

Stock symbol: 2449



京元電子股份有限公司  
*The Testing Industry Benchmark*

# 2019 Annual General Meeting Rules of procedure handbook

June 6, 2019

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# King Yuan Electronics Co., Ltd.

## Rules of procedure for the 2019 Annual General Meeting

- I. Announcement of meeting
- II. A word from the chairman
- III. Reporting Items
- IV. Ratification Items
- V. Discussion Items
- VI. Extraordinary Motions
- VII. Meeting ends

# King Yuan Electronics Co., Ltd.

## Agenda of the 2019 Annual General Meeting

Time: 9:00 a.m., June 6, 2019 (Thursday)

Location: 232 Zhongshan Road, Toufen, Miaoli County (auditorium, Toufen Public Office)

Chairperson: Director & Chairman Chin-Kung Lee

I. Announcement of meeting

II. A word from the chairman

III. Reporting Items

1. The Company's operating results in 2018, reported for general public information.
2. The Audit Committee's review of the Company's 2018 audited financial statements, reported for general public information.
3. The Company's 2018 status of employees' compensation and remuneration of directors, reported for general public information.
4. The Company's 2018 status of endorsements and guarantees for third party, reported for general public information.
5. The Company's merger with Dawning Leading Technology Inc., reported for general public information.
6. Changes in the Company's accounting estimates from the 2019 fiscal year, reported for general public information.

IV. Ratification Items

1. The Company's 2018 business report and financial statements, for acknowledgement.
2. The Company's proposal for distribution of 2018 earnings, for acknowledgement.

V. Discussion Items

1. Request for review and confirmation of the Company's "Procedures for the Acquisition or Disposal of Assets."

VI. Extraordinary Motions

VII. Meeting ends

## Reporting Items

### Reported case 1

Submitted by the Board of Directors

Summary: The Company's operating results in 2018, reported for general public information.

Description: 2018 business report, please refer to Page 13, Attachment 1.

Reported case 2

Submitted by the Board of Directors

Summary: The Audit Committee's review of the Company's 2018 audited financial statements, reported for general public information.

Description: 1. The Company's 2018 financial statements audited by a CPA and reviewed by the Audit Committee, with their inspection report and audit report.

2. Please refer to Page 15, Attachment 2 for the Audit Committee's audit report.

3. Please refer to Page 40, Attachment 5 for the CPA's audit report.

Summary: The Company's 2018 status of employees' compensation and remuneration of directors, reported for general public information.

Description: 1. In accordance with Article 19, Paragraph 1 of the Company's Articles of

Incorporation: "Company shall, depending on the earnings for the year, distribute 8%-10% of earnings as employee compensation, and shall distribute less than 1% of earnings to directors as remuneration. However, if the Company has cumulative losses, an amount sufficient to make up losses shall be retained."

2. The Company's 2018 profits totaled NT\$2,576,315,927 (i.e., profit before tax and remuneration of employees and directors), employee compensation stated as 8% of cash profit, or NT\$206,105,276, and remuneration of directors stated as 0.8% of cash profit, or NT\$20,610,530.

Summary: The Company's 2018 status of endorsements and guarantees for third party, reported for general public information.

Description: Article 2-2 of the Company's Articles of Incorporation specifies "The Company may provide guarantees to third parties when warranted by business needs."

1. In order to meet the business needs of King Long Technology (Suzhou) Ltd., the Company made out an endorsement guarantee for credit in the amount of US\$13 million from KGI Bank. As of December 31, 2018, King Long Technology had not used this line of credit.
2. In order to meet the business needs of King Long Technology (Suzhou) Ltd., the Company made out an endorsement guarantee for credit in the amount of RMB 35 million from Mega International Commercial Bank (Suzhou). As of December 31, 2018, King Long Technology had not used this line of credit.
3. In order to meet the business needs of Suzhou Zhen Kun Technology Ltd., the Company made out an endorsement guarantee for credit from KGI Bank, Taishin International Bank, O-Bank, and HSBC Bank (Taiwan). As of December 31, 2018, US\$13 million, US\$5 million, US\$5 million, and US\$5 million of credit from these banks had been used.
4. In order to meet the business needs of Suzhou Zhen Kun Technology Ltd., the Company made out an endorsement guarantee for credit from Mega International Commercial Bank (Suzhou). As of December 31, 2018, RMB 25 million of this credit had been used.



