

Stock Code: 1504



GENERAL SHAREHOLDERS MEETING 2020
MAY 11, 2020
AGENDA

Time: 09:00am, May 11, 2020 (Monday)

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

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

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TECO Electric & Machinery Co., Ltd.

General Shareholders Meeting 2020

Meeting Procedure

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

TECO Electric & Machinery Co., Ltd.

General Shareholders Meeting 2020

Agenda

Time: 09:00am, May 11, 2020(Monday)

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

1. Meeting called to order (Announce number of shareholders present))
2. Addresses by the Chairman.
3. Reports
 - 3.1 Business Report for 2019
 - 3.2 Inspection Report of Audit Committee for 2019
 - 3.3 Remuneration distribution to employees and directors for 2019
 - 3.4 Distribution of cash dividends from profits in 2019
 - 3.5 Amendment to “Corporate Social Responsibility Best Practice Principles”
 - 3.6 Amendment to “Corporate Governance Practice Principles”
 - 3.7 Amendment to “Ethical Corporate Management Best Practice Principles”
 - 3.8 Amendment to “Codes and Procedures for Ethical Management and Guidelines for Conduct”
4. Ratification
 - 4.1 Business Report and Financial Statements for 2019
 - 4.2 Distribution of 2019 Profits
5. Discussion
 - 5.1 Amendment to “Procedures for Lending of Capital to Other Parties”
 - 5.2 Amendment to “Procedures for Endorsement and Guarantee “
 - 5.3 Amendment to “Articles of Incorporation”
 - 5.4 Proposal for capital reduction by returning cash to shareholders.
(proposed by shareholder PJ Asset Management Co., Ltd.)
6. Extempore motion(s)
7. Meeting adjourned

Reports

1. Business report for 2019 (pages 11-18)
2. Inspection Report of Audit Committee for 2019 (page 19)
3. Remuneration distribution to employees and directors for 2019

Explanatory note:

In 2019, income before tax is NT\$ 3,502,319 thousands, and remuneration to employees is proposed to be NT\$ 258,192 thousands, whilst remuneration to directors is proposed to be NT\$ 114,752 thousands. The remuneration would be distributed in cash.

4. Distribution of cash dividends from profits in 2019

Explanatory note:

- a. The Board of Directors is authorized to decide the distribution of cash dividend and report the decision to the shareholders meeting in accordance with Article 27 of the Articles of Incorporation.
 - b. Cash dividend amounting to NT\$1,948,016 thousand were distributed to shareholders at NT\$0.99 per share. Cash dividends were rounded to the nearest whole number. The total amount of cash dividends less than NT\$1 was adjusted from greatest to smallest in accordance with the total amount of cash dividend.
 - c. Given the same payout ratio, in the event that proposed distribution of earnings is affected by a change in the Company's outstanding common shares, the chairperson is authorized by the Board of Directors to make adjustment to such distribution and other relevant issues at his/her discretion.
5. Amendment to "Corporate Social Responsibility Best Practice Principles" (Including the comparison between the revision and the original on pages 89-97)
 6. Amendment to "Corporate Governance Practice Principles" (Including the comparison between the revision and the original on pages 98-118)
 7. Amendment to "Ethical Corporate Management Best Practice Principles" (Including the comparison between the revision and the original on pages 119-127)
 8. Amendment to "Codes and Procedures for Ethical Management and Guidelines for Conduct" on pages 128-136

Ratification

Proposal 1:

Business Report and Financial Statements for 2019 (proposed by the board of directors)

Explanatory note:

1. The Board of Directors entrusted certified public accountants Wu, Yu-Lung and Chou, Chien-Hung with Pricewaterhouse Coopers to audit and certify the Business Report and Financial Statements (includes Consolidated Financial Statements) for 2018, both of which were subsequently inspected by Audit Committee and are hereby submitted for ratification.
2. Please see pages 11-18 for the business report and pages 20-43 for the Auditors' Report and the Financial Statements.

Proposal 2:

Distribution of 2019 profits (proposed by the board of directors)

Explanatory note:

1. Distribution of 2019 profits was resolved by Subject to the Board of Directors and audited by Audit Committee.
2. Please see page 44 for the detailed profit distribution plan.

Discussion

Proposal 1:

Amendment to “Procedures for Lending of Capital to Other Parties” (proposed by the board of directors)

Explanatory note:

1. In accordance with Financial Supervisory Commission’s revision on “Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies” and “Recipients of the loaning funds” in article 15 of “Company Act”, the company proposes to revise the partial measures of Procedures for Lending of Capital to Other Parties.
2. For the comparison between the revision and the original, please refer to pages **45-52** and **81-84**.

Proposal 2:

Amendment to “Procedures for Endorsement and Guarantee “ (proposed by the board of directors)

Explanatory note:

1. In accordance with Financial Supervisory Commission’s revision on “Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies”, the company proposes to revise the partial measures of Procedures for Endorsement and Guarantee.
2. For the comparison between the revision and the original, please refer to pages **53-57** and **85-88**.

Proposal 3:

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

Explanatory note:

1. To increase the flexibility of fund raising methods and support the company's various business development, the Company proposes to add the relevant provisions of the issuance of Class A, B and C preferred shares within the existing authorized capital.
2. Meanwhile, in order to comply with the international trend of corporate governance, continue to improve corporate governance Standard, with reference to the size and composition of the board of directors of domestic and foreign peers, proposes to amend the relevant provisions regarding the number of seats of directors and managing directors.
3. For the comparison between the revision and the original, please refer to pages **58-67** and **70-77**.

Proposal 4:

Capital reduction by returning cash to shareholders (proposed by shareholder PJ Asset Management Co., Ltd.)

Explanatory note:

To improve the capital structure and improve shareholder's return on equity, the Company should reduce its capital by returning cash to shareholders. The total reduction amount is NT\$1,967,692,890 - 196,769,289 shares (10% reduction). The board will be granted to set a record date of the capital reduction with expedient adjustments for matters related to capital reduction.

※ **Please refer to Attachment 8 (Page 68) for Audit Committee's opinion on the proposal "Capital reduction by returning cash to shareholders".**

Extempore Motion(s)

Meeting Adjourned

Attachments

1. Business Report for 2019 on pages 11-18
2. Inspection Report of Audit Committee for 2019 on page 19
3. Financial Statements and Auditors' Report for 2019 on pages 20-43
4. Distribution of 2019 Profits on page 44
5. The comparison between the revision and the original of "Procedures for Endorsement and Guarantee " on page 45-52
6. The comparison between the revision and the original of ""Procedures for Endorsement and Guarantee " on page 53-57
7. The comparison between the revision and the original of "Articles of Incorporation" on page 58-67
8. Audit Committee's opinion on Proposal 4 of Discussion Item: Capital reduction by returning cash to shareholders on page 68

Business Report

Dear Shareholders,

Looking back at 2019, beset by multiple uncertainties, including, Sino-U.S. trade friction, deteriorating Japan-Korea relationship, and Brexit, global economy and trade slackened, with major exporting nations scoring lackluster performance. Taiwan, however, staged an adequate performance, thanks to transferred orders resulting from the trade war, Taiwanese firms returning to Taiwan for investments, strong exports of information and communication, audiovisual, and electronic components and parts, and continuing private investments.

Adhering to the theme of "energy conservation, emission reduction, smart application, and automation," the company managed to retain steady profits in 2019, via global deployment for tapping the needs of HVAC industry, solution sales of electromechanical products, PM/EV motors, and remote smart health management for motors, plus lowering influence of external fluctuations via control and management projects.

A. Review of 2019 business performance

a. 2019 business status

1. Automation

* Production automation

In recent two years, the company has established "motor stator automated production center" and "motor stamping automated production center," plus the employment of 3D visual robotic arms, automated guided vehicles (AGV), and automatic coil winding machine, forming the largest and most complete smart industrial motor production line in Asia. Inaugurated in July 2019, the Vietnamese plant in Becamex industrial park in Vietnam's Binh Duong Province boasts cutting-edge environment-friendly process and automated smart production line, promising to become the group's major production base.

* Automated marketing: Implement marketing digitalization plan, expanding and optimizing various high-performance marketing platforms and gradually executing business intelligence systems, to induce precision marketing and facilitate growth.

2. Products:

* Motor: In addition to green model IE3/IE4 high-efficiency motor, step into the high-end realm of high-power smart motor, ship motor, permanent-magnet motor, and electric-vehicle motor, with large motors scoring booming sales and successfully tapping the sector of solution sales, leading to remarkable sales growth.

* Automation and intelligent systems: New inverter series has been applied successfully in industrial fan and exhaust fan, industrial air conditioning system, metal processing, and vertical transport system, in addition to inroads into the realms of tension control for high-end servo market, smart grinder for mobile-phone glass, and lathe shaft. Despite sluggish demands in mainland China and Taiwan, putting a damper on sales growth, business outlook is promising.

- * Energy and engineering: Successful inroads into offshore wind power, micro grid, Internet datacenter (IDCP), smart building, PV power, and energy storage system, pocketing orders exceeding NT\$10 billion in value in 2019.
- * Home appliances: Rollout of variable-frequency electromagnetic-suspension centrifuge for high-end energy-conservation market and whole-series variable-frequency DC light business air conditioners, one step ahead of peers, expanding the ranks of heavyweight customers, via product differentiation. As for residential air conditioners, resort to price edge and stable variable-frequency quality to increase market share. For air conditioners, resort to big-data analysis and AI in providing the services of energy management and precautionary maintenance and diagnosis. Provision of optimal energy-conservation and precautionary/preventive solutions for applications in green buildings and energy-conserving air conditioners. Concerning refrigerators, in addition to expanding domestic market share for medium- and large-sized whole-series variable-frequency models, launch first indigenous variable-frequency business 1000L refrigerator and residential refrigerator with automatic switch between freezing and preserving modes, the first such model in Taiwan.

b. 2019 financial status, execution result of business plan, and profits

1. The company's standalone report

Unit: NT\$1,000

	2019	2018	Change
Net operating revenue	18,873,312	20,879,719	-9.6%
Operating income	1,114,970	1,410,943	-21%
Current net profit	3,221,717	3,150,089	2.3%

* Operating revenue: Trade war and inventory closeout by the group's affiliates put a damper on sales of electromechanical products. Via target-customer analysis, the company managed, though, to raise global sales of explosion-proof motors, accelerate mass production and shipment of electric-vehicle motors, and mobilize major domestic dealers to increase market shares, at the expense of major rivals, thereby alleviating impact of decreasing domestic demands. Individual revenue dropped by near 10% from 2018.

* Operating income: In the wake of the eruption of trade war, the company has formulated plan adjusting capacities of production bases worldwide. Inaugurated in July 2019, the Vietnamese plant embraces smart monitoring, vacuum die-casting method, and automation technology to cut production cost. For marketing, link plant to market with high-performance information platform, integrate marketing teams to boost operating efficacy, and push high-margin models in North American market, boosting gross margin. Affected by sales decline, gross profit tumbled by 9%. Thanks to continuing flow improvement and outlay control, operating expense dropped by near NT\$30 million. Operating income slipped by 21%.

* Non-operating income/expense: Thanks to adherence to the strategy of solution sales, revenue and profit both spiked in North American and Japan. With the strategy focusing on permanent-magnet motors and explosion-proof motors beginning to show results, plus increase in production efficiency and rationalization of cost/expense at plants, profits of major invested companies rose significantly, investment income recognized with equity method increased by NT\$230 million. The company's current net profit rose by 2% in 2019.

* R&D

- ✓ Successful development of high power-density motor, featuring high-efficiency, lightweight, and compact size, especially applicable for fast-developing wind/hydraulic power industry.
- ✓ Furnish medium- and large-frame number motors with smart vibration sensors for remote operating management, upgrading maintenance service and supporting smart manufacturing solution.
- ✓ Various service-type robots, mounted on AGV, granted silver award of Taiwan Excellence Award.
- ✓ E-House integrated industrial air conditioning solution, integrating DC/AC battery, programmable logic controller, medium-voltage inverter, and air conditioner.
- ✓ Integrated fire pump, integrating fire pump, power source, control cabinet, and auxiliary devices.

2. Consolidated report of the company and subsidiaries

Unit: NT\$1,000

	2019	2018	Change
Net operating revenue	47,909,358	50,104,927	-4.4%
Operating income	3,536,445	3,520,486	0.5%
Current net profit	3,518,780	3,475,969	1.2%
Current comprehensive net profit	6,039,690	3,908,980	54.5%

* Consolidated operating revenue: In contrast to slackened domestic demands in Taiwan and China, revenues from major overseas markets grew, except Southeast Asia, where revenue dropped slight, due to intensified competition. Meanwhile, due to change in policy for non-strategic investments, leading to reduction in the number of acquisitions, overall revenue dropped from the previous year.

* Operating income: Thanks to higher gross margin for motor sales in North

America and cost control at mainland Chinese plants, operating income rose by 0.5% over the previous year.

- * Current net profit: Driven by increased non-operating income on rebounding global financial market and gain on valuation for financial assets and increased investment benefits, current net profit grew by 1.2%.
- * Current comprehensive net profit: Due to increased unrealized gain on valuation for financial assets, current comprehensive net profit shot up 54.5%.

c. Financial strategy and shareholders' equity

Engaged mainly in R&D, production, and sales of industrial products in a mature traditional industry, the company has adhered to the principle of stable operation in financial strategy and determined proper liability/equity structure every year, according to expected cash flow, taking into account business plan, need of capital and working capital, and return on equity (ROE), based on actuarial estimation.

Table 1

Year	Credit rating	Net profit (NT\$100 M.)	Cash flow ratio	Current ratio	Debt ratio
2017	twA+(stable)	35.44	31.43%	236.16	37.10
2018	twA+(stable)	34.76	23.86%	241.22	36.41
2019	twA+(stable)	35.18	29.21%	216.55	37.70

Given steady cash flow generated by business activities and adherence to stable and sustainable business strategy, Taiwan Ratings has been granting the company twA+ (stable) credit rating since 2012, enabling the company to float unsecured commercial papers or common corporate bonds on the primary market, in place of banking loans, cutting funding cost by near 40%, thanks interest spread of near 50 bps, plus prolonged funding period, which leads to long-term stable funding cost. Since 2015, Taiwan Ratings has further upgraded the company's credit rating to twA+, manifesting the company's solid credit standing, which boosts the company leverage and flexibility in fund raising and price negotiation, a solid cornerstone for the company to cope with various business challenges.

With the world being plagued by continuously trade frictions and a litany of economic black swans in recent years, the company, in the face of economic and financial tumult, will continue to seek strategic growth, boost products' cost competitiveness, and uphold a flexible supply chain, which will entail funding need several times previous years for establishing distributed production mode, carrying out smart manufacturing, and implementing digitalization via acquisition or alliance. Amid an economic environment full of uncertainty, the company will, as usual, maintain sufficient cash position and solid capital structure, to cope with the changeful situation and pursue sustainable development.

Backed by stable operation and finance, TECO Group has been able to create reasonable investment value for shareholders invariably. In recent years, application of IFRS9 accounting criteria has inflated book value of shareholders' equipment, due to unrealized gain on valuation for financial assets. After deducting unrealized gain on valuation, return on shareholders' equity has still stayed at 6.3-7.4%. Based on other consolidated comprehensive income in calculation, return on shareholders' equity hits 10%. Over the past year, the company has further improved return on shareholders' equipment of 0.18 of a percentage point, via adjusting organizational and financial structure, such as consolidation of some invested businesses, implementation of share buyback, and liquidation of assets. In the future, the company will continue embrace necessary measures, to uphold its long-term value.

B. Summary of 2020 business plan

Looking ahead at 2020, impacted by COVID-19 pandemic, major forecast bodies have predicted global economy will decline in the year. Taiwan's Cabinet-level Directorate General of Budget, Accounting, and Statistics (DGBAS) forecasts that Taiwan's economy will grow by 2.37% in 2020, compared with 2.4-2.7% growth rates predicted by other forecast bodies. In the face of the challenging environment, the company, in addition to the development axis of "energy conservation, emission reduction, smart application, and automation," will implement digitalization, intensify marketing and production automation, and institute business intelligent system,

thereby inducing growth with precision marketing. Moreover, while closely monitoring the impact of the pandemic on major markets, it will building secondary supply chain for parts of SmartAuto and electromechanical products outside mainland China, forming a remote backup mechanism to prevent disruption of operation. Essence of 2020 business strategy and growth plan follows:

a. Organic growth plan

Despite the existence of multiple variables in the general environment, the company will still spare no effort in seeking growth of core business, such as electromechanical products, for which the company has set up a task force to develop new products, such as permanent-magnet motor, auto electrical machinery products, and medium-voltage inverters. In addition, via global-account centralized management, the company will consolidate customer relationship and tap potential business opportunities and employ IIOTT to expand solution sales, in addition to offering customers platform for real-time maintenance, technology modification, and other services.

Already with over NT\$10 billion worth of orders in hands, the energy and engineering division will take advantage of smart automatic-control technology for engaging in the realms of PV power system, micro-grid, energy storage system, and energy management equipment, materializing the company's vision of "energy conservation and emission reduction." As for home appliances business, the company will continue the business strategy of 2019, dedicating to the development of whole-series variable-frequency energy conserving products for the sake of higher margin, plus enhancement of the value of air-conditioning engineering projects via employment of energy management system and high-end, high-efficiency, energy-conserving business air conditioners.

b. Strategic growth plan

1. SmartAuto

Dedicate to strengthening R&D capability and seeking strategic alliance, strategic investments, and merger and acquisition (M&A) opportunities, while striving to expand penetration rate of SmartAuto products to enhance

revenue and profit via the following approaches:

- ✓ Applications of SmartAuto industry: industrial automation, robot, e-house integrated industrial air conditioning.
- ✓ SmartAuto module and system: knuckle system of collaborative robot, AGV and key components and parts, smart energy-storage power conversion system (PCS), MHm diagnostic system.
- ✓ SmartAuto control and industrial network: Motion servo controller, human-machine interface (HMI), programmable logic controller, industrial-computer controller, industrial Ethernet, 5G controller.
- ✓ SmartAuto product series: low-/medium-voltage inverter, integrated M+I machine, servo drive and motor, reducer, MS/CB, smart logistics products, such as transport and delivery robots, and smart retail products, such as automated smart vending machine, smart home-delivery cabinets, and smart locker.

2. Deployment and automation of manufacturing centers

To cope with the needs of growth of regional markets and capacity distribution, set up four major production centers (mainland China, Taiwan, Vietnam, and India) via integrating existing low-voltage motor production lines and supply chains. Introduce key process automation and global situation-room system, taking advantage of the company's IIoT technology, for real-time monitoring and improvement of the operation of major production and maneuvering of supply chains, via digitalized management. Meanwhile, given robust demands for energy-saving high-performance auto motors expected in mainland China and Asia-Pacific, continue investments in automated electric-wire winding production lines for use in permanent-magnet motors, and rotor visual kinetic equilibrium and automated magnetization and magnet-detecting equipment, to enhance quality liability and competitiveness of such new products.

3. Development of forward-looking products:

SmartAuto control and industrial network: Motion servo controller,

- ✓ Energy conservation:
PM & SRM high-performance motor, E-House, VB/VBAC
- ✓ Emission reduction:
EV motive-force system, ultra high-performance medium-voltage motor

- ✓ Intelligence:
E-ID, MHm diagnostic system, AGV, auto fleet management, smart retail
- ✓ Automation:
HD Precision bearing, knuckle system of robot, Matrix Converter

The company has been granted the honors of golden award for Taiwan Top50 corporate sustainability report for six years in a row and corporate citizen award by Commonwealth magazine for eight years running. Adhering to the concept of sustainable development, the company has pledged to "20% emission reduction in 10 years" and rolled out "employee public-service account" this year, materializing the group's vision of "energy conservation, emission reduction, smart application, and automation" according to the strictest criteria, thereby leading employees to contribute to a sustainable society, as well as forging an working environment with long-term development potential for employees, providing customers services with competitive value, and creating optimal investment returns for shareholders.

Sophia Chiu, Chairman
Lien Chao-chi, president
Accounting chief: Lin Hung-ming

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 2019 (including consolidated financial statements), the business report and proposed profit distribution plan prepared and proposed by the Board of Directors, with the financial statements having been audited and certified by Pricewaterhouse Coopers, hereby submit this report pursuant to Article 14 of Securities and Exchange Act and Article 219 of the Company Act.

To

General Shareholders Meeting 2020

TECO Electric & Machinery Co., Ltd

Audit Committee Convener : Ting-Wong, Cheng

Date: March 17th, 2020

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To TECO Electric & Machinery Co., Ltd.

Opinion

We have audited the accompanying parent company only balance sheets of TECO Electric & Machinery Co., Ltd. as at December 31, 2019 and 2018, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the audit reports of other independent accountants, as described in the other matter section of our report, the parent company only financial statements present fairly, in all material respects, the financial position of TECO Electric & Machinery Co., Ltd. as of December 31, 2019 and 2018, and its financial performance and cash flows for the years then ended, in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

Basis for opinion

We conducted our audit of the financial statements for the year ended December 31, 2019 in accordance with ‘Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants’, ‘Jin-Guan-Zheng-Shen-Zi Order No. 1090360805 as approved by the Financial Supervisory Commission’, and generally accepted auditing standards in the Republic of China (“R.O.C GAAS”), and our audit of the financial statements for the year ended December 31, 2018 in accordance with ‘Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants’ and R.O.C GAAS. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and audit reports of other independent accountants, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Revenue recognition of export sales of heavy industrial products group

Description

Refer to Note 4(32) of the parent company only financial statements for the accounting policies on revenue recognition. Heavy industrial products group handles the manufacturing and sales of various machinery, equipment and motors. Aside from domestic sales in Taiwan, the customers of heavy industrial products group are from China, America, Southeast Asia and Europe and the sales terms vary for different customers. Thus, we consider the revenue recognition of export sales of heavy industrial products group as a key audit matter.

How our audit addressed the matter

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

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

Other matter – Reports of other independent accountants

As described in Note 6(6) of the parent company only financial statements, we did not audit the financial statements of certain investee accounted for under the equity method. Those financial statements were

audited by other independent accountants, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements and the information on the investee disclosed in Note 13 was based solely on the reports of other independent accountants. The investments accounted for under the equity method amounted to NT\$3,698,335 thousand and NT\$4,076,536 thousand, constituting 5% and 6% of the related total assets as of December 31, 2019 and 2018, respectively, and the comprehensive income amounting to NT\$82,978 thousand and NT\$176,754 thousand, constituting 1% and 5% of the total comprehensive income for the years then ended, respectively.

