expenses		( 616,579)	( 3)	( 619,161)	( 2)
Research and development expenses		( 797,632)	( 3)	( 833,332)	( 3)
Total operating expenses		( 3,420,835)	( 14)	( 3,469,928)	( 13)
Operating profit		1,953,819	8	1,712,416	7
Non-operating income and expenses					
Other income	6(2)(10)(13)(23) and 7	524,129	2	404,394	2
Other gains and losses	6(3)(24)	( 309,176)	( 1)	( 41,416)	-
Finance costs	6(25)	( 110,804)	( 1)	( 113,631)	( 1)
Share of profit of subsidiary, associates and joint ventures accounted for under equity method	6(8)	2,393,619	10	2,182,780	8
Total non-operating income and expenses		2,497,768	10	2,432,127	9
Profit before income tax		4,451,587	18	4,144,543	16
Income tax expense	6(28)	( 384,663)	( 1)	( 384,671)	( 2)
Profit for the year		\$ 4,066,924	17	\$ 3,759,872	14
Other comprehensive income					
Currency translation differences of foreign operations	6(21)	\$ 728,508	3	\$ 57,538	-
Unrealized loss on valuation of available-for-sale financial assets	6(3)(21)	( 448,322)	( 2)	( 351,936)	( 1)
Actuarial loss on defined benefit plan	6(16)	( 52,570)	-	( 1,837)	-
Total share of other comprehensive income of subsidiary, associates and joint ventures accounted for under equity method	6(21)	4,225,073	17	1,004,254	4
Income tax relating to the components of other comprehensive income	6(28)	( 63,435)	-	( 3,472)	-
Other comprehensive income for the year		\$ 4,389,254	18	\$ 704,547	3
Total comprehensive income for the year		\$ 8,456,178	35	\$ 4,464,419	17
Basic earnings per share (in dollars)	6(29)				
Basic earnings per share		\$ 2.06		\$ 2.01	
Diluted earnings per share		\$ 2.05		\$ 2.00	

The accompanying notes are an integral part of these non-consolidated financial statements.  
See report of independent accountants dated March 20, 2015.

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

	Notes	Capital			Retained earnings			Other equity interest			Total equity
		Share capital - common stock	Advance receipts for share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks	
<b>Year ended December 31, 2013</b>											
Balance at January 1, 2013		\$ 18,471,209	\$ 19,760	\$ 5,881,995	\$ 4,333,193	\$ 3,737,786	\$ 6,697,545	(\$ 366,207)	(\$ 1,279,753)	(\$ 320,839)	\$ 37,174,689
Appropriations of 2012 net income (Note)	6(20)	-	-	-	296,470	-	( 296,470 )	-	-	-	-
Legal reserve		-	-	-	-	-	( 1,922,095 )	-	-	-	( 1,922,095 )
Cash dividends		-	-	-	-	-	-	-	-	-	-
Exercise of employee stock options	6(17)(18)	83,810	28,960	21,374	-	-	-	-	-	-	134,144
Common stock converted from corporate bonds	6(14)(18)	1,091,355	331,835	1,576,810	-	-	-	-	-	-	3,000,000
Effect of changes in the net equity of associates and joint ventures accounted for under the equity method		-	-	140	-	-	-	-	-	-	140
Differences between the price for acquisition or disposal of subsidiaries and carrying amount	6(8)	-	-	12,861	-	-	-	-	-	-	12,861
Other comprehensive income for the year	6(21)	-	-	-	-	-	( 1,837 )	54,066	( 351,936 )	-	( 299,707 )
Share of other comprehensive income of subsidiary, associates and joint venture accounted for under the equity method	6(21)	-	-	-	-	-	1,918	-	1,002,336	-	1,004,254
Treasury stock acquired through acquisition of subsidiaries	6(8)(18)	-	-	-	-	-	-	-	-	( 724 )	( 724 )
Net income for the year		-	-	-	-	-	3,759,872	-	-	-	3,759,872
Balance at December 31, 2013		<u>\$ 19,646,374</u>	<u>\$ 380,555</u>	<u>\$ 7,493,180</u>	<u>\$ 4,629,663</u>	<u>\$ 3,737,786</u>	<u>\$ 8,238,933</u>	<u>(\$ 312,141)</u>	<u>(\$ 629,353)</u>	<u>(\$ 321,563)</u>	<u>\$ 42,863,434</u>
<b>Year ended December 31, 2014</b>											
Balance at January 1, 2014		\$ 19,646,374	\$ 380,555	\$ 7,493,180	\$ 4,629,663	\$ 3,737,786	\$ 8,238,933	(\$ 312,141)	(\$ 629,353)	(\$ 321,563)	\$ 42,863,434
Appropriations of 2013 net income (Note)	6(20)	-	-	-	375,987	-	( 375,987 )	-	-	-	-
Legal reserve		-	-	-	-	-	( 2,202,962 )	-	-	-	( 2,202,962 )
Cash dividends		-	-	-	-	-	-	-	-	-	-
Exercise of employee stock options	6(17)(18)	48,720	( 48,720 )	-	-	-	-	-	-	-	-
Common stock converted from corporate bonds	6(14)(18)	331,835	( 331,835 )	-	-	-	-	-	-	-	-
Effect of changes in the net equity of associates and joint ventures accounted for under the equity method		-	-	29,476	-	-	-	-	-	-	29,476
Differences between the price for acquisition or disposal of subsidiaries and carrying amount	6(8)	-	-	77,896	-	-	-	-	-	-	77,896
Other comprehensive income for the year	6(21)	-	-	-	-	-	( 52,570 )	665,073	( 448,322 )	-	164,181
Share of other comprehensive income of subsidiary, associates and joint venture accounted for under the equity method	6(21)	-	-	-	-	-	( 19,234 )	-	4,244,307	-	4,225,073
Net income for the year		-	-	-	-	-	4,066,924	-	-	-	4,066,924
Balance at December 31, 2014		<u>\$ 20,026,929</u>	<u>\$ -</u>	<u>\$ 7,600,552</u>	<u>\$ 5,005,650</u>	<u>\$ 3,737,786</u>	<u>\$ 9,655,104</u>	<u>\$ 352,932</u>	<u>\$ 3,166,632</u>	<u>(\$ 321,563)</u>	<u>\$ 49,224,022</u>

Note: For the years ended December 31, 2013 and 2012, directors' and supervisors' remuneration amounting to \$155,355 and \$106,729, respectively, and employees' bonus amounting to \$304,550 and \$240,141, respectively, had been deducted from the non-consolidated statements of comprehensive income.

The accompanying notes are an integral part of these non-consolidated financial statements.  
See report of independent accountants dated March 20, 2015.

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

	Notes	Year ended December 31	
		2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax for the year		\$ 4,451,587	\$ 4,144,543
Adjustments to reconcile profit before income tax to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Net gain on financial assets at fair value through profit or loss	6(2)(24)	( 56,546 )	( 36,033 )
Net gain on financial liabilities at fair value through profit or loss	6(13)(24)	( 1,163 )	( 1,049 )
Provision (reversal) of allowance for doubtful accounts	6(5)	10,707	( 8,565 )
(Reversal of) provision for decline in value of inventories	6(6)	( 6,166 )	74,106
Interest income	6(23) and 7	( 35,855 )	( 45,974 )
Interest expense	6(25)	95,197	98,299
Dividend income	6(23)	( 69,467 )	( 70,866 )
Loss (gain) on disposal of investments	6(24)	8,395	( 172,241 )
Share of profit of associates and joint ventures accounted for under the equity method	6(8)	( 2,393,619 )	( 2,182,780 )
Depreciation, amortization and net gain or loss on disposal of property, plant and equipment, net	6(9)(10)(24)(26)	462,174	421,255
Foreign currency exchange loss of bonds payable	6(14)	51,900	18,600
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Financial assets at fair value through profit or loss - current	6(2)	40,895	40,391
Notes receivable	6(4)	( 29,586 )	163,981
Notes receivable - related parties	7	19,239	( 1,855 )
Accounts receivable	6(5)	151,731	( 185,841 )
Accounts receivable - related parties	7	102,233	( 18,016 )
Receivables from customers on construction contract	6(7)	( 24,125 )	268,580
Other receivables		( 19,890 )	57,723
Other receivables - related parties	7	( 103,975 )	( 102,476 )
Inventories	6(6)	62,286	77,646
Prepayments		21,815	( 1,140 )
Other current asset		( 64,323 )	( 105,259 )
Net changes in liabilities relating to operating activities			
Notes payable		2,835	( 174,632 )
Notes payable - related parties	7	55,123	97,943
Accounts payable		( 34,201 )	( 205,980 )
Accounts payable - related parties	7	( 13,368 )	380,638
Payables to customers on construction contract	6(7)	41,835	( 60,001 )
Other payables		176,884	182,631
Other payables - related parties	7	( 105,130 )	35,030
Provisions for liabilities		( 41,128 )	( 3,002 )
Other current liabilities		54,675	71,031
Other non-current liabilities		1,780	( 673 )
Cash generated from operations		2,812,749	2,756,014
Interest received		35,855	46,116
Dividend received		583,469	505,191
Payment of interest		( 83,308 )	( 41,737 )
Payment of income tax		( 287,907 )	( 160,251 )
Net cash provided by operating activities		3,060,858	3,105,333

(Continued)

TECO ELECTRIC & MACHINERY CO. LTD.  
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31  
(Expressed in thousands of New Taiwan dollars)

	Notes	Year ended December 31	
		2014	2013
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
(Increase) decrease in other receivables - related parties	7	(\$ 221,907 )	\$ 44,241
Decrease in pledged demand and fixed deposits	8	4,216	10,849
Proceeds from disposal of available-for-sale financial assets - non-current		273,065	569,196
Increase in available-for-sale financial assets -non-current		( 48,925 )	-
Proceeds from disposal of investments accounted for under equity method		-	5,479
Increase in investments accounted for under equity method		( 1,413,988 )	( 393,751 )
Proceeds from disposal of property, plant and equipment		-	26,638
Acquisition of property, plant and equipment	6(9)(10)(30)	( 933,730 )	( 377,396 )
Increase in deferred expenses	6(11)	( 11,330 )	( 61,088 )
Decrease (increase) in refundable deposits	6(11)	6,397	( 29,408 )
Increase in other non-current assets		( 38,388 )	( 2,573 )
Net cash used in investing activities		( 2,384,590 )	( 207,813 )
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from short-term loans	6(12)	128,751	-
Increase in other payables - related parties - financing		643,480	-
Proceeds from issuance of bonds payable	6(14)	-	1,457,100
Increase (decrease) in long-term loans	6(15)	989,996	( 2,799,338 )
Exercise of employee stock options	6(17)(18)	-	134,144
Cash dividends paid	6(20)	( 2,202,962 )	( 1,922,095 )
Net cash used in financing activities		( 440,735 )	( 3,130,189 )
Increase (decrease) in cash and cash equivalents		235,533	( 232,669 )
Cash and cash equivalents at beginning of year		2,560,050	2,792,719
Cash and cash equivalents at end of year		\$ 2,795,583	\$ 2,560,050

The accompanying notes are an integral part of these non-consolidated financial statements.  
See report of independent accountants dated March 20, 2015.



## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To TECO Electric & Machinery Co., Ltd.