Summary: The Company's merger with Dawning Leading Technology Inc., reported for general public information.

Description: 1. In order to integrate resources and enhance operating performance, while responding to the Company's business development and to boost corporate competitiveness, in accordance with Article 18, Paragraph 7 of the Business Mergers and Acquisitions Act and other relevant laws and regulations, the Company conducted an asymmetric merger with Dawning Leading Technology Inc. (hereinafter referred to as "Dawning Leading") in which it held 33.50% of shares; the meeting of Board of Directors on August 7, 2018 approved a merger with the consideration of NT\$3.0 per share in cash; following the merger, the Company was the surviving company, and Dawning Leading was then dissolved.

2. The merger effective date was November 1, 2018, and statutory merger procedures have already been completed; the Ministry of Economic Affairs approved the registration change in Letter Jing-Shou-Shang-Zi No. 10701144710 of December 5, 2018.

Summary: Changes in the Company's accounting estimates from the 2019 fiscal year, reported for general public information.

Description: 1. In accordance with Circular 16 of the International Accounting Standards and the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers, in order to reasonably express to future economic benefit of assets, after the Company commissioned the Honest Specialty Appraisers Group to reassess the useful life of production equipment, the reasonableness of the changed estimated useful life of some machinery and equipment at the Company after the change and at some subsidiaries (including King Long Technology (Suzhou) Ltd. and Suzhou Zhen Kun Technology Ltd.) was analyzed on an item-by-item basis by Ernst & Young, which issued a review opinion.

2. The useful life of some machinery and equipment at the Company and some subsidiaries was changed from the original 6 years to 8 years, and the useful life of some second-hand machinery and equipment was changed from the original 3 years to 4 years.

3. The changed accounting estimates in the foregoing paragraph took effect on January 1, 2019, and are expected to reduce consolidated manufacturing expenses-depreciation for 2019 by NT\$995,843 thousand.

## Ratification Items

### Acknowledgement case 1

Submitted by the Board of Directors

Summary: The Company's 2018 business report and financial statements, for acknowledgement.

Description: 1. The Company's 2018 business report and financial statement have been passed by the 14th meeting of the 13th Board of Directors, and the Audit Committee has submitted a written audit report following completion of review.

2. Please refer to Page 13 Attachment 1 and Page 40, Attachment 5 concerning the business report and financial statement in the foregoing paragraph.

Resolution:

Acknowledgement case 2

Submitted by the Board of Directors

Summary: The Company's proposal for distribution of 2018 earnings, for acknowledgement.

Description: 1. The Company's 2018 business report and financial statement have been passed by the 14th meeting of the 13th Board of Directors, and the Audit Committee submitted a written audit report at the request of Board of Directors following completion of review.

2. Please refer to Page 16 [Attachment 3] concerning the distribution of earnings table drafted in accordance with the Company Act and the Company's Articles of Incorporation.

Resolution:

## Discussion Items

### Discussion case 1

Submitted by the Board of Directors

Summary: Request for review and confirmation of the Company's "Procedures for the Acquisition or Disposal of Assets."

Description: 1. In accordance with certain articles of the revised "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" issued in Financial Supervisory Commission Order Jin-Kong-Zheng-Fa-Zi No. 1070341072 of November 26, 2018, the Company proposed revision of certain articles of the "Procedures for the Acquisition or Disposal of Assets" in compliance.

2. Please refer to page 17, [Attachment 4] concerning the Company's "Procedures for the Acquisition or Disposal of Assets."