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

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

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other

matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Wu, Yu-Lung

Chou, Chien-Hung

For and on behalf of PricewaterhouseCoopers, Taiwan

March 17, 2020

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

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

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

Assets	Notes	December 31, 2019		December 31, 2018		
		AMOUNT	%	AMOUNT	%	
Current assets						
1100	Cash and cash equivalents	6(1) and 8	\$ 704,888	1	\$ 1,232,796	2
1140	Current contract assets		1,057,201	1	1,074,420	1
1150	Notes receivable, net	6(4)	298,848	-	405,734	1
1160	Notes receivable - related parties	7	349,293	1	326,842	-
1170	Accounts receivable, net	6(4)	1,372,244	2	1,528,892	2
1180	Accounts receivable - related parties	6(6) and 7	1,275,303	2	1,284,953	2
1200	Other receivables		92,237	-	62,938	-
1210	Other receivables - related parties	6(6) and 7	1,111,867	2	1,293,359	2
130X	Inventory	6(5)	2,512,802	3	2,758,641	4
1410	Prepayments		329,211	-	168,385	-
1470	Other current assets	6(1) and 8	183,611	-	206,812	-
11XX	Total current assets		<u>9,287,505</u>	<u>12</u>	<u>10,343,772</u>	<u>14</u>
Non-current assets						
1510	Non-current financial assets at fair value through profit or loss	6(2)(22)	1,966,144	2	1,835,790	3
1517	Non-current financial assets at fair value through other comprehensive income	6(3)	7,459,586	10	5,983,461	8
1550	Investments accounted for under equity method	6(6) and 7	50,342,442	67	47,877,378	66
1600	Property, plant and equipment	6(7) and 7	3,520,118	5	3,739,530	5
1755	Right-of-use assets	6(8)	11,418	-	-	-
1760	Investment property - net	6(9)	2,039,208	3	2,060,182	3
1840	Deferred income tax assets	6(25)	788,769	1	803,739	1
1900	Other non-current assets	6(10)	130,009	-	151,848	-
15XX	Total non-current assets		<u>66,257,694</u>	<u>88</u>	<u>62,451,928</u>	<u>86</u>
1XXX	Total assets		<u>\$ 75,545,199</u>	<u>100</u>	<u>\$ 72,795,700</u>	<u>100</u>

(Continued)

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

Liabilities and Equity	Notes	December 31, 2019		December 31, 2018		
		AMOUNT	%	AMOUNT	%	
Current liabilities						
2100	Short-term borrowings	6(11)	\$ 55,200	-	\$ 49,110	-
2130	Current contract liabilities	6(20)	431,356	1	356,457	-
2150	Notes payable		12,085	-	6,861	-
2160	Notes payable - related parties	7	132,557	-	162,340	-
2170	Accounts payable		2,617,198	4	3,371,424	5
2180	Accounts payable - related parties	7	998,125	1	876,705	1
2200	Other payables		2,597,722	4	2,590,466	4
2220	Other payables - related parties	7	639,163	1	635,479	1
2230	Current income tax liabilities	6(25)	321,647	-	269,312	-
2250	Provisions for liabilities - current		103,006	-	91,679	-
2280	Current lease liabilities	6(8)	6,645	-	-	-
2300	Other current liabilities	6(13)	3,087,868	4	58,851	-
21XX	Total current liabilities		<u>11,002,572</u>	<u>15</u>	<u>8,468,684</u>	<u>11</u>
Non-current liabilities						
2530	Corporate bonds payable	6(13)	1,000,000	1	4,000,000	6
2540	Long-term borrowings	6(14)	4,299,967	6	4,249,725	6
2570	Deferred income tax liabilities	6(25)	958,820	1	814,098	1
2580	Non-current lease liabilities	6(8)	3,859	-	-	-
2600	Other non-current liabilities	6(15)	1,573,477	2	1,584,533	2
25XX	Total non-current liabilities		<u>7,836,123</u>	<u>10</u>	<u>10,648,356</u>	<u>15</u>
2XXX	Total liabilities		<u>18,838,695</u>	<u>25</u>	<u>19,117,040</u>	<u>26</u>
Equity						
Share capital						
3110	Share capital - common stock	6(16)	19,676,929	26	20,026,929	28
Capital surplus						
3200	Capital surplus	6(17)	7,389,577	9	7,647,215	10
Retained earnings						
3310	Legal reserve	6(18)	6,702,463	9	6,387,454	9
3320	Special reserve		3,640,779	5	3,640,779	5
3350	Unappropriated retained earnings		16,047,563	21	15,192,788	21
Other equity interest						
3400	Other equity interest	6(19)	3,570,756	5	1,105,058	1
3500	Treasury stocks	6(6)(16)	(321,563)	-	(321,563)	-
3XXX	Total equity		<u>56,706,504</u>	<u>75</u>	<u>53,678,660</u>	<u>74</u>
Commitments and Contingent Liabilities						
Subsequent Events						
3X2X	Total liabilities and equity		<u>\$ 75,545,199</u>	<u>100</u>	<u>\$ 72,795,700</u>	<u>100</u>

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

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Items	Notes	Year ended December 31				
		2019		2018		
		AMOUNT	%	AMOUNT	%	
4000	Sales revenue	6(20) and 7	\$ 18,873,312	100	\$ 20,879,719	100
5000	Operating costs	6(5)(15)(24) and 7	(14,940,657)	(79)	(16,506,775)	(79)
5900	Net operating margin		3,932,655	21	4,372,944	21
5910	Unrealized profit from sales	7	(500,745)	(3)	(614,532)	(3)
5920	Realized profit from sales		614,532	3	653,779	3
5950	Net operating margin		4,046,442	21	4,412,191	21
	Operating expenses	6(15)(24) and 7				
6100	Selling expenses		(1,826,287)	(9)	(1,879,789)	(9)
6200	General and administrative expenses		(531,689)	(3)	(552,381)	(2)
6300	Research and development expenses		(574,548)	(3)	(568,565)	(3)
6450	Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9		1,052	-	(513)	-
6000	Total operating expenses		(2,931,472)	(15)	(3,001,248)	(14)
6900	Operating profit		1,114,970	6	1,410,943	7
	Non-operating income and expenses					
7010	Other income	6(3)(9)(21) and 7	658,278	4	548,375	3
7020	Other gains and losses	6(2)(6)(12)(22) and 7	(382,300)	(2)	(548,547)	(3)
7050	Finance costs	6(8)(23) and 7	(102,308)	(1)	(99,181)	-
7070	Share of profit of subsidiary, associates and joint ventures accounted for under equity method	6(6)	2,213,679	12	1,983,219	9
7000	Total non-operating income and expenses		2,387,349	13	1,883,866	9
7900	Profit before income tax		3,502,319	19	3,294,809	16
7950	Income tax expense	6(25)	(280,602)	(2)	(144,720)	(1)
8200	Profit for the year		\$ 3,221,717	17	\$ 3,150,089	15
	Other comprehensive income					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Other comprehensive income, before tax, actuarial losses on defined benefit plans	6(15)	(\$ 80,887)	(1)	(\$ 34,335)	-
8316	Unrealised gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	6(3)(19)	1,461,127	8	1,251,661	6
8330	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss		1,848,678	10	(692,289)	(3)
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(25)	-	-	19,779	-
8310	Components of other comprehensive loss that will not be reclassified to profit or loss		3,228,918	17	544,816	3
	Components of other comprehensive loss that will be reclassified to profit or loss					
8361	Other comprehensive income, before tax, exchange differences on translation	6(19)	(794,735)	(4)	(185,820)	(1)
8399	Income tax relating to the components of other comprehensive income	6(19)(25)	19,734	-	43,453	-
8360	Components of other comprehensive (loss) income that will be reclassified to profit or loss		(775,001)	(4)	(142,367)	(1)
8300	Other comprehensive (loss) income for the year		\$ 2,453,917	13	\$ 402,449	2
8500	Total comprehensive income for the year		\$ 5,675,634	30	\$ 3,552,538	17
	Earnings per share (in dollars)	6(26)				
9750	Basic earnings per share		\$ 1.65		\$ 1.59	
9850	Diluted earnings per share		\$ 1.65		\$ 1.59	

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

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	Retained Earnings					Other equity interest				
		Share capital - common stock	Total capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets	Treasury stocks	Total equity
2018											
Balance at January 1, 2018		\$ 20,026,929	\$ 7,628,542	\$ 6,078,219	\$ 3,640,779	\$ 12,750,338	(\$ 1,759,357)	\$ -	\$ 3,785,878	(\$ 321,563)	\$ 51,829,765
Effect of retrospective application	3(1)	-	-	-	-	1,937,121	-	1,848,757	(3,785,878)	-	-
Balance at January 1, after adjustments		<u>20,026,929</u>	<u>7,628,542</u>	<u>6,078,219</u>	<u>3,640,779</u>	<u>14,687,459</u>	<u>(1,759,357)</u>	<u>1,848,757</u>	-	<u>(321,563)</u>	<u>51,829,765</u>
Profit for the year		-	-	-	-	3,150,089	-	-	-	-	3,150,089
Other comprehensive income (loss)	6(19)	-	-	-	-	(40,562)	(142,367)	585,378	-	-	402,449
Total comprehensive income (loss)		-	-	-	-	3,109,527	(142,367)	585,378	-	-	3,552,538
Appropriations of 2018 earnings	6(18)	-	-	-	-	-	-	-	-	-	-
Legal reserve		-	-	309,235	-	(309,235)	-	-	-	-	-
Cash dividends		-	-	-	-	(1,722,316)	-	-	-	-	(1,722,316)
Effect of changes in net equity of associates and joint ventures accounted for under the equity method		-	18,673	-	-	-	-	-	-	-	18,673
Disposal of investments in equity instruments at fair value through other comprehensive income	6(3)	-	-	-	-	(572,647)	-	572,647	-	-	-
Balance at December 31, 2018		<u>\$ 20,026,929</u>	<u>\$ 7,647,215</u>	<u>\$ 6,387,454</u>	<u>\$ 3,640,779</u>	<u>\$ 15,192,788</u>	<u>(\$ 1,901,724)</u>	<u>\$ 3,006,782</u>	<u>\$ -</u>	<u>(\$ 321,563)</u>	<u>\$ 53,678,660</u>
2019											
Balance at January 1, 2019		\$ 20,026,929	\$ 7,647,215	\$ 6,387,454	\$ 3,640,779	\$ 15,192,788	(\$ 1,901,724)	\$ 3,006,782	\$ -	(\$ 321,563)	\$ 53,678,660
Effect of retrospective application	3(1)	-	-	-	-	(269,228)	-	-	-	-	(269,228)
Balance at 1 January after adjustments		<u>20,026,929</u>	<u>7,647,215</u>	<u>6,387,454</u>	<u>3,640,779</u>	<u>14,923,560</u>	<u>(1,901,724)</u>	<u>3,006,782</u>	-	<u>(321,563)</u>	<u>53,409,432</u>
Profit for the year		-	-	-	-	3,221,717	-	-	-	-	3,221,717
Other comprehensive income	6(19)	-	-	-	-	(77,599)	(775,001)	3,306,517	-	-	2,453,917
Total comprehensive income (loss)		-	-	-	-	3,144,118	(775,001)	3,306,517	-	-	5,675,634
Appropriations of 2019 earnings	6(18)	-	-	-	-	-	-	-	-	-	-
Legal reserve		-	-	315,009	-	(315,009)	-	-	-	-	-
Cash dividends		-	-	-	-	(1,770,924)	-	-	-	-	(1,770,924)
Treasury stock acquired	6(16)	-	-	-	-	-	-	-	-	(675,840)	(675,840)
Treasury stock retired	6(16)(17)	(350,000)	(325,840)	-	-	-	-	-	-	675,840	-
Effect of changes in net equity of associates and joint ventures accounted for under the equity method		-	68,202	-	-	-	-	-	-	-	68,202
Disposal of investments in equity instruments at fair value through other comprehensive income	6(3)(19)	-	-	-	-	65,818	-	(65,818)	-	-	-
Balance at December 31, 2019		<u>\$ 19,676,929</u>	<u>\$ 7,389,577</u>	<u>\$ 6,702,463</u>	<u>\$ 3,640,779</u>	<u>\$ 16,047,563</u>	<u>(\$ 2,676,725)</u>	<u>\$ 6,247,481</u>	<u>\$ -</u>	<u>(\$ 321,563)</u>	<u>\$ 56,706,504</u>

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

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 3,502,319	\$ 3,294,809
Adjustments			
Adjustments to reconcile profit (loss)			
Net (gain) loss on financial assets at fair value through profit or loss	6(2)(22)	(88,601)	103,280
Net loss (gain) on financial liabilities at fair value through profit or loss	6(12)(22)	227	(2,529)
Impairment loss determined in accordance with IFRS 9	12(2)	1,052	513
Interest income	6(21)	(11,588)	(8,879)
Interest expense	6(23)	100,317	94,730
Dividend income	6(21)	(271,049)	(223,794)
Loss on disposal of investments	6(22)	(8,428)	(1,385)
Gain on remeasurement	6(22)	-	(46,515)
Changes in unrealized gain from downstream sales		(113,787)	(39,247)
Share of profit of associates and joint ventures accounted for under the equity method	6(6)	(2,213,679)	(1,983,219)
Depreciation, amortization and net gain or loss on disposal of property, plant and equipment, net	6(7)(8)(9)(22)(24)	514,299	436,151
Changes in operating assets and liabilities			
Changes in operating assets			
Contract assets - current		17,219	(238,082)
Notes receivable		107,059	(116,473)
Notes receivable - related parties		(22,451)	(10,252)
Accounts receivable		159,631	38,202
Accounts receivable - related parties		85,986	321,893
Other receivables		(29,299)	80,148
Other receivables - related parties		175,841	(97,285)
Inventories		245,839	(146,148)
Prepayments		(160,826)	(115,098)
Other current asset		13,059	(22,011)
Financial assets at fair value through profit or loss - non-current		(41,753)	(39,765)
Changes in operating liabilities			
Contract liabilities - current		74,899	84,127
Notes payable		5,224	(12,769)
Notes payable - related parties		(29,783)	(6,764)
Accounts payable		(754,226)	50,127
Accounts payable - related parties		121,420	(399,025)
Other payables		50,118	55,208
Other payables - related parties		11,034	(5,876)
Provisions for liabilities		11,327	8,261
Other current liabilities		29,017	(57,896)
Other non-current liabilities		(100,353)	(21,613)
Cash inflow generated from operations		1,380,064	972,824
Interest received	6(21)	11,588	8,879
Dividends received		605,396	752,339
Payment of interest		(94,475)	(94,730)
Payment of income tax		(48,840)	(448,447)
Net cash flows from operating activities		<u>1,853,733</u>	<u>1,190,865</u>

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Decrease in other receivables - related parties	7	\$ 5,651	\$ 61,438
Decrease (increase) in pledged fixed deposit	8	10,142	(8,151)
Increase in financial assets at fair value through other comprehensive income - non-current		(14,998)	(21,990)
Increase in investments accounted for under equity method		(94,723)	(208,226)
Proceeds from disposal of property, plant and equipment		347	46,307
Acquisition of property, plant and equipment	6(7)(27)	(217,778)	(352,913)
Increase in deferred expenses		(7,314)	(19,691)
Decrease (increase) in refundable deposits		7,017	(9,331)
Dividends received		271,049	223,794
Proceeds from disposal of investment accounted for under equity method		141,865	297,087
Decrease in other non-current assets		3,042	6,931
Net cash flows from investing activities		<u>104,300</u>	<u>15,255</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase (decrease) in short-term loans		6,090	(226,674)
Decrease in other payables - related parties financing	7	(7,350)	(70,450)
Increase in long-term loans		50,242	1,158,931
Cash dividends paid	6(18)	(1,770,924)	(1,722,316)
Lease liabilities paid		(88,159)	-
Treasury shares purchased	6(16)	(675,840)	-
Net cash flows used in financing activities		<u>(2,485,941)</u>	<u>(860,509)</u>
Net (decrease) increase in cash and cash equivalents		(527,908)	345,611
Cash and cash equivalents at beginning of year		1,232,796	887,185
Cash and cash equivalents at end of year		<u>\$ 704,888</u>	<u>\$ 1,232,796</u>

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To TECO Electric & Machinery Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of TECO Electric & Machinery Co., Ltd. and its subsidiaries (the “Group”) as at December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the audit reports of other independent accountants, as described in the Other matter section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audit of the financial statements for the year ended December 31, 2019 in accordance with ‘Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants’, ‘Jin-Guan-Zheng-Shen-Zi Order No. 1090360805 as approved by the Financial Supervisory Commission’, and generally accepted auditing standards in the Republic of China (“R.O.C GAAS”), and our audit of the financial statements for the year ended December 31, 2018 in accordance with ‘Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants’ and R.O.C GAAS. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical

responsibilities in accordance with the Code. Based on our audits and audit reports of other independent accountants, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Revenue recognition of export sales of heavy industrial products group

Description

Refer to Note 4(34) of the consolidated financial statements for the accounting policies on revenue recognition and Note 14 for the segment financial information. The Group disclosed the financial information of heavy industrial products group and home electric appliance division in the segment financial information. Heavy industrial products group handles the manufacturing and sales of various machinery, equipment and motors. The sales revenue of the heavy industrial products group amounted to NT\$32,754,241 thousand, representing 68% of the consolidated total sales revenue for the year ended December 31, 2019. Aside from domestic sales in Taiwan, the customers of heavy industrial products group are from China, America, Southeast Asia and Europe and the sales terms vary for different customers. Thus, we consider the revenue recognition of export sales of heavy industrial products group as a key audit matter.

How our audit addressed the matter

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

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

Other matter – Reports of other independent accountants

As described in Notes 4(3) and 6(7) of the consolidated financial statements, we did not audit the financial statements of certain subsidiaries and investments accounted for under the equity method. Those financial statements were audited by other independent accountants, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements and the information on the investee disclosed in Note 13 was based solely on the reports of other independent accountants. Total assets amounted to NT\$2,568,293 thousand and NT\$2,630,617 thousand, both constituting 3% of the consolidated total assets as of December 31, 2019 and 2018, respectively, and total operating revenues amounted to NT\$2,949,066 thousand and NT\$2,475,154 thousand, constituting 6% and 5% of consolidated total operating revenues for the years then ended, respectively. The investments accounted for under the equity method amounted to NT\$2,535,314 thousand and NT\$2,630,962 thousand, both constituting 3% of consolidated total assets as of December 31, 2019 and 2018, respectively, the credit balance of investments accounted for under the equity method amounted to NT\$97,139 thousand and NT\$83,459 thousand, both constituting 0% of consolidated total assets as of December 31, 2019 and 2018, respectively, and the share of profit of associates and joint ventures accounted for under the equity method amounted to NT\$7,927 thousand and NT\$143,935 thousand, constituting 0% and 4% of the consolidated total comprehensive income for the years then ended, respectively.

Other matter –Parent company only financial reports

We have audited and expressed an unqualified opinion with other matter section on the parent company only financial statements of TECO Electric & Machinery Co., Ltd. as of and for the years ended December 31, 2019 and 2018.

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

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

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

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

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

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

basis of these consolidated financial statements.

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

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

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

controls that we identify during our audit.

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

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

Wu, Yu-Lung

Chou, Chien-Hung

For and on behalf of PricewaterhouseCoopers, Taiwan

March 17, 2020

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, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2019		December 31, 2018		
		AMOUNT	%	AMOUNT	%	
Current assets						
1100	Cash and cash equivalents	6(1) and 8	\$ 19,111,371	19	\$ 17,535,566	19
1110	Financial assets at fair value through profit or loss - current	6(2)	126,945	-	193,955	-
1120	Current financial assets at fair value through other comprehensive income	6(3)	1,065,729	1	995,951	1
1140	Current contract assets		1,521,080	2	1,350,238	2
1150	Notes receivable, net	6(5) and 8	1,118,731	1	1,063,991	1
1160	Notes receivable - related parties	7	1,457	-	2,641	-
1170	Accounts receivable, net	6(5)	8,780,047	9	9,102,428	10
1180	Accounts receivable - related parties	7	232,293	-	241,272	-
1200	Other receivables		497,877	-	360,606	-
1210	Other receivables - related parties	7	81,369	-	70,979	-
130X	Inventories, net	6(6)	9,853,585	10	11,429,685	13
1410	Prepayments		662,456	1	432,419	1
1470	Other current assets	6(1) and 8	893,636	1	980,640	1
11XX	Total current assets		<u>43,946,576</u>	<u>44</u>	<u>43,760,371</u>	<u>48</u>
Total Non-current assets						
1510	Financial assets at fair value through profit or loss - noncurrent	6(2)	2,291,217	2	2,140,203	2
1517	Non-current financial assets at fair value through other comprehensive income	6(3) and 8	14,473,017	15	11,354,525	12
1535	Non-current financial assets at amortised cost, net	6(4) and 8	377,256	1	182,725	-
1550	Investments accounted for under the equity method	6(7) and 8	3,897,316	4	4,207,360	5
1600	Property, plant and equipment, net	6(8) and 8	16,742,830	17	17,363,543	19
1755	Right-of-use assets	6(9) and 8	7,119,164	7	-	-
1760	Investment property, net	6(10)	2,762,570	3	2,783,774	3
1780	Intangible assets	6(11)	5,200,634	5	5,557,343	6
1840	Deferred income tax assets	6(28)	1,346,817	1	1,250,743	1
1900	Other non-current assets	6(12) and 8	937,007	1	3,380,699	4
15XX	Non-current assets		<u>55,147,828</u>	<u>56</u>	<u>48,220,915</u>	<u>52</u>
1XXX	Total assets		<u>\$ 99,094,404</u>	<u>100</u>	<u>\$ 91,981,286</u>	<u>100</u>

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2019		December 31, 2018		
		AMOUNT	%	AMOUNT	%	
Current liabilities						
2100	Short-term borrowings	6(13) and 8	\$ 1,857,637	2	\$ 1,994,360	2
2120	Financial liabilities at fair value through profit or loss - current	6(14)	50	-	-	-
2130	Current contract liabilities	6(23)	1,001,440	1	899,728	1
2150	Notes payable		284,661	-	73,105	-
2160	Notes payable - related parties	7	81,176	-	136,874	-
2170	Accounts payable		6,783,872	7	7,517,824	8
2180	Accounts payable - related parties	7	128,569	-	90,047	-
2200	Other payables	6(15)	4,676,588	5	4,720,360	5
2230	Current income tax liabilities	6(28)	584,071	1	690,853	1
2250	Provisions for liabilities - current		273,575	-	269,254	1
2280	Current lease liabilities		475,786	1	-	-
2320	Long-term liabilities, current portion	6(16)(17) and 8	3,410,798	3	904,492	1
2399	Other current liabilities, others		735,603	1	844,483	1
21XX	Total current liabilities		<u>20,293,826</u>	<u>21</u>	<u>18,141,380</u>	<u>20</u>
Non-current liabilities						
2530	Corporate bonds payable	6(16)	1,000,000	1	4,000,000	4
2540	Long-term borrowings	6(17) and 8	6,673,954	7	6,746,354	7
2550	Provisions for liabilities - non-current		125,014	-	113,947	-
2570	Deferred income tax liabilities	6(28)	2,400,752	2	2,254,076	3
2580	Non-current lease liabilities		4,743,306	5	-	-
2600	Other non-current liabilities	6(7)(18)	2,152,762	2	2,234,614	2
25XX	Total non-current liabilities		<u>17,095,788</u>	<u>17</u>	<u>15,348,991</u>	<u>16</u>
2XXX	Total liabilities		<u>37,389,614</u>	<u>38</u>	<u>33,490,371</u>	<u>36</u>
Equity attributable to owners of parent						
Share capital						
3110	Common stock	6(19)	19,676,929	20	20,026,929	22
Capital surplus						
3200	Capital surplus	6(20)	7,389,577	7	7,647,215	8
Retained earnings						
3310	Legal reserve	6(21)	6,702,463	7	6,387,454	7
3320	Special reserve		3,640,779	4	3,640,779	4
3350	Unappropriated retained earnings		16,047,563	16	15,192,788	17
Other equity interest						
3400	Other equity interest	6(22)	3,570,756	3	1,105,058	1
3500	Treasury stocks	6(19) and 8	(321,563)	-	(321,563)	-
31XX	Equity attributable to owners of the parent		<u>56,706,504</u>	<u>57</u>	<u>53,678,660</u>	<u>59</u>
36XX	Non-controlling interest	6(32)	<u>4,998,286</u>	<u>5</u>	<u>4,812,255</u>	<u>5</u>
3XXX	Total equity		<u>61,704,790</u>	<u>62</u>	<u>58,490,915</u>	<u>64</u>
Significant contingent liabilities and unrecognized contract commitments						
Significant events after the balance sheet date						
3X2X	Total liabilities and equity		<u>\$ 99,094,404</u>	<u>100</u>	<u>\$ 91,981,286</u>	<u>100</u>

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

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except earnings per share amount)

Items	Notes	Year ended December 31				
		2019		2018		
		AMOUNT	%	AMOUNT	%	
4000	Sales revenue	6(10)(23) and 7	\$ 47,909,358	100	\$ 50,104,927	100
5000	Operating costs	6(6)(18)(27) and 7	(36,428,606)	(76)	(38,052,253)	(76)
5900	Net operating margin		11,480,752	24	12,052,674	24
5910	Unrealized loss from sales		(8,263)	-	(9,160)	-
5920	Realized profit from sales		9,160	-	9,145	-
5950	Net operating margin		11,481,649	24	12,052,659	24
	Operating expenses	6(18)(27)				
6100	Selling expenses		(4,226,261)	(9)	(4,636,195)	(9)
6200	General and administrative expenses		(2,521,713)	(5)	(2,735,191)	(6)
6300	Research and development expenses		(1,179,300)	(2)	(1,120,748)	(2)
6450	Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9	12(2)	(17,930)	-	(40,039)	-
6000	Total operating expenses		(7,945,204)	(16)	(8,532,173)	(17)
6900	Operating profit		3,536,445	8	3,520,486	7
	Non-operating income and expenses					
7010	Other income	6(4)(9)(10)(24)	1,398,017	3	1,264,083	3
7020	Other gains and losses	6(2)(14)(25) and 7	(261,570)	-	(389,884)	(1)
7050	Finance costs	6(9)(26)	(263,848)	(1)	(222,540)	-
7060	Share of profit of associates and joint ventures accounted for under the equity method	6(7)	30,410	-	114,143	-
7000	Total non-operating income and expenses		903,009	2	765,802	2
7900	Profit before income tax		4,439,454	10	4,286,288	9
7950	Income tax expense	6(28)	(920,674)	(2)	(810,319)	(2)
8200	Profit for the year		\$ 3,518,780	8	\$ 3,475,969	7