We have audited the accompanying consolidated balance sheets of TECO Electric & Machinery Co., Ltd. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. As described in Notes 4(3) and 6(10) to the consolidated financial statements, we did not audit the financial statements of certain consolidated subsidiaries and investee companies accounted for under the equity method. The financial statements of these subsidiaries reflect total assets of \$2,486,924,000 and \$2,159,308,000, both constituting 3% of the consolidated total assets as of December 31, 2014 and 2013, respectively, and total operating revenues of \$2,483,505,000 and \$2,559,800,000, both constituting 5% of consolidated total operating revenues for the years then ended, respectively. These investments accounted for under the equity method amounted to \$3,924,963,000 and \$3,914,336,000, both constituting 5% of total consolidated assets as of December 31, 2014 and 2013, respectively, the credit balance of investments accounted for under equity method amounted to \$23,334,000 and \$19,878,000, both constituting 0% of total consolidated assets as of December 31, 2014 and 2013, respectively, and the share of profit of associates and joint ventures accounted for under the equity method amounted to \$114,585,000 and \$182,785,000, constituting 1% and 4% of the consolidated comprehensive income for the years then ended, respectively. Those financial statements and the information disclosed in Note 13 were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein is based solely on the audit reports of the other independent accountants.

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

In our opinion, based on our audits and the reports of other independent accountants, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of TECO Electric & Machinery Co., Ltd. and subsidiaries as of December 31, 2014 and 2013, and their financial performance and cash flows for the years then ended, in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

We have also audited the parent company only financial statements of TECO Electric & Machinery Co., Ltd. as of and for the years ended December 31, 2014 and 2013, and have expressed a modified unqualified opinion on such financial statements.

PricewaterhouseCoopers, Taiwan

March 20, 2015

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

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

Assets	Notes	December 31, 2014		December 31, 2013	
		AMOUNT	%	AMOUNT	%
<b>Current assets</b>					
Cash and cash equivalents	6(1) and 8	\$ 17,206,411	21	\$ 14,908,571	19
Financial assets at fair value through profit or loss - current	6(2)	318,399	-	348,455	-
Available-for-sale financial assets - current	6(3) and 8	1,252,111	2	984,570	1
Bond investments without active markets - current	6(4)	122,540	-	106,630	-
Notes receivable, net	6(5)(6) and 8	998,510	1	1,124,336	2
Notes receivable - related parties	7	99,132	-	38,865	-
Accounts receivable, net	6(6) and 8	8,333,056	10	8,695,223	11
Accounts receivable - related parties	7	585,523	1	575,626	1
Receivables from customers on construction contracts	6(8)	844,335	1	879,132	1
Other receivables		257,896	-	203,041	-
Other receivables - related parties	7	627,867	1	397,370	1
Inventories	6(7) and 8	11,555,667	14	11,193,424	15
Prepayments		280,960	-	369,807	1
Non-current assets held for sale - net	6(9)	-	-	58,662	-
Other current assets	6(1) and 8	783,890	1	959,643	1
<b>Total current assets</b>		<u>43,266,297</u>	<u>52</u>	<u>40,843,355</u>	<u>53</u>
<b>Non-current assets</b>					
Available-for-sale financial assets - non-current	6(3) and 8	14,155,901	17	10,779,025	14
Investments accounted for under the equity method	6(10) and 8	5,232,739	7	5,019,511	7
Property, plant and equipment	6(12) and 8	14,738,703	18	15,132,587	20
Investment property - net	6(13)	2,591,956	3	2,299,151	3
Intangible assets	6(35)	174,250	-	320,236	-
Deferred income tax assets	6(33)	1,078,738	1	1,358,641	2
Other non-current assets	6(14) and 8	1,533,083	2	1,137,547	1
<b>Total non-current assets</b>		<u>39,505,370</u>	<u>48</u>	<u>36,046,698</u>	<u>47</u>
<b>Total assets</b>		<u>\$ 82,771,667</u>	<u>100</u>	<u>\$ 76,890,053</u>	<u>100</u>

(Continued)

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

(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2014		December 31, 2013	
		AMOUNT	%	AMOUNT	%
<b>Current liabilities</b>					
Short-term borrowings	6(15) and 8	\$ 2,522,551	3	\$ 2,916,614	4
Financial liabilities at fair value through profit or loss - current	6(16)	-	-	1,476	-
Notes payable		119,833	-	352,872	1
Notes payable - related parties	7	8,850	-	16,923	-
Accounts payable		7,476,672	9	7,558,564	10
Accounts payable - related parties	7	87,389	-	79,410	-
Payables to customers on construction contracts	6(8)	291,341	1	243,436	-
Other payables	6(17)	5,240,958	6	4,639,317	6
Current income tax liabilities	6(33)	393,743	1	510,856	1
Provisions for liabilities - current		192,504	-	274,428	-
Other current liabilities	6(19)(20)	1,800,608	2	3,389,880	4
<b>Total current liabilities</b>		<b>18,134,449</b>	<b>22</b>	<b>19,983,776</b>	<b>26</b>
<b>Non-current liabilities</b>					
Corporate bonds payable	6(18)	1,527,600	2	1,475,700	2
Long-term borrowings	6(19) and 8	5,474,646	7	4,498,266	6
Provisions for liabilities - non-current		226,994	-	165,929	-
Deferred income tax liabilities	6(33)	1,911,066	2	1,911,053	2
Other non-current liabilities	6(10)(21)	2,254,241	3	2,131,355	3
<b>Total non-current liabilities</b>		<b>11,394,547</b>	<b>14</b>	<b>10,182,303</b>	<b>13</b>
<b>Total liabilities</b>		<b>29,528,996</b>	<b>36</b>	<b>30,166,079</b>	<b>39</b>
<b>Equity attributable to owners of parent</b>					
<b>Share capital</b>	6(23)				
Common stock		20,026,929	24	19,646,374	26
Advance receipts for share capital		-	-	380,555	-
<b>Capital surplus</b>	6(24)				
Capital surplus		7,600,552	8	7,493,180	9
<b>Retained earnings</b>	6(25)(33)				
Legal reserve		5,005,650	6	4,629,663	6
Special reserve		3,737,786	5	3,737,786	5
Unappropriated retained earnings		9,655,104	12	8,238,933	11
<b>Other equity interest</b>	6(26)				
Other equity interest		3,519,564	4	941,494	1
Treasury stocks	6(23) and 8	(321,563)	-	(321,563)	-
<b>Equity attributable to owners of the parent</b>		<b>49,224,022</b>	<b>59</b>	<b>42,863,434</b>	<b>56</b>
<b>Non-controlling interest</b>		<b>4,018,649</b>	<b>5</b>	<b>3,860,540</b>	<b>5</b>
<b>Total equity</b>		<b>53,242,671</b>	<b>64</b>	<b>46,723,974</b>	<b>61</b>
<b>Commitments and contingent liabilities</b>	9				
<b>Subsequent events</b>	11				
<b>Total liabilities and equity</b>		<b>\$ 82,771,667</b>	<b>100</b>	<b>\$ 76,890,053</b>	<b>100</b>

The accompanying notes are an integral part of these consolidated financial statements.  
See report of independent accountants dated March 20, 2015.



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

Items	Notes	Year ended December 31			
		2014		2013	
		AMOUNT	%	AMOUNT	%
<b>Sales revenue</b>	6(27) and 7	\$ 53,820,604	100	\$ 56,618,537	100
<b>Operating costs</b>	6(7)(21)(31)(32)				
	and 7	( 40,442,637)	( 75)	( 43,137,921)	( 76)
<b>Net operating margin</b>		13,377,967	25	13,480,616	24
Unrealized profit from sales		( 10,265)	-	( 10,329)	-
Realized profit from sales		10,329	-	14,439	-
<b>Net operating margin</b>		13,378,031	25	13,484,726	24
<b>Operating expenses</b>	6(21)(31)(32)				
Selling expenses		( 4,325,062)	( 8)	( 4,317,858)	( 8)
General and administrative expenses		( 3,052,408)	( 6)	( 2,994,129)	( 5)
Research and development expenses		( 1,603,590)	( 3)	( 1,547,145)	( 3)
<b>Total operating expenses</b>		( 8,981,060)	( 17)	( 8,859,132)	( 16)
<b>Operating profit</b>		4,396,971	8	4,625,594	8
<b>Non-operating income and expenses</b>					
Other income	6(4)(13)(28) and 7	1,185,176	2	858,150	2
Other gains and losses	6(2)(13)(16)(29)	141,062	-	3,532	-
Finance costs	6(12)(30)	( 234,712)	-	( 251,706)	-
Share of profit of associates and joint ventures accounted for under the equity method	6(10)	215,438	1	167,914	-
<b>Total non-operating income and expenses</b>		1,306,964	3	777,890	2
<b>Profit before income tax</b>		5,703,935	11	5,403,484	10
Income tax expense	6(33)	( 1,297,704)	( 3)	( 1,226,228)	( 2)
<b>Profit for the year</b>		\$ 4,406,231	8	\$ 4,177,256	8

(Continued)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31  
(Expressed in thousands of New Taiwan dollars, except earnings per share data)

Items	Notes	Year ended December 31			
		2014		2013	
		AMOUNT	%	AMOUNT	%
<b>Other comprehensive income</b>					
Currency translation differences of foreign operations	6(26)	\$ 753,275	2	\$ 71,229	-
Unrealized gain on valuation of available-for-sale financial assets	6(3)(26)	3,984,367	7	692,905	1
Actuarial (loss) gain on defined benefit plan	6(21)	( 75,540)	-	4,375	-
Share of other comprehensive (loss) income of associates and joint ventures accounted for under the equity method		( 6,350)	-	8,998	-
Income tax relating to the components of other comprehensive income	6(33)	( 62,555)	-	( 3,472)	-
<b>Other comprehensive income for the year</b>		<u>\$ 4,593,197</u>	<u>9</u>	<u>\$ 774,035</u>	<u>1</u>
<b>Total comprehensive income for the year</b>		<u>\$ 8,999,428</u>	<u>17</u>	<u>\$ 4,951,291</u>	<u>9</u>
<b>Profit attributable to:</b>					
Owners of the parent		\$ 4,066,924	7	\$ 3,759,872	7
Non-controlling interest		339,307	1	417,384	1
		<u>\$ 4,406,231</u>	<u>8</u>	<u>\$ 4,177,256</u>	<u>8</u>
<b>Comprehensive income attributable to:</b>					
Owners of the parent		\$ 8,456,178	16	\$ 4,464,419	8
Non-controlling interest		543,250	1	486,872	1
		<u>\$ 8,999,428</u>	<u>17</u>	<u>\$ 4,951,291</u>	<u>9</u>
<b>Earnings per share (in dollars)</b> 6(34)					
Basic earnings per share		<u>\$ 2.06</u>		<u>\$ 2.01</u>	
Diluted earnings per share		<u>\$ 2.05</u>		<u>\$ 2.00</u>	

The accompanying notes are an integral part of these consolidated financial statements.  
See report of independent accountants dated March 20, 2015.