Resolution:

Extraordinary Motions

Meeting ends

[Attachment 1]

## King Yuan Electronics Co., Ltd. Business reports

King Yuan Electronics Co., Ltd. (KYEC) has continued to provide semiconductor packaging and testing services to the contract market for many years. Thanks to its superb service quality and cost advantage, KYEC has achieved its goal of providing all-round service to existing customers, developing new customers, and entering the IDM supply chain. In recent years, the Company has depended on its in-house testing platform R&D capability, while relying on strategic turnkey service to develop its sales, and has enjoyed great success. At the same time, during this key period in which 5G communications technology is driving the market, in order to seek out up- and downstream opportunities for strategic alliances, expanding its scale of operations, integrating the resources of its subsidiaries in China, and strengthening the development of the regional market are the Company's most important current tasks.

In 2018, KYEC had consolidated operating revenue of NT\$20.815 billion, which represented an increase of 5.7% compared with 2017; subtracting NT\$460 million in revenue from Dawning Leading Technology Inc. ("Dawning Leading") which was acquired on November 1, the Company enjoyed annual growth of 3.4%, but the gross profit ratio fell to 25.8% due to economic conditions and Dawning Leading's low gross profit packaging business, and this figure represented a decrease of 3.6% compared with 2017. Earnings per share was NT\$1.47, which represented a drop of 21.8% compared with the year before.

As of December 31, 2018, KYEC's consolidated cash and cash equivalents totaled NT\$4.787 billion, its consolidated debt-to-equity ratio (Debt ratio) was 48.0%, its net debt-to-equity ratio after subtracting consolidated cash and cash equivalents was 49.6%, and its 2018 return on equity (ROE) was 7.3%.

With regard to sales, thanks to the increased market share of products made by North American and Southeast Asian customers, and growth in the Suzhou subsidiary's sales, the Company was able to ease the impact of individual product market fluctuations on revenue, and many customers established or transferred their main IC testing supply chains to KYEC, which bodes well for future sales growth. In 2018, KYEC's wafer testing sales had an annual growth rate of 4.6%, product testing sales increased by 0.7% compared with 2017, while other sales grew by 33.6%. In 2018, sales revenue from its 10 largest customers accounted for 48.8% of the Company's total revenue, and this figure represented a slight reduction from the 49.6% in 2017. In order to strengthen its working capital and response to future funding needs, the Company obtained an NT\$14.2 billion syndicated loan from banks in October of last year.

For over a decade, KYEC's R&D team has single-mindedly striven to integrate testing equipment interfaces, write test programs, perform machine maintenance, improve machine parts and accessories, automate production lines, independently developed testing equipment, put development and module

design on a mass production basis, and perform other research and development work. In 2018, self-developed testing equipment accounted for approximately 15% of the Company's total sales. In addition, the Company has also enjoyed impressive achievements in the areas of special product testing equipment and production line overhauls, including the following: High-power burn-in oven, micro-electromechanical product testing platform and auxiliary equipment, vertical probe card, MEMS multi-axis product testing, high-frequency load board, and CIS sensing, etc. are some of the ways that the Company is creating a unique competitive advantage in the field of semiconductor testing.

For many years, KYEC has consistently made the satisfaction of customers' needs, enhancement of shareholders' equity, attention to employees' benefits, and fulfillment of its corporate social responsibilities its core business goals. The following is a summary of the Company's business strategy in 2019:

1. Business development: Increasing the benefit of packaging and testing revenue relative to global market share and capital investment, actively expand the contribution of self-developed equipment to sales, and increase the Company's scale and profitability through robust overseas investment.
2. Customer service: Boosting quality and service assessment, reducing quality abnormalities, and strengthening employees' quality consciousness.
3. Production: Improving overall equipment production efficiency and employee productivity, continuing to increase factory automation.
4. Cost control: Placing emphasis on rationalized use of materials and inventory management, continuing efforts to reduce purchasing costs.
5. R&D and innovation: Continuing equipment, parts, and components R&D, development of core technologies, establishment of a superior IPR system.
6. Human resources: Placing emphasis on manpower selection, training, and utilization, accumulation of a reserve of superior technical and management staff, and enhancement of employees' basic functions.