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except earnings per share amount)

Items	Notes	Year ended December 31				
		2019		2018		
		AMOUNT	%	AMOUNT	%	
Other comprehensive income						
Other comprehensive income that will not be reclassified to profit or loss						
8311	Other comprehensive loss, before tax, actuarial losses on defined benefit plans	6(18)	(\$ 82,287)	-	(\$ 39,123)	-
8316	Total expenses, by nature	6(3)	3,371,209	7	615,645	1
8320	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss		17,170	-	(24,384)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(28)	95	-	21,442	-
8310	Components of other comprehensive income that will not be reclassified to profit or loss		<u>3,306,187</u>	<u>7</u>	<u>573,580</u>	<u>1</u>
Other comprehensive income that will be reclassified to profit or loss						
8361	Currency translation differences of foreign operations	6(22)	(811,051)	(2)	(185,642)	-
8399	Income tax relating to the components of other comprehensive income that will be reclassified	6(28)	25,774	-	45,073	-
8360	Components of other comprehensive loss that will be reclassified to profit or loss		<u>(785,277)</u>	<u>(2)</u>	<u>(140,569)</u>	<u>-</u>
8300	Other comprehensive income for the year		<u>\$ 2,520,910</u>	<u>5</u>	<u>\$ 433,011</u>	<u>1</u>
8500	Total comprehensive income for the year		<u>\$ 6,039,690</u>	<u>13</u>	<u>\$ 3,908,980</u>	<u>8</u>
Profit attributable to:						
8610	Owners of the parent		\$ 3,221,717	8	\$ 3,150,089	6
8620	Non-controlling interest		297,063	-	325,880	1
			<u>\$ 3,518,780</u>	<u>8</u>	<u>\$ 3,475,969</u>	<u>7</u>
Comprehensive income attributable to:						
8710	Owners of the parent		\$ 5,675,634	12	\$ 3,552,538	7
8720	Non-controlling interest		364,056	1	356,442	1
			<u>\$ 6,039,690</u>	<u>13</u>	<u>\$ 3,908,980</u>	<u>8</u>
Earnings per share (in dollars)						
9750	Basic earnings per share	6(29)	<u>\$ 1.65</u>		<u>\$ 1.59</u>	
9850	Diluted earnings per share		<u>\$ 1.65</u>		<u>\$ 1.59</u>	

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

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

Equity attributable to owners of the parent													
Notes	Share capital - common stock	Capital surplus	Retained earnings				Other equity interest			Treasury stocks	Total	Non-controlling interest	Total equity
			Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets					
2018													
	Balance at January 1, 2018	\$ 20,026,929	\$ 7,628,542	\$ 6,078,219	\$ 3,640,779	\$ 12,750,338	(\$ 1,759,357)	\$ -	\$ 3,785,878	(\$ 321,563)	\$ 51,829,765	\$ 6,044,372	\$ 57,874,137
	Effect of retrospective application	-	-	-	-	1,937,121	-	1,848,757	(3,785,878)	-	-	-	-
	Balance at 1 January, after adjustments	20,026,929	7,628,542	6,078,219	3,640,779	14,687,459	(1,759,357)	1,848,757	-	(321,563)	51,829,765	6,044,372	57,874,137
	Profit for the year	-	-	-	-	3,150,089	-	-	-	-	3,150,089	325,880	3,475,969
	Other comprehensive (loss) income	-	-	-	-	(40,562)	(142,367)	585,378	-	-	402,449	30,562	433,011
	Total comprehensive income (loss)	-	-	-	-	3,109,527	(142,367)	585,378	-	-	3,552,538	356,442	3,908,980
	Appropriations of 2017 earnings	-	-	-	-	-	-	-	-	-	-	-	-
	Legal reserve	-	-	309,235	-	(309,235)	-	-	-	-	-	-	-
	Cash dividends	-	-	-	-	(1,722,316)	-	-	-	-	(1,722,316)	-	(1,722,316)
	Effect of changes in net equity of associates and joint ventures accounted for under the equity method	-	18,673	-	-	-	-	-	-	-	18,673	-	18,673
	Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,588,559)	(1,588,559)
	Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	(572,647)	-	572,647	-	-	-	-	-
	Balance at December 31, 2018	\$ 20,026,929	\$ 7,647,215	\$ 6,387,454	\$ 3,640,779	\$ 15,192,788	(\$ 1,901,724)	\$ 3,006,782	\$ -	(\$ 321,563)	\$ 53,678,660	\$ 4,812,255	\$ 58,490,915
2019													
	Balance at January 1, 2019	\$ 20,026,929	\$ 7,647,215	\$ 6,387,454	\$ 3,640,779	\$ 15,192,788	(\$ 1,901,724)	\$ 3,006,782	\$ -	(\$ 321,563)	\$ 53,678,660	\$ 4,812,255	\$ 58,490,915
	Effect of retrospective application	-	-	-	-	(269,228)	-	-	-	-	(269,228)	(208,421)	(477,649)
	Balance at 1 January, after adjustments	20,026,929	7,647,215	6,387,454	3,640,779	14,923,560	(1,901,724)	3,006,782	-	(321,563)	53,409,432	4,603,834	58,013,266
	Profit for the year	-	-	-	-	3,221,717	-	-	-	-	3,221,717	297,063	3,518,780
	Other comprehensive (loss) income	-	-	-	-	(77,599)	(775,001)	3,306,517	-	-	2,453,917	66,993	2,520,910
	Total comprehensive income (loss)	-	-	-	-	3,144,118	(775,001)	3,306,517	-	-	5,675,634	364,056	6,039,690
	Appropriations of 2018 earnings	-	-	-	-	-	-	-	-	-	-	-	-
	Legal reserve	-	-	315,009	-	(315,009)	-	-	-	-	-	-	-
	Cash dividends	-	-	-	-	(1,770,924)	-	-	-	-	(1,770,924)	-	(1,770,924)
	Treasury stock acquired	-	-	-	-	-	-	-	-	(675,840)	(675,840)	-	(675,840)
	Treasury stock retired	(350,000)	(325,840)	-	-	-	-	-	-	675,840	-	-	-
	Transactions with non-controlling interest	-	68,202	-	-	-	-	-	-	-	68,202	(68,202)	-
	Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	65,818	-	(65,818)	-	-	-	-	-
	Capital increase of non-controlling interests	-	-	-	-	-	-	-	-	-	-	226,786	226,786
	Changes in other non-controlling equity	-	-	-	-	-	-	-	-	-	-	(128,188)	(128,188)
	Balance at December 31, 2019	\$ 19,676,929	\$ 7,389,577	\$ 6,702,463	\$ 3,640,779	\$ 16,047,563	(\$ 2,676,725)	\$ 6,247,481	\$ -	(\$ 321,563)	\$ 56,706,504	\$ 4,998,286	\$ 61,704,790

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

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 4,439,454	\$ 4,286,288
Adjustments			
Adjustments to reconcile profit (loss)			
Net (gain) loss on financial assets at fair value through profit or loss	6(2)(23)(25)	(216,570)	160,975
Net loss (gain) on financial liabilities at fair value through profit or loss	6(14)(25)	279	(2,528)
Provision for decline in value of inventories	6(6)	105,770	88,300
Impairment loss determined in accordance with IFRS 9	12(2)	17,930	40,039
Interest income	6(24)	(316,546)	(219,986)
Dividend income	6(24)	(616,897)	(553,818)
Interest expense	6(9)(26)	263,848	222,540
Depreciation and amortization	6(8)(9)(10)(27)	1,939,799	1,528,540
Gain on disposal of investments	6(25)	(34,063)	(631)
Gain on remeasurement	6(7)(25)	-	(46,515)
Loss on disposal of property, plant and equipment	6(25)	22,635	29,086
Impairment loss (reversal of impairment loss) determined in accordance with IFRS 9	6(8)(25)	20,625	(32,335)
Share of profit of associates and joint ventures accounted for under the equity method	6(7)	(30,410)	(114,143)
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current		66,721	106,333
Contract assets - current		(170,842)	(363,976)
Notes receivable		(54,315)	(40,235)
Notes receivable - related parties		1,184	(88,707)
Accounts receivable		483,658	(211,181)
Accounts receivable - related parties		8,979	(82,463)
Other receivables		(137,271)	233,001
Other receivables - related parties		(10,390)	(36,135)
Inventories		1,428,558	(729,564)
Prepayments		(232,705)	(94,809)
Other current assets		111,502	196,526
Changes in operating liabilities			
Contract liabilities - current		101,712	170,447
Notes payable		211,556	(54,021)
Notes payable - related parties		(55,698)	136,981
Accounts payable		(705,821)	266,296
Accounts payable - related parties		38,522	(33,031)
Other payables		109,307	155,244
Provisions for liabilities		15,388	(34,934)
Other current liabilities		(108,809)	31,178
Other non-current liabilities		(105,252)	(50,020)
Cash inflow generated from operations		6,591,838	4,862,742
Interest received	6(24)	316,546	219,986
Dividend received from investments accounted for under equity method		144,756	443,772
Interest paid	6(26)	(172,139)	(222,540)
Income tax paid	6(28)	(952,459)	(975,268)
Net cash flows from operating activities		<u>5,928,542</u>	<u>4,328,692</u>

(Continued)

TECO ELECTRIC & MACHINERY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in current financial assets at fair value through other comprehensive income		(\$ 183,766)	(\$ 424,082)
Decrease in bond investments without active market		-	3,794,570
Increase in pledged demand and fixed deposits	6(1) and 8	(30,117)	(201,823)
Increase in non-current financial assets at fair value through profit or loss		65,845	-
Increase in non-current financial assets at fair value through other comprehensive income		(63,852)	(76,384)
Proceeds from disposal of non-current financial assets at fair value through other comprehensive income		451,556	184,067
Increase in non-current financial assets at amortised cost	6(4)	(194,531)	(182,725)
Increase in investments accounted for under the equity method		(35,054)	(149,083)
Proceeds from disposal of investments accounted for under the equity method		93,349	-
Acquisition of property, plant and equipment	6(8)(30)	(1,032,766)	(1,190,647)
Proceeds from disposal of property, plant and equipment		72,550	90,173
Acquisition of intangible assets		(70,840)	(242,354)
Increase in other non-current assets		(88,908)	(450,185)
Net cash inflow (outflow) on acquisitions of subsidiaries	6(30)	9,940	(434,442)
Dividends received		616,897	287,870
Net cash flows (used in) from investing activities		<u>(389,697)</u>	<u>1,004,955</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in short-term loans	6(31)	(136,723)	(121,466)
(Decrease) increase in long-term loans	6(31)	(566,094)	311,897
Lease liabilities paid	6(9)(31)	(553,993)	-
Treasury shares purchased	6(19)	(675,840)	-
Cash dividends paid	6(21)	(1,770,924)	(1,722,316)
Cash dividends paid to non-controlling interest		(155,871)	(156,477)
Proceeds from capital increase of non-controlling interests	6(32)	226,786	-
Net cash flows used in financing activities		<u>(3,632,659)</u>	<u>(1,688,362)</u>
Exchange rate effect		(330,381)	(239,049)
Net increase in cash and cash equivalents		1,575,805	3,406,236
Cash and cash equivalents at beginning of year		<u>17,535,566</u>	<u>14,129,330</u>
Cash and cash equivalents at end of year		<u>\$ 19,111,371</u>	<u>\$ 17,535,566</u>

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

TECO Electric & Machinery Co., Ltd.

Distribution of 2019 Profits

(In NT \$)

Item	Amount
Accumulated undistributed profit as of the beginning of the period	13,106,855,542
Add: Impact of retrospective application of IFRS 16	(269,228,133)
Accumulated undistributed earnings after adjustment	12,837,627,409
Less: Retained earnings after adjustment in 2019 (Note 1)	(11,780,934)
Add: Net Profit after tax in 2019	3,221,716,871
Less: Legal Reserve	(322,171,687)
Total distributable earnings	15,725,391,659
Profit available for distribution for the period:	
Profit-sharing to shareholders	1,948,015,957
(Dividend per share)	0.99
Undistributed profit as of the end of 2018	13,777,375,702
Note :	
1. Including a. Remeasurement of actuarial gains and losses of defined benefit plan, (NT\$77,598,841) b. Disposal of financial assets at fair value through other comprehensive income NT\$65,817,907	

Notes:

1. Dividend per share in 2019 is NT\$0.99 and all dividends distributed this year shall be cash dividend.
2. The profit distributed this period will be distributed from the distributable earnings received in 2019 and from the accumulated undistributed profits from previous years where there is a shortfall.
3. In the event of any change to the total number of outstanding shares as a result of transfer, conversion or deregistration of treasury shares, exercise of employees' stock option and other factors, it is proposed that the Shareholders' Meeting grants the Chairman full authority to handle all relevant matters subject to the fixed payout rate mentioned above.

TECO Electric & Machinery Co., Ltd.
Comparison between the Revision and the Original of
“Procedures for Lending of Capital to Other Parties”

Proposed Revision	Current Clauses	Note
<p>Article 1: Source of law These Procedures are promulgated pursuant to Article 36-1 of the Securities and Exchange Act (hereinafter, “The Act”), and the “Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies”.</p>	<p>Article 1 These Procedures are promulgated pursuant to the “Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies”.</p>	<p>Clearly establishing the source of law for Procedures for Lending of Capital to Other Parties.</p>
<p>Article 2 Recipients of the Company’s loaning funds: A. The Company’s affiliates with short accommodations needs listed below: 1. Subsidiaries in which the Company directly owns more than 50% of its common shares; 2. Companies in which the Company and its subsidiaries together own more than 50% of its common shares; B. Companies or firms with business dealings with the Company.</p>	<p>Article 2 Recipients of the Company’s loaning funds: A. The Company’s affiliates with short accommodations needs listed below: 1. Subsidiaries in which the Company directly owns more than 50% of its common shares; 2. Companies in which the Company and its subsidiaries together own more than 50% of its common shares; B. Companies with business dealings with the Company. C. Supporting factories founded by the Company’s employees. D. Other companies approved by the Board of Directors.</p>	<p>Updated in accordance with The Company Act, and also for consistency purposes.</p>
	<p>Article 3 Reasons and necessity for loaning funds to others: A. Loan funds to affiliates and companies with business dealings, according to the regulation of Article 5 Item A. B. Loan funds to supporting factories founded by the company’s employees, according to the regulation of Article 5 Item B. C. Loan funds to other companies approved by the Board of Directors, according to the regulation of Article 5 Item A.</p>	<p>Article removed due to deletion of item D in Article 2.</p>
<p>Article 3 Limits on lending of capital to others: A. Total amount of loans shall not exceed 10% of the company’s book value in the most recent financial statement. B. Loan limits by the company to a</p>	<p>Article 4 Limits on lending of capital to others: A. Total amount of loans shall not exceed 10% of the company’s book value in the most recent financial statement.</p>	<p>Article Numbering. Amended in consistency with Article 2. Amended in accordance to relevant laws and</p>

<p>single enterprise cumulative amount shall not exceed 3% of the company's book value as stated in the most recent financial statement.</p> <p>Overseas subsidiaries, in which the company directly or indirectly holds 100% of its voting shares, are free from the restrictions of Item A and Item B - 1, however it is still necessary to set the quota for lending of capital and the deadline according to article 4, Item B-3.</p>	<p>B. Loan limits by the company to a single enterprise are listed below:</p> <p>1- Conforming to Items A, B, and D of Article 2: Cumulative amount of loans to a single enterprise shall not exceed 3% of the company's book value as stated in the most recent financial statement.</p> <p>2- Conforming to Item C of Article 2: "Measures for assisting supporting factories founded by the company's veteran quality employees" shall be implemented.</p> <p>Overseas subsidiaries, in which the company directly or indirectly holds 100% of its voting shares, are free from the restrictions of Item A and Item B - 1, however it is still necessary to set the quota for lending of capital and the deadline according to article 5, Item C (3).</p>	<p>regulations.</p>
<p>Article 4 Proceeding for loaning funds to others is listed below:</p> <p>A. Prospective recipients conforming to Items A, B, and D of Article 2: Loan application shall be drafted on the "Application Form for Loans and Related Affairs of Teco Electric and Machinery Co., Ltd." (appendix 1) by the financial unit, and ratified by the Chairman before being submitted to the Board of Directors for approval.</p> <p>B. Regulation for loans:</p> <p>1. Application procedure:</p> <p>(1) (Omitted)</p> <p>(2) (Omitted)</p> <p>(3) The opinions of independent directors should be taken into account in loaning of funds to others; their agreement / opposition and reasoning shall be included in the record of the Board of Directors.</p>	<p>Article 5 Proceeding for loaning funds to others is listed below:</p> <p>A. Conforming to Items A, B, and D of Article 2: Loan application shall be drafted on the "Application Form for Loans and Related Affairs of Teco Electric and Machinery Co., Ltd." (appendix 1) by the financial unit, and ratified by the Chairman before being submitted to the Board of Directors for approval.</p> <p>B. Conforming to Item C of Article 2: Loans shall be conducted according to the "Measures for assisting supporting factories founded by the company's veteran quality employees" approved by the Board of Directors.</p> <p>C. Regulation for loans:</p> <p>1. Application procedure:</p> <p>(1) (Omitted)</p> <p>(2) (Omitted)</p> <p>(3) In case that the company has instituted independent directors, the</p>	<p>Article Numbering. Item removed due to deletion of item C in Article 2. Amended in accordance to relevant laws and regulations. Removed supervisors due to the establishment of the Company's independent directors.</p>

<p>2. Mortgage and guarantee:</p> <p>(1) Borrowers conforming to Article 2 recipients shall provide promissory notes bearing similar value, or chattel, or real estates for mortgage. The company will accept guarantee of individuals or companies in lieu of the aforementioned collateral for debt claims, at the discretion of the Board of Directors, based on the aforementioned credit investigation. In the case of corporate guarantor, attention should be made about whether the guarantee is allowed by its corporate charter.</p> <p>(2) Loans to borrowers conforming to Item C of Article 2 shall be made according to the regulation of “measures for assisting supporting factories founded by quality veteran employees” approved by the Board of Directors.</p> <p>3. Terms of loaning funds: Loans to parties conforming to Items A of Article 2 shall bear terms under one year or one business cycle, whichever longer, in principle. These restrictions shall not apply to inter-company loans of funds between overseas companies in which the Company holds, directly or indirectly, 100% of the voting shares, nor to loans of fund to the Company by any overseas company in which the Company holds. However, the Company shall still prescribe limits on the aggregate amount</p>	<p>opinions of independent directors should be taken into account in loaning of funds to others; their agreement / opposition and reasoning shall be included in the record of the Board of Directors.</p> <p>2. Mortgage and guarantee:</p> <p>(1) Borrowers conforming to Items A, B, and D of Article 2 shall provide promissory notes bearing similar value, or chattel, or real estates for mortgage. The company will accept guarantee of individuals or companies in lieu of the aforementioned collateral for debt claims, at the discretion of the Board of Directors, based on the aforementioned credit investigation. In the case of corporate guarantor, attention should be made about whether the guarantee is allowed by its corporate charter.</p> <p>(2) Loans to borrowers conforming to Item C of Article 2 shall be made according to the regulation of “measures for assisting supporting factories founded by quality veteran employees” approved by the Board of Directors.</p> <p>3. Terms of loaning funds:</p> <p>(1) Loans to parties</p>	
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<p>of such loans and on the amount of such loans permitted to a single borrower, and shall specify limits on the durations of such loans.</p> <p>4. Interest rates: Interest rate for loans shall not be lower than the maximum interest rates on short-term loans borrowed by the company from financial institutions and are subject to flexible monthly adjustment. Interest payment shall be made once a month in principle but can be adjusted under special situation with the Board of Directors' approval.</p> <p>5. Repayment methods:</p> <p>(1) Borrowers shall pay off principal and interest upon maturity of the loans, failure to do so will result in the company taking action against its collateral or guarantor in an effort to collect the debt.</p> <p>(2) Repayment by borrowers conforming to Item 3 of Article 2 shall be made according to the regulation of "measures for assisting supporting factories founded by quality veteran employees" approved by the Board of Directors.</p> <p>6. (Omitted)</p> <p>7. (Omitted)</p>	<p>conforming to Items A and D of Article 2 shall bear terms under one year or one business cycle, whichever longer, in principle.</p> <p>(2) Loans to parties conforming to Item B of Article 2 shall bear terms of one year in principle.</p> <p>(3) Loans to parties conforming to Item C of Article 2 shall be set according to the "measures for assisting supporting factories founded by quality veteran employees" approved by the board of directors. Each lending shall bear terms under one year.</p> <p>4. Interest rates:</p> <p>(1) For borrowers conforming to Items A, B, and D of Article 2, interest rate for loans shall not be lower than the maximum interest rates on short-term loans borrowed by the company from financial institutions and are subject to flexible monthly adjustment. Interest payment shall be made once a month in principle but can be adjusted under special situation with the Board of Directors' approval.</p> <p>(2) Interest rates on loans to parties conforming to item C of Article 2 shall be set according to "measures for assisting supporting factories</p>	
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	<p>founded by the company's quality veteran employees" approved by the Board of Directors.</p> <p>5. Repayment methods:</p> <p>(1) Borrowers conforming to items A, B, and D of Article 2 shall pay off principal and interest upon maturity of the loans and, should they be unable to do so, present request for extension by the approval of the Board of Directors 30 business days before the maturity date. The extension can be made only once and shall not exceed three months or the company will take action against its collateral or guarantor in an effort to collect the debt.</p> <p>(2) Repayment by borrowers conforming to Item 3 of Article 2 shall be made according to the regulation of "measures for assisting supporting factories founded by quality veteran employees" approved by the Board of Directors.</p> <p>6. (Omitted)</p> <p>7. (Omitted)</p>	
<p>Article 5 Evaluation standards for lending of capital:</p> <p>A. (Omitted)</p> <p>B. (Omitted)</p> <p>C. (Omitted)</p> <p>D. In addition to the regulation of article 3, authorized quota for loans extended by subsidiaries</p>	<p>Article 6 Evaluation standards for lending of capital:</p> <p>A. (Omitted)</p> <p>B. (Omitted)</p> <p>C. (Omitted)</p> <p>D. In addition to the regulation of article 4, authorized quota for loans extended by</p>	<p>Article Numbering. Amended in accordance to relevant laws and regulations. Replaced supervisors with the Company's audit committee.</p>

<p>to a single enterprise cannot exceed 10% of their book values in the latest financial statement.</p> <p>E. The company's internal auditors shall check the Operating Procedures for Lending of Capital to Other Parties, as well as its execution, at least every quarter, and record the finding, in addition to informing the audit committee in written form the discovery of major violations.</p> <p>F. In case borrowing parties are not allowed by the Operating Procedures for Lending of Capital or outstanding amount of loaned funds exceeds the limit due to unexpected change, the auditing unit shall administer the financial unit to collect the loans by a deadline and submit an improvement plan to the audit committee, in addition to completing the plan on schedule.</p> <p>G. (Omitted)</p>	<p>subsidiaries to a single enterprise cannot exceed 10% of their book values in the latest financial statement.</p> <p>E. The company's internal auditors shall check the Operating Procedures for Lending of Capital to Other Parties, as well as its execution, at least every quarter, and record the finding, in addition to informing supervisors in written form the discovery of major violations.</p> <p>F. In case borrowing parties are not allowed by the regulation or outstanding amount of loaned funds exceeds the limit due to unexpected change, the auditing unit shall administer the financial unit to collect the loans by a deadline and submit an improvement plan to the Supervisors, in addition to completing the plan on schedule.</p> <p>G. (Omitted)</p>	
<p>Article 6 Information Publication</p> <p>A. The Company shall post the outstanding amount and balance of loans and that of its subsidiaries on the Market Observation Post System by the 10th day of each month.</p> <p>B. The Company and its subsidiaries shall post the lending information on the Market Observation Post System in two days whenever it reaches the following standards, the date of actual occurrence specified by the Operating Procedures for Lending of Capital to Other Parties refers to date of contract signing, date of payment, dates of boards of directors resolutions, or other date that can confirm the counterparty and monetary amount of the loan of funds or endorsement/guarantee, whichever date is earlier: (Omitted below)</p> <p>C. (Omitted) D. (Omitted)</p>	<p>Article 7 Information Publication</p> <p>A. The Company shall post the outstanding amount of loans and that of its subsidiaries on the Market Observation Post System by the 10th day of each month.</p> <p>B. The Company and its subsidiaries shall post the lending information on the Market Observation Post System in two days whenever it reaches the following standards, the date of actual occurrence specified by the rule refers to the earliest date of the signing of transaction contract, payment, the resolution of the board of directors, or other dates ascertain transaction object and transaction value: (Omitted below)</p> <p>C. (Omitted) D. (Omitted)</p>	<p>Article Numbering. Amended in accordance to relevant laws and regulations. Replaced supervisors with the Company's audit committee. Updated wording in consistency with consistency with relevant laws and regulations.</p>
<p>Article 7 Penalties</p>	<p>Article 8 Managers and employees</p>	<p>Article Numbering and Heading.</p>