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

	Notes	Equity attributable to owners of the parent											
		Capital			Retained earnings				Other equity interest				
		Share capital - common stock	Advance receipts for share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks	Total	Non-controlling interest	Total equity
<b>Year ended December 31, 2013</b>													
Balance at January 1, 2013		\$ 18,471,209	\$ 19,760	\$ 5,881,995	\$ 4,333,193	\$ 3,737,786	\$ 6,697,545	(\$ 366,207)	(\$ 1,279,753)	(\$ 320,839)	\$ 37,174,689	\$ 2,111,001	\$ 39,285,690
Appropriations of 2012 net income	6(25)	-	-	-	296,470	-	( 296,470 )	-	-	-	-	-	-
Legal reserve		-	-	-	-	-	( 296,470 )	-	-	-	( 1,922,095 )	-	( 1,922,095 )
Cash dividends		-	-	-	-	-	( 1,922,095 )	-	-	-	-	-	( 1,922,095 )
Exercise of employee stock options	6(22)(23)	83,810	28,960	21,374	-	-	-	-	-	-	134,144	-	134,144
Converted from corporate bonds		1,091,355	331,835	1,576,810	-	-	-	-	-	-	3,000,000	-	3,000,000
Effect of changes in net equity of associates and joint ventures amounted for under the equity method		-	-	140	-	-	-	-	-	-	140	-	140
Difference between the price for acquisition or disposal of subsidiaries and carrying amount		-	-	12,861	-	-	-	-	-	-	12,861	-	12,861
Treasury stock acquired through acquisition of subsidiaries	6(23)	-	-	-	-	-	-	-	-	( 724 )	( 724 )	-	( 724 )
Change in non-controlling interests		-	-	-	-	-	-	-	-	-	-	1,262,667	1,262,667
Other comprehensive income for the year	6(26)	-	-	-	-	-	81	54,066	650,400	-	704,547	69,488	774,035
Profit for the year	6(25)	-	-	-	-	-	3,759,872	-	-	-	3,759,872	417,384	4,177,256
Balance at December 31, 2013		<u>\$ 19,646,374</u>	<u>\$ 380,555</u>	<u>\$ 7,493,180</u>	<u>\$ 4,629,663</u>	<u>\$ 3,737,786</u>	<u>\$ 8,238,933</u>	<u>(\$ 312,141)</u>	<u>(\$ 629,353)</u>	<u>(\$ 321,563)</u>	<u>\$ 42,863,434</u>	<u>\$ 3,860,540</u>	<u>\$ 46,723,974</u>
<b>Year ended December 31, 2014</b>													
Balance at January 1, 2014		\$ 19,646,374	\$ 380,555	\$ 7,493,180	\$ 4,629,663	\$ 3,737,786	\$ 8,238,933	(\$ 312,141)	(\$ 629,353)	(\$ 321,563)	\$ 42,863,434	\$ 3,860,540	\$ 46,723,974
Appropriations of 2013 net income	6(25)	-	-	-	375,987	-	( 375,987 )	-	-	-	-	-	-
Legal reserve		-	-	-	-	-	( 375,987 )	-	-	-	-	-	( 375,987 )
Cash dividends		-	-	-	-	-	( 2,202,962 )	-	-	-	( 2,202,962 )	-	( 2,202,962 )
Transferred from advance receipts for share capital	6(22)(23)	380,555	( 380,555 )	-	-	-	-	-	-	-	-	-	-
Effect of changes in net equity of associates and joint ventures amounted for under the equity method		-	-	29,476	-	-	-	-	-	-	29,476	-	29,476
Difference between the price for acquisition or disposal of subsidiaries and carrying amount		-	-	77,896	-	-	-	-	-	-	77,896	-	77,896
Change in non-controlling interests		-	-	-	-	-	-	-	-	-	-	( 385,141 )	( 385,141 )
Other comprehensive income for the year	6(26)	-	-	-	-	-	( 71,804 )	665,073	3,795,985	-	4,389,254	203,943	4,593,197
Profit for the year	6(25)	-	-	-	-	-	4,066,924	-	-	-	4,066,924	339,307	4,406,231
Balance at December 31, 2014		<u>\$ 20,026,929</u>	<u>\$ -</u>	<u>\$ 7,600,552</u>	<u>\$ 5,005,650</u>	<u>\$ 3,737,786</u>	<u>\$ 9,655,104</u>	<u>\$ 352,932</u>	<u>\$ 3,166,632</u>	<u>(\$ 321,563)</u>	<u>\$ 49,224,022</u>	<u>\$ 4,018,649</u>	<u>\$ 53,242,671</u>

The accompanying notes are an integral part of these consolidated financial statements.  
See report of independent accountants dated March 20, 2015.

**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)

	Notes	Year ended December 31	
		2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Consolidated profit before tax for the year		\$ 5,703,935	\$ 5,403,484
Adjustments to reconcile profit before income tax to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Net gain on financial assets at fair value through profit or loss	6(2)(29)	( 69,173 )	( 68,411 )
Net gain on financial liabilities at fair value through profit or loss	6(16)(29)	( 1,163 )	( 1,379 )
Provision (reversal of allowance) for doubtful accounts	6(6)	5,644	( 5,337 )
(Reversal of) provision for decline in value of inventories	6(7)	( 156,281 )	171,276
Interest income	6(28)	( 151,561 )	( 137,926 )
Dividend income	6(28)	( 392,277 )	( 313,275 )
Interest expense	6(30)	234,712	251,706
Depreciation and amortization	6(12)(13)(31)	1,349,115	1,442,378
Gain on disposal of investments	6(27)(29)	( 139,044 )	( 308,907 )
Gain on disposal of property, plant and equipment	6(12)(29)	( 646,332 )	( 60,187 )
Impairment loss	6(3)(12)(29)	260,762	38,850
Share of profit of associates and joint ventures accounted for under the equity method	6(10)	( 215,438 )	( 167,914 )
Foreign currency exchange loss of bonds payable	6(18)	51,900	18,600
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Financial assets at fair value through profit or loss - current	6(2)	99,229	( 127,162 )
Notes receivable	6(5)	125,556	236,440
Notes receivable - related parties	7	( 60,267 )	( 31,737 )
Accounts receivable	6(6)	378,193	( 908,720 )
Accounts receivable - related parties	7	( 9,897 )	201,004
Receivables from customers on construction contracts	6(8)	34,797	186,711
Other receivables		( 54,855 )	41,253
Other receivables - related parties	7	( 47,497 )	( 16,220 )
Inventories	6(7)	( 205,962 )	( 217,862 )
Prepayments		88,847	( 43,494 )
Other current assets		78,331	( 177,725 )
Net changes in liabilities relating to operating activities			
Notes payable		( 233,039 )	( 14,916 )
Notes payable - related parties	7	( 8,073 )	15,743
Accounts payable		( 81,892 )	45,827
Accounts payable - related parties	7	7,979	( 127,301 )
Payables to customers on construction contracts	6(8)	47,905	( 70,274 )
Other payables	6(17)	206,201	344,859
Provisions for liabilities		( 20,859 )	247,633
Other current liabilities	6(20)	( 865,868 )	1,253,160
Other non-current liabilities		193,552	( 551,623 )
Cash generated from operations		5,507,180	6,548,554
Interest received	6(28)	151,561	137,926
Dividend received	6(28)	558,510	543,221
Interest paid	6(30)	( 235,668 )	( 252,668 )
Income tax paid	6(33)	( 1,197,456 )	( 992,009 )
Net cash provided by operating activities		4,784,127	5,985,024

(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)

	Notes	Year ended December 31	
		2014	2013
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in available-for-sale financial assets - current	6(3)	( \$ 206,622 )	( \$ 632,449 )
Increase in other receivable - related parties	7	( 183,000 )	-
(Increase) decrease in bond investments without active market	6(4)	( 15,910 )	174,300
Decrease (increase) in pledged demand and fixed deposits	8	97,422	( 118,576 )
Proceeds from disposal of available-for-sale financial assets - non-current	6(3)	950,148	1,666,730
Acquisition of available-for-sale financial assets - non-current	6(3)	( 164,705 )	( 655,688 )
Increase in investments accounted for under the equity method	6(10)	( 86,242 )	( 164,200 )
Acquisition of property, plant and equipment	6(12)(36)	( 1,935,081 )	( 797,726 )
Proceeds from disposal of property, plant and equipment	6(12)	1,219,435	142,695
Acquisition of intangible assets		( 50,266 )	( 33,590 )
Decrease in restricted assets	8	5,675	94,967
(Increase) decrease in other non-current assets	6(14)	( 401,211 )	132,319
Net cash inflow from acquisitions of subsidiaries		-	46,290
Net cash used in investing activities		( 770,357 )	( 144,928 )
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in short-term loans	6(15)	( 394,063 )	( 128,672 )
Payments of long-term loans	6(19)	( 577,500 )	( 5,496,288 )
Proceeds from long-term loans	6(19)	1,553,880	2,000,000
Exercise of employee stock options	6(22)	-	134,144
Issuance of bonds payable	6(18)	-	1,457,100
Cash dividends paid	6(25)	( 2,202,962 )	( 1,922,095 )
Net cash used in financing activities		( 1,620,645 )	( 3,955,811 )
Exchange rate effect		( 95,285 )	( 154,489 )
Increase in cash and cash equivalents		2,297,840	1,729,796
Cash and cash equivalents at beginning of year		14,908,571	13,178,775
Cash and cash equivalents at end of year		\$ 17,206,411	\$ 14,908,571

The accompanying notes are an integral part of these consolidated financial statements.  
See report of independent accountants dated March 20, 2015.

TECO Electric & Machinery Co., Ltd.

**Distribution of 2014 Profits**

(In NT \$)

Item	Amount
Accumulated undistributed profit as of the beginning of the period	5,659,984,100
Add: Retained earnings after adjustment in 2013 (Note 1)	(71,804,129)
Accumulated undistributed earnings after adjustment	5,588,179,971
Add: Net Profit after tax in 2014	4,066,923,985
Reversal of special reserve (Note 2)	97,007,253
Less: Legal Reserve	(406,692,399)
<b>Total distributable earnings</b>	<b>9,345,418,810</b>
Profit available for distribution for the period:	
Profit-sharing to shareholders	2,202,962,175
(Dividend per share)	1.1
<b>Undistributed profit as of the end of 2014</b>	<b>7,142,456,635</b>
Note :	
1. Defined Pension Obligation actuarial gains and losses	
2 .According to the decree of the Financial Supervisory Commission on reversal of special reserves (FSC No. 1010012865, April 6, 2012), the company embraced the “international guidelines for financial report” in 2013 and accordingly transferred “unrealized increased value from reassessment” and “accumulated adjustment amount from conversion” to retained earnings and made provisions for special reserves. Should the company dispose of the assets in the future, it should reverse the provisions for the special reserves for the assets to the item of retained earnings.	
3. Employee Bonus:	NT\$ 329,420,844
Remuneration to Directors and Supervisors:	NT\$ 146,409,263

Notes:

1. Dividend per share in 2014 is NT\$1.1 and all dividends distributed this year shall be cash dividend.
2. The profit distributed this period will be distributed from the earnings received in 2014 available for distribution and, in case of a shortfall, from the accumulated undistributed profits from previous years where there is a shortfall.
3. In case of any change to the above allocation without prejudice to the proposed earning per share to the shareholders due to TECO's buy-back of its own shares or transfer or conversion or de-registration of treasury stocks thereby affects the outstanding number of issued shares, the Chairman will be authorized to handle the relevant issues.

TECO Electric & Machinery Co., Ltd.

**Offering of Unsecured Corporate Bond**

(In NT Thousands)

Decree of the Authority	FSC No. 1030051960
Total Issue Amount	3,000,000
Coupon Rate	Lower than fixed annual percentage rate, 1.8%
Raising Terms	5 years
Reason for Issue	Pay back bank loan
Depository Bank	Hua Nan Bank
Issue Date	Have not yet been issued
Raising Deadline	2015/6/25
Selling Target	Exclusive for professional investors, as defined by the management rules for foreign currency-denominated international bonds, formulated by GreTai Securities Market (over-the-counter market).