Looking ahead to 2019, although we anticipate that growth in consumer electronics products will slow, growth is nevertheless expected in emerging applications areas, such as: 5G communications networks, Internet of Things electronics, automotive electronics, artificial intelligence, medical electronics, gaming, and the AR/VR market, etc. However, the larger environment is full of uncertainty and variables, the US-China trade war has shaken the confidence of the regional market, end consumer purchasing has been conservative, and market visibility has been low. However, many of KYEC's customers are enjoying continuing growth, and as a major supply chain member, KYEC will also benefit from this growth. At the same time, some customers are developing their own product and applications markets, and their ratio of outsourced work is expected to increase significantly. We expect the Company's basic growth trend to remain unchanged in 2019. Sales growth will chiefly be driven by 5G communications networks, automotive electronics, and artificial intelligence products, and the Company maintains relatively optimistic expectations toward revenue and profit growth.



[Attachment 2]

**King Yuan Electronics Co., Ltd.  
Audit Committee's audit report**

With regard to the Company's 2018 business report, consolidated financial statement (including financial statements of individual entities), and distribution of earnings resolutions prepared and submitted by the Board of Directors, the consolidated financial statement (including financial statements of individual entities) has already been audited by Ernst & Young, which has submitted an audit report. The foregoing business report, consolidated financial statement (including financial statements of individual entities), and distribution of earnings resolution has been reviewed by the Audit Committee, which found no discrepancies. The foregoing report has been made pursuant to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, please check.

King Yuan Electronics Co., Ltd.

Chairperson of the Audit Committee: Hsien-Tsun Yang

March 14, 2019

**King Yuan Electronics Co., Ltd.**  
**2018 distribution of earnings table**

Units: NT\$

Item	Amount	Expected coupon rate
Undistributed earnings at the beginning of the period	3,425,611,695	
Less: Actuarial gains and losses from confirmed benefits	(41,787,839)	
Less: Equity instruments from the disposition of other general gains and losses assessed at fair value	(30,202,994)	
Plus: Influence of IFRS9 retrospective applicability and retrospective restatement	448,327,926	
Unallocated number at beginning of period after adjustment	3,801,948,788	
Plus: Profit after tax for year	1,795,343,626	
Less: Provision of 10% legal reserve	(179,534,363)	
Less: Provision of special reserve	(371,932,490)	
Distributable earnings	5,045,825,561	
Distribution items		
shareholders' dividends - cash	1,650,705,837	NT\$1.35 per share
Total distribution	1,650,705,837	
Undistributed surplus at end of period	3,395,119,724	

Note: 1. With regard to the Company's principles for the distribution of earnings, 2018 distributable earnings are first distributed, and if insufficient, cumulative distributable earnings from past years are distributed in last in-first out order based on the year in which the earnings were generated.

2. The coupon rate was calculated on the basis of the 1,222,745,065 share of common stock in circulation at the time of the meeting of Board of Directors.

3. The current cash dividends have been calculated to the NT dollar in accordance with the distribution ratios; amounts less than one NT dollar have been eliminated, and the sum of odd amounts less than one NT dollar has been transferred to the employee benefit committee.

4. If, due to changes in equity, this distribution case affects the number of outstanding shares, and shareholders' coupon rate must be revised for this reason, the shareholders' meeting shall be asked to fully authorize the Board of Directors to handle the case and make adjustments.

5. The Board of Directors will be authorized to handle the cash dividend record date and matters concerning the issuance of cash dividends after approval by the Annual General Meeting.

King Yuan Electronics Co., Ltd.