<p>Managers and employees responsible for handling the procedures will receive penalties if procedures or related matters are violated, according to the employee working rules.</p>	<p>responsible for handling the procedures will receive penalties if procedures or related matters are violated, according to the employee working rules.</p>	
<p>Article 8 Control procedure for lending of capital by subsidiaries to others:</p> <p>A. The company’s subsidiaries shall also formulate their “guideline for lending of capital to others” in accordance with this Operating Procedures to regulate their loan procedures. Calculation shall be based on their own book values.</p> <p>B. (Omitted)</p> <p>C. The subsidiaries’ internal auditors shall check the operating procedures for lending of capital to others, as well as its execution, at least every quarter and record the finding, in addition to informing the Company’s auditing unit, in written form, the discovery of major violations. The Company’s auditing unit shall also pass the written information to the audit committee.</p> <p>D. (Omitted)</p>	<p>Article 9 Control procedure for lending of capital by subsidiaries to others:</p> <p>A. The company’s subsidiaries shall also formulate their “guideline for lending of capital to others” to regulate their loan procedures. Calculation shall be based on their own book values.</p> <p>B. (Omitted)</p> <p>C. The subsidiaries’ internal auditors shall check the operating procedures for lending of capital to others, as well as its execution, at least every quarter and record the finding, in addition to informing the Company’s auditing unit, in written form, the discovery of major violations. The Company’s auditing unit shall also pass the written information to Supervisors.</p> <p>D. (Omitted)</p>	<p>Article Numbering. Replaced supervisors with the Company’s audit committee. Updated for consistency purposes.</p>
<p>Article 9 Other Businesses</p> <p>A. The Procedures will be put into practice after the approval by the Board of Directors, submission to the audit committee, and ratification by the Shareholders’ Meeting.</p> <p>B. The Board of Directors should take the opinions of independent directors into account when discussing the Operating Procedures and include their opinions and reasons for support or opposition in the record of the Board of Directors.</p> <p>C. If the approval of one-half or more of all audit committee members is not obtained, the Operational Procedures may be implemented if approved by two-thirds or more of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.</p>	<p>Article 10 The Procedures will be put into practice after the approval by the Board of Directors, submission to supervisors, and ratification by the Shareholders’ Meeting. If the Board Director(s) express contrary opinions on record or in the form of written statement, the Company shall pass their opinions to supervisors and Shareholders’ Meeting for discussion. The same process also applies to revision of the Procedures. If the Company has instituted independent directors, the Board of Directors should take the opinions of independent directors into account when discussing the Operating Procedures and include their opinions and reasons for support or opposition in the record of the Board of Directors.</p>	<p>Article Numbering and Heading. Amended in accordance to Article 8 of the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies”. Replaced supervisors with the Company’s audit committee. Updated wording in consistency with consistency with relevant laws and regulations.</p>

<p>D. The terms "all audit committee members" and "all directors" in the preceding paragraph shall be counted as the actual number of persons currently holding those positions.</p>		
<p>Article 10 (Omitted) The seventh amendment to the Procedures shall be implemented on May 11, 2013. The eighth amendment to the Procedures shall be implemented on May 11, 2013.</p>	<p>Article 10 (Omitted) The seventh amendment to the Procedures shall be implemented on May 11, 2013.</p>	<p>Amended for consistency and added entry.</p>

TECO Electric & Machinery Co., Ltd.
Comparison between the Revision and the Original of
“Procedures for Endorsement and Guarantee”

Proposed Revision	Current Clauses	Note
<p>Article 1 Source of Law These Procedures for Endorsement and Guarantee are promulgated pursuant to the “Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies”, in order to intensify the management of endorsement and guarantee, lower management risk, and uphold shareholders’ interests.</p>	<p>Article 1 These Procedures are promulgated pursuant to the “Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies”, in order to intensify the management of endorsement and guarantee, lower management risk, and uphold shareholders’ interest,</p>	<p>Clearly establishing the source of law for Procedures for Lending of Capital to Other Parties.</p>
<p>Article 2 Endorsement and Guarantee refer to the following items: A. (omitted) B. (omitted) C. Other endorsements/guarantees, meaning endorsements or guarantees beyond the scope of the above two subparagraphs. Any creation by the Company of a pledge or mortgage on its chattel or real property as security for the loans of another company shall also comply with these Procedures.</p>	<p>Article 2 Endorsement and Guarantee refer to the following items: D. (omitted) E. (omitted) F. Other endorsements/guarantees, meaning endorsements or guarantees beyond the scope of the above two subparagraphs. Any creation by the Company of a pledge or mortgage on its chattel or real property as security for the loans of another company shall also comply with these procedures</p>	<p>Updated to reflect consistency and clarity.</p>
<p>Article 5 Deadline and Contents for Mandatory Information Publication A. In addition to posting the previous month’s outstanding amount of endorsement and guarantee by the Company and its subsidiaries by the 10th day of each month, the Company shall also post information on the outstanding amount of endorsement and guarantee within two days on the Market Observation Post System whenever it meets one of the following standards, the date of actual occurrence specified by the Procedure refers to the earliest date of contract signing, date of payment, dates of boards of directors resolutions, or other date that can confirm the counterparty and monetary amount of the endorsement/guarantee, whichever date is earlier. 1. The total amount of</p>	<p>Article 5 Deadline and Contents for Mandatory Information Publication A. In addition to posting the previous month’s outstanding amount of endorsement and guarantee by the Company and its subsidiaries by the 10th day of each month, the Company shall also post information on the outstanding amount of endorsement and guarantee within two days on the Market Observation Post System whenever it meets one of the following standards , the date of actual occurrence specified by the rule refers to the earliest date of the signing of transaction contract, payment, the resolution of the board of directors, or other dates ascertain transaction object and transaction value. 1. The total amount of endorsement and</p>	<p>Amended in accordance to Article 7 and 25 of the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies”.</p>

<p>endorsement/guarantee from the Company and its subsidiaries exceeds 50% of the Company's book value in its most recent financial statement;</p> <p>2. The amount of endorsement and guarantee for a single enterprise from the Company and its subsidiaries exceeds 20% of the Company's book value in its most recent financial statement;</p> <p>3. The balance of endorsements and guarantees by the Company and its subsidiaries for a single enterprise reaches NT\$10 million or more and the aggregate amount of all endorsements/guarantees for, carrying value of equity method investment in, and balance of loans to, such enterprise reaches 30% or more of public company's net worth as stated in its latest financial statement.</p> <p>4. (Omitted)</p> <p>B. (Omitted)</p> <p>C. (Omitted)</p>	<p>guarantee from the Company and its subsidiaries exceeds 50% of the Company's book value in its most recent financial statement;</p> <p>2. The amount of endorsement and guarantee for a single enterprise from the Company and its subsidiaries exceeds 20% of the Company's book value in its most recent financial statement;</p> <p>3. The amount of endorsement and guarantee for a single enterprise from the Company and its subsidiaries exceeds NT\$10 million, and the value of endorsement and guarantee, long-term investment and loans for the enterprise combined exceeds 30% of the Company's book value in its most recent financial statement.</p> <p>4. (Omitted)</p> <p>B. (Omitted)</p> <p>C. (Omitted)</p>	
<p>Article 6 Guidelines for Endorsement and Guarantee</p> <p>A. The Company's internal auditors should check the Procedures for Endorsement and Guarantee, as well as its execution, at least every quarter and record the finding, in addition to informing the audit committee in written form, the discovery of major violations.</p> <p>B. The Board of Directors' approval is necessary for the Company to overcome the limitations set by the Procedures in providing endorsement and guarantee for cases arising from business needs and meeting the conditions set by the Procedures, with half of the Board of Directors agreeing to provide personal guarantee for the possible loss from the</p>	<p>Article 6 Guidelines for Endorsement and Guarantee</p> <p>A. The Company's internal auditors should check the Procedures for Endorsement and Guarantee, as well as its execution, at least every quarter and record the finding, in addition to informing supervisors in written form, the discovery of major violations.</p> <p>B. The Board of Directors' approval is necessary for the Company to overcome the limitations set by the procedures in providing endorsement and guarantee for cases arising from business needs and meeting the conditions set by the procedures, with half of the Board of Directors agreeing to provide personal guarantee</p>	<p>Replaced supervisors with the Company's audit committee. Removed conditional clause regarding independent directors. Amended in accordance to consistency in relevant rules and regulations. Removed duplicate phrase error in English version.</p>

<p>exceptional treatment. The Board of Directors shall also revise the Procedures before sending the revision to Shareholders' Meeting for affirmation. If the Shareholders' Meeting disapproves such cases, the Company shall formulate plans to eradicate the excessive portion by a specific deadline. The opinions of independent directors should be taken into account by the Board of Directors when discussing the cases, and their agreement / opposition and reasoning, shall be included in the record of the Board of Directors.</p> <p>C. If qualified endorsement recipients meeting the conditions set in Article 4 become disqualified later on or the value of endorsement and guarantee exceeds the limitations due to changes in the calculation basis, the endorsement and guarantee for the recipients or the excessive amount should be erased entirely upon the contract expiration or by a deadline set by an improvement plan, which shall be sent to the audit committee, complete the improvement plan on schedule, and reported to the Board of Directors.</p>	<p>for the possible loss from the exceptional treatment. The Board of Directors shall also revise the procedures before sending the revision to Shareholders' Meeting for affirmation. If the Shareholders' Meeting disapproves such cases, the Company shall formulate plans to eradicate the excessive portion by a specific deadline. If the company has instituted independent directors, the opinions of independent directors should be taken into account by the Board of Directors when discussing the cases, and their agreement / opposition and reasoning, shall be included in the record of the Board of Directors.</p> <p>C. If qualified endorsement recipients meeting the conditions set in Article 4 become disqualified later on or the value of endorsement and guarantee exceeds the limitations due to changes in the calculation basis, the endorsement and guarantee for the recipients or the excessive amount should be erased entirely upon the contract expiration or by a deadline set by an improvement plan, which shall be sent to supervisors, complete the improvement plan on schedule, and report to the Board of Directors and reported to the Board of Directors.</p>	
<p>Article 8 Review procedures and hierarchy of decision-making authority and delegation thereof</p> <p>A. The Board of Directors authorizes the Chairman to make decision on endorsement and guarantee within the quota set in Article 4 and not over NTD 100 Million, for which the unit in charge shall submit guarantee application, along with risk evaluation, to the Chairman for inspection and stamping of seal or issuance of negotiable instruments, before</p>	<p>Article 8 The Board of Directors authorizes the Chairman to make decision on endorsement and guarantee within the quota set in Article 4, for which the unit in charge shall submit guarantee application, along with risk evaluation, to the Chairman for inspection and stamping of seal or issuance of negotiable instruments, before sending it to the Board of Directors for affirmation. The provision of guarantee exceeding the set quota needs the approval of the Board of Directors or, in cases of urgency, the approval of the</p>	<p>Clarify authorized amount and in accordance to Article 6-1 of the "Regulations Governing the Exercise of Powers by Audit Committees of Public Companies" requiring audit committee approval.</p>

<p>sending it to the Board of Directors for affirmation. The provision of guarantee exceeding the set quota needs the approval of the Board of Directors or, in cases of urgency, the approval of the standing Board of Directors before subsequent submission to and ratification by the next board of directors' meeting; Amounts over 100 Million and not over 300 Million should be approved by the executive director meeting, and subsequent submission to and ratification by the next board of directors' meeting; Amounts exceeding 300 Million should be approved by the audit committee and board of directors. In three of the above cases, the manner of handling and related affairs shall be reported on the Shareholders' Meeting.</p> <p>B. (Omitted)</p>	<p>standing Board of Directors before sending it to the Board of Directors for affirmation later on. In both cases, the manner of handling and related affairs shall be reported on the Shareholders' Meeting. Approval of the company's board of directors is necessary for the extension of endorsement and guarantee by subsidiaries, in which the company owns, directly and indirectly, more than 90% of shares with voting right, according to item 2, article 3. The requirement, however, is not applicable to the extension of endorsement and guarantee among subsidiaries in which the company owns 100% of shares with voting right, directly and indirectly.</p>	
<p>Article 9 Control Procedure for the Provision of Endorsement and Guarantee by subsidiaries</p> <p>A. (Omitted) B. (Omitted) C. The subsidiaries' internal auditors shall check the Procedures for Endorsement and Guarantee, as well as its execution, at least every quarter and record the finding, in addition to informing the Company's auditing unit in written form the discovery of major violations. The Company shall also submit the information in written form to the audit committee.</p> <p>D. (Omitted)</p>	<p>Article 9 Control Procedure for the Provision of Endorsement and Guarantee by subsidiaries</p> <p>D. (Omitted) E. (Omitted) F. The subsidiaries' internal auditors shall check the Procedures for Endorsement and Guarantee, as well as its execution, at least every quarter and record the finding, in addition to informing the Company's auditing unit in written form the discovery of major violations. The Company shall also submit the information in written form to supervisors.</p> <p>G. D. (Omitted)</p>	<p>Replaced supervisors with the Company's audit committee.</p>
<p>Article 12 Penalties Managers and employees responsible for handling the Procedures will be penalized if procedures or related matters are violated, according to the employee working rules.</p>	<p>Article 12 Managers and employees responsible for handling the procedures will be penalized if procedures or related matters are violated, according to the employee working rules.</p>	<p>Article heading and clarity.</p>
<p>Article 13 Other Businesses</p> <p>A. After the Board of Directors approval, the Procedures shall be sent to the audit committee</p>	<p>Article 13 After the Board of Directors approval, the procedures shall be sent to supervisors for reference and submitted to the Shareholders'</p>	<p>Article heading and clarity. Amended according to Article 8 of "Regulations</p>

<p>for reference and submitted to the Shareholders' Meeting for approval before being put into practice.</p> <p>B. The Board of Directors should take the opinions of independent directors into account when discussing the Operating Procedures and include their opinions and reasons for support or opposition in the record of the Board of Directors.</p> <p>C. If the approval of one-half or more of all audit committee members as required in the preceding paragraph is not obtained, the Operational Procedures may be implemented if approved by two-thirds or more of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.</p> <p>D. The terms "all audit committee members" and "all directors" in the preceding paragraph shall be counted as the actual number of persons currently holding those positions.</p>	<p>Meeting for approval before being put into practice. Revision of the procedures shall follow the similar process. If the Company has instituted independent directors, the Board of Directors should take the opinions of independent directors into account when discussing the Operating Procedures and include their opinions and reasons for support or opposition in the record of the Board of Directors.</p>	<p>Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies".</p>
<p>Article 14 Amendment and Approval Dates The Procedures were approved by the Shareholders' Meeting on June 6, 2003. The first amendment to the Procedures was implemented on Jun. 19, 2009. The second amendment to the Procedures was implemented on Jun. 18, 2010. The third amendment to the Procedures shall be implemented on June 21, 2013. The fourth amendment to the Procedures shall be implemented on May 11, 2013.</p>	<p>Article 14 The Procedures were approved by the Shareholders' Meeting on June 6, 2003. The first amendment was implemented on Jun. 19, 2009. The second amendment was implemented on Jun. 18, 2010. The third amendment shall be implemented on June 21, 2013.</p>	<p>Amended for consistency and added entry.</p>

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

Proposed Revision	Current Clauses	Note
<p>Article 6-1 The rights and obligations and other important issuance terms of Class A preferred shares of the Company are as follows:</p> <ol style="list-style-type: none"> 1. The dividend for preferred shares is limited to an annual rate of 5%, calculated by the issuance price per share, and the dividend may be one-time distributed in cash every year. The board or the chairman empowered by the board will determine the base date to pay the distributable dividends of the previous year. The distribution amount of dividends in the year of issuance and recovery is calculated by the actual issuance days of the current year 2. The Company has discretion over the dividend distribution of preferred shares. The Company may decide not to distribute dividends of preferred shares if there are no earnings in the annual accounts, or the earnings are insufficient to distribute dividends of preferred shares, or the distribution of dividends of preferred shares will cause the capital adequacy ratio to be lower than the minimum requirement by laws or competent authority or other necessary consideration. The shareholders of preferred shares may not object to the board's decision to not distribute dividends. The preferred shares issued are of the non-accumulative type, the undistributed dividends or the deficit of dividends will not be accumulated for deferred payment in the years with earnings in the future. 3. The dividends prescribed in Subparagraph 1 of this Paragraph, shareholders of preferred shares may not be a part of the cash and equity capital of earnings and 	<p>(None)</p>	<p>This is a new article. To Specify the rights and obligations and other important terms of issuance associated with Class A Preferred Shares.</p>

<p>additional paid-in capital of ordinary shares.</p> <ol style="list-style-type: none"> 4. Preferred shares may not be converted to ordinary shares. 5. The distribution priority for shareholders of preferred shares on the residual property of the Company is ahead of shareholders of ordinary shares and equal to the preferential order of shareholders of all preferred shares issued by the Company, and the preferential order is only lower than general creditors. The repayment shall be capped at respective issue amount of Preferred Shares A upon liquidation. 6. Shareholders of Preferred Shares A have voting rights or suffrage equal to that of the common stock shareholder. 7. The Preferred Shares A is perpetual but may be redeemed in whole or in part at issue price no earlier than the day following the fifth anniversary of the issuance date. Shareholders do not have the right to request the company to redeem preferred shares. Holders of the outstanding Class A Preferred Shares are entitled to receive declared dividends based on the actual days in the redemption year up to the date of redemption should the Company decide to declare dividend for the redemption year. 8. If any Class A preferred shares remains outstanding, except to make up for losses, share premium of Class A Preferred Shares should not be capitalized into share capital. <p>The Board is authorized to determine the name, issuance date and specific issuance terms upon actual issuance, after considering the situation of capital market and investors' willingness for subscription, in accordance with Articles of Incorporation and related laws and regulations.</p>		
<p>Article 6-2 The rights, obligations and other important issuance terms of Class B Preferred Shares are as follows:</p> <ol style="list-style-type: none"> 1. The dividend rate of Class B 	(None)	This is a new article. To Specify the rights and obligations and

<p>Preferred Shares is capped at 5% per annum on the issue price. Dividends are paid annually in cash in one lump sum. The Chairman is authorized by the Board of Directors or a Board Resolution to set the ex-dividend date and the amount of dividends to be paid for the previous fiscal year. In the year of issuance and redemption, the distribution of the payable dividends shall be calculated proportionally based on the actual number of days the Class B Preferred Shares remained outstanding in that year.</p> <p>2. The Company has sole discretion on the distribution of Class B Preferred Share dividends. If there is no earning or insufficient earning for distributing dividends of Class A Preferred Shares in the fiscal year, or the Company has other necessary considerations, the Board may decide not to distribute Class B Preferred Share dividends by Board Resolution, and it will not be deemed as an event of default. Class B Preferred Shares are noncumulative shares. If the Company decide not to distribute preferred share dividends or to distribute insufficient dividend, the undistributed dividends or shortfalls in dividends distributed shall not be cumulative and shall cease to accrue and be payable, therefore no deferred payment will be paid in subsequent years where there are earnings.</p> <p>3. Except for the dividend prescribed in Subparagraph 1 of this Paragraph, Class B Preferred Shareholders are not entitled to participate in the distribution of cash or share dividends with regard of the common shares derived from earnings or capital reserves.</p> <p>4. Class B Preferred Shares may not be converted within 3 year after the date of issuance. The Board is authorized to set the convertible period in the actual</p>		<p>other important terms of issuance associated with Class B Preferred Shares.</p>
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<p>issuance terms. Holders of convertible Preferred Shares may, pursuant to the issuance terms, apply for conversion of its shareholding (in whole or in part) to common shares pursuant to the conversion ratio set out in the issuance terms (ratio is 1:1). Upon conversion, the converted shares shall have the same rights and obligations as common shares. Class B Preferred shares that are converted into common shares before the ex-dividend date shall participate in the distribution of profit and capital reserve to holders of common shares, and may not participate in the distribution of Class B Preferred Share dividends that year. Class B Preferred Shares that are converted into common shares after the ex-dividend date shall participate in the distribution of Class B Preferred Share dividends that year, and may not participate in the distribution of profit and capital reserve to holders of common shares. In principle, holders of the converted shares should not participate in both the distribution of preferred share dividends and common share dividends during the same year for the same converted shares.</p> <p>5. Upon any voluntary or involuntary liquidation, dissolution or winding-up of the Company, holders of outstanding Class B preferred shares are entitled to receive residual assets of the Company available for distribution to stockholders, before any distribution of assets is made to holders of the common shares. Class B preferred shares and other classes of preferred shares of the Company shall rank pari passu without any preference among themselves and their repayment shall be capped at their respective issue amount.</p> <p>6. Class B Preferred Share Shareholders are entitled to the same voting rights and the right to be elected as common share</p>		
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<p>shareholders during general shareholders' meeting.</p> <p>7. Class B Preferred Shares are perpetual preferred shares. Holders of Class B Preferred Shares have no right to request redemption of such shares by the Company. However, the Company may redeem Class B Preferred Shares in whole or in part at the actual issue price after the day following the fifth anniversary of issuing. The rights and obligations of the remaining and outstanding Class B Preferred Shares as described in the preceding paragraphs will remain unchanged. Holders of the outstanding Class B Preferred Shares are entitled to receive declared dividends based on the actual days in the redemption year up to the date of redemption should the Company decide to declare dividend for the redemption year.</p> <p>8. If any Class B preferred shares remains outstanding, except to make up for losses, share premium of Class B Preferred Shares should not be capitalized into share capital.</p> <p>The Board is authorized to determine the name, issuance date and specific issuance terms upon actual issuance, after considering the situation of capital market and investors' willingness for subscription, in accordance with Articles of Incorporation and related laws and regulations.</p>		
<p>Article 6-3 The rights, obligations and other important issuance terms of Class C Preferred Shares are as follows:</p> <p>1. The dividend rate of Class C Preferred Shares is 5% per annum on the issue price. Dividends are paid annually in cash in one lump sum. The Chairman is authorized by the Board of Directors or a Board Resolution to set the ex-dividend date and the amount of dividends to be paid for the previous fiscal year. In the year of issuance and redemption, the distribution of the payable</p>	(None)	This is a new article. To Specify the rights and obligations and other important terms of issuance associated with Class B Preferred Shares.