## TECO Electric & Machinery Co., Ltd.

### List of Candidates of Directors

Name	Shares (Note)	Education/ Experience
Tong Ho Global Investment Co., Ltd Representative : Chao-Kai, Liu	2,240,262 shares	Ph.D. of Electric Engineering, University of Illinois Bachelor of Electric Engineering, National Taiwan University Chairman of TECO Electric & Machinery Co., Ltd Chairman of TECOM Co., Ltd Chairman of Baycom O-E Tech. Co. Ltd
Mao-Hsiung, Huang	18,486,633 shares	Master of Economics, University of Pennsylvania Bachelor of Economics, Keio University Managing Director of TECO Electric & Machinery Co., Ltd Chairman of An-Shin Food Services Co., Ltd. Chairman of Century Development Corporation Independent Director of Inotera Memories Inc. President of Chinese National Association of Industry and Commerce, Taiwan
Po-Chih, Huang	21,614,831 shares	Master of Mechanical Engineering, University of Tokyo Bachelor of Mechanical Engineering, National Taiwan University Managing Director of TECO Electric & Machinery Co., Ltd Director of TECOM Co., Ltd Director of TECO Technology Foundation Vice President of Chinese International Economic Cooperation Association President of Taiwan Association of Machinery Industry Supervisor of Chinese National Federation of Industries
Cheng-Tsung, Huang	15,279,849 shares	Bachelor of Economics, Fu Jen Catholic University Managing Director of TECO Electric & Machinery Co., Ltd Chairman of Sen Yeh Construction Co., Ltd. Independent Director of Aurotek Corporation President of Importers and Exporters Association of Taipei



Name	Shares (Note)	Education/ Experience
Yaskawa Electric Corporation Representative : Ogi Hiroyuki	29,541,089 shares	Bachelor of Electric Engineering, Keio University Director of TECO Electric & Machinery Co., Ltd Director of Yatec Engineering Corporation Yaskawa Electric Corporation, Corporate Senior Vice President Yaskawa Siemens Automation & Drives Corp., President & CEO Yaskawa Brooks Automation Inc., President
Kuang Yuan Industrial Co., Ltd. Representative: Shih-Chien, Yang	22,033,919 shares	Master & Ph.D. of Electric Engineering, Northwestern University, US Bachelor of Electric Engineering , National Taiwan University Director of TECO Electric & Machinery Co., Ltd Director of TECOM Co., Ltd Independent Director of Topkey Corporation Director of Synnex Technology International Corp. Chairman of Global Strategic Venture Chairman of Huan Xun Venture Capital Co., Ltd. National Policy Advisor in Office of the President
Tung Kuang Investment Co., Ltd. Representative : Chwen-Jy, Chiu	30,341,364 shares	MBA, University of Michigan, Ann-Arbor Master of Accounting, National Chengchi University President of TECO Electric & Machinery Co., Ltd Chairman of Taiwan Pelican Express Co., Ltd Director of Lien Chang Electronic Enterprise Co., Ltd Supervisor of Creative Sensor Inc. Supervisor of TECO Image Systems Co., Ltd Chairman of Asia Pacific Telecom Co., Ltd.
Hsien- Sheng, Kuo	9,126,238 shares	Bachelor of Foreign Language & Literature, Tamkang University Director of TECO Electric & Machinery Co., Ltd Chairman of Ping Tung Bus Lines Co., Ltd. Chairman of Nantou Bus Lines Co., Ltd. Director of Taichung Blood Center, TBSF Director of Sinon Corporation
Mao Yang Co., Ltd. Representative: Yung-Hsiang, Chang	5,000,893 shares	Bachelor of Industrial Engineering and Management, Minghsin University of Science and Technology Director of TECO Electric & Machinery Co., Ltd Chairman of Hong Tong Co., Ltd. Vice Chairman of Taiwan Wax Company Ltd.

Name	Shares (Note)	Education/ Experience
Tung Kuang Investment Co., Ltd. Representative : Hong-Hsiang, Lin	30,341,364 shares	Master of Mechanical Engineering, University of Houston Assistant Vice President of TECO Electric & Machinery Co., Ltd Supervisor of TECOM Co., Ltd Chairman of Tong Dai Co., Ltd Director of Top-Tower Enterprises Co., Ltd.
Creative Sensor Inc. Representative: Yu-Ren, Huang	10,000,000 shares	Bachelor & Master of Electric Engineering, Columbia University Bachelor of Business and Commerce, Keio University Director of TECO Electric & Machinery Co., Ltd Chairman of TECO Image Systems Co., Ltd Chairman of Creative Sensor Inc. Chairman of Lien Chang Electronic Enterprise Co., Ltd
Lien Chang Electronic Enterprise Co., Ltd Representative: Ming-Feng, Yeh	4,173,000 shares	Financial Research in Syracuse University Completion of schooling in Ph.D Study in National Taiwan University Bachelor & Master of Economics, National Taiwan University Independent Director of E & E Recycling, Inc. Director of Yubantec Director of TECO International Investment Co., Ltd. Director of Fujio Food System Taiwan Co., Ltd Consultant of Chinese National Association of Industry and Commerce, Taiwan
Tian-Jy, Chen (Independent Director)	0 shares	Ph.D. of Economics, Pennsylvania State University Bachelor of Electric Engineering, National Taiwan University Independent Director of TECO Electric & Machinery Co., Ltd Independent Director of AU Optronics Corp. Independent Director of Chunghwa Telecom Co., Ltd Minister without Portfolio, Executive Yuan Chairperson of Council for Economic Planning and Development Chairman of Chung-Hua Institution for Economic Research Professor of Department of Economics, National Taiwan University

Name	Shares (Note)	Education/ Experience
Jing-Shown, Wu (Independent Director)	0 shares	Ph.D. of Electric Engineering, Cornell University Bachelor & Master of Electric Engineering, National Taiwan University Independent Director of TECO Electric & Machinery Co., Ltd Professor of Department of Electrical Engineering, National Taiwan University Adjunct Researcher of Board of Science and Technology, Executive Yuan Program Director of Networked Communications Program Chairman of Institute for Information Industry Minister of Aviation Safety Council Vice President of National Taiwan University
Chien-Yuan, Lin (Independent Director)	0 shares	Ph.D. of Transportation Engineering, University of Washington Master of Civil Engineering, National Taiwan University Bachelor of Land Economics, National Chengchi University Professor & Dean of College of Environment Design, Chinese Culture University Director of Research Center of Smart City in Chinese Culture University Independent Director of Taiwan Sugar Incorporation Independent Director of An-Shin Food Services Co., Ltd. Independent Director of Advanced Lithium Electrochemistry (Cayman) Co., Ltd. Director of Taiwan Power Company Director of EasyCard Corporation Deputy Mayor of Taipei City Minister of Election Committee of Taipei City Director in Department of Finance, Taipei City Government

Note: Shares held on the book closure starting date of AGM 2015 (April 13<sup>th</sup>, 2015)

TECO Electric & Machinery Co., Ltd.

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

Name	Serve concurrently in Taiwan	Serve concurrently Overseas
<p>Tong Ho Global Investment Co., Ltd. Representative Chao-Kai, Liu</p>	<p>Director of TECO International Investment Co., Ltd. Director of Tong-An Investment Co., Ltd. Director of E-Joy International Co., Ltd. Director of TECO Electro Devices Co., Ltd. Chairman of TECOM Co., Ltd Chairman of Tecom International Investment Co., Ltd. Chairman of WondaLink Inc. Chairman of Baycom Opto-Electronics Technology Co., Ltd. Director of Ericsson Taiwan Ltd</p>	<p>Director of Qingdao TECO Precision Mechatronics Co., Ltd Chairman of Qingdao TECO Innovation Co., Ltd. Chairman of Qingdao TECO Century Advanced High-tech Mechatronics Co., Ltd. Director of Wuxi TECO Electric &amp; Machinery Co., Ltd. Chairman of Tai-An Technology (Wuxi) Co., Ltd. Chairman of TECO Sichuan Trading Co., Ltd. Chairman of Shanghai TECO Electric &amp; Machinery Co., Ltd. Chairman of Titco International Crop. Teco Group Science-Techology (Hang Zhou) Co., Ltd. Director of Asia Innovative Technology (Xiamen) Co., Ltd. Director of Hunan TECO Electric &amp; Machinery Co., Ltd. Director of Tecom Tech Investment (BVI) Limited. Director of Beijing Tecom Innovative Technology Co., Ltd. Director of Asia Electric &amp; Machinery Pte. Ltd. (AEM) Chairman of TECO Holdings USA, Inc. (THI) Director of United View Global Investment Co., Ltd (UVG) Director of TECO-Westinghouse Motor</p>

Name	Serve concurrently in Taiwan	Serve concurrently Overseas
		Company (TWMC) Director of TECO-Westinghouse Motors (Canada) Inc.(TWMI) Director of TECO Australia Pty Limited.(TAC) President & Representative Director of TECO Technology & Marketing Center Director of Teco Electric & Machinery B.V (TNL) Director of Teco Elektrik Turkey A.Ş. Director of Tecocapital Investment (Samoa) Co., Ltd. Director of Tecom Global Tech Investment Pte. Ltd. Director of Tecom Global Tech Investment (B.V.I.) Ltd.
Mao-Hsiung, Huang	Managing Director of Tung Pei Industrial Co., Ltd. Chairman of Teco International Investment Co., Ltd. Chairman of Tong-An Investment Co., Ltd. Chairman of Tong-An Assets Management & Development Co., Ltd. Director of Tecnos International Consultant Co., Ltd. Director of TECOM Co., Ltd Chairman of An-Tai International Investment Co., Ltd. Chairman of E-Joy International Co., Ltd. Chairman of An-Sheng Travel Co., Ltd. Chairman of An-Shin Food Service Co., Ltd. Chairman of Royal Host Taiwan Co., Ltd. Director of Taiwan Pelican Express Co., Ltd. Vice Chairman of TG Teco Vacuum Insulated Glass Corp.	Director of Qingdao Teco Precision Mechatronics Co., Ltd. Director of Qingdao Teco Century Advanced High-tech Mechatronics Co., Ltd. Director of Qingdao TECO Innovation Co., Ltd. Director of Nanchang Teco Electric & Machinery Co., Ltd. Director of Asia Innovative Technology (Xiamen) Co., Ltd. Chairman of Sankyo Co, Ltd. Supervisor of Technical Information International Co., Ltd. Chairman of MOS Burger Xiamen Director of Beijing Pelican Express Co., Ltd. Director of Straits Construction Investment (Holding) Company Director of TECO-Westinghouse Motor Company (TWMC)

Name	Serve concurrently in Taiwan	Serve concurrently Overseas
	Chairman of Century Development Corporation Chairman of Jason Technology (Asia) Co., Ltd Director of Taiwan High Speed Rail Co. Ltd. Director of E & E Recycling Co. Ltd. Director of Ericsson Taiwan Ltd Director of PK Venture Capital Corporation Director of Atetsu International Inc. Director of Momo.com Inc. Director of Shin-Etsu Chemical Co., Ltd. Chairman of Mao Wang Technology Co., Ltd. Independent Director of Inotera Memories, Inc. Director of Inotec Taiwan Co., Ltd. Director of Magic-Food Mos Food Industry Corp.	Director of TECO Electric Europe LTD (TEE) Director of TECO Australia Pty Limited. (TAC) Director of TECO Industry (Malaysia) Sdn. Bhd. <sup>TM</sup> Director of TAIAN (Malaysia) Electric Sdn. Bhd. Chairman of TAIAN Technology Sdn. Bhd. Director of TECMA Information Systems Sdn. Bhd. Chairman of Teco Elektrik Turkey A.Ş. Director of Tecocapital Investment Co., Ltd. Director of Tecocapital Investment (Samoa) Co., Ltd. Director of Tecom Global Tech Investment Pte. Ltd. Director of Tecom Global Tech Investment (B.V.I.) Ltd. Chairman of An-Shin Food Services (Singapore)Pte. Ltd.
Po-Chih, Huang	Director of TECOM Co., Ltd Vice Chairman of Ta Hong Machinery Co., Ltd. Chairman of ELITE International Investment Co., Ltd.	None
Cheng-Tsung, Huang	Director of Tong-An Asset Management & Development Co., Ltd. Chairman of Sen Yeh Construction Co., Ltd. Chairman of Wan Yu Development Co., Ltd. Independent Director of Aurotek Corporation	None
Yaskawa Electric Corporation Representative : Ougi Hiroyuki	Director of Yatec Engineering Corp.	Corporate Senior Vice President of YASKAWA Electric Corporation General Manager of System Engineering Div. in YASKAWA Electric Corporation Director of YASKAWA Motor Co., Ltd