Comparative table of articles of the Procedures for the Acquisition or Disposal of Assets before and after revision

Articles	Articles after revision	Articles before revision	Reason for revision
Article 3	<p>Scope of assets</p> <ol style="list-style-type: none"> <li>1. Investment in stocks, government bonds, corporate bonds, financial bonds, securities in a recognized fund, depository receipts, call (put) warrants, beneficiary securities, and asset backed securities.</li> <li>2. Real estate (including land, homes and buildings, investment-type real estate, and construction industry inventory) and equipment.</li> <li>3. Memberships.</li> <li>4. Intangible assets such as patent rights, copyrights, trademark rights, and concessions.</li> <li>5. User rights assets.</li> <li>6. Financial institution's creditors' rights (including receivables, bills purchased and discounted, and loans and nonperforming loans).</li> <li>7. Derivative products.</li> <li>8. Assets obtained or disposed of due to lawful merger, division, acquisition, or transfer of shares.</li> <li>9. Other important assets.</li> </ol>	<p>Scope of assets</p> <ol style="list-style-type: none"> <li>1. <del>Securities: Includes</del> investments in stocks, government bonds, corporate bonds, financial bonds, securities in a recognized fund, depository receipts, call (put) warrants, beneficiary securities, and asset backed securities.</li> <li>2. Real estate (including land, homes and buildings, investment-type real estate, <del>land use rights,</del> and construction industry inventory) and equipment.</li> <li>3. Memberships.</li> <li>4. <del>Intangible assets: Includes</del> such intangible assets as patent rights, copyrights, trademark rights, and concessions.</li> <li>5. Financial institution's creditors' rights (including receivables, bills purchased and discounted, and loans and nonperforming loans).</li> <li>6. Derivative products.</li> <li>7. Assets obtained or disposed of due to lawful merger, division, acquisition, or transfer of shares.</li> <li>8. Other important assets.</li> </ol>	Revisions in accordance with statute

Article 4	<p>Definitions</p> <p>1. Derivative products: Refers to forward contracts, option contracts, futures contracts, leveraged guarantee contracts, or swaps where the value of the product is a derivative of <u>specific interest rates, financial instrument prices, product prices, exchange rates, prices or expense rate indexes, credit ratings or credit indexes, or other variables, or combinations of the foregoing contracts, or composite contracts or structured products containing embedded derivatives.</u> As referred to here, forward contracts do not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term stocking (sales) <u>contracts.</u></p> <p>2. Assets obtained or disposed of due to lawful merger, division, acquisition, or transfer of shares: Refers to assets obtained or disposed of due to lawful merger, division, acquisition in accordance with the Business Mergers and Acquisitions Act, Financial Holding Company Act, The Financial Institutions Merger Act, or other laws, or due to the issuance of new shares and transfer of another company's shares (herein referred to as transfer of shares) in accordance with the regulations of Article 156-3 of the Company Act.</p> <p>(the following is omitted)</p>	<p>Definitions</p> <p>1. Derivative products: Refers to forward contracts, option contracts, futures contracts, leveraged guarantee contracts, or swaps where the value of the product is a derivative of <del>assets,</del> interest rates, exchange rate, indexes, <del>or other gains or products,</del> and <del>composite products consisting of combinations of the foregoing products.</del> As referred to here, forward contracts do not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term stocking (sales) <del>contracts.</del></p> <p>2. Assets obtained or disposed of due to lawful merger, division, acquisition, or transfer of shares: Refers to assets obtained or disposed of due to lawful merger, division, acquisition in accordance with the Business Mergers and Acquisitions Act, Financial Holding Company Act, The Financial Institutions Merger Act, or other laws, or due to the issuance of new shares and transfer of another company's shares (herein referred to as transfer of shares) in accordance with the regulations of Article 156, <del>Paragraph 8</del> of the Company Act.</p> <p>(the following is omitted)</p>	Revisions in accordance with statute
Article 5	<p>Limit of investments in real estate not for business purposes <u>and its right-of-use assets</u> and negotiable securities</p> <p>The limits of the foregoing assets that may be obtained individually by the Company and its subsidiaries shall be determined as follows:</p> <p>1. The total value of the Company's real estate not for business use <u>and its right-of-use assets</u> may not exceed 10% of the net value of the Company's financial statement for the most recent period; In the case of subsidiaries, the sum of such assets may not exceed 10% of the net value of the subsidiary's financial statement for the most recent period. (the following is omitted)</p>	<p>Limit of investment in real estate not for business purposes and negotiable securities</p> <p>The limits of the foregoing assets that may be obtained individually by the Company and its subsidiaries shall be determined as follows:</p> <p>1. The total value of the Company's real estate not for business use may not exceed 10% of the net value of the Company's financial statement for the most recent period; In the case of subsidiaries, the sum of such assets may not exceed 10% of the net value of the subsidiary's financial statement for the most recent period.</p> <p>(the following is omitted)</p>	Revisions in accordance with statute
Article 6	When in accordance with <del>the prescribed</del> handling procedures or other laws or regulations, the acquisition or disposition of assets by the Company is submitted to the Board of Directors for discussion, the views of the independent directors shall be taken	When in accordance with <del>the prescribed</del> handling procedures or other laws or regulations, the acquisition or disposition of assets by the Company is submitted to the Board of Directors for discussion, the views of the independent directors shall be taken	Revisions in accordance with statute