<p>dividends shall be calculated proportionally based on the actual number of days the Class C Preferred Shares remained outstanding in that year.</p> <p>2. The Company has sole discretion on the distribution of Class C Preferred Share dividends. If there is no earning or insufficient earning for distributing dividends of Class C Preferred Shares in the fiscal year, or the Company has other necessary considerations, the Board may decide not to distribute Class C Preferred Share dividends by Board Resolution, and it will not be deemed as an event of default. If the Company decide not to distribute preferred share dividends or to distribute insufficient dividend, the dividends shall be accumulated for priority retroactive issuance in subsequent year where earnings are reported.</p> <p>3. Except for the dividend prescribed in Subparagraph 1 of this Paragraph, Class C Preferred Shareholders are not entitled to participate in the distribution of cash or share dividends with regard of the common shares derived from earnings or capital reserves.</p> <p>4. Class C Preferred Shares may not be converted within 3 year after the date of issuance. The Board is authorized to set the convertible period in the actual issuance terms. Holders of convertible Preferred Shares may, pursuant to the issuance terms, apply for conversion of its shareholding (in whole or in part) to common shares pursuant to the conversion ratio set out in the issuance terms (ratio is 1:1). Upon conversion, the converted shares shall have the same rights and obligations as common shares. Class C Preferred shares that are converted into common shares before the ex-dividend date shall participate in the distribution of profit and capital reserve to holders of common</p>		
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<p>shares, and may not participate in the distribution of Class C Preferred Share dividends that year. Class C Preferred Shares that are converted into common shares after the ex-dividend date shall participate in the distribution of Class C Preferred Share dividends that year, and may not participate in the distribution of profit and capital reserve to holders of common shares. In principle, holders of the converted shares should not participate in both the distribution of preferred share dividends and common share dividends during the same year for the same converted shares.</p> <p>5. Upon any voluntary or involuntary liquidation, dissolution or winding-up of the Company, holders of outstanding Class C preferred shares are entitled to receive residual assets of the Company available for distribution to stockholders, before any distribution of assets is made to holders of the common shares. Class C preferred shares and other classes of preferred shares of the Company shall rank pari passu without any preference among themselves and their repayment shall be capped at their respective issue amount.</p> <p>6. Class C Preferred Share Shareholders are entitled to the same voting rights and the right to be elected as common share shareholders during general shareholders' meeting.</p> <p>7. Class C Preferred Shares are perpetual preferred shares. Holders of Class C Preferred Shares have no right to request redemption of such shares by the Company. However, the Company may redeem Class C Preferred Shares in whole or in part at the actual issue price after the day following the fifth anniversary of issuing. The rights and obligations of the remaining and outstanding Class C Preferred Shares as described in the preceding paragraphs will remain</p>		
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<p>unchanged. Holders of the outstanding Class C Preferred Shares are entitled to receive declared dividends based on the actual days in the redemption year up to the date of redemption should the Company decide to declare dividend for the redemption year.</p> <p>8. If any Class C preferred shares remains outstanding, except to make up for losses, share premium of Class C Preferred Shares should not be capitalized into share capital.</p> <p>The Board is authorized to determine the name, issuance date and specific issuance terms upon actual issuance, after considering the situation of capital market and investors' willingness for subscription, in accordance with Articles of Incorporation and related laws and regulations.</p>		
<p>Chapter 3 Shareholders' Meeting Article 10</p> <p>The Company will have three types of shareholders meetings:</p> <ol style="list-style-type: none"> 1. General shareholder meeting to be convened within six months after the end of each fiscal year; 2. Extraordinary shareholders meeting to be convened where necessary; and 3. The shareholders' meeting of preferred shares may be convened in accordance with relevant laws whenever necessary. <p>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.</p>	<p>Chapter 3 Shareholders' Meeting Article 10</p> <p>The Company will have two types of shareholders meetings:</p> <ol style="list-style-type: none"> 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. <p>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.</p>	<p>Addition of preferred share shareholder meeting.</p>
<p>Chapter 4 Board of Directors Article 15</p> <p>The Board of Directors of the Company will be formed by 7 to 11 Directors to be elected from among the shareholders with disposing capacity. The Board of Directors is authorized to determine the number of Directors. The Director each will serve a term of office of three years and is eligible for re-election. At least 3 of the aforementioned directors are independent directors. Candidates</p>	<p>Chapter 4 Board of Directors Article 15</p> <p>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</p>	<p>Reduction in board size considering with domestic and international peers' average board size of 9 to 11 directors. Independent requirement in accordance with ISS corporate governance guidelines.</p>

<p>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.</p>	<p>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.</p>	
<p>Article 16 The Directors shall elect among themselves the Chairman and Vice Chairman of the Company, and the election should be attended by over two-thirds of the directors and adopted by a majority of the directors present. The 3 managing directors shall be elected from among the directors in accordance with the same manner. 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. 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.</p>	<p>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.</p>	<p>In accordance with changes to board size in Article 15. Amended according to Article 208-2 of the Company Act.</p>
<p>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 or pertaining to relevant laws. 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, in the case where</p>	<p>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</p>	<p>Added 'pertaining to relevant laws'. Amended to include cases where there are no Managing Directors.</p>

<p>there are no Managing Directors, a Director shall be appointed. Absent such appointment, the Managing Directors shall elect one from among themselves to act instead of the Chairman at the meeting, where there are no Managing Directors, Directors shall elect one from among themselves.</p>	<p>Directors shall elect one from among themselves to act instead of the Chairman at the meeting.</p>	
<p>Article 27 Profit, should it appear in final account, should be used, in descending order, in paying tax, making up for accumulated loss, and then appropriating 10% of the remainder for legal reserve, on top of appropriation or reversal of special reserve, according to the regulation of regulator. The balance for the current year, should it exist, shall first be distributed as dividends to holders of Preferred Shares, and any remaining amount may be should be combined with retained earnings of previous year for the board of directions to formulate proposal of profit distribution for approval by the shareholders' meeting. (Omitted below)</p>	<p>Article 27 Profit, should it appear in final account, should be used, in descending order, in paying tax, making up for accumulated loss, and then appropriating 10% of the remainder for legal reserve, on top of appropriation or reversal of special reserve, according to the regulation of regulator. The balance, should it exist, should be combined with retained earnings of previous year for the board of directions to formulate proposal of profit distribution for approval by the shareholders' meeting. (Omitted below)</p>	<p>Added the distribution of dividends for preferred shares.</p>
<p>Article 30 These Articles of Incorporation was established on 12 April 1956 and subsequently amended as follows: (Omitted) The fifty-eight amendment on May 11, 2020. Effect takes place after the approval of the shareholders' meeting.</p>	<p>Article 30 These Articles of Incorporation was established on 12 April 1956 and subsequently amended as follows: (Omitted)</p>	

**Audit Committee's opinion on Proposal 4 of Discussion Item:
Capital reduction by returning cash to shareholders**

TECO's Audit Committee had the below opinion and resolution dated on March 31st, 2020 -

"The Audit Committee believes that the proposal of capital reduction by PJ Asset Management Co., Ltd. will be detrimental to the company's interest and development, especially considering the company's need for funding and exposure to major uncertainties amid the COVID-19 pandemic:

- a) With cash-dividend payout lowering the company's cash position significantly, capital reduction will make it even more difficult for the company to meet the working capital requirement for day-to-day operations;
 - b) Subsidiaries overseas will necessitate more funding than the parent company as the COVID-19 pandemic is more strenuous overseas;
 - c) In order to offset the disruption of global supply chains by the pandemic, the company needs more raw material safety stock to ensure normal operation, which enhances need for funds further;
 - d) With the pandemic having drained funds available on the market, enterprises worldwide must keep more cash reserves to cope with economic uncertainty; with a foreseeable sales lull leading to tighter cash inflow, capital reduction at this moment will put unnecessary burden on the company financially."
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Appendices

1. Articles of Incorporation on pages 70-77
2. Rules Governing Shareholders' Meeting on pages 78-80
3. Procedures for Lending of Capital to Other Parties 81-84
4. Procedures for Endorsement and Guarantee on page 85-88
5. Corporate Social Responsibility Best Practice Principles on page 89-97
6. Corporate Governance Practice Principles on page 98-118
7. Ethical Corporate Management Best Practice Principles on page 119-127
8. Codes and Procedures for Ethical Management and Guidelines for Conduct on page 128-136
9. Shareholding of All Directors on page 137
10. Notes on page 138

TECO Electric & Machinery Co., Ltd.

Articles of Incorporation

(Summary Translation) This English version is 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.

Chapter 1 General Provisions

Article 1

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

Article 2

The scope of business of this Company is as follows:

1. C805050 Manufacture of industrial plastic products;
2. C805070 Manufacture of reinforced plastic products;
3. CA01030 Steel casting;
4. CA01050 Secondary processing of steel materials;
5. CA02010 Manufacture of metal structure and building parts;
6. CB01010 Manufacture of machinery equipment;
7. CB01020 Manufacture of office machines;
8. CB01030 Manufacture of pollution-control equipment;
9. CB01071 Manufacture of refrigerating, air-conditioning equipment;
10. CC01010 Manufacture of generators, power dispatching, power distributing machinery;
11. CC01030 Manufacture of electrical appliance and audio-visual electronic products;
12. CC01060 Manufacture of cable telecommunication machinery and equipment;
13. CC01070 Manufacture of wireless telecommunication machinery and equipment;
14. CC01080 Manufacture of electrical parts and components;
15. CC01101 Manufacturing of controlled telecom radio-frequency products
16. CC01110 Manufacture of computers and the peripheral thereof;
17. CD01010 Manufacture of boats and the parts thereof;
18. CD01020 Manufacture of rail cars and the parts thereof;
19. CD01030 Manufacture of automobiles and the parts thereof;
20. CD01040 Manufacture of motorbikes and the parts thereof;
21. CD01060 Manufacture of aircrafts and the parts thereof;
22. CE01010 Manufacture of general instruments;
23. CE01030 Manufacture of optical instruments;
24. E501011 Services regarding water utilities as contractor;
25. E502010 Installation of fuel pipes;
26. E599010 Engineering of pipe lines;
27. E601010 Service regarding electrical appliance as contractor;
28. E601020 Installation of electrical appliance;
29. E602011 Engineering of refrigerating, air-conditioning equipment;
30. E603010 Installation of cables;
31. E603040 Installation of firefighting safety equipment;
32. E603050 Engineering of automatic control equipment;
33. E603080 Installation of traffic signs;
34. E603090 Installation of illuminating equipment;
35. E604010 Installation of machines;
36. E605010 Installation of computer equipment;
37. F106010 Wholesale of hardware;
38. F106030 Wholesale of tooling;
39. F108031 Wholesale of medical devices
40. F113070 Wholesale of telecom-products
41. F114080 Wholesale of rail cars and the parts thereof;

42. F117010 Wholesale of fire-fighting safety equipment;
43. F119010 Wholesale of electrical materials;
44. F206010 Retail sale of hardware;
45. F206030 Retail sale of tooling;
46. F206040 Retail sale of water equipment and relevant materials;
47. F208031 Retail sale of medical devices;
48. F213040 Retail sale of precision instruments;
49. F213060 Retail of telecom products
50. F218010 Retail of information software
51. F401010 International Trade;
52. F401021 Import of controlled telecommunication radio-frequency devices;
53. F501060 Restaurant services;
54. G801010 Warehousing services;
55. H701010 Development and leasing of residential and business buildings;
56. I103060 Management consulting services;
57. I301010 Information application services;
58. I301020 Data-processing services;
59. I301030 Supply of electronic information services;
60. IF01010 Inspection and repair of firefighting safety equipment services;
61. IF02010 Testing and inspection of electrical equipment services;
62. JE01010 Leasing services;
63. ZZ99999 Other businesses not prohibited or restricted legally except those with special permit.

Article 3

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

Article 4

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

Article 5

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

Chapter 2 Capital stocks

Article 6

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

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

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

in several batches within one year after the resolution is made by shareholders' meeting.

Article 7

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

Article 8

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

Article 9

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

Chapter 3 Shareholders' Meeting

Article 10

The Company will have two types of shareholders meetings:

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

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

Article 11

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

Article 12

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

Article 13

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

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

Article 14

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

Chapter 4 Board of Directors**Article 15**

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

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

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

Article 16

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

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

Article 17

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

Article 18

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

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

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

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

Article 19

The function of the Board of Directors is to

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

Article 20

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

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

Article 21

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

Chapter 5 Audit Committee

Article 22

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

Chapter 6 Managerial officers

Article 23

The Company will have presidents, vice presidents and assistant vice presidents to be appointed and discharged in accordance with Article 29 of the Company Act. The president

will take general charge of the operation of the Company according to the instruction from the Chairman.

Article 24

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

Chapter 7 Accounting

Article 25

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

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

Article 26

The company appropriates part of its annual profits, ranging from 1% to 10%, for distribution of remuneration to employee. Remuneration to directors are capped at 5% of profits. Employees of affiliated companies are also entitled to remuneration to employee. Profits should be used, in priority, for making up accumulated loss, should it exist.

The shares of the aforementioned distribution of remuneration to employee and the directors, as well as the choice of stock or cash should be resolved by the board of directors, with approval of over half of attendees in a meeting attended by over two thirds of directors, before being reported to shareholders' meeting.

The annual profit mentioned in item 1 refers to pre-tax profits of the year before deduction of distribution of remuneration to employee and directors.

Article 27

Profit, should it appear in final account, should be used, in descending order, in paying tax, making up for accumulated loss, and then appropriating 10% of the remainder for legal reserve, on top of appropriation or reversal of special reserve, according to the regulation of regulator. The balance, should it exist, should be combined with retained earnings of previous year for the board of directions to formulate proposal of profit distribution for approval by the shareholders' meeting.

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

Chapter 8 Supplemental Provisions

Article 28

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

Article 29

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

Article 30

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

The first amendment on 25 January 1957;
The second amendment on 1 September 1958;
The third amendment on 27 March 1960;
The fourth amendment on 31 March 1962;
The fifth amendment on 14 July 1962;
The sixth amendment on 25 April 1964;
The seventh amendment on 26 March 1966;
The eighth amendment on 27 May 1966;
The ninth amendment on 15 April 1967;
The tenth amendment on 23 March 1968;
The eleventh amendment on 30 May 1969;
The twelfth amendment on 24 October 1969;
The thirteenth amendment on 20 February 1971;
The fourteenth amendment on 10 May 1971;
The fifteenth amendment on 12 May 1972;
The sixteenth amendment on 16 April 1973;
The seventeenth amendment on 2 June 1973;
The eighteenth amendment on 14 April 1974;
The nineteenth amendment on 18 April 1975;
The twentieth amendment on 26 March 1976;
The twenty-first amendment on 16 April 1977;
The twenty-second amendment on 21 April 1978;
The twenty-third amendment on 20 October 1978;
The twenty-fourth amendment on 19 April 1979;
The twenty-fifth amendment on 28 March 1980;
The twenty-sixth amendment on 18 April 1981;
The twenty-seventh amendment on 27 March 1982;
The twenty-eighth amendment on 28 March 1983;
The twenty-ninth amendment on 28 March 1984;
The thirtieth amendment on 28 March 1985;
The thirty-first amendment on 28 March 1986;
The thirty-second amendment on 28 March 1987;
The thirty-third amendment on 28 March 1988;
The thirty-fourth amendment on 28 March 1989;
The thirty-fifth amendment on 28 March 1999;
The thirty-sixth amendment on 7 May 1991;
The thirty-seventh amendment on 8 May 1992;
The thirty-eighth amendment on 7 May 1993;
The thirty-ninth amendment on 28 April 1994;
The fortieth amendment on 6 May 1995;
The forty-first amendment on 11 May 1996;
The forth-second amendment on 24 May 1997;
The forty-third amendment on 15 May 1998;
The forty-fourth amendment on 21 April 2000;

The forty-fifth amendment on 15 May 2001;
The forty-sixth amendment on 31 May 2002;
The forty-seventh amendment on 6 June 2003;
The forty-eighth amendment on 11 June 2004;
The forty-ninth amendment on 27 May 2005;
The fiftieth amendment on 15 June 2006;
The fifty-first amendment on 13 June 2008;
The fifty-second amendment on June 19, 2009;
The fifty-third amendment on June 10, 2011,
The fifty-fourth amendment was on June 15, 2012, and
The fifty-fifth amendment was on June 23, 2014
The fifty-sixth amendment was on June 16, 2016
It took effect after the approval of shareholders' meeting.

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

(Summary Translation) This English version is 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.

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.
Procedures for Lending of Capital to Other Parties

(Summary Translation) This English version is 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.

Article 1

These Procedures are promulgated pursuant to the "Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies".

Article 2

Recipients of the Company's loaning funds:

- A. The Company's affiliates with short accommodations needs listed below:
 - 1. Subsidiaries in which the Company directly owns more than 50% of its common shares;
 - 2. Companies in which the Company and its subsidiaries together own more than 50% of its common shares;
 - 3. Parent company owning more than 50% of the company's common shares, either directly or indirectly via its subsidiaries.
- B. Companies with business dealings with the Company.
- C. Supporting factories founded by the Company's employees.
- D. Other companies approved by the Board of Directors.

Article 3

Reasons and necessity for loaning funds to others:

- A. Loan funds to affiliates and companies with business dealings, according to the regulation of Article 5 Item A.
- B. Loan funds to supporting factories founded by the company's employees, according to the regulation of Article 5 Item B.
- C. Loan funds to other companies approved by the Board of Directors, according to the regulation of Article 5 Item A.

Article 4

Limits on lending of capital to others:

- A. Total amount of loans shall not exceed 10% of the company's book value in the most recent financial statement.
- B. Loan limits by the company to a single enterprise are listed below:
 - 1. Conforming to Items A, B, and D of Article 2:
Cumulative amount of loans to a single enterprise shall not exceed 3% of the company's book value as stated in the most recent financial statement.

2. Conforming to Item C of Article 2:

"Measures for assisting supporting factories founded by the company's veteran quality employees" shall be implemented.

Overseas subsidiaries, in which the company directly or indirectly holds 100% of its voting shares, are free from the restrictions of Item A and Item B - 1, however it is still necessary to set the quota for lending of capital and the deadline according to article 5, Item C (3).

Article 5

Proceeding for loaning funds to others is listed below: A. Conforming to Items A, B, and D of Article 2:

Loan application shall be drafted on the "Application Form for Loans and Related Affairs of Teco Electric and Machinery Co., Ltd." (appendix 1) by the financial unit, and ratified by the Chairman before being submitted to the Board of Directors for approval.

B. Conforming to Item C of Article 2:

Loans shall be conducted according to the "Measures for assisting supporting factories

founded by the company's veteran quality employees" approved by the Board of Directors.

C.Regulation for loans:

1. Application procedure:

(1) Borrowers must fill in the application form, stamp it with corporate seals, and provide all necessary company and financial information, before applying with the Company's financial unit.

(2) For companies with business dealings with the Company, the Company's financial unit should evaluate the propriety of the amount of loans relative to the scale of business dealings. For short-term financing needs, reasons and situation for the loans shall be specified, as well as credit investigation and the effect of the loan on operating risks, financial status, and shareholders' interest, before submitting all relevant data and formulated conditions to the Chief of the financial unit and the Chairman for ratification; then to the Board of Directors for approval.

(3) In case that the company has instituted independent directors, the opinions of independent directors should be taken into account in loaning of funds to others; their agreement / opposition and reasoning shall be included in the record of the Board of Directors.

2. Mortgage and guarantee:

(1) Borrowers conforming to Items A, B, and D of Article 2 shall provide promissory notes bearing similar value, or chattel, or real estates for mortgage. The company will accept guarantee of individuals or companies in lieu of the aforementioned collateral for debt claims, at the discretion of the Board of Directors, based on the aforementioned credit investigation. In the case of corporate guarantor, attention should be made about whether the guarantee is allowed by its corporate charter.

(2) Loans to borrowers conforming to Item C of Article 2 shall be made according to the regulation of "measures for assisting supporting factories founded by quality veteran employees" approved by the Board of Directors.

3. Terms of loaning funds:

(1) Loans to parties conforming to Items A and D of Article 2 shall bear terms under one year or one business cycle, whichever longer, in principle.

(2) Loans to parties conforming to Item B of Article 2 shall bear terms of one year in principle.

(3) Loans to parties conforming to Item C of Article 2 shall be set according to the "measures for assisting supporting factories founded by quality veteran employees" approved by the board of directors. Each lending shall bear terms under one year.

4. Interest rates:

(1) For borrowers conforming to Items A, B, and D of Article 2, interest rate for loans shall not be lower than the maximum interest rates on short-term loans borrowed by the company from financial institutions and are subject to flexible monthly adjustment. Interest payment shall be made once a month in principle but can be adjusted under special situation with the Board of Directors' approval.

(2) Interest rates on loans to parties conforming to item C of Article 2 shall be set according to "measures for assisting supporting factories founded by the company's quality veteran employees" approved by the Board of Directors.

5. Repayment methods:

(1) Borrowers conforming to items A, B, and D of Article 2 shall pay off principal and interest upon maturity of the loans and, should they be unable to do so, present request for extension by the approval of the Board of Directors 30 business days before the maturity date. The extension can be made only once and shall not exceed three months or the company will take action against its collateral or guarantor in an effort to collect the debt.

(2) Repayment by borrowers conforming to Item 3 of Article 2 shall be made according to the regulation of "measures for assisting supporting factories founded by quality veteran employees" approved by the Board of Directors.

6. Borrowers shall pay off their principals and interests upon or before maturity of their loans before they can retrieve their collateral or erase the mortgage.

7. Financial and legal units shall keep a close watch on the financial status, repayment ability and credit standing, repayment sources, and changes in the value of collateral of borrowers and guarantors. In case of major changes, they shall report to the chairman immediately and implement proper counter-measures according to instruction.

Article 6

Evaluation standards for lending of capital:

A. Prudent evaluations shall be made before lending of capital to other parties to ensure compliance with its own Operating Procedures and the evaluation result shall be submitted to the Board of Directors for resolution, without commissioning others to make decision.

B. The financial unit shall record details of lending of capital in separate accounts, including name of the borrowing company, amount of loans, date of resolution by the Board of Directors, date of lending, expected date of collection, outstanding loans at end of each month, and the status and evaluation result of guarantee.

C. Loan extension between the company and subsidiaries or between subsidiaries needs to be approved by the board of directors, according to the previous two items, the board of directors can also authorize the chairman to extend loans to a same recipient in several batches or in a revolving manner under the set quota within one year.

D. In addition to the regulation of article 4, authorized quota for loans extended by subsidiaries to a single enterprise cannot exceed 10% of their book values in the latest financial statement.

E. The company's internal auditors shall check the Operating Procedures for Lending of Capital to Other Parties, as well as its execution, at least every quarter, and record the finding, in addition to informing supervisors in written form the discovery of major violations.

F. In case borrowing parties are not allowed by the regulation or outstanding amount of loaned funds exceeds the limit due to unexpected change, the auditing unit shall administer the financial unit to collect the loans by a deadline and submit an improvement plan to the Supervisors, in addition to completing the plan on schedule.

G. Case officers shall compile reports on details of the previous month's loan balances by the 10th day of each month and submit for review.

Article 7

Information Publication

A. The Company shall post the outstanding amount of loans and that of its subsidiaries on the Market Observation Post System by the 10th day of each month.

B. The Company and its subsidiaries shall post the lending information on the Market Observation Post System in two days whenever it reaches the following standards, the date of actual occurrence specified by the rule refers to the earliest date of the signing of transaction contract, payment, the resolution of the board of directors, or other dates ascertain transaction object and transaction value:

1. The outstanding amount of loans to others exceeds 20% of the Company's book value in its most recent financial statement.

2. The outstanding amount of loans to a single enterprise exceeds 10% of the Company's book value in its most recent financial statement.

3. New application for loans by the Company or subsidiaries exceeding NT\$10 million and 2% of the Company's book value in its most recent financial statement.

C. The company shall undertake the aforementioned posting of information for its subsidiaries which are not domestic companies with public offering if the subsidiaries reach the standards of Item B No. 3.

D. The company shall evaluate and make proper bad-debt provision, as well as properly disclose relevant information in financial report and provides relevant information to certified public accountants for necessary inspection.

Article 8

Managers and employees responsible for handling the procedures will receive penalties if procedures or related matters are violated, according to the employee working rules.

Article 9

Control procedure for lending of capital by subsidiaries to others:

A. The company's subsidiaries shall also formulate their "guideline for lending of capital to others" to regulate their loan procedures. Calculation shall be based on their own book values.

B. Subsidiaries shall compile report on details of the previous month's loan balances by the 10th (exclusive) day of each month and submit to the Company for review.

C. The subsidiaries' internal auditors shall check the operating procedures for lending of capital to others, as well as its execution, at least every quarter and record the finding, in addition to informing the Company's auditing unit, in written form, the discovery of major violations. The Company's auditing unit shall also pass the written information to Supervisors.

D. When undertaking auditing works at subsidiaries according to yearly auditing plan, the Company's auditors shall understand their execution on loan procedures and carry out reviews of improvement on mistakes or irregularities, in addition to producing improvements reports and submit to the Chairman for review.

Article 10

The Procedures will be put into practice after the approval by the Board of Directors, submission to supervisors, and ratification by the Shareholders' Meeting. If the Board Director(s) express contrary opinions on record or in the form of written statement, the Company shall pass their opinions to supervisors and Shareholders' Meeting for discussion. The same process also applies to revision of the Procedures. If the Company has instituted independent directors, the Board of Directors should take the opinions of independent directors into account when discussing the Operating Procedures and include their opinions and reasons for support or opposition in the record of the Board of Directors.

Article 11

These Procedures were formulated on Feb. 2, 1988.

The first amendment was implemented on Oct. 29, 1992.

The second amendment was implemented on Dec. 21, 1994.

The third amendment was implemented on April 9, 2002.

The fourth amendment was implemented on June 6, 2003.

The fifth amendment shall be implemented on June 19, 2009.

The sixth amendment shall be implemented on June 18, 2010.

The seventh amendment shall be implemented on June 21, 2013.

TECO Electric & Machinery Co., Ltd.
Procedures for Endorsement and Guarantee

(Summary Translation) This English version is 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.

Article 1

These Procedures are promulgated pursuant to the “Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies”, in order to intensify the management of endorsement and guarantee, lower management risk, and uphold shareholders’ interest,

Article 2

Endorsement and Guarantee refer to the following items:

A. Financing endorsements/guarantees, including:

1. Bill discount financing.;
2. Endorsement or guarantee made to meet the financing needs of another company;
3. Issuance of a separate negotiable instrument to a non-financial enterprise as security to meet the financing needs of the Company itself.