Name	Serve concurrently in Taiwan	Serve concurrently Overseas
		Director of YASKAWA Siemens Automation & Drives Corp. Director of YASKAWA Information Systems Corp. Director of Shanghai YASKAWA Drive Co., Ltd. Vice Chairman of Pingdingshan Pinggao-Yaskawa Switch Apparatus Co., Ltd. Director of YASKAWA Electric (Singapore) Pte. Ltd Chairman/CEO of The Switch Engineering Oy
Kuang Yuan Industrial Co., Ltd. Representative: Shih-Chien, Yang	Director of TECOM Co., Ltd Chairman of Global Strategic Venture Chairman of Huan Xun Venture Capital Co., Ltd. Director of YAGEO Corporation Director of Synnex Technology International Corp. Independent Director of Topkey Corporation	None
Tung Kuang Investment Co., Ltd. Representative: Chwen-Jy, Chiu	Director of TECO International Investment Co., Ltd. Director of Tong-An Investment Co., Ltd. Director of Tong-An Assets Management & Development Co., Ltd." Director of TECO Electro Devices Co., Ltd. Director of TECOM Co., Ltd Director of Information Technology Total Services Co., Ltd. Director of GD Teco Taiwan Co., Ltd. Supervisor of Tung Pei Industrial Co., Ltd. Chairman of Tesen Electric & Machinery Co., Ltd. Director of E-Joy International Co., Ltd. Chairman of A-Ok Technical Co., Ltd.	Director of Suzhou Teco Electric & Machinery Co., Ltd. Director of Wuxi Teco Electric & Machinery Co., Ltd. Supervisor of Tai-An Technology (Wuxi) Co., Ltd. Chairman of Jiangxi TECO Electric & Machinery Co., Ltd. Chairman of Jiangxi TECO Westinghouse Motor Coil Co., Ltd Director of Qingdao TECO Precision Mechatronics Co., Ltd Supervisor of Qingdao TECO Century Advanced High-tech Mechatronics Co., Ltd. Director of Qingdao TECO Innovation Co.,

Name	Serve concurrently in Taiwan	Serve concurrently Overseas
	<p>Director of An Tai International Investment Co., Ltd.  Director of An-Tai International Investment (Singapore) Co., Ltd.  Chairman of Hubbell-Taian Co., Ltd.  Director of Kuenling Machinery Refrigerating Co., Ltd.  Chairman of Taiwan Pelican Express Co., Ltd.  Supervisor of TG Teco Vacuum Insulated Glass Corp.  Director of Royal Host Taiwan Co., Ltd.  Director of Century Development Corporation Inc.  Supervisor of Teco Image System Co., Ltd.  Supervisor of Creative Sensor Inc.  Director of Lien Chang Electronic Enterprise Co., Ltd.  Director of Asia Pacific Telecom Co., Ltd.  Director of Far Eastern Electronic Toll Collection Co, Ltd</p>	<p>Ltd.  Chairman of Tianjin TECO Technology Co., Ltd  Chairman of Jiangxi TECO Air Conditioning Equipment Co., Ltd.  Chairman of TECO (Dong Guang) Air Conditioning Equipment Co., Ltd.  Chairman of Nanchang TECO Electric &amp; Machinery Co., Ltd.  Director of Shanghai TECO Electric &amp; Machinery Co., Ltd.  Director of TECO Group Science-Technology (Hang Zhou) Co., Ltd.  Chairman of Asia Innovative Technology Co., Ltd.  President &amp; Representative Director of Sankyo Co, Ltd.  Director of Ecoelectric International Co., Ltd.  Chairman of Beijing Pelican Express Co., Ltd.  Director of Tecom Tech Investment (BVI) Limited.  Director of TECO Holdings USA, Inc. (THI)  Director of United View Global Investment Co., Ltd (UVG)  Director of Asia Air Tech Industrial (PTE) Ltd.(AAT)  Director of Great Teco Motor (PTE) Ltd.(GTM)  Director of Great Teco Investment Pte., Ltd. (GTI)  Director of Asia Electric &amp; Machinery (AEM)  Director of Micropac (BVI) Worldwide  Director of TECO-Westinghouse Motor Company (TWMC)  Director of TECO-Westinghouse Motors</p>



Name	Serve concurrently in Taiwan	Serve concurrently Overseas
		(Canada) Inc. (TWMI) Director of TECO Australia Pty Limited.(TAC) Director of TECO Electric & Machinery Pte Ltd.(TEK) Director of TECO Electric Europe Ltd.(TEE) Director of TECO Industry (Malaysia) Sdn. Bhd. (TM) Director of Teco Electric & Machinery B.V.(TNL) Director of Great Teco, S.L. Chairman of TAIAN (Malaysia) Electric Sdn. Bhd. Director of Teco Elektrik Turkey A.Ş. President & Representative Director of TECO YASKAWA Motor Engineering Co. Director of P.T. TECO Multiguna Electro Chairman of P.T Teco Elektro Indonesia (TEI) Chairman of TECO (Philippines) 3C Appliances Inc. Supervisor of Tecoson Industrial Development PTE LTD. Director of TECO Technology & Marketing Center(TTMC) Director of Tasia (PTE) LTD Chairman of Pelecanus Express Pte. Ltd Chairman of GreyBack International Property Inc.(GIPI) Director of Tecocapital Investment Co., Ltd. Director of Tecom Global Tech Investment Pte. Ltd. Director of Tecom Global Tech Investment (B.V.I.) Ltd.

Name	Serve concurrently in Taiwan	Serve concurrently Overseas
Hsien-Sheng, Kuo	Chairman of Ping Tung Bus Lines Co.,Ltd. Chairman of Nantou Bus Lines Co., Ltd.	None
Mao Yang Co., Ltd. Representative: Yung-Hsiang, Chang	Chairman of Hong Tong Co., Ltd	None
Tung Kuang Investment Co., Ltd. Representative : Hong-Hsiang, Lin	Chairman of Tong Dai Co., Ltd Director of Top-Tower Enterprises Co., Ltd. Supervisor of TECOM Co., Ltd Director of Tung Pei Industrial Co., Ltd. Director of Yatec Engineering Corporation	Director of Wuxi TECO Electric & Machinery Co., Ltd. Director of Suzhou TECO Electric & Machinery Co., Ltd. Director of Jiangxi Teco Electric &Machinery Co., Ltd. Director of Jiangxi TECO Westinghouse Motor Coil Co., Ltd Director of Teco Group Science-Techology (Hang Zhou) Co., Ltd. Director of Shanghai Teco Electric & Machinery Co., Ltd. Director of Sichuan Teco Changhong Precision Co., Ltd. Director of Tung Xin (Jiangxi) Opto-electronics Technology Co., Ltd. Director of TECO-Westinghouse Motor Company (TWMC) Director of TECO Australia Pty Limited.(TAC) Chairman of TECO Electric & Machinery Pte Ltd.(TEK) Director of TECO Electric Europe Ltd.(TEE) Director of TECO Middle East Electric & Machinery Co., Ltd. Director of Teco Elektrik Turkey A.Ş. Supervisor of TECO YASKAWA Motor Engineering Co.

Name	Serve concurrently in Taiwan	Serve concurrently Overseas
		Director of Great Teco Motor (PTE) Ltd.(GTM) Director of Teco Electric & Machinery B.V. (TNL) Chairman of Tecoson HK Co., Ltd. Chairman of P.T. TECO Multiguna Electro Chairman of Teco Electric & Machinery (THAI) Co., Ltd. Chairman of Teco Electric & Machinery Sdn. Bhd. Chairman TYM Electric & Machinery Sdn. Bhd. Chairman of Teco (Vietnam) Electric & Machinery Co., Ltd.
Creative Sensor Inc. Representative: Yu-Ren, Huang	Chairman of TECO Image Systems Co., Ltd Chairman of Creative Sensor Inc. Chairman of Lien Chang Electronic Enterprise Co., Ltd Director of Sankyo Co., Ltd Director of Taiwan Pelican Express Co., Ltd. Director of Nano Bit Tech Co., Ltd Chairman of Gen Mao International Limited Chairman of Multilite International Co., Ltd. Chairman of Kuang Yuan Co., Ltd. Director of Koryo Eletronic Co., Ltd Director of Rihcheng Co., Ltd. Director of Topmicro Electronic Corp. Director of Yubantec Director of Inotec Taiwan Co., Ltd. Director of TaipeiING	Chairman of Wuxi Creative Sensor Technology Co., Ltd. Chairman of NanChang Creative Sensor Technology Co., Ltd. Chairman of Tung Xin (Jiangxi) Opto-electronics Technology Co., Ltd. Chairman of Teco Pro-Systems (Sichuan) Co., Ltd. Director of ChiayoElectronics (Hong Kong) Co., Ltd Director of Gen Mao (Singapore) Limited Director of Creative Sensor (USA) Co. Director of Creative Sensor Co., Ltd. Director of Creative Sensor Inc.

Name	Serve concurrently in Taiwan	Serve concurrently Overseas
Lien Chang Electronic Enterprise Co., Ltd Representative: Ming-Feng, Yeh	Director of TECO International Investment Co., Ltd. Director of Fujio Food System Taiwan Co.,Ltd Director of Yubantec Independent Director of E & E Recycling Co. Independent Director of Farglory Group	None
Tiai-Jy, Chen (Independent Director)	Independent Director of Chunghwa Telecom Co., Ltd. Independent Director of AU Optronics Corporation Independent Director of MediaTek Inc.(*)	None
Jing-Shown, Wu (Independent Director)	None	None
Chien-Yuan, Lin (Independent Director)	Independent Director of An-Shin Food Service Co., Ltd. Independent Director of Taiwan Sugar Corporation Director of Taiwan Power Company	Independent Director of Advanced Lithium Electrochemistry (Cayman) Co., Ltd.

(\* ) Plan to remove after he is elected by AGM of MediaTek Inc.