<p>fully into consideration; if the independent directors have dissenting opinions or qualified opinions, they should be explicitly stated in the meeting minutes of the Board of Directors.</p> <p>The Company's major asset or derivative transactions must be approved by a majority of the members of the Audit Committee, and must be submitted to the Board of Directors for a resolution.</p> <p>If, in the foregoing paragraph, a majority of Audit Committee members fail to give their consent, more than two-thirds of the directors must approve the transaction, and the Audit Committee's resolution must be explicitly stated in the meeting minutes of Board of Directors.</p> <p>The full number of Audit Committee members in Paragraph 2 and the full number of directors in the foregoing paragraph shall be calculated as the actual number of incumbent members.</p> <p>When the Company obtains an appraisal report or opinion of a CPA, attorney, or securities underwriter, the professional appraiser and its appraisal personnel, CPA, attorney, or securities underwriter <u>shall comply with the following conditions:</u></p> <ol style="list-style-type: none"> <li>1. <u>Must never have received a confirmed sentence of at least one year of imprisonment due to violations of this Act, the Company Act, The Banking Act of The Republic of China, Insurance Act, Financial Holding Company Act, Business Entity Accounting Act, or due to fraud, breach of trust, embezzlement, document forgery, or criminal behavior in the course of business. However, cases in which three years have passed since completion of sentence, end of probation period, or pardon shall not be subject to this restriction.</u></li> <li>2. <u>May not be a related party to the transaction or a material related party.</u></li> <li>3. <u>If the Company obtains appraisal reports from two or more professional appraisers, the different professional appraiser or appraisal personnel may not be mutual related parties or material related parties.</u></li> </ol> <p><u>The personnel in the foregoing paragraph shall comply with the following items when asked to submit an appraisal report or opinion:</u></p>	<p>fully into consideration; if the independent directors have dissenting opinions or qualified opinions, they should be explicitly stated in the meeting minutes of the Board of Directors.</p> <p>The Company's major asset or derivative transactions must be approved by a majority of the members of the Audit Committee, and must be submitted to the Board of Directors for a resolution.</p> <p>If, in the foregoing paragraph, a majority of Audit Committee members fail to give their consent, more than two-thirds of the directors must approve the transaction, and the Audit Committee's resolution must be explicitly stated in the meeting minutes of Board of Directors.</p> <p>The full number of Audit Committee members in Paragraph 2 and the full number of directors in the foregoing paragraph shall be calculated as the actual number of incumbent members.</p> <p>When the Company obtains an appraisal report or opinion of a CPA, attorney, or securities underwriter, the professional appraiser and its appraisal personnel, CPA, attorney, or securities underwriter, and parties to the transaction may not be related parties.</p>	
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	1. <u>A careful assessment of the person's professional ability, practical experience, and independence shall be made before they may accept the case.</u>		
Article 6	2. <u>When there are audit cases, appropriate operating procedures should be planned and implemented in order to obtain conclusions providing a basis for a report or opinion; the data and conclusions obtained during the implementation procedures should be recorded in detail in the case working papers.</u> 3. <u>So that they may serve as a basis for the appraisal report or opinion, the integrity, correctness and reasonableness of the data sources, parameters, and information used should be individually assessed.</u> 4. <u>Declarations shall include the professionalism and independence possessed by relevant personnel, and that the already-assessed information to be used is reasonable, correct, and complies with relevant laws and regulations, etc.</u>		Revisions in accordance with statute
Article 7	Handling procedures for the acquisition or disposition of real estate, other fixed assets, or their right-of-use assets 1. Assessment and operating procedures The Company's acquisition or disposition of real estate, other fixed assets, or their right-of-use assets shall be handled in accordance with fixed asset cycle procedures in the Company's internal control system fixed assets cycle procedures in all cases. 2. Transaction terms and authorized amount determination procedures (1) When acquiring or disposing of real estate or its right-of-use assets, an analysis report referring to publicly-announced current value, appraised value, actual transaction prices of nearby real estate, etc. and the determined transaction terms and transaction	Handling procedures for the acquisition or disposition of real estate or other fixed assets 1. Assessment and operating procedures The Company's acquisition or disposition of real estate and other fixed assets shall be handled in accordance with fixed asset cycle procedures in the Company's internal control system fixed assets cycle procedures in all cases. 2. Transaction terms and authorized amount determination procedures (1) When acquiring or disposing of real estate, an analysis report referring to publicly-announced current value, appraised value, actual transaction prices of nearby real estate, etc. and the determined transaction terms and transaction prices must be submitted to the Director & Chairman; when the transaction amount is less than	Revisions in accordance with statute