B. Customs duty endorsement/guarantee, meaning an endorsement or guarantee for the Company itself or another company with respect to customs duty matters.

C. Other endorsements/guarantees, meaning endorsements or guarantees beyond the scope of the above two subparagraphs.

Any creation by the Company of a pledge or mortgage on its chattel or real property as security for the loans of another company shall also comply with these procedures

Article 3

Recipients of Endorsement and Guarantee

A. The company can provide endorsement or guarantee to the following companies:

1. Business partners;
2. Subsidiaries in which the Company directly owns holds more than 50% of its common shares;
3. Companies in which the Company and its subsidiaries together own more than 50% its common share;
4. Parent company owning more than 50% of the company’s common shares, either directly or indirectly via its subsidiaries.

B. Provision of endorsement and guarantee is allowed between subsidiaries in which the Company owns directly and indirectly over 90%of its voting right, within the limit of 10% of the company’s book value. The limit, however, is not applicable to companies 100% owned by the company, directly and indirectly.

C. The company can provide endorsement and guarantee, free from the restriction of previous two items, to peers for undertaking engineering projects, to co-developers according to the obligation of mutual guarantee included in the contract, or to invested companies, along with all shareholders, according to the ratio of its shareholding.

D. The aforementioned shareholding refers to shares owned by the Company directly or indirectly via its 100%-owned subsidiaries.

Article 4

Quota for endorsement and guarantee

A. The total value of endorsement and guarantee provided by the company can not exceed 60% of the company’s book value in the most recent financial statement and the value of endorsement and guarantee for a single enterprise can not exceed 20% of the company’s

book value in the most recent financial statement.

B. Total amount of endorsement and guarantee extended by the company and its subsidiaries can not exceed 80% of the company's book value in the latest financial statement. The limit is set at 30% for a single enterprise.

C. In case the total amount of endorsement and guarantee extended by the company and its subsidiaries exceeds 50% of the company's book value, explanation of its necessity and justification should be made in shareholders' meeting.

When the aforementioned limitations and actual guarantees are denominated in different currencies, the exchange rate shall be based on the sell rate at the Taipei Foreign Exchange Market on the date of approval by the Board of Directors.

Article 5

Deadline and Contents for Mandatory Information Publication

A. In addition to posting the previous month's outstanding amount of endorsement and guarantee by the Company and its subsidiaries by the 10th day of each month, the Company shall also post information on the outstanding amount of endorsement and guarantee within two days on the Market Observation Post System whenever it meets one of the following standards, the date of actual occurrence specified by the rule refers to the earliest date of the signing of transaction contract, payment, the resolution of the board of directors, or other dates ascertain transaction object and transaction value.

1. The total amount of endorsement and guarantee from the Company and its subsidiaries exceeds 50% of the Company's book value in its most recent financial statement;

2. The amount of endorsement and guarantee for a single enterprise from the Company and its subsidiaries exceeds 20% of the Company's book value in its most recent financial statement;

3. The amount of endorsement and guarantee for a single enterprise from the Company and its subsidiaries exceeds NT\$10 million, and the value of endorsement and guarantee, long-term investment and loans for the enterprise combined exceeds 30% of the Company's book value in its most recent financial statement.

4. New application for endorsement and guarantee by the Company or its subsidiaries exceeds NT\$30 million in value and 5% of the company's book value in the most recent financial statement.

B. The Company shall make mandatory posting of information under the aforementioned situations for its subsidiaries which are not domestic companies with public offering.

C. In accordance with the financial accounting standard No. 9, the company shall make proper disclosure in its financial report information on the evaluation of or provision for the possible loss from endorsement and guarantee, in addition to providing the information to certified public accountants for necessary auditing.

Article 6

Guidelines for Endorsement and Guarantee

A. The Company's internal auditors should check the Procedures for Endorsement and Guarantee, as well as its execution, at least every quarter and record the finding, in addition to informing supervisors in written form, the discovery of major violations.

B. The Board of Directors' approval is necessary for the Company to overcome the limitations set by the procedures in providing endorsement and guarantee for cases arising from business needs and meeting the conditions set by the procedures, with half of the Board of Directors agreeing to provide personal guarantee for the possible loss from the exceptional treatment. The Board of Directors shall also revise the procedures before sending the revision to Shareholders' Meeting for affirmation. If the Shareholders' Meeting disapproves such cases, the Company shall formulate plans to eradicate the excessive portion by a specific deadline. If the company has instituted independent directors, the opinions of independent directors should be taken into account by the Board of Directors when discussing the cases, and their

agreement / opposition and reasoning, shall be included in the record of the Board of Directors.

C. If qualified endorsement recipients meeting the conditions set in Article 4 become disqualified later on or the value of endorsement and guarantee exceeds the limitations due to changes in the calculation basis, the endorsement and guarantee for the recipients or the excessive amount should be erased entirely upon the contract expiration or by a deadline set by an improvement plan, which shall be sent to supervisors, complete the improvement plan on schedule, and report to the Board of Directors and reported to the Board of Directors.

Article 7

Handling Procedures for Endorsement and Guarantee

A. Recipients of endorsement and guarantee shall provide all financial data when applying with the Company's financial unit for utilizing the endorsement and guarantee within the set quota, upon which the financial unit should evaluate the application and carry out credit investigation. The evaluation shall cover the necessity and rationality of the application. For endorsement and guarantee deriving from business dealings, the evaluation shall cover the proportion between endorsement/guarantee value and the scale of business dealing, effect on the company's operating risk, financial status, and shareholders' interest, as well as obtaining of collateral and its value.

B. The Company's registered seals with the Ministry of Economic Affairs and dedicated seals for issuing checks shall be used in providing endorsement and guarantee to outside parties, which shall be kept by the Head of the headquarters in charge of finance and can only be used with the approval of the Chairman.

C. Endorsement and guarantee undertaken by the Company shall be put on record, including the objects of guarantee, the name of enterprise receiving endorsement or guarantee, the result of risk evaluation, the value of endorsement and guarantee, contents of collateral, and conditions and date for the removal of the liabilities for endorsement and guarantee.

D. The Company shall make proper disclosure in its financial report information on the evaluation or provision for the possible loss from endorsement and guarantee, in addition to providing the information to certified public accountants for necessary auditing and producing adequate auditing report.

E. If the Company or its subsidiaries' endorsement parties are the subsidiaries which net value are lower than one-half of paid-in capital, it should be ruled by guidelines of Article 6, for shares of subsidiaries without par value or with par value other than NT\$10, paid-in capital should be calculated by adding up share capital and capital surplus - additional paid-in capital.

Article 8

The Board of Directors authorizes the Chairman to make decision on endorsement and guarantee within the quota set in Article 4, for which the unit in charge shall submit guarantee application, along with risk evaluation, to the Chairman for inspection and stamping of seal or issuance of negotiable instruments, before sending it to the Board of Directors for affirmation. The provision of guarantee exceeding the set quota needs the approval of the Board of Directors or, in cases of urgency, the approval of the standing Board of Directors before sending it to the Board of Directors for affirmation later on. In both cases, the manner of handling and related affairs shall be reported on the Shareholders' Meeting. Approval of the company's board of directors is necessary for the extension of endorsement and guarantee by subsidiaries, in which the company owns, directly and indirectly, more than 90% of shares with voting right, according to item 2, article 3. The requirement, however, is not applicable to the extension of endorsement and guarantee among subsidiaries in which the company owns 100% of shares with voting right, directly and indirectly.

Article 9

Control Procedure for the Provision of Endorsement and Guarantee by subsidiaries

A. The company's subsidiaries shall also formulate Procedures for Endorsement and Guarantee, on the basis of the measures, but the calculation of quota is based on the book value of subsidiaries.

B. Subsidiaries shall compile report on details of the previous month's provision of endorsement and guarantee by the 10th day of each month and submit to the Company for review.

C. The subsidiaries' internal auditors shall check the Procedures for Endorsement and Guarantee, as well as its execution, at least every quarter and record the finding, in addition to informing the Company's auditing unit in written form the discovery of major violations. The Company shall also submit the information in written form to supervisors.

D. When undertaking auditing works at subsidiaries according to yearly auditing plan, the Company's auditors shall understand their execution on the operating procedures for endorsement and guarantee and carry out reviews on the improvement on mistakes or irregularities, in addition to producing improvement reports and submit to the Chairman for review.

Article 10

The company will not accept request for the issuance of negotiable instruments in the provision of guarantee to others, except cases with special reasons which are approved by the Board of Directors. The recipients, though, have to deposit promissory notes bearing similar value with the company, for use of reciprocal guarantee.

The company shall produce formal vouchers for the aforementioned negotiable instruments and register them on books under the items of "withdrawal of guarantee-oriented negotiable instruments" and "deposit of guarantee-oriented negotiable instruments."

Article 11

When banks request endorsement of new promissory notes in exchange for the return of old promissory notes for the extension of endorsement, the control unit shall keep tracking record and retrieve the old promissory notes as soon as possible.

Article 12

Managers and employees responsible for handling the procedures will be penalized if procedures or related matters are violated, according to the employee working rules.

Article 13

After the Board of Directors approval, the procedures shall be sent to supervisors for reference and submitted to the Shareholders' Meeting for approval before being put into practice. Revision of the procedures shall follow the similar process. If the Company has instituted independent directors, the Board of Directors should take the opinions of independent directors into account when discussing the Operating Procedures and include their opinions and reasons for support or opposition in the record of the Board of Directors.

Article 14

The Procedures were approved by the Shareholders' Meeting on June 6, 2003.

The first amendment was implemented on Jun. 19, 2009.

The second amendment was implemented on Jun. 18, 2010.

The third amendment shall be implemented on June 21, 2013.

TECO Electric & Machinery Co., Ltd.

Corporate Social Responsibility Best Practice Principles

(Summary Translation) This English version is 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.

Chapter one General rules

Article 1

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

Article 2

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

Article 3

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

Article 4

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

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

Article 5

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

Chapter two Materialization of corporate governance

Article 6

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

Article 7

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

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

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

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

Article 8

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

Article 9

For sound management of corporate social responsibility, the company should designate unit, either on dedicated or part-time basis, for pushing corporate social responsibility, and formulating and executing policy, system, related management objective, and action plan on corporate social responsibility. The unit should report to the board of directors regularly. The company should formulate reasonable compensation policy, conforming to the organization's strategic objective and the interests of stakeholders. Performance-evaluation system for staffers should blend with corporate social responsibility and a clear and effective rewarding and penalty system should be put in place.

Article 10

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

Chapter three Creating a sustainable environment

Article 11

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

Article 12

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

Article 13

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

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

Article 14

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

Article 15

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

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

Article 16

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

Article 17

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

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

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

Chapter four Upholding public benefits of the society

Article 18

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

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

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

The company should uphold labor rights acknowledged internationally, including freedom for

association, right of group consultation, care for underprivileged groups, ban on child labor, removal of forced labor in various forms, and removal of management-labor and employment discrimination, in addition to assuring absence of discriminatory treatment in policy of human-resources utilization, in terms of gender, ethnicity, social and economic class, age, marriage, and family, so as to achieve equality and fairness in employment conditions, compensation, fringe benefits, training, performance evaluation, and promotion. For infringement of labor rights, the company should provide effective and proper mechanism for filing complaints and assure equality and transparency in the process of petition. The petition channel should be clear, simple, convenient, and unblocked. The company should respond properly to the petitions of staffers.

Article 19

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

Article 20

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

Article 21

The company should create a good environment for the career development of staffers and establish an effective plan for fostering the capabilities of staffers for career development. The company should embrace a policy reflecting the fruits of its management in staffers' compensations, so as to facilitate the recruitment, retention, and motivation of staffers, thereby achieving the company's sustainable development.

Article 22

The company should set up channels for communications with staffers regularly, thereby keeping them posted on the company's management and decision making and enabling them to express opinions accordingly. The company should respect the right of labor representatives in consultation for working conditions and provide staffers necessary information and hardware facilities, to facilitate consultation and cooperation among employers, staffers, and labor representatives. The company should inform via reasonable manner staffers material changes in the company's operation.

Article 22-1

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

Examples for the aforementioned fair and reasonable treatment follow:

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

Article 23

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

Article 24

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

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

Article 25

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

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

Article 26

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

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

Article 27

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

Chapter five Strengthen information disclosure on corporate social responsibility**Article 28**

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

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

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

Article 29

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

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

Chapter six Supplements**Article 30**

The company should constantly notice development in related principles on corporate social responsibility, both abroad and on domestic front, and changes in business environment, for reviewing and improving the company's system on corporate social responsibility, so as to enhance the performance in fulfilling corporate social responsibility.

Article 31

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

Article 32

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

The first amendment of the principle on 23 December 2016.

TECO Electric & Machinery Co. Ltd.
Comparison between the Revision and the Original of
“Corporate Social Responsibility Best Practice Principles”

Proposed Revision	Current Clauses	Note
<p>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. The Corporation shall, in its corporate management guidelines and business operations, pursue sustainable operations and profits and also give due consideration to the environment, society and corporate governance.</p>	<p>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.</p>	<p>Amended in accordance of the Corporate Governance Roadmap (2018~2020).</p>
<p>Article 17 The company should assess the effects of climate change and its impact on the future opportunities and risks for the Company. 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 compile statistics regarding carbon/greenhouse-gas emissions, water usage and total waste levels and formulate strategies for reduction in carbon/greenhouse-gas emissions, water usage and waste management, in addition to incorporate carbon rights into the company’s strategic planning for carbon abatement, so as to lessen the effect of the company’s business activities on climate change.</p>	<p>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.</p>	<p>Amended in accordance of the Corporate Governance Roadmap (2018~2020).</p>
<p>Article 21</p>	<p>Article 21</p>	<p>Amended in</p>

<p>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 devise and implement reasonable employee benefits measures (such as salary, leaves, and other benefits) and 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.</p>	<p>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.</p>	<p>accordance of the Corporate Governance Roadmap (2018~2020).</p>
<p>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 standards regarding customer health and safety, customer privacy, 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.</p>	<p>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.</p>	<p>Amended in accordance of the Corporate Governance Roadmap (2018~2020)</p>
<p>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 assess whether there is any record of a supplier's impact on the environment and society, and avoid conducting transactions with those against corporate social responsibility policy. When the company enters into a contract with any of their major suppliers, the content should include terms stipulating mutual compliance with corporate social responsibility policy, and that the contract may be terminated or rescinded any time if the supplier has violated such policy and has caused significant negative</p>	<p>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.</p>	<p>Amended in accordance of the Corporate Governance Roadmap (2018~2020) Added third paragraph according to relevant rules and regulations.</p>

<p>impact on the environment and society of the community of the supply source.</p>		
<p>Article 32 The principles have been put into practice following approval by the board of directors on March 20, 2015 for implementation. The first amendment made to the principle on the 23 December 2016. The second amendment made to the principle on the 17 March 2020.</p>	<p>Article 32 The principles have been put into practice following approval by the board of directors on March 20, 2015 for implementation. The first amendment of the principle on 23 December 2016.</p>	<p>Addition of amendment entry.</p>

TECO Electric & Machinery Co., Ltd.

Corporate Governance Best Practice Principles

(Summary Translation) This English version is 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.

Chapter I General Provisions

Article 1

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

Article 2

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

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

Article 3

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

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

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

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

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

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

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

Article 3-1

The company can institute unit or staffer(s) in charge of corporate governance, in a dedicated or part-time manner, and appoint ranking manager for supervision, who should have the

qualification of lawyer or certified public accountant, or over three years of managerial experience for legal affairs, finance, or stock affairs at a company with public share offering. The aforementioned corporate governance-related affairs should at least include:

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

Chapter II Protection of Shareholders' Rights and Interests

Subchapter 1

Encouraging Shareholders to Participate in Corporate Governance

Article 4

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

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

Article 5

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

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

Article 6

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

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

Article 7

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

attendance rate of shareholders at the shareholders' meeting and ensure the exercise of shareholders' rights by shareholders at the shareholders' meeting in accordance with laws. When shareholders' meeting adopts electronic voting, extempore motions and amendment to original motion should be avoided.

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

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

Article 8

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

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

Article 9

The chairperson at the shareholders' meetings shall be fully familiar and comply with the rules governing the proceedings of the shareholders' meetings established by the company.

The chairperson shall ensure the proper progress of the proceedings of the meetings and may not adjourn the meetings at will.

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

Article 10

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

Article 11

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

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

obstruction, rejection or circumvention.

Article 12

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

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

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

Article 13

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

The Company shall properly deal with matters arising from any action instituted by shareholders pursuant to the applicable laws claiming damage to such shareholders' interests caused by the resolution adopted in its shareholders' meetings or the Board of

Directors meetings in violation of the applicable laws, regulations or its articles of incorporation, or claiming a breach by its directors or managers of applicable laws, regulations or the company's articles of incorporation in performing their duties.

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

Subchapter 2

Erect a System to Interact with Shareholders

Article 13-1

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

Article 13-2

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

Subchapter 3

Corporate Governance Relationships between the Company and Its Affiliated Enterprise

Article 14

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

Article 15

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

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

Article 16

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

Article 17

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

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

Article 18

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

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

Article 19

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

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

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

Chapter III Enhancing the Function of Board of Directors

Subchapter 1 Structure of Board of Directors

Article 20

The Board of Directors of the Company shall guide company strategy, supervise management team, and be responsible for the shareholders' meetings. Procedures and arrangement relating to corporate governance shall ensure that, in exercising its authority, the Board of Directors will comply with laws, regulations, articles of incorporation, and the resolutions of shareholders' meetings of the company.

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

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

Basic conditions and values: gender, age, nationality, and culture, among others Professional knowledge and skill: professional background (such as law, accounting, industry, finance, marketing, and technology), professional skill, and industrial experience, among others. The board of directors should evaluate cautiously the aforementioned qualifications and conditions, as well as willingness of nominees, before putting forth the list of candidates for directors.

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

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

Article 21

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

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

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

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

Article 22

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

Article 23

Clear distinctions shall be drawn between the responsibilities and duties of the chairman of the board of the Company and those of its general manager. It would be inappropriate for the chairman of the Board of Directors to also act as the general manager. If the chairman also acts as the general manager or they are spouses or relatives within one degree of consanguinity, it would be advisable that the number of independent directors be increased. The company should delineate clearly the responsibilities of the functional committees it sets up.

Subchapter 2 Independent Directors

Article 24

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

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

If an independent director candidate included by the Company under the provisions of the preceding paragraph has already served as an independent director of the Company for three consecutive terms or more, the Company shall publicly disclosed, together with the review results under the preceding paragraph, the reasons why the candidate is nominated again for the independent directorship, and present the reasons to the shareholders at the time of the election at the shareholders' meeting.

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. Adoption or amendment of the internal control system pursuant to Article 14-1 of the Securities and Exchange Act, and assessment of the effectiveness of the internal control system.
2. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, or endorsements or guarantees for others.
3. Matters involving personal interests of the directors;
4. Major assets or derivatives transactions;
5. Major lending, endorsement or guarantee proposed;
6. The offering, issuance, or private placement of any equity-type securities;
7. Engagement, discharge of or consideration paid to the certified public accountant;
8. Appointment and discharge of financial, accounting or internal auditing officers;
9. Other important matters of the Company or required by the competent authority.

Article 26

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

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

Subchapter 3 Functional Committees

Article 27

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

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

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

Article 28

The Company shall set up the audit committee or supervisors. The audit committee shall be formed by all of the independent directors, whose number shall be no less than three with one

of them to act as the convener and at least one of them shall have professional expertise in accounting and finance.

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

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

1. Adoption or amendment of the internal control system pursuant to Article 14-1 of the Securities and Exchange Act;
2. Assessment of the effectiveness of the internal control system;
3. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, or endorsements or guarantees for others.
4. Matters involving personal interests of the directors;
5. Major assets or derivatives transactions;
6. Major lending, endorsement or guarantee proposed;
7. The offering, issuance, or private placement of any equity-type securities.
8. Engagement, discharge of or consideration paid to the certified public accountant;
9. Appointment and discharge of financial, accounting or internal auditing officers;
10. Annual and semi-annual financial reports; and
11. Other important matters of the Company or required by the competent authority.

The audit committee and its independent director members shall act in accordance with the Securities and Exchange Act, Regulations Governing the Exercise of Powers by Audit Committees of Public Companies and the requirements of the TSEC and the GTSM.

Article 28-1

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

1. Formulate and regularly review the policy, system, standards and structure of the performance evaluation and compensations of directors and managerial staffers.
2. Regularly evaluate and determine the compensations of directors and managerial staffers.

In exercising the aforementioned powers, compensations committee should follow the following principles:

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

Article 28-2

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

under the monitoring of internal control system.

Article 29

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

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

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

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

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

Article 30

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

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

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

Article 31

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

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

Article 32

A director shall exercise a high degree of self-discipline. In cases involving interests of himself/herself or of the legal entities he/she represents, should explain key contents of the involvement at the next meeting of the board of directors. And shall voluntarily abstain from

discussion and voting as well as evade during discussion and voting, for himself or herself or as proxy for another director, on a proposal submitted to the Board of Directors that risks the involvement of the director's own interest to the detriment of the interest of the company. The directors shall practice self-discipline as to their internal relationship and must not support each other in an inappropriate manner.

The matters that a director shall voluntarily abstain from voting shall be clearly set forth in the rules for the proceedings of board meetings.

Article 33

At Least one independent director shall attend each meeting in person. In the case of a meeting concerning any matter required to be submitted for a resolution by the board of directors under the first paragraph of Article 35 herein, each independent director shall attend in person; if an independent director is unable to attend in person, he/she shall appoint another independent director to attend as his/her proxy. 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. Corporate business plans.
2. Annual and semi-annual financial reports, with the exception of semi-annual financial reports which, under relevant laws and regulations, need not be CPA audited and attested.
3. Adoption or amendment of the internal control system pursuant to Article 14-1 of the Securities and Exchange Act, and assessment of the effectiveness of the internal control system.
4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, to the handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, and endorsements or guarantees for others.
5. The offering, issuance, or private placement of any equity-type securities.
6. Structure and system of remuneration for the managerial officers and directors.
7. Appointment or discharge of a financial, accounting, or internal audit officer.
8. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation of disaster relief for a major natural disaster may be submitted to the next board meeting for retroactive recognition.
9. Any matter required by Article 14-3 of the Securities and Exchange Act or any other law, regulation, or bylaw to be approved by resolution at a shareholders meeting or to be submitted to a meeting of the board of directors, or any such significant matter as may be prescribed by the competent authority.

Except for matters that must be submitted to the board of directors for discussion under the preceding paragraph, when the board of directors is in recess, it may delegate the exercise of its power to others in accordance with law, regulations, or its articles of incorporation. However, the level of delegation or the content or matters to be delegated shall be clearly specified, and general authorization is not permitted.

Article 36

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

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

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

Article 37

Members of the board shall faithfully conduct corporate affairs and exercise the due care of a good administrator. In conducting the affairs of the Company, they shall exercise their power with a heightened level of self-discipline and prudential attitude in accordance with the resolution adopted by the Board of Directors except those matters which must be adopted by the shareholders' meeting pursuant to the relevant laws and regulations or the Articles of Incorporation of the Company. Where the resolution to be adopted by the Board of Directors involves major policy directions and the corporate management, the Board of Directors shall carefully consider with no adverse effect of any kind on the implementation and effectiveness of corporate governance.

Independent directors shall perform their duties in accordance with relevant laws, regulations and the company's articles of incorporation so as to protect the interest of the company and shareholders.

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

Article 38

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

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

Article 39

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

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

Article 40

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

Chapter IV Respecting Stakeholders' Rights

Article 41

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

Article 42

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

Article 43

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

Article 44

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

Chapter V Improving Information Transparency

Subchapter 1 Enhancing Information Disclosure

Article 45

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

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

Article 46

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

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

In order to implement the spokesperson system, the Company shall unify the process of making external statements and require the management and employees to maintain the confidentiality of financial and operational secrets and prohibit disclosure thereof by them at will. The Company shall disclose the relevant information regarding any change to the position of a spokesperson or acting spokesperson upon such change.

Article 47

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

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

Article 48

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

Subchapter 2 Disclosure of Information on Corporate Governance

Article 49

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

1. Corporate governance framework and rules;
2. Ownership structure and shareholders' equity (including clear dividend payout policy);
3. Structure, professionalism and independence of the Board of Directors;
4. Responsibility of the Board of Directors and managerial personnel;
5. Composition, duties and independence of audit committee;
6. Composition, duties and operating status of compensations committee
7. Compensation paid to chairman, president and vice president, analysis of ratio between total compensation and net profit of individual financial statement, compensation policy, standard and combination, the procedure of compensation decision, and relation between performance and future risk. Compensation of individual director should be disclosed under

particular situation.