---

## **Appendices**

1. Articles of Incorporation on pages 46-55.
2. Rules Governing Shareholders' Meeting on pages 56-58.
3. Rules Governing Election of Directors on pages 59-60.
4. Ethical Corporate Management Best Practice Principles on pages 61-64.
5. Corporate Social Responsibility Best Practice Principles on page 65-71.
6. Corporate Governance Best Practice Principles on page 72-102.
7. Rules of Ethical Conduct to Directors and Managers on page 103-107
8. Shareholding of All Directors on page 108
9. Notes on page 109

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

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

### **Article 3**

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

### **Article 4**

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

### **Article 5**

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

## **Chapter 2 Capital stocks**

### **Article 6**

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

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

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

### **Article 7**

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

### **Article 8**

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

### **Article 9**

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



## **Chapter 3 Shareholders' Meeting**

### **Article 10**

The Company will have two types of shareholders meetings:

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

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

### **Article 11**

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

### **Article 12**

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

### **Article 13**

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

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

### **Article 14**

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

## **Chapter 4 Board of Directors**

### **Article 15**

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

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

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

### **Article 16**

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

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

### **Article 17**

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

### **Article 18**

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

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

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

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

#### **Article 19**

The function of the Board of Directors is to

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

#### **Article 20**

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

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

#### **Article 21**

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

## **Chapter 5 Audit Committee**

### **Article 22**

The company institutes audit committee, consisting of all the independent directors, according to the law. Audit committee will take over the responsibilities and power of supervisors, stipulated in the Company Law, Securities Trading Law, and other laws. Organizational charter for the audit committee should be formulated to cover the number, term, meeting rules, and provision of resources by the company for the exercise of its duties.

## **Chapter 6 Managerial officers**

### **Article 23**

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

### **Article 24**

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

## **Chapter 7 Accounting**

### **Article 25**

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

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

### **Article 26**

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

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

The Company is in a stably growing industry with investments made in developing businesses. In consideration of possible expansion of operation and investment, the earnings distributed to the shareholders each year will basically be in an amount equal to 80% of the earnings received in the period combined with the retained earnings from the previous year, net of the legal reserve, special earning reserve, remuneration to the Directors (which shall not be more than 5%), and profit sharing to employees (which shall not be more than 10%). Not more than 50% and not less than 5% of the earnings distributed to the shareholders shall be distributed in cash dividend.

## **Chapter 8 Supplemental Provisions**

### **Article 27**

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

### **Article 28**

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

### **Article 29**

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

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

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

It will take effect after the approval of shareholders' meeting.

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

### **Article 1**

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

### **Article 2**

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

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

### **Article 3**

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

### **Article 4**

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

### **Article 5**

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

### **Article 6**

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

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

### **Article 7**

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

### **Article 8**

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



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

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

#### **Article 9**

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

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

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

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

#### **Article 10**

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

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

#### **Article 11**

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

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

#### **Article 12**

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

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

**Article 13**

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

**Article 14**

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

**Article 15**

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

**Article 16**

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

**Article 17**

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

**Article 18**

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

**Article 19**

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

**Article 20**

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

**Article 21**

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

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

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

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

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

# TECO Electric & Machinery Co., Ltd.

## Rules Governing Election of Directors

### **Article 1**

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

### **Article 2**

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

### **Article 3**

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

### **Article 4**

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

### **Article 5**

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

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

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

### **Article 6**

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

### **Article 7**

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

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

#### **Article 8**

A ballot cast will be void if

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

#### **Article 9**

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

#### **Article 10**

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

#### **Article 11**

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

#### **Article 12**

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

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

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

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

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

# TECO Electric & Machinery Co., Ltd.

## 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)**

In line with the aforementioned management concept and policy, the company has formulated in the principles operational procedure and behavioral norm for precautionary program against unethical behaviors.

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 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 manner.

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 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 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'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 (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, human-resources and legal-affairs units should jointly formulate policy of ethical corporate management, with the auditing unit responsible for supervising its implementation and reporting to the board of directors regularly.

#### **Article 15 (legal compliance in business activities)**

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

#### **Article 16 (avoidance of conflict of interests by the company's staffers)**

The company formulates the policy of preventing conflict of interests and provides proper channels for the company's staffers 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 in helping themselves, spouses, parents, offspring, or any other party obtain improper benefits.

#### **Article 17 (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.

#### **Article 18 (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 19 (education, training, and evaluation)**

The company holds education, training, and promotion for staffers regularly. 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 20 (informing and penalties)**

The auditing unit handles information on violations of the policy of ethical corporate management. The company keeps confidentiality of the identity of informants and the information they provide. The company sets up system for the penalties and appeal of violation of the policy of ethical corporate management.

#### **Article 21 (information disclosure)**

The company publicizes the status in executing the principles on its website and in its annual report and public statement.

#### **Article 22 (review and revision of the guidelines)**

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 23 (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.

#### **Article 24 (supplement)**

The principles were formulated on August 14, 2014.



# 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 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 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 business activities, physical donations, corporate voluntary services, or other professional services for public benefits, 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.

# TECO Electric & Machinery Co., Ltd.

## Corporate Governance Best Practice Principles

### Chapter I General Provisions

#### Article 1

These Principles are established 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. Build an effective corporate governance system
2. Protect shareholders' rights and interests;
3. Strengthen the powers of the Board of Directors;
4. Fulfill the function of supervisors;
5. Respect stakeholders' rights and interests; and
6. 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.

## **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 as its ultimate goals 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. 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, 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.

For voting on cases by shareholders' meeting, outcome of agreement, objection, and abstention of shareholders should be put into the internet information reporting system designated by the stock exchange or over-the-counter center 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.

#### **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 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.

### **Subchapter 2**

#### **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.

#### **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 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.

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**

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.

## **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. 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 in its articles of incorporation or pursuant to a resolution of the shareholders' meeting. Different but reasonable compensation from that of other directors may be set forth for the independent directors.

### **Subchapter 3 Audit Committee and Other 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 of the board and the number of the independent directors, set up audit, 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 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 board of directors should evaluate annually the 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.

## **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 the designated internet information posting 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;
3. Structure 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. The progress of training of directors;
7. Stakeholders' rights and relationships;
8. Details of the events subject to information disclosure required by law and regulations;
9. 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

#### 10. 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.

## TECO Electric & Machinery Co., Ltd.

### Comparison of Current Provision and Proposed Amendment to Corporate Governance Best Practice Principles

Current Provision	Proposed Amendment	Note
<p><b>Article 1</b></p> <p>These Principles are established 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 disclosure on the Market Observation Post System.</p>	<p><b>Article 1</b></p> <p>These Principles are established 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.</p>	<p>Revised the related explanation for article in line with the regulation and the actual situation of disclosure on MOPS.</p>
<p><b>Article 3</b></p> <p>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 <del>establishing an effective</del> 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.</p> <p>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.</p> <p>In addition to faithfully performing voluntary <del>reviews</del> of the internal control system, the Board of Directors and the management shall review the result of the voluntary reviews of each department and the report of the internal audit department at least once each year. The evaluation of the efficiency of the internal control system shall be a made with over</p>	<p><b>Article 3</b></p> <p>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 <u>designing and actually implementing</u> an internal control system, <u>and</u> 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.</p> <p>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.</p> <p>In addition to faithfully performing voluntary <u>evaluation</u> of the internal control system, the Board of Directors and the management shall review the result of the</p>	<p>Revise some phrases, in line with the guidelines for the setup of internal control system by companies with public share offering.</p>



<p>one half of the members of the audit committee before being submitted to the board of directors for resolution.</p> <p>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.</p> <p>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.</p> <p>Qualifications for internal auditors, specified in Article 11-3 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.</p>	<p>voluntary <u>evaluation</u> of each department and the report of the internal audit department at least once each year <u>quarterly</u>. <u>The auditing committee should notice and supervise the report.</u></p> <p>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.</p> <p>(Item 4 and 5 were omitted)</p> <p>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.</p>	
<p><b>Article 5</b></p> <p>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.</p> <p>Resolutions adopted by shareholders' meetings of the Company shall comply with laws, regulations and articles of incorporation.</p>	<p><b>Article 5</b></p> <p>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.</p> <p>Resolutions adopted by shareholders' meetings of the Company shall comply with laws, regulations and articles of incorporation.</p>	<p>Revise punctuation marks properly</p>

<p><b>Article 6</b> The Board of Directors shall properly arrange the proposals and agenda of shareholders' meetings. 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, it would be advisable for a majority of the directors to attend the meeting in person.</p>	<p><b>Article 6</b> The Board of Directors shall properly arrange the proposals and agenda of shareholders' meetings. 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, <u>the chairman should preside over the meeting in person</u>, and it would be advisable for a majority of the directors, <u>at least one independent director and one member each of various functional committees should attend the meeting to attend the meeting in person.</u> <u>The state of their attendance should be recorded in the minutes of shareholders' meeting.</u></p>	<p>Revised the related explanation for article in line with the actual situation of disclosure.</p>
<p><b>Article 7</b> The Company shall encourage its shareholders to actively participate in its corporate governance 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, 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. For voting on cases by shareholders' meeting, outcome of agreement, objection, or abstention of shareholders should be put into the internet information reporting system on the day after the completion of the meeting. The Company will adopt no discriminatory treatment or discrimination of any kind with</p>	<p><b>Article 7</b> The Company shall encourage its shareholders to actively participate in its corporate governance, <u>entrust professional stock-affairs institutions to handle the holding of shareholders' meeting</u> 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, 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.  For voting on cases by shareholders' meeting,</p>	<p>Revised the related explanation for article in line with the request from regulator and the actual situation of disclosure.</p>

<p>respect to the distribution of souvenirs of the shareholders' meeting to the shareholders.</p>	<p>outcome of agreement, objection, <u>and</u> abstention of shareholders should be put into the internet information reporting system <u>designated by the stock exchange or over-the-counter center</u> on the day after the completion of the meeting.</p> <p>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.</p>	
<p><b>Article 10</b> 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.</p>	<p><b>Article 10</b> 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. <u>In order to equally treat shareholders, major messages should be publicized in both Chinese and English.</u></p>	<p>Increase the related diction in line with the principle of equal treatment and the disclosure of major messages in English</p>
<p><b>Article 14</b> The Company shall clearly identify the allocation of its management authorities and responsibilities over personnel, assets and financial matters of its affiliated enterprises, and shall <del>conduct</del> risk evaluation and establish appropriate firewalls.</p>	<p><b>Article 14</b> The Company shall clearly identify the allocation of its management <u>target</u>, authorities and responsibilities over personnel, assets and financial matters of its affiliated enterprises, and shall <u>implement</u> risk evaluation and establish appropriate firewalls.</p>	<p>Revise diction properly</p>
<p><b>Article 16</b> The Company shall establish a sound management system for finance, operations and accounting in accordance with the applicable laws and regulations. It shall further, together with its affiliated</p>	<p><b>Article 16</b> The Company shall establish a sound management <u>target and</u> system for finance, operations and accounting in accordance with the applicable laws and regulations. It shall further,</p>	<p>Revise diction properly</p>

<p>enterprises, properly conduct an overall risk evaluation of the major banks they are dealing with, their customers and their suppliers, and <del>carry out</del> the necessary control mechanism to reduce credit risks.</p>	<p>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 <u>implement</u> the necessary control mechanism to reduce credit risks.</p>	
<p><b>Article 17</b> 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.</p> <p>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.</p>	<p><b>Article 17</b> 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.</p> <p>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.</p>	<p>Revise punctuation marks properly</p>
<p><b>Article 18</b> A corporate shareholder having controlling power over the Company shall comply with the following provisions:</p> <p>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.</p> <p>2. Its representative shall follow the rules implemented by its company with respect to the</p>	<p><b>Article 18</b> A corporate shareholder having controlling power over the Company shall comply with the following provisions:</p> <p>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.</p> <p>2. Its representative shall follow the rules implemented by its company with respect to</p>	<p>Revise diction properly</p>