	<p>prices must be submitted to the Director &amp; Chairman; when the transaction amount is less than NT\$300 million, the Director &amp; Chairman shall be asked to approve the transaction, which shall be reported at the first meeting of Board of Directors following the transaction; If the amount exceeds NT\$300 million, the transaction may be performed only after submission to the Board of Directors.</p> <p>(2) When acquiring or disposing of equipment <u>or its right-of-use assets</u>, either a price inquiry, price comparison, price negotiation, or bid request should be performed; when the amount does not exceed NT\$300 million, the transaction should be approved at relevant levels in accordance with authorization regulations; when the transaction amount exceeds NT\$300 million, the transaction must be submitted to and approved by the Board of Directors after approval by the President before it may be implemented.</p>	<p>NT\$300 million, the Director &amp; Chairman shall be asked to approve the transaction, which shall be reported at the first meeting of Board of Directors following the transaction; If the amount exceeds NT\$300 million, the transaction may be performed only after submission to the Board of Directors.</p> <p>(2) When acquiring or disposing of equipment, either a price inquiry, price comparison, price negotiation, or bid request should be performed; when the amount does not exceed NT\$300 million, the transaction should be approved at relevant levels in accordance with authorization regulations; when the transaction amount exceeds NT\$300 million, the transaction must be submitted to and approved by the Board of Directors after approval by the President before it may be implemented.</p> <p>However, the purchasing of equipment for the Company's business use may be performed in accordance with purchasing operating procedure regulations when within the Company's approved budget scope,</p>	
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<p>Article 7</p>	<p>However, the purchasing of equipment <u>or its right-of-use assets</u> for the Company's business use may be performed in accordance with purchasing operating procedure regulations when within the Company's approved budget scope, in which case the Director &amp; Chairman's approval shall be obtained.</p> <p>3. Implementing unit When acquiring or disposing of real estate, <u>other fixed assets, or their right-of-use assets</u>, after presentation for approval in accordance with the approval right levels in the foregoing paragraph, the using department and administrative department is bear responsibility for implementation of the transaction.</p> <p>4. Real estate, equipment, <u>or its right-of-use asset appraisal report</u> When acquiring or disposing of real estate, equipment, <u>or its right-of-use assets</u>, except in cases when the transaction is with a <u>domestic</u> government agency, performing commissioned construction on the company's own land or leased land, or acquiring or disposing of equipment for business use <u>or its right-of-use assets</u>, when the transaction amount exceeds 20% of the Company's paid-in capital or NT\$300 million, an appraisal report from a professional appraiser must be obtained prior to the transaction date, and the transaction must comply with the following:</p> <p>(1) If a restricted price, designated</p>	<p>in which case the Director &amp; Chairman's approval shall be obtained.</p> <p>3. Implementing unit When acquiring or disposing of real estate—<del>or</del> other fixed assets, after presentation for approval in accordance with the approval right levels in the foregoing paragraph, the using department and administrative department is bear responsibility for implementation of the transaction.