8. The progress of training of directors;

9. Stakeholders' rights, relationships, complaint system, concerning issue and appropriate feedback mechanism;

10. Details of the events subject to information disclosure required by law and regulations;

11. The enforcement of corporate governance, deficiency between the corporate governance principles implemented by the company and the Principles, and the reason for the deficiency; and

12. Other information regarding corporate governance.

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

Chapter VI Ancillary Rules

Article 50

The Company shall at all times monitor domestic and international development of corporate governance and thereby review and improve the company's corporate governance mechanism so as to enhance the performance of corporate governance.

Article 51

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

Article 52

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

The first amendment of the Rule on 26 March 2013.

The second amendment of the Rule on 22 December 2014.

The third amendment of the Rule on 20 March 2015.

The fourth amendment of the Rule on 23 December 2016.

The fifth amendment of the Rule on 13 November 2017.

TECO Electric & Machinery Co. Ltd.
Comparison between the Revision and the Original of
“Corporate Governance Practice Principles”

Proposed Revision	Current Clauses	Note
<p>Article 3 (Omitted)</p> <p>Appointment, dismissal, evaluation and review, salary and compensation of internal auditors of the Company shall be reported to the board of directors or shall be submitted by the chief auditor to the board chairperson for approval.</p>	<p>Article 3 (Omitted)</p>	<p>Addition of the final paragraph in Article 3, in accordance with Article 3 Paragraph 4 of the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”.</p>
<p>Article 3-1 The company can institute unit or staffer(s) in charge of corporate governance, in a dedicated or part-time manner, and according to relevant regulations or the regulations of the Exchange, appoint ranking manager for supervision, who should have the qualification of lawyer or certified public accountant, or over three years of managerial experience for securities, financial, or futures related institution or a public company in a unit handling legal affairs, legal compliance, internal auditing, financial affairs, stock affairs, or corporate governance affairs at a company with public share offering.</p>	<p>Article 3-1 The company can institute unit or staffer(s) in charge of corporate governance, in a dedicated or part-time manner, and appoint ranking manager for supervision, who should have the qualification of lawyer or certified public accountant, or over three years of managerial experience for legal affairs, finance, or stock affairs at a company with public share offering. (Omitted)</p>	<p>Amended according to Article 20 and 23 of the “Taiwan Stock Exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board’s Exercise of Powers”</p> <p>Addition of criteria for appointment according to Article 36-3 of the “Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets”</p>
	<p>Article 7 The Company shall encourage its shareholders to actively participate in its corporate governance, entrust professional stock-affairs institutions to handle the holding of shareholders’ meeting and hold shareholders’ meetings on the premise of legal, effective and safe proceedings. The Company shall seek all ways and means, including fully exploiting technologies for information disclosure, and meeting notice, meeting agenda, and supplementary information should be uploaded at the same time, so as to enhance the attendance rate of shareholders at the shareholders’ meeting and ensure the exercise of</p>	

	<p>shareholders' rights by shareholders at the shareholders' meeting in accordance with laws. When shareholders' meeting adopts electronic voting, extempore motions and amendment to original motion should be avoided. Shareholders should be arranged to vote case by case in shareholders' meeting, outcome of agreement, objection, and abstention of shareholders should be put into the Market Observation Post System on the day after the completion of the meeting. The Company will adopt no discriminatory treatment or discrimination of any kind with respect to the distribution of souvenirs of the shareholders' meeting to the shareholders.</p>	
<p>Article 10 The Company shall respect the shareholders' rights to know and faithfully comply with the applicable regulations regarding the information disclosure to provide, regularly and timely, the shareholders with information relating to the financial conditions and operations, the insiders' shareholdings, and corporate governance status in the company by utilizing the Market Observatory Post System or the website established by the company. In order to equally treat shareholders, major messages should be publicized in both Chinese and English. In order to equally treat shareholders, major messages should be publicized in both Chinese and English. To safeguard the interests of shareholders and provide them equal treatment, the company should formulate regulations forbidding insider trading. The preceding paragraph includes safeguards and monitoring for insiders familiar with the Company's financial results or relevant performance numbers, from the dates that the respective information are made available.</p>	<p>Article 10 The Company shall respect the shareholders' rights to know and faithfully comply with the applicable regulations regarding the information disclosure to provide, regularly and timely, the shareholders with information relating to the financial conditions and operations, the insiders' shareholdings, and corporate governance status in the company by utilizing the Market Observatory Post System or the website established by the company. In order to equally treat shareholders, major messages should be publicized in both Chinese and English. In order to equally treat shareholders, major messages should be publicized in both Chinese and English. To safeguard the interests of shareholders and provide them equal treatment, the company should formulate regulations forbidding insider trading.</p>	<p>Addition of last paragraph, considering Hong Kong exchanges regulation prohibiting directors from trading before the release of financial results. Extending this policy to those familiar with the Company's financial results or performance numbers.</p>

<p>Article 22 The company specifies that election of directors shall adopt the nomination system in Articles in incorporation in accordance with the relevant regulations, 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>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.</p>	<p>Amended according to announcements made by the Financial Supervisory Commission.</p>
<p>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 or other equivalent position (highest managerial position). The company should delineate clearly the responsibilities of the functional committees it sets up.</p>	<p>Article 23 Clear distinctions shall be drawn between the responsibilities and duties of the chairman of the board of the Company and those of its general manager. It would be inappropriate for the chairman of the Board of Directors to also act as the general manager. If the chairman also acts as the general manager or they are spouses or relatives within one degree of consanguinity, it would be advisable that the number of independent directors be increased. The company should delineate clearly the responsibilities of the functional committees it sets up.</p>	<p>Amended according to the "Corporate Governance Roadmap (2018~2020)".</p>
<p>Article 28-2 The company shall establish a nomination committee, chaired by an independent director and with more than half of the committee members be independent directors.</p>	<p>Article 28-2 The company should set up and publicize a reporting channel, for both in-house staffers and outsiders, on top of a system protecting whistleblowers. The complaints should be received and handled by an independent unit, which should keep the materials provided by informants</p>	<p>Previous article moved to 28-3. Included nomination committee in accordance with the increasing importance of board committees globally.</p>

	confidential and restrict access to them, according to internal operating procedure and put under the monitoring of internal control system.	
<p>Article 28-3 The company should set up and publicize a reporting channel, for both in-house staffers and outsiders, on top of a system protecting whistleblowers. The complaints should be received and handled by an independent unit, which should keep the materials provided by informants confidential and restrict access to them, according to internal operating procedure and put under the monitoring of internal control system.</p>	(None)	This is a new article. The contents of the previous Article 28-2, unchanged.
<p>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 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.</p>	<p>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.</p>	Updated to reflect current company status, remove supervisors wording.
<p>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</p>	<p>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</p>	Amended according to the "Taiwan Stock Exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers" regarding self evaluation. Functional committees moved to the fourth paragraph. Added clause with aims to

<p>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.</p> <p>The company should formulate measures and procedure for evaluating the performance of the board of directors and that each year it conducts regularly scheduled performance assessments of the board of directors, functional committees, and individual directors through self-assessment, peer-to-peer assessments, engaging outside professional institutions, or in any other appropriate manner. The performance assessment indicators shall be developed in consideration of the company's needs.</p> <p>The company shall evaluate the performance of functional committees.</p> <p>The company shall establish a succession plan for the management. The development and implementation of such plan shall be periodically evaluated by the board of directors to ensure sustainable operation.</p> <p>The company shall evaluate the planning and implementation of intellectual property management policies, the ensure the company adheres to "Plan, Do, Check and Act" continuous management model.</p>	<p>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.</p> <p>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.</p> <p>The company should formulate measures and procedure for evaluating the performance of the board of directors. The board of directors should evaluate regularly the annual performances of the board of directors, functional committees, and individual directors.</p>	<p>establish a management succession planning plan for sustainable operation. Added intellectual property paragraph in reference to the Industrial Development Bureau.</p>
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Ethical Corporate Management Best Practice Principles

(Summary Translation) This English version is 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.

Article 1 (objective, application targets, and scope)

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

Article 2 (ban on unethical behaviors)

When conducting business acts, the company's directors, managements, or persons exercising actual control ("company staffers" in short, in the following), should not directly or indirectly provide, pledge, request, to accept any irregular benefit or conduct unethical acts, including those violating the ethical principle, the law, or the obligations of trust, in order to secure or retain interests ("unethical acts" in short, in the following). Targets of the aforementioned acts include public functionaries, political candidates, party staffers or cadres, and any enterprise or institution, owned by government or private parties, and their directors, managers, persons exercising actual control, or other stake holders.

Article 3 (types of interests)

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

Article 4 (legal compliance)

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

Article 5 (policy)

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

Article 6 (precautionary program)

Formulating integrity-oriented management policy and clearly institute in detail concrete integrity-oriented management methods and program preventing dishonest behaviors, including operating procedure, behavioral guidelines, and education/training. In formulating the precautionary program, the company should comply with the laws/regulations of the localities housing the operations of the company and the enterprises and organizations under the auspices of the group.

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

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

1. Bribing and reception of bribes;
2. Providing illegal political donations;

3. Improper charitable donations or sponsorship;
4. Providing or receiving improper gifts, treatment, or other improper benefits.

Article 8 (commitments and implementation)

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

Article 9 (business activities based on ethical corporate management)

The company conducts business activities in a fair and transparent manner based upon Ethical Corporate Management Best Practice Principles. Prior to business dealings, the company will take into account the legality and record of unethical behaviors of agents, suppliers, clients, or other business partners, avoiding dealing with those with record of unethical behaviors. Major contracts signed by the company with agents, suppliers, clients, or other business partners should contain the policy of ethical corporate management and a clause warranting termination or revocation of the contracts whenever the transaction party is proved to have involved in unethical behaviors.

Article 10 (forbidding bribing and bribe taking)

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

Article 11 (ban on provision of illegal political donations)

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

Article 12 (ban on improper charitable donation or sponsorship)

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

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

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

Article 14 (Forbid infringement on intellectual properties)

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

Article 15 (Forbid engagement in unfair competition)

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

Article 16 (Prevent products or services harming stakeholders)

The company and its staff should abide by related law/regulation and international criteria in R&D, procurement, manufacturing, provision, and sale of merchandises and services; assure

information transparency and safety of merchandises and services, formulate and publicize policy safeguarding the interests of consumers and other stakeholders, as well as its enforcement in business activities, so as to prevent merchandises or services harming directly or indirectly the interests, health, and safety of consumers and other stakeholders. Merchandises should be recalled and services suspended, should there be facts proving their threat, either directly or indirectly, on the safety and health of consumers and other stakeholders.

Article 17 (organizations and duties)

In fulfilling the obligation of notice as a good manager, the company's board of directors should push the company in preventing unethical behaviors and constantly review the result of implementation for constant improvement, so as to assure the materialization of the company's policy of ethical corporate management. To assure sound management, Legal & Compliance Division should jointly formulate policy of ethical corporate management, with the auditing unit responsible for supervising and reporting to the board of directors regularly.

1. Assist in the incorporation of integrity and ethnic value into the company's management strategy and formulate measures preventing irregularities, to assure integrity-oriented management, in line with the stipulations of laws/regulations.
2. Formulate programs preventing dishonest behaviors, which include standard operating procedures and behavioral guidelines for works and businesses.
3. Plan internal organization, personnel structure, and responsibilities, including mechanism of mutual supervision and check-and-balance for business activities involving higher risk for dishonest behaviors.
4. Pushing and coordinating the promotion and training of integrity-oriented policy.
5. Plan the setup of a reporting system, to assure effective enforcement.
6. Assist the board of directors and management in checking and evaluating the effectiveness for the operation of the precautionary measures, meant to assure the enforcement of integrity-oriented management policy, on top of periodic evaluation of the abidance of related workflow before reporting the finding.

Article 18 (legal compliance in business activities)

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

Article 19 (avoidance of conflict of interests)

The company should formulates the policy of preventing conflict of interests, so that the company can identify, supervise and manage the risk of dishonest behavior resulted from interest conflict, and provides proper channels for the company's staffers and other stakeholders related to the attendee of Board of Director to explain potential conflict of interests with the company on their own. Out of high extent of self discipline, the company's directors can express opinions and reply inquiries but should not participate in discussion and voting on items, while absenting themselves from the discussion and voting, on the agenda of the board of directors which involve their own interests or the interests of the legal entities which they represent. Directors should not exercise voting rights on behalf of involved directors on such items. For self discipline, they should not give improper support to each other. The company's staffers should not take advantage of their positions or influence in helping themselves, spouses, parents, offspring, or any other party obtain improper benefits.

Article 20 (accounting and internal control)

The company should establish effective accounting system and internal-control system, meant to prevent business activities with higher risk of ethical behaviors, so as to assure continuing effectiveness in the design and execution of the systems. The company's in-house auditors should regularly check the compliance of the aforementioned systems with laws/regulations and produce auditing reports for submission to the board of directors, and appoint CPA to certify. The professional should be appointed to assist if necessary.

Article 21 (operational procedure and behavioral guide)

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

1. Criteria in determining provision or acceptance of improper benefits;
2. Procedure for provision of legal political donations;
3. Procedure and value criteria for rightful charitable donation or sponsorship;
4. Regulations on avoiding job-related conflict of interest, procedure for the reporting and handling of such cases;
5. Regulations on the confidentiality of job-related secrets and sensitive business information;
6. Regulations and handling procedure on suppliers, customers, business partners with unethical behaviors;
7. Procedure for handling violation of the ethical corporate management principles;
8. Discipline and penalties on offenders of the ethical corporate management principles.

Article 22 (education, training, and evaluation)

The company's chairman, president, or ranking managers should convey the importance of integrity to directors, employees, and agents regularly. The company holds education, training, and promotion for staffers regularly. And invite the counterparty of commercial activity to attend, so that they can fully understand the determination company's ethical corporate, policy, precautionary and the consequences of violation of honest behavior. To materialize the policy of ethical corporate management, the company has listed the policy as a criterion in evaluating staffers' performance at end of year

Article 23 (informing)

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

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

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

Article 24 (Penalty and complaint system)

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

Article 25 (information disclosure)

The company establish and push quantification of integrity-oriented management and continuously analyze and evaluate performance for the enforcement of the policy, publicizes the status in executing the principles on its website and in its annual report and public statement, on top of posting contents of guidelines for integrity-oriented management on the Market Observation Post System.

Article 26 (review of ethical corporate management and measures)

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

Article 27 (implementation)

The principles are put into practice after approval by the board of directors before being submitted to the audit committee for reference and reported to the shareholders' meeting. The same procedure applies to the revision of the principles. When the board of directors discusses the guidelines for integrity-oriented management, in line with the aforementioned regulation, it should take into account the opinions of independent directors and put opposing opinions or reservation on record in the minutes of the meeting. When independent directors cannot attend the meeting of the board of directors to express their opposition or reservation, due to some justified reason, they should put forth their opinions in written form, which should be put on record in the minutes of the meeting.

Article 28 (supplement)

The principles were formulated on August 14, 2014.

The principles were amended on December 23, 2016

TECO Electric & Machinery Co. Ltd.
Comparison between the Revision and the Original of
“Ethical Corporate Management Best Practice Principle”

Proposed Revision	Current Clauses	Note
<p>Article 7 (scope for Ethical Corporate Management Best Practice Principles) The company shall establish a risk assessment mechanism against unethical conduct, analyze and assess on a regular basis business activities within their business scope which are at a higher risk of being involved in unethical conduct, and establish prevention programs accordingly and review their adequacy and effectiveness on a regular basis. The company’s precautionary program should contain precautionary measures against the following behaviors:</p> <ol style="list-style-type: none"> 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. 	<p>Article 7 (scope for Ethical Corporate Management Best Practice Principles) The company’s precautionary program should contain precautionary measures against the following behaviors:</p> <ol style="list-style-type: none"> 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. 	<p>Added first paragraph in accordance with the Financial Supervisory Commissions requirements.</p>
<p>Article 8 (commitments and implementation) The company shall request their directors and senior management to issue a statement of compliance with the ethical management policy and require in the terms of employment that employees comply with such policy. The board of directors and the management should commit to actively implementing the commitment of policy of ethical high-ranking corporate management, as demonstrated in the company’s regulations, external documents and corporate website, in internal management and external business activities. The company shall compile documented information on the ethical management policy, statement, commitment and implementation mentioned in the first and second paragraphs and retain said information properly.</p>	<p>Article 8 (commitments and implementation) The board of directors and the management should commit to actively implementing the commitment of policy of ethical corporate management, as demonstrated in the company’s regulations and external documents, in internal management and external business activities.</p>	<p>Amended in accordance to Financial Supervisory Commission’s changes to “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” Moved the original first paragraph to the second paragraph, and included corporate website and emphasized ‘high-ranking’ management. Added third paragraph in accordance with the Financial Supervisory Commissions requirements.</p>
<p>Article 17 (organizations and duties)</p>	<p>Article 17 (organizations and duties)</p>	<p>Amended Article 17-2 in accordance to Financial</p>

<p>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.</p> <p>To assure sound management, Legal and Compliance Division should have adequate resources and staff itself with competent personnel, and jointly formulate policy of ethical corporate management, with the auditing unit responsible for supervising and reporting to the board of directors regularly (annually).</p> <ol style="list-style-type: none"> 1. Assist in the incorporation of integrity and ethnic value into the company's management strategy and formulate measures preventing irregularities, to assure integrity-oriented management, in line with the stipulations of laws/regulations. 2. Analyzing and assessing on a regular basis the risk of involvement in unethical conduct within the business scope. Formulate programs preventing dishonest behaviors accordingly, which include standard operating procedures and behavioral guidelines for works and businesses. 3. Plan internal organization, personnel structure, and responsibilities, including mechanism of mutual supervision and check-and-balance for business activities involving higher risk for dishonest behaviors. 4. Pushing and coordinating the promotion and training of integrity-oriented policy. 5. Plan the setup of a reporting system, to assure effective enforcement. 6. Assist the board of directors and management in checking and evaluating the effectiveness for the 	<p>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.</p> <p>To assure sound management, Legal & Compliance Division should jointly formulate policy of ethical corporate management, with the auditing unit responsible for supervising and reporting to the board of directors regularly.</p> <ol style="list-style-type: none"> 1. Assist in the incorporation of integrity and ethnic value into the company's management strategy and formulate measures preventing irregularities, to assure integrity-oriented management, in line with the stipulations of laws/regulations. 2. Formulate programs preventing dishonest behaviors, which include standard operating procedures and behavioral guidelines for works and businesses. 3. Plan internal organization, personnel structure, and responsibilities, including mechanism of mutual supervision and check-and-balance for business activities involving higher risk for dishonest behaviors. 4. Pushing and coordinating the promotion and training of integrity-oriented policy. 5. Plan the setup of a reporting system, to assure effective enforcement. 6. Assist the board of directors and management in checking and evaluating the effectiveness for the operation of the precautionary measures, meant to assure the enforcement of integrity-oriented management policy, on top of periodic evaluation of the abidance of related 	<p>Supervisory Commission's changes to "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", including adequacy clause, and annually reporting. Amended in accordance to Financial Supervisory Commission.</p>
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<p>operation of the precautionary measures, meant to assure the enforcement of integrity-oriented management policy, on top of periodic evaluation of the abidance of related workflow before reporting the finding.</p>	<p>workflow before reporting the finding.</p>	
<p>Article 20 (accounting and internal control) The company should establish effective accounting system and internal-control system, meant to prevent business activities with higher risk of ethical behaviors, so as to assure continuing effectiveness in the design and execution of the systems. The company's in-house auditors should shall, based on the results of assessment of the risk of involvement in unethical conduct, devise relevant audit plans, including auditees, audit scope, audit items, audit frequency, etc., and examine accordingly the compliance with the prevention programs. The company's in-house auditors should produce auditing reports for submission to the board of directors, and appoint CPA to certify. The professional should be appointed to assist if necessary. The results of examination in the preceding paragraph shall be reported to senior management and the ethical management dedicated unit and put down in writing in the form of an audit report to be submitted to the board of directors.</p>	<p>Article 20 (accounting and internal control) The company should establish effective accounting system and internal-control system, meant to prevent business activities with higher risk of ethical behaviors, so as to assure continuing effectiveness in the design and execution of the systems. The company's in-house auditors should regularly check the compliance of the aforementioned systems with laws/regulations and produce auditing reports for submission to the board of directors, and appoint CPA to certify. The professional should be appointed to assist if necessary.</p>	<p>Amended second paragraph in accordance to Financial Supervisory Commission. Amended third paragraph to reflect reporting of the audit report to management and the board.</p>
<p>Article 23 (informing) The company should institute a concrete reporting system for substantive enforcement, with its contents covering: 1. Set up and publicize independent internal mailbox and dedicated line, or entrust an independent body to do so, for use by in-house staffers or outsiders. 2. Appoint specialized staffer(s) or unit for receiving complaints and submit complaints involving directors or high-ranking managers to independent</p>	<p>Article 23 (informing) The company should institute a concrete reporting system for substantive enforcement, with its contents covering: 1. Set up and publicize independent internal mailbox and dedicated line, or entrust an independent body to do so, for use by in-house staffers or outsiders. 2. Appoint specialized staffer(s) or unit for receiving complaints and submit complaints involving directors or ranking managers to independent</p>	<p>Amended Article in accordance to Financial Supervisory Commission's emphasis on high-ranking managers. Inserted Article 23-3 clause in accordance to Financial Supervisory Commission's changes to "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", emphasizing follow-up measures. Shifted numbering of</p>

<p>directors, on top of categorizing complaints and instituting standard investigative procedure.</p> <p>3. Follow-up measures to be adopted depending on the severity of the circumstances after investigations of cases reported are completed. Where necessary, a case shall be reported to the competent authority or referred to the judicial authority.</p> <p>4. The reception, investigation, and findings, as well as production of related literature, of complaints, should be put on record and kept.</p> <p>5. The identity of informants and contents of complaints should be kept in confidentiality.</p> <p>6. Protect informants from improper treatments for their complaints.</p> <p>7. Incentives for whistleblowers The company's auditing unit is in charge of receiving complaints and would produce report for informing independent director(s) in written form after discovering major offenses or potential damage for the company.</p>	<p>directors, on top of categorizing complaints and instituting standard investigative procedure.</p> <p>3. The reception, investigation, and findings, as well as production of related literature, of complaints, should be put on record and kept.</p> <p>4. The identify of informants and contents of complaints should be kept in confidentiality.</p> <p>5. Protect informants from improper treatments for their complaints.</p> <p>6. Incentives for whistleblowers The company's auditing unit is in charge of receiving complaints and would produce report for informing independent director(s) in written form after discovering major offenses or potential damage for the company.</p>	<p>subsequent items.</p>
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TECO Electric & Machinery Co. Ltd.
Codes and Procedures for Ethical Management and Guidelines for Conduct

Article 1 (Purpose of adoption and scope of application)

This Corporation engages in commercial activities following the principles of fairness, honesty, faithfulness, and transparency, and in order to fully implement a policy of ethical management and actively prevent unethical conduct, these Procedures for Ethical Management and Guidelines for Conduct (hereinafter, "Procedures and Guidelines") are adopted pursuant to the provisions of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies and the applicable laws and regulations of the places where this Corporation and its business groups and organizations operate, with a view to providing all personnel of this Corporation with clear directions for the performance of their duties.

The scope of application of these Procedures and Guidelines includes the subsidiaries of this Corporation, any incorporated foundation in which this Corporation's accumulated contributions, direct or indirect, exceed 50 percent of the total funds of the foundation, and other group enterprises and organizations, such as institutions or juristic persons, substantially controlled by this Corporation.

Article 2 (Applicable subjects)

For the purposes of these Procedures and Guidelines, the term "personnel of this Corporation" refers to any director, supervisor, managerial officer, employee, mandatary or person having substantial control, of this Corporation or its group enterprises and organizations. Any provision, promise, request, or acceptance of improper benefits by any personnel of this Corporation through a third party will be presumed to be an act by the personnel of this Corporation.

Article 3 (Unethical conduct)

For the purposes of these Procedures and Guidelines, "unethical conduct" means that any personnel of this Corporation, in the course of their duties, directly or indirectly provides, promises, requests, or accepts improper benefits or commits a breach of ethics, unlawful act, or breach of fiduciary duty for purposes of acquiring or maintaining benefits.

The counterparties of the unethical conduct under the preceding paragraph include public officials, political candidates, political parties or their staffs, and government-owned or private-owned enterprises or institutions and their directors, supervisors, managerial officers, employees, persons having substantial control, or other parties with stakes.