<p>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 <del>exercise</del> the fiduciary duty and duty of care of a director.</p> <p>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.</p> <p>4. It shall not improperly intervene in corporate policy making or obstruct corporate management activities.</p> <p>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.</p>	<p>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 <u>faithfully carry out</u> the fiduciary duty and duty of care of a director.</p> <p>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.</p> <p>4. It shall not improperly intervene in corporate policy making or obstruct corporate management activities.</p> <p>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.</p>	
<p><b>Article 22</b></p> <p><del>Before the Company convenes a shareholders' meeting to re-elect the directors, it would be advisable that</del> 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.</p>	<p><b>Article 22</b></p> <p><u>The company specifies that election of directors shall adopt the nomination system in Articles in incorporation in accordance with the Company Law,</u> 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.</p>	<p>Revised the related diction in line with requirement of the regulator and company's operation</p>

<p><b>Article 24</b> The Company may establish independent directors who each shall have necessary special knowledge. Limitations shall be prescribed with respect to the shareholding and taking of concurrent jobs by the independent directors who shall maintain their independency in the course of performing their duties and functions and shall in no way act in direct or indirect conflict of interests against the Company.</p> <p>The independent directors shall be elected by the shareholders in accordance with Article 192-1 of the Company Act from among the candidates determined by nomination. The election of independent directors shall be provided in the Articles of Incorporation. Directors and independent directors of the Company shall be elected at the same election in accordance with Article 198 of the Company Act with the directors' elects and independent directors elects calculated separately.</p> <p>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.</p> <p>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.</p>	<p><b>Article 24</b> The Company may establish independent directors who each shall have necessary special knowledge, <u>in accordance with Articles of Incorporation</u>. Limitations shall be prescribed with respect to the shareholding and taking of concurrent jobs by the independent directors who shall maintain their independency in the course of performing their duties and functions and shall in no way act in direct or indirect conflict of interests against the Company.</p> <p>The independent directors shall be elected by the shareholders in accordance with Article 192-1 of the Company Act from among the candidates determined by nomination. The election of independent directors shall be provided in the Articles of Incorporation. Directors and independent directors of the Company shall be elected at the same election in accordance with Article 198 of the Company Act with the directors' elects and independent directors elects calculated separately.</p> <p>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.</p> <p>The aforementioned affiliates and organizations cover subsidiaries of companies listed on the stock exchange or</p>	<p>Revised the related diction in line with requirement of the regulator</p>
---	--	--

<p>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.</p> <p>Where the number of independent directors of the Company falls below the number provided in the first paragraph or the Articles of Incorporation, new independent directors shall be elected at the immediate following shareholders meeting to fill the vacancies. However, if all of the independent directors are dismissed, an extraordinary shareholders meeting shall be convened within 60 days to elect new independent directors.</p> <p>The special qualification, independency of, and the limitations on the shareholding and taking of concurrent jobs by and the nomination of candidates of independent directors 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.</p>	<p>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.</p> <p>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.</p> <p>Where the number of independent directors of the Company falls below the number provided in the first paragraph or the Articles of Incorporation, new independent directors shall be elected at the immediate following shareholders meeting to fill the vacancies. However, if all of the independent directors are dismissed, an extraordinary shareholders meeting shall be convened within 60 days to elect new independent directors.</p> <p>The special qualification, independency of, and the limitations on the shareholding and taking of concurrent jobs by and the nomination of candidates of independent directors 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.</p>	
<p><b>Article 25</b>  <del>Except as otherwise approved by the competent authority, the independent directors of the</del></p>	<p><b>Article 25</b>  The Company (if any) shall submit the following matters to the meeting of the Board of</p>	

<p>Company (if any) shall submit the following matters to the meeting of the Board of Directors for approval. Any opposition or qualified opinion expressed by the independent directors shall be indicated in the minutes of the relevant meeting of the Board of Directors.</p> <ol style="list-style-type: none"> <li>1. Establishment of or amendment to the internal control system proposed pursuant to Article 14-1 of the Securities And Exchange Act;</li> <li>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;</li> <li>3. Matters involving personal interests of the directors;</li> <li>4. Major assets or derivatives transactions;</li> <li>5. Major lending, endorsement or guarantee proposed;</li> <li>6. Raising of capital fund by fund-taking, public offering or private placement of equity securities.</li> <li>7. Engagement, discharge of or consideration paid to the certified public accountant;</li> <li>8. Appointment and discharge of financial, accounting or internal auditing officers;</li> <li>9. Other important matters of the Company or required by the competent authority</li> </ol>	<p>Directors for approval <u>in line with the requirement of the Securities &amp; Exchange Act.</u></p> <p>Any opposition or qualified opinion expressed by the independent directors shall be indicated in the minutes of the relevant meeting of the Board of Directors.</p> <ol style="list-style-type: none"> <li>1. Establishment of or amendment to the internal control system proposed pursuant to Article 14-1 of the Securities And Exchange Act;</li> <li>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;</li> <li>3. Matters involving personal interests of the directors;</li> <li>4. Major assets or derivatives transactions;</li> <li>5. Major lending, endorsement or guarantee proposed;</li> <li>6. Raising of capital fund by fund-taking, public offering or private placement of equity securities.</li> <li>7. Engagement, discharge of or consideration paid to the certified public accountant;</li> <li>8. Appointment and discharge of financial, accounting or internal auditing officers;</li> <li>9. Other important matters of the Company or required by the competent authority</li> </ol>	
<p><b>Article 29</b> 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</p>	<p><b>Article 29</b> <u>In order to improve the quality of financial report, the company should institute deputy for accounting chief.</u></p> <p><u>The deputy should undergo advanced study annually, similar to the accounting chief, for betterment of his/her expertise.</u></p> <p><u>Accounting staffers involved in</u></p>	<ol style="list-style-type: none"> <li>1. Install item 1-3 to specify to institute deputy for accounting chief and he/she shall undergo advanced study similar to the accounting chief, as well as the way for betterment</li> <li>2. Calling for institution of</li> </ol>



<p>improvement or prevention suggested by the auditor, the Company shall faithfully implement improvement actions.</p> <p>The Company shall evaluate the independence 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 <del>review</del> the necessity of replacing the auditor, and shall submit to the board the conclusion of such review.</p>	<p><u>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.</u></p> <p>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, <u>as well as should install communications channel or mechanism for independent directors, members of the auditing committee, and certified public accountants.</u></p> <p>The Company shall evaluate the independence <u>and competence</u> 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 <u>evaluate</u> the necessity of replacing the auditor, and shall submit <u>the evaluation</u> to the board the conclusion of such review.</p>	<p>communications mechanism for certified public accountants, independent directors, and members of the auditing committee, which will be incorporated into the internal-control system</p> <p>3. Add the requirement for the board of directors to evaluate regularly the competence of certified public accountant to his/her task and revise the wording of the text.</p>
---	--	--

<p><b>Article 32</b> A director shall exercise a high degree of self-discipline and shall voluntarily abstain from 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.</p> <p>The matters that a director shall voluntarily abstain from voting shall be clearly set forth in the rules for the proceedings of board meetings.</p>	<p><b>Article 32</b> A director shall exercise a high degree of self-discipline. <u>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.</u> And shall voluntarily abstain from discussion and voting <u>as well as evade during discussion and voting,</u> 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.</p> <p>The matters that a director shall voluntarily abstain from voting shall be clearly set forth in the rules for the proceedings of board meetings.</p>	<p>Revised the related diction properly in line with measures for meetings of board of directors of companies with public share offering.</p>
<p><b>Article 33</b> <del>If there is any,</del> 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</p>	<p><b>Article 33</b> 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</p>	<p>Revised the related diction properly in line with the actual establishment of independent director and the requirement of the regulator.</p>

<p>Directors in person, and such written opinion shall be indicated in the minutes of the meeting.</p> <p>In either of the following cases, the resolution adopted by the meeting of the Board of Directors shall be indicated in the minutes of the meeting and reported for public disclosure thereof <del>within two days</del> from the meeting date on the website designated by the competent authority.</p> <ol style="list-style-type: none"> <li>1. There is opposition or qualified opinion from the independent directors, which has been recorded or made with a written statement.</li> <li>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.</li> </ol> <p>During the proceeding of the board meetings, managers from the relevant departments who are not directors shall sit in at the meetings, make report on the current business conditions of the Company and respond to inquiries raised by the directors. 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.</p>	<p>is unable to express his/her opinion at the meeting of the Board of Directors in person, and such written opinion shall be indicated in the minutes of the meeting.</p> <p>In either of the following cases, the resolution adopted by the meeting of the Board of Directors shall be indicated in the minutes of the meeting and reported for public disclosure <u>on the Market Observation Post System before the start of next trading session</u> from the meeting date on the website designated by the competent authority.</p> <ol style="list-style-type: none"> <li>1. There is opposition or qualified opinion from the independent directors, which has been recorded or made with a written statement.</li> <li>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.</li> </ol> <p>During the proceeding of the board meetings, managers from the relevant departments who are not directors shall sit in at the meetings, make report on the current business conditions of the Company and respond to inquiries raised by the directors. 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.</p>	
<p><b>Article 35</b> The Company shall submit these matters to the meeting of the Board of Directors for discussion:</p>	<p><b>Article 35</b> The Company shall submit these matters to the meeting of the Board of Directors for</p>	<p>1. Revised the related diction properly in line with the measures</p>

<p>1. Business plan.  2. Annual and semi-annual financial reports.  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. Appointment and discharge of financial, accounting or internal auditing officers.  7. 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 first paragraph which should be submitted to the meeting of the Board of Directors for discussion, the level, content or scope of authorization conferred upon the designate of the Board of Directors pursuant to the laws and regulations or the Articles of Incorporation of the Company to exercise the functions of the Board of Directors during the recess of the meeting of the Board of Directors shall be clearly specified and no general authorization is allowed during the recess.</p>	<p>discussion:  1. Business plan.  2. Annual and semi-annual financial reports. <u>The requirement doesn't apply to semiannual financial report which needs not auditing and certification by certified public accountants according to the law.</u>  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.  <u>6. Structure and system of remuneration for managers and directors</u>  <u>7. Appointment and discharge of financial, accounting or internal auditing officers.</u>  <u>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.</u>  9. Important matters which should be resolved or reported to the Board of Directors pursuant to Article 14-3 of the Securities and Exchange Act, other laws and regulations or the Articles of Incorporation of the Company or the requirement of the competent authority.</p>	<p>for meetings of board of directors of companies with public share offering  2. Change on sequence number of some items</p>
--	---	---

	<p>Except for the matters provided in the <del>first</del> <u>foregoing</u> paragraph which should be submitted to the meeting of the Board of Directors for discussion, the level, content or scope of authorization conferred upon the designate of the Board of Directors pursuant to the laws and regulations or the Articles of Incorporation of the Company to exercise the functions of the Board of Directors during the recess of the meeting of the Board of Directors shall be clearly specified and no general authorization is allowed during the recess.</p>	
<p><b>Article 41</b> 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. 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.</p>	<p><b>Article 41</b> 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. <u>It would be advisable to install dedicated section for stakeholders on the company's website.</u> 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.</p>	<p>Revised the related diction properly in line with the requirements of indicators for the corporate governance</p>
<p><b>Article 47</b> 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 corporate governance 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.</p>	<p><b>Article 47</b> 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 <u>finance, corporate governance, and other</u> information in English as well. To avoid misleading information, the aforesaid website shall be maintained by specified personnel, and the recorded</p>	<p>Revised the related diction properly in line with the requirements of indicators for the corporate governance</p>

	information shall be accurate, in detail and updated timely.	
<p><b>Article 48</b> The Company shall hold an institutional investor meeting in compliance with the regulations of the TSEC and GTSM, and it <del>would be advisable</del> to make audio or video record the meeting. The financial and business information disclosed in the institutional investor meeting shall be disclosed on the designated internet information posting system and provided for inquiry through the website established by the company or other channels according to the TSEC or GTSM rules.</p>	<p><b>Article 48</b> The Company shall hold an institutional investor meeting in compliance with the regulations of the TSEC and GTSM, and it <u>should</u> make audio or video record the meeting. The financial and business information disclosed in the institutional investor meeting shall be disclosed on the designated internet information posting system and provided for inquiry through the website established by the company or other channels according to the TSEC or GTSM rules.</p>	Revised the related diction properly in line with the request from regulator
<p><b>Article 52</b> 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.</p>	<p><b>Article 52</b> 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. <u>The third amendment of the Rule on 20 March 2015.</u></p>	Addition of the date for the current revision

# TECO Electric & Machinery Co., Ltd.

## Rules of Ethical Conduct to Directors and Managers

### **Article 1** Purpose and basis

The criteria are based on “Reference and Examples for the Formulation of Ethical-Behavior Criteria by Listed Firms,” so that the company’s directors and managerial Officers can comply with the company’s ethical standards in executing their duties.