Article 4 (Types of benefits)

For the purposes of these Procedures and Guidelines, the term "benefits" means any money, gratuity, gift, commission, position, service, preferential treatment, rebate, facilitating payment, entertainment, dining, or any other item of value in whatever form or name.

Article 5 (Responsible unit)

This Corporation shall designate the board compliance and legal department as the solely responsible unit (hereinafter, "responsible unit") in charge of the amendment, implementation, interpretation, and advisory services with respect to these Procedures and Guidelines. The Corporation shall avail itself of adequate resources and staff itself with competent personnel, responsible for establishing and supervising the implementation of the ethical corporate management policies and prevention programs and the recording and filing of reports. The responsible unit will be supervised by the audit team. The responsible unit shall be in charge of the following matters and also submit regular reports (annually) to the board of directors:

1. Assisting in incorporating ethics and moral values into this Corporation's business strategy and adopting appropriate prevention measures against corruption and malfeasance to ensure ethical management in compliance with the requirements of laws and regulations.
2. Analyzing and assessing on a regular basis the risk of involvement in unethical conduct

within the business scope, adopting programs to prevent unethical conduct and setting out in each program the standard operating procedures and conduct guidelines with respect to this Corporation's operations and business.

3. Planning the internal organization, structure, and allocation of responsibilities and setting up check-and-balance mechanisms for mutual supervision of the business activities within the business scope which are possibly at a higher risk for unethical conduct.
4. Promoting and coordinating awareness and educational activities with respect to ethics policy.
5. Developing a whistle-blowing system and ensuring its operating effectiveness.
6. Assisting the board of directors and management in auditing and assessing whether the prevention measures taken for the purpose of implementing ethical management are effectively operating, and preparing reports on the regular assessment of compliance with ethical management in operating procedures
7. Production and retaining of documents related to ethical management policies, compliance statements, fulfillment, and implementation.

Article 6 (General code of conduct)

This Corporation complies with the laws, terms, and regulations of the Republic of China relating to the Corporation and its personnel. Personnel of this Corporation shall not engage in alleged illegal activities or breach the law while conducting Corporate businesses during working hours. Any detection of such violations should be immediately reported to the relevant Corporate department.

Article 7 (Corporate image)

All Personnel of this Corporation, whether on or off duty, contributes to Corporate image. Personnel in uniform or with Corporate identification should be more vigilant in regards to conduct. The Corporation hopes all personnel bear in mind the highest pursuit of business goals at all times.

Article 8 (Customer relations and other relationships)

All personnel of this Corporation shall conform to relevant Corporate standards, and uphold fair, sincere, transparent business transactions with clients and suppliers. This Corporation does not hold interests and bias towards clients, products and services purchased should be relatively competitive on the market. Personnel personal interests should not interfere with providing of Corporate services, interests, and rights between this Corporation and other companies. Objectivity and judgement of all personnel while conducting official duty must not be affected by interests towards organizations or other relationships. Under special circumstances, this Corporation may need to sign contracts or agreements with personnel or companies owned by personnel. If this situation arises, personnel of this Corporation should report to the chairman and seek approval.

Article 9 (Prohibition against providing or accepting improper benefits)

Except under one of the following circumstances, when providing, accepting, promising, or requesting, directly or indirectly, any benefits as specified in Article 4, the conduct of the given personnel of this Corporation shall comply with the provisions of the Corporation's Ethical Corporate Management Best Practice Principles for and these Procedures and Guidelines, and the relevant procedures shall have been carried out:

1. The conduct is undertaken to meet business needs and is in accordance with local courtesy, convention, or custom during domestic (or foreign) visits, reception of guests, promotion of business, and communication and coordination.
2. The conduct has its basis in ordinary social activities that are attended or others are invited to hold in line with accepted social custom, commercial purposes, or developing relationships.
3. Invitations to guests or attendance at commercial activities or factory visits in relation to business needs, when the method of fee payment, number of participants, class of

accommodations, and the time period for the event or visit have been specified in advance.

4. Attendance at folk festivals that are open to and invite the attendance of the general public.
 5. Rewards, emergency assistance, condolence payments, or honorariums from the management.
 6. Money, property, or other benefits with a market value of NT\$3,000 or less offered to or accepted from a person other than relatives or friends; or gifts of property with a total market value of NT\$20,000 or less given by another party to the majority of the personnel of this Corporation, provided that the total market value of the property offered to the same counterparty or coming from the same source within a single fiscal year shall be limited to NT\$30,000.
 7. Other conduct that complies with the rules of this Corporation.
- Personnel of this Corporation providing gifts to conduct business should use Corporate-branded gifts when possible.

Article 10 (Procedures for handling the acceptance of improper benefits)

Except under any of the circumstances set forth in the preceding article, when any personnel of this Corporation are provided with or are promised, either directly or indirectly, any benefits as specified in Article 4 by a third party, the matter shall be handled in accordance with the following procedures:

1. If there is no relationship of interest between the party providing or offering the benefit and the official duties of this Corporation's personnel, the personnel shall report to their immediate supervisor within 3 days from the acceptance of the benefit, and the responsible unit shall be notified if necessary.
2. If a relationship of interest does exist between the party providing or offering the benefit and the official duties of this Corporation's personnel, the personnel shall return or refuse the benefit, and shall report to his or her immediate supervisor and notify the responsible unit. When the benefit cannot be returned, then within 3 days from the acceptance of the benefit, the personnel shall refer the matter to the responsible unit for handling.

"A relationship of interest between the party providing or offering the benefit and the official duties of this Corporation's personnel," as referred to in the preceding paragraph, refers to one of the following circumstances:

1. When the two parties have commercial dealings, a relationship of direction and supervision, or subsidies (or rewards) for expenses.
2. When a contracting, trading, or other contractual relationship is being sought, is in progress, or has been established.
3. Other circumstances in which a decision regarding this Corporation's business, or the execution or non-execution of business, will result in a beneficial or adverse impact.

The responsible unit of this Corporation shall make a proposal, based on the nature and value of the benefit under paragraph 1, that it be returned, accepted on payment, given to the public, donated to charity, or handled in another appropriate manner. The proposal shall be implemented after being reported and approved by the chairman.

Article 11 (Prohibition of and handling procedure for facilitating payments)

This Corporation shall neither provide nor promise any facilitating payment.

If any personnel of this Corporation provides or promises a facilitating payment under threat or intimidation, they shall submit a report to their immediate supervisor stating the facts and shall notify the responsible unit.

Upon receipt of the report under the preceding paragraph, the responsible unit shall take immediate action and undertake a review of relevant matters in order to minimize the risk of recurrence. In a case involving alleged illegality, the responsible unit shall also immediately report to the relevant judicial agency.

Article 12 (Procedures for handling political contributions)

This Corporation shall not provide political contributions.

Personnel of this Corporation shall not provide political contributions on behalf of the Corporate or any of its ancillary establishments. The Corporation does not object against personnel providing political contributions on a personal level.

In situations where personnel of this Corporation provides political contributions on a personal level, commercial activities, permit applications and other activities with Corporate interests with the relevant government department should be avoided.

Article 13 (Procedures for handling charitable donations or sponsorships)

Charitable donations or sponsorships by this Corporation shall be provided in accordance with the following provisions and reported to the chairman for approval, and a notification shall be given to the responsible unit. Donations or sponsorships with related parties or substantial donations or sponsorships to unrelated parties, the donation or sponsorship shall be provided only after it has been submitted for adoption by the board of directors:

1. shall be ascertained that the donation or sponsorship is in compliance with the laws and regulations of the country where this Corporation is doing business.
2. A written record of the decision-making process shall be kept.
3. The use and purpose of the charitable donations or sponsorship should be confirmed before providing charitable donations or sponsorships. The charitable donation shall be given to a valid charitable institution and may not be a disguised form of bribery.
4. The returns received as a result of any sponsorship shall be specific and reasonable, and the subject of the sponsorship may not be a counterparty of this Corporation's commercial dealings or a party with which any personnel of this Corporation has a stake in the relationship.
5. After a charitable donation or sponsorship has been given, it shall be ascertained that the destination to which the money flows is consistent with the purpose of the contribution.

Article 14 (Recusal)

When a Company director, officer or other stakeholder attending or present at a board meeting, or the juristic person represented thereby, has a stake in a proposal at the meeting, that director, supervisor, officer or stakeholder shall state the important aspects of the stake in the meeting and, where there is a likelihood that the interests of this Corporation would be prejudiced, may not participate in the discussion or vote on that proposal, shall recuse himself or herself from any discussion and voting, and may not exercise voting rights as proxy on behalf of another director. The directors shall exercise discipline among themselves, and may not support each other in an inappropriate manner.

Spouses, parents, children of director, or relationships with companies substantially controlled by director will be considered a stake of the director in aforementioned meeting.

If in the course of conducting company business, any personnel of this Corporation discovers that a potential conflict of interest exists involving themselves or the juristic person that they represent, or that they or their spouse, parents, children, or a person with whom they have a relationship of interest is likely to obtain improper benefits, the personnel shall report the relevant matters to both his or her immediate supervisor and the responsible unit, and the immediate supervisor shall provide the personnel with proper instructions.

No personnel of this Corporation may use company resources on commercial activities other than those of this Corporation, nor may any personnel's job performance be affected by his or her involvement in the commercial activities other than those of this Corporation.

Article 15 (Special unit in charge of confidentiality regime and its responsibilities)

The board compliance and legal department of this Corporation is charged with formulating and implementing procedures for managing, preserving, and maintaining the confidentiality of this Corporation's trade secrets, trademarks, patents, works and other intellectual properties and it shall also conduct periodical reviews on the results of implementation to ensure the sustained effectiveness of the confidentiality procedures.

All personnel of this Corporation shall faithfully follow the operational directions pertaining to intellectual properties as mentioned in the preceding paragraph and may not disclose to any other party any trade secrets, trademarks, patents, works, and other intellectual properties of this Corporation of which they have learned, nor may they inquire about or collect any trade secrets, trademarks, patents, and other intellectual properties of this Corporation unrelated to their individual duties.

Article 16 (Engaging in unfair competitive practices)

This Corporation shall follow the Fair Trade Act and applicable competition laws and regulations when engaging in business activities, and may not fix prices, make rigged bids, establish output restrictions or quotas, or share or divide markets by allocating customers, suppliers, territories, or lines of commerce.

Article 17 (Prohibition against insider trading)

This Corporation shall collect and understand the applicable laws and regulations and international standards governing its products and services which it shall observe and gather and publish all guidelines to cause personnel of this Corporation to ensure the transparency of information about, and safety of, the products and services in the course of their research and development, procurement, manufacture, provision, or sale of products and services.

This Corporation shall adopt and publish on its website a policy on the protection of the rights and interests of consumers or other stakeholders to prevent its products and services from directly or indirectly damaging the rights and interests, health, and safety of consumers or other stakeholders. Where there are media reports, or sufficient facts to determine, that this Corporation's products or services are likely to pose any hazard to the safety and health of consumers or other stakeholders, this Corporation shall, within 60 days, recall those products or suspend the services, verify the facts and present a review and improvement plan. The responsible unit of this Corporation shall report the event as in the preceding paragraph, actions taken, and subsequent reviews and corrective measures taken to the board of directors.

Article 18 (Non-disclosure agreement)

All Company personnel shall adhere to the provisions of the Securities and Exchange Act, and may not take advantage of undisclosed information of which they have learned to engage in insider trading. Personnel are also prohibited from divulging undisclosed information to any other party, in order to prevent other party from using such information to engage in insider trading. Any organization or person outside of this Corporation that is involved in any merger, demerger, acquisition and share transfer, major memorandum of understanding, strategic alliance, other business partnership plan, or the signing of a major contract by this Corporation shall be required to sign a non-disclosure agreement in which they undertake not to disclose to any other party any trade secret or other material information of this Corporation acquired as a result, and that they may not use such information without the prior consent of this Corporation.

Article 19 (Concurrent employment)

All personnel of this Corporation should maintain the highest loyalty. This Corporation does not completely prohibit concurrency in employment. The concurrent employment must be outside work hours, deemed side occupation, and setup to avoid conflicts to avoid conflicts with employment with the Corporation, and the effects of substantial employment hours to the quality and efficiency of work. In cases where overwork may be of concern, the concurrent employment shall be terminated.

All personnel of this Corporation shall not engage in concurrent employment where the objectivity, behavior, or job ability of the personnel is affected. In instances where the nature of concurrent employment is similar to the employment at the Corporation, the concurrent employment shall be subject for approval due to its effects on the job and the interests of the Corporation. Any information regarding concurrent employment of personnel of this Corporation or related ancillary establishments should be reported to the Corporation.

Article 20 (Illegal drugs/alcohol)

Possession, consumption, influence of alcohol or alcoholic beverages while conducting official duties is prohibited. This Corporation strongly prohibits personnel alcohol and alcoholic beverage consumption during work hours, lunchtime, other rest times, and overtimes. Personnel consumption of illegal drugs such as marijuana, cocaine, opium, and amphetamine is strictly prohibited.

The abovementioned drugs and alcohol are considered Prohibited Items.

Article 21 (Dangerous goods)

This Corporation prohibits personnel from carrying firearms, ammunition, knives and weapons at work.

Article 22 (Demeanor)

All personnel of this Corporation while at work or conducting official duties, shall not threaten, intimidate, coerce, use inappropriate language or disrespectful behavior towards colleagues, clients or other personnel.

All personnel of this Corporation shall not disseminate untruthful, wrong, or malicious information regarding the Corporation, colleagues, or customers.

All personnel of this corporation shall not engage in fights and disorderly behavior at work or when out.

All personnel of this corporation shall not engage in unauthorized use of Corporate equipment, asset, or other systems.

Article 23 (Adherence and announcement of policy of ethical management to outside parties)

This corporation expects director and senior management to abide by the policies of ethical management, and the adherence of the policies be conditions for new employees in the employment process.

This Corporation shall disclose its policy of ethical management in its internal rules, annual reports, on the company's websites, and in other promotional materials, and shall make timely announcements of the policy in events held for outside parties such as product launches and investor press conferences, in order to make its suppliers, customers, and other business-related institutions and personnel fully aware of its principles and rules with respect to ethical management.

Article 24 (Ethical management evaluation prior to development of commercial relationships)

Before developing a commercial relationship with another party, such as an agent, supplier, customer, or other counterparty in commercial dealings, this Corporation shall evaluate the legality and ethical management policy of the party and ascertain whether the party has a record of involvement in unethical conduct, in order to ensure that the party conducts business in a fair and transparent manner and will not request, offer, or take bribes.

When this Corporation carries out the evaluation under the preceding paragraph, it may adopt appropriate audit procedures for a review of the counterparty with which it will have commercial dealings with respect to the following matters, in order to gain a comprehensive knowledge of its ethical management:

1. The enterprise's nationality, location of business operations, organizational structure, and management policy, and place where it will make payment.
2. Whether the enterprise has adopted an ethical management policy, and the status of its implementation.
3. Whether enterprise's business operations are located in a country with a high risk of corruption.
4. Whether the business operated by the enterprise is in an industry with a high risk of bribery.

5. The long-term business condition and degree of goodwill of the enterprise.
6. Consultation with the enterprise's business partners on their opinion of the enterprise.
7. Whether the enterprise has a record of involvement in unethical conduct such as bribery or illegal political contributions.

Article 25 (Statement of ethical management policy to counterparties in commercial dealings)

Any personnel of this Corporation, when engaging in commercial activities, shall make a statement to the trading counterparty about this Corporation's ethical management policy and related rules, and shall clearly refuse to provide, promise, request, or accept, directly or indirectly, any improper benefit in whatever form or name.

Article 26 (Avoidance of commercial dealings with unethical operators)

All personnel of this Corporation shall avoid business transactions with an agent, supplier, customer, or other counterparty in commercial interactions that is involved in unethical conduct. When the counterparty or partner in cooperation is found to have engaged in unethical conduct, the personnel shall immediately cease dealing with the counterparty and blacklist it for any further business interaction in order to effectively implement this Corporation's ethical management policy.

Article 27 (Stipulation of terms of ethical management in contracts)

Before entering into a contract with another party, this Corporation shall gain a thorough knowledge of the status of the other party's ethical management, and shall make observance of the ethical management policy of this Corporation part of the terms and conditions of the contract, stipulating at the least the following matters:

1. When a party to the contract becomes aware that any personnel has violated the terms and conditions pertaining to prohibition of acceptance of commissions, rebates, or other improper benefits, the party shall immediately notify the other party of the violator's identity, the manner in which the provision, promise, request, or acceptance was made, and the monetary amount or other improper benefit that was provided, promised, requested, or accepted. The party shall also provide the other party with pertinent evidence and cooperate fully with the investigation. If there has been resultant damage to either party, the party may claim damages, and may also deduct the full amount of the damages from the contract price payable.
2. Where a party is discovered to be engaged in unethical conduct in its commercial activities, the other party may terminate or rescind the contract unconditionally at any time.
3. Specific and reasonable payment terms, including the place and method of payment and the requirement for compliance with related tax laws and regulations.

Article 28 (Handling of unethical conduct by personnel of this Corporation)

As an incentive to insiders and outsiders for informing of unethical or unseemly conduct, this Corporation will grant an appropriate reward depending the seriousness of the circumstance concerned. Insiders having made a false report or malicious accusation shall be subject to disciplinary action and be removed from office if the circumstance concerned is material.

This Corporation shall internally establish and publicly announce on its website and the intranet, or provide through an independent external institution, an independent mailbox or hotline, for Company insiders and outsiders to submit reports. A whistleblower shall at least furnish the following information:

1. the whistleblower's name and I.D. number, and an address, telephone number and e-mail address where it can be reached.
2. the informed party's name or other information sufficient to distinguish its identifying features.
3. specific facts available for investigation.

Company personnel handling whistle-blowing matters shall represent in writing they will keep the whistleblowers' identity and contents of information confidential. This Corporation also

undertakes to protect the whistleblowers from improper treatment due to their whistle-blowing. The audit team of this Corporation shall observe the following procedure:

1. An information shall be reported to the department head if involving the rank and file and to the chairman or an independent director.
2. The audit team of this Corporation and the department head or personnel being reported to in the preceding subparagraph shall immediately verify the facts and, where necessary, with the assistance of the compliance and legal department or other related department.
3. If a person being informed of is confirmed to have indeed violated the applicable laws and regulations or this Corporation's policy and regulations of ethical management, this Corporation shall immediately require the violator to cease the conduct and shall make an appropriate disposition. When necessary, this Corporation will report to regulatory authorities and institute legal proceedings and seek damages to safeguard its reputation and its rights and interests.
4. Documentation of case acceptance, investigation processes and investigation results shall be retained for five years and may be retained electronically. In the event of a suit in respect of the whistleblowing case before the retention period expires, the relevant information shall continue to be retained until the conclusion of the litigation.
5. With respect to a confirmed information, this Corporation shall charge relevant units with the task of reviewing the internal control system and relevant procedures and proposing corrective measures to prevent recurrence.
6. The audit team of this Corporation shall submit to the chairman and board of directors a report on the whistleblowing case, actions taken, and subsequent reviews and corrective measures.

Article 29 (Actions upon event of unethical conduct by others towards this Corporation)

If any personnel of this Corporation discovers that another party has engaged in unethical conduct towards this Corporation, and such unethical conduct involves alleged illegality, this Corporation shall report the relevant facts to the judicial and prosecutorial authorities; where a public service agency or public official is involved, this Corporation shall additionally notify the governmental anti-corruption agency.

Article 30 (Establishment of a system for internal education, rewards, penalties, and complaints, and related disciplinary measures)

The responsible unit of this Corporation shall organize awareness sessions each year and arrange for the chairperson, general manager, or senior management to communicate the importance of ethics to its directors, employees, and mandataries.

This Corporation shall link ethical management to employee performance evaluations and human resources policy, and establish clear and effective systems for rewards, penalties, and complaints.

If any personnel of this Corporation seriously violates ethical conduct, this Corporation shall dismiss the personnel from his or her position or terminate his or her employment in accordance with applicable laws and regulations or the personnel policy and procedures of this Corporation.

This Corporation shall disclose on its intranet information the name and title of the violator, the date and details of the violation, and the actions taken in response.

Article 31 (Enforcement)

These Procedures and Guidelines, and any amendments hereto, shall be implemented after adoption by resolution of the board of directors, and shall be delivered to audit committee and reported to the shareholders meeting.

When these Procedures and Guidelines are submitted to the board of directors for discussion, each independent director's opinions shall be taken into full consideration, and their objections and reservations expressed shall be recorded in the minutes of the board of directors meeting. An independent director that is unable to attend a board meeting in person to express objection or reservation shall provide a written opinion before the board meeting unless there is a

legitimate reason to do otherwise, and the opinion shall be recorded in the minutes of the board of directors meeting.

Article 32 (Supplementary Information)

The Procedures for Ethical Management and Guidelines for Conduct was established on 11 November 2017 and subsequently amended as follows:

The first amendment on 17 March 2020.

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

1. Types and number of issued shares: common stocks, 1,967,692,886 shares in total.
2. Minimum required shareholding by all Directors: 47,224,629 shares (Note 1)
3. Minimum required shareholding by all Supervisors: Not Applicable (Already set up Audit Committee)
4. The total shareholding of all Directors meets the minimum shareholding requirement.

Period of suspension of share transfer: March 13, 2020 ~ May 11 2020

Title	Name	Date elected (yy.mm.dd)	Term of office	Shareholding when elected		Number of shares held recorded in the shareholders roster as of the date of suspension of share transfer	
				Number of shares held	%	Number of shares held	%
Chairman	Tung Kuang Investment Co., Ltd. Representative: Chwen-Jy, Chiu	20180615	3yrs	30,341,364	1.52%	32,141,364	1.63%
Managing Director	Tong Ho Gloabl Investment Co., Ltd Representative: Chao-Kai, Liu	20180615	3yrs	2,240,262	0.11%	2,240,262	0.11%
Managing Director	Cheng-Tsung, Huang	20180615	3yrs	15,279,849	0.76%	15,279,849	0.76%
Managing Director	Creative Sensor Inc. Representative: Yu-Ren, Huang	20180615	3yrs	10,000,000	0.50%	10,000,000	0.50%
Managing & Independent Director	Wei-Chi, Liu	20180615	3yrs	0	0	0	0
Independent Director	Jin-Fu, Chang	20180615	3yrs	0	0	0	0
Independent Director	Ting-Wong, Cheng	20180615	3yrs	0	0	0	0
Director	Mao-Hsiung, Huang	20180615	3yrs	18,486,633	0.92%	18,486,633	0.94%
Director	Yinge Int. Inv. Co.,Ltd Representative: Po-chih,Huang	20180615	3yrs	10,079,600	0.50%	14,454,698	0.73%
Director	Hung Shun Investment Co., Ltd Representative: Tzu-Yi, Kuo	20180615	3yrs	304,000	0.02%	604,000	0.03%
Director	Tong-An Investment Co., Ltd Representative: Shang-Wei, Kao	20180615	3yrs	19,540,052	0.98%	19,540,052	0.99%
Director	Kuang Yuan Industrial Co., Ltd. Representative: Shih-Chien, Yang	20180615	3yrs	22,033,919	1.10%	26,833,919	1.36%
Director	Tong Kuang Investment Co., Ltd. Representative: Hong-Hsiang, Lin	20180615	3yrs	30,341,364	1.52%	32,141,364	1.63%
Director	Yubantec Co., Ltd. Representative: Tung-Hai, Kao	20180615	3yrs	13,200,000	0.66%	19,800,000	1.01%
Director	Yung-Hsiang, Chang	20180615	3yrs	0	0.00%	600,000	0.03%
Total number of shares held by all Directors				141,505,679	7.07%	159,980,777	8.13%

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

TECO Electric & Machinery Co., Ltd.

Notes

1. Impact on Company's business performance, EPS and ROI from the stock grant proposed by Shareholders Meeting: Not applicable.
2. Information on proposals submitted to the shareholders' meeting
 - a. According to article 172-1 of the Company Law, shareholders with over 1% holding of total shares issued can submit only one written proposal, containing up to 300 words, to shareholders' meeting.
 - b. Shareholders can put forth proposals to the shareholders' meeting during February 25-March 6, 2020, which had been posted on the Market Observation Post System of the Taiwan Stock Exchange, according to law.
 - c. The company received a proposal from the shareholder PJ Asset Management Co., Ltd. during the period. The proposal is listed in agenda of Annual Shareholders' meeting 2020 after reviewed and passed by the Board of Directors.
3. Information on nomination submitted to the shareholders' meeting: Not applicable.