### **Article 2** Application objects

The criteria are applicable to the company’s directors and managerial Officers.

### **Article 3** Scope

The criteria only offer guiding principles to directors and managerial Officers. Questions on specific cases which may involve the criteria can be submitted to the chairperson, who can consult the opinions of the company’s legal consultant, if necessary.

### **Article 4** Prevention of conflict of interests

Directors and managerial Officers should handle corporate affairs in an objective and efficient manner, and should not take advantage of their positions to bring improper benefits to themselves, spouses, parents, offspring, or relatives within two tiers of kinship.

When enterprises affiliated with aforementioned persons carry out major business dealings with the company, including loan extension, provision of guarantee, major transaction of assets, or transaction of goods, the aforementioned persons should actively explain to the company whether there exists potential conflict of interests and should obtain the approval of responsible superiors, on top of reporting to the chairperson.

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

### **Article 5** Avoidance of personal benefits

To prevent opportunities for personal benefits, directors and managerial Officers should avoid the following behaviors:

1. Take advantage of the company’s properties, information, or the convenience of jobs to attain opportunities for personal benefits.
2. Take advantage of the company’s properties, information, or the convenience of jobs to attain personal benefits.
3. Compete with the company.

### **Article 6** Duty of confidentiality

Directors and managerial Officers should keep business secrets:

1. Bear the duty of confidentiality for information on the company and clients, except information publicized via authorization or according to legal regulation. Secret information includes unpublicized information which may be utilized by rivals or inflict damage on the company or clients in case of leakage.

2. Directors and managerial Officers should strictly abide by the obligation of confidentiality for secret information on the company, affiliates, or any other third party, technical information, which they obtain via the execution of their duties. Except need for the execution of their duties, they should not inquire about or utilize such information. Without written consent from the company in advance, they should not copy secret information or produce back-up copy for the secret information. In addition, they cannot leak, inform, hand over, or transfer the secret information to others or publicize the information in any form.

#### **Article 7** Fair trade

Directors and managerial Officers should fairly treat the company's clients, competitors, and employees. They should not manipulate, hide, abuse information obtained via their positions. They should not obtain improper benefits or damage the company's interests via false statement or other unfair trading methods.

Directors and managerial Officers conduct fair trade and competition with the company's clients, suppliers, and competitors and should not conduct behaviors violating fair trade, including:

1. Reach agreement with competitors on prices or other trading conditions.
2. Agree to monopolize bidding.
3. Reach agreement with competitors avoiding trade with specific client or supplier or trading with the latter on specific conditions.
4. Conduct compulsory bonded sales of different products or services.
5. Reach agreement with competitors for allocation of market or clients.

#### **Article 8** Protect and properly utilize company assets

The company's assets should be protected and properly utilized only for the company's legal business purpose. Directors and managerial Officers have the responsibility to protect the company's assets, assure its effective and legal business utilization, and avoid stealth or waste, which will influence on the company profit-seeking ability.

#### **Article 9** Legal compliance

Directors and managerial Officers should abide by laws, regulations, and corporate policies governing the company's activities and comply with the ban on insider trading of the Securities Transaction Law. When possessing the company's key unpublicized information, they should not engage in related securities trading. They should deliberately conduct behaviors violating any law or regulation and make untrue statement concerning the company's products or service.

#### **Article 10**

Encouraging report of any behavior violating law or criteria of ethical behavior

Whenever discovering violation of laws/regulations or the criteria of ethical behaviors on the part of directors and managerial Officers, employees can report the cases, along with evidence, to the company via proper channel. The company will handle the cases in confidentiality and will make its best to protect the safety of informants.



### **Article 11 Penalties**

Managerial Officers violating the criteria of ethical behaviors should be subject to the penalties stipulated in the rules for personnel management. For directors violating the criteria, the board of directors should adopt proper action. The company should establish related appeal system as a channel of remedy for those violating the ethical behavior criteria.

### **Article 12 Procedure for the application of exemption**

Exemption of directors and managerial Officers for complying with the criteria should be approved by the board of directors. Related information should be posted on the Market Observation Post System, including the title and name of the exemption person, the exemption period, objection or reservation made by independent directors and exemption reason, so that shareholders can evaluate the propriety of the resolution and uphold the interests of the company.

### **Article 13 Disclosure method**

The company will publicize the criteria, as well as its revision, on its annual report, proxy statement, and Market Observation Post System.

### **Article 14 Execution**

The criteria will be put into practice following approval by the board of directors, submitted to the auditing committee for reference, and reported to the shareholders' meeting. For revision of the criteria, the same procedure applies.

The criteria were formulated on Dec. 15, 2011.

The first amendment of the criteria on 20 March 2015.

## TECO Electric & Machinery Co., Ltd.

### Comparison of Current Provision and Proposed Amendment to Rules of Ethical Conduct to Directors and Managers

Current Provision	Proposed Amendment	Note
<p><b>Article 4</b> Prevention of conflict of interests</p> <p>Directors and managerial Officers should handle corporate affairs in an objective and efficient manner, and should not take advantage of their positions to bring improper benefits to themselves, spouses, parents, offspring, or relatives within <del>three</del> tiers of kinship.</p> <p>When enterprises affiliated with aforementioned persons carry out major business dealings with the company, including loan extension, provision of guarantee, major transaction of assets, or transaction of goods, the aforementioned persons should actively explain to the company whether there exists potential conflict of interests and should obtain the approval of responsible superiors, on top of reporting to the chairperson.</p> <p>For elected directors who run counter to the aforementioned regulation, those gaining the support of fewer voting rights should be disqualified.</p>	<p><b>Article 4</b> Prevention of conflict of interests</p> <p>Directors and managerial Officers should handle corporate affairs in an objective and efficient manner, and should not take advantage of their positions to bring improper benefits to themselves, spouses, parents, offspring, or relatives within <u>two</u> tiers of kinship.</p> <p>When enterprises affiliated with aforementioned persons carry out major business dealings with the company, including loan extension, provision of guarantee, major transaction of assets, or transaction of goods, the aforementioned persons should actively explain to the company whether there exists potential conflict of interests and should obtain the approval of responsible superiors, on top of reporting to the chairperson.</p> <p>For elected directors who run counter to the aforementioned regulation, those gaining the support of fewer voting rights should be disqualified.</p>	<p>In reference to Securities and Exchange Law to revise the criteria for ascertaining the independence among directors</p>
<p><b>Article 12</b> Procedure for the application of exemption</p> <p>Exemption of directors and managerial Officers for complying with the criteria should be approved by the board of directors. Related information should be posted on the Market Observation Post System, including the title and name of the exemption person, the exemption period, and exemption reason, so that shareholders can evaluate the</p>	<p><b>Article 12</b> Procedure for the application of exemption</p> <p>Exemption of directors and managerial Officers for complying with the criteria should be approved by the board of directors. Related information should be posted on the Market Observation Post System, including the title and name of the exemption person, the exemption period, <u>objection or reservation made by independent directors</u> and exemption reason, so that shareholders can evaluate the</p>	<p>In line with the implementation of the Personal Data Protection Law and in reference to Securities &amp; Exchange Law to revise the related diction properly</p>

propriety of the resolution and uphold the interests of the company.	propriety of the resolution and uphold the interests of the company.	
<p>The criteria will be put into practice following approval by the board of directors, submitted to the auditing committee for reference, and reported to the shareholders' meeting. For revision of the criteria, the same procedure applies.</p> <p>The criteria were formulated on Dec. 15, 2011.</p>	<p>The criteria will be put into practice following approval by the board of directors, submitted to the auditing committee for reference, and reported to the shareholders' meeting. For revision of the criteria, the same procedure applies.</p> <p>The criteria were formulated on Dec. 15, 2011.</p> <p><u>The first amendment of the criteria on 20 March 2015.</u></p>	<p>Addition of the date for the current revision</p>

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

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

Period of suspension of share transfer: April 13 2014 ~ June 11 2015

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 Ho Global Investment Co., Ltd. Representative: Chao-Kai, Liu	20120615	3yrs	2,240,262	0.12%	2,240,262	0.11%
Managing Director	Mao-Hsiung, Huang	20120615	3yrs	18,486,633	1.00%	18,486,633	0.92%
Managing Director	Po-Chih, Huang	20120615	3yrs	21,614,831	1.17%	21,614,831	1.08%
Managing Director	Cheng-Tsung, Huang	20120615	3yrs	15,279,849	0.83%	15,279,849	0.76%
Independent Director	Tian-Jy, Chen	20120615	3yrs	0	0	0	0
Independent Director	Chin-Chien, Chen	20120615	3yrs	0	0	0	0
Independent Director	Jing-Shown, Wu	20130621	2yrs	0	0	0	0
Director	Hsien- Sheng, Kuo	20120615	3yrs	9,126,238	0.49%	9,126,238	0.46%
Director	Yaskawa Electric Corporation Representative: Hiroyuki Ougi	20120615	3yrs	29,541,089	1.60%	29,541,089	1.48%
Director	Kuang Yuan Industrial Co., Ltd. Representative: Shih-Chien, Yang	20120615	3yrs	23,093,919	1.19%	22,033,919	1.10%
Director	Tong Kuang Investment Co., Ltd. Representative: Chwen-Jy, Chiu / Hong-Hsiang, Lin	20120615	3yrs	30,341,364	1.64%	30,341,364	1.51%
Director	Lien Chang Electronic Co., Ltd. Representative: Chin San, Chien	20120615	3yrs	4,173,000	0.23%	4,173,000	0.21%
Director	Mao Yang Co., Ltd. Representative: Yung-Hsiang, Chang	20120615	3yrs	5,000,893	0.27%	5,000,893	0.25%
Director	Creative Sensor Inc. Representative: Yu-Ren, Huang	20120615	3yrs	10,000,000	0.54%	10,000,000	0.50%
Total number of shares held by all Directors				167,838,078	9.08%	167,838,078	8.38%

Note 1 : According to Article 2 of "Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies", if there are two or more independent directors elected, the minimum shareholding of all directors and supervisors, excluding independent directors, could drop to 80% of original requirement.

# TECO Electric & Machinery Co., Ltd.

## Notes

1. Impact on Company's business performance, EPS and ROI from the stock grant proposed by Shareholders Meeting: Not applicable.
2. Information on employee bonus and remuneration for directors  
The plan for the allocation of the company's 2014 earnings, approved by the board of directors on March 20, 2015, calls for:
  - a. Employee Bonus in Cash: NT\$329,420,844;
  - b. Remuneration for directors: NT\$329,420,844;
  - c. The company has expensed two amounts equivalent to the payouts respectively.
3. 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 2-13, 2015, 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.