</p> <p>4. Real estate <del>or</del> equipment appraisal report When acquiring or disposing of real estate <del>or</del> equipment, except in cases when the transaction is with a government agency, performing commissioned construction on the company's own land or leased land, or acquiring or disposing of equipment for business use, when the transaction amount exceeds 20% of the Company's paid-in capital or NT\$300 million, an appraisal report from a professional appraiser must be obtained prior to the transaction date, and the transaction must comply with the following:</p> <p>(1) If a restricted price, designated price, or special price must be used as a reference basis for the transaction price for some special reason, the transaction must first be submitted to the Board of Directors for approval by resolution; the case must also be handled <del>in accordance with the foregoing—procedures</del> when transaction terms <del>subsequently</del> change.</p> <p>(2) When the transaction amount exceeds NT\$1 billion, two or more professional appraisers must be</p>	<p>Revisions in accordance with statute</p>
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	<p>price, or special price must be used as a reference basis for the transaction price for some special reason, the transaction must first be submitted to the Board of Directors for approval by resolution; <u>likewise</u> in cases <u>when</u> transaction terms are subsequently <u>changed</u>.</p> <p>(2) When the transaction amount exceeds NT\$1 billion, two or more professional appraisers must be hired to perform appraisal.</p> <p>(3) If a professional appraiser's appraisal results have any of the following situations, except when the appraisal results for assets to be acquired are, in general, higher than the transaction amount, or the appraisal results for assets to be disposed are, in general, less than the transaction amount, a CPA must be hired to handle the case in accordance with the Regulation No. 20 of the Statements of Auditing Standards issued by the Accounting Research and Development Foundation, and submit a specific opinion concerning the reason for the difference and appropriateness of the transaction price:</p>	<p>hired to perform appraisal.</p> <p>(3) If a professional appraiser's appraisal results have any of the following situations, except when the appraisal results for assets to be acquired are, in general, higher than the transaction amount, or the appraisal results for assets to be disposed are, in general, less than the transaction amount, a CPA must be hired to handle the case in accordance with the Regulation No. 20 of the Statements of Auditing Standards issued by the Accounting Research and Development Foundation, and submit a specific opinion concerning the reason for the difference and appropriateness of the transaction price:</p> <p>1. The difference between appraisal results and the transaction amount exceeds 20% of the transaction amount.</p>	
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<p>Article 7</p>	<p>1. The difference between appraisal results and the transaction amount exceeds 20% of the transaction amount.</p> <p>2. The difference between the appraisal results of two or more professional appraisers exceeds 10% of the transaction amount.</p> <p>(4) The interval between the date of the report submitted by a professional appraiser and the contract establishment date may not exceed three months. However, the original professional appraisers shall be asked to present an opinion if the publicly-announced current value for the same period is applicable and no more than six months have passed.</p> <p>(5) When the Company acquires or disposes of assets via court auction procedures, the court's verification documents may serve in lieu of an appraisal report or CPA's opinion.</p>	<p>2. The difference between the appraisal results of two or more professional appraisers exceeds 10% of the transaction amount.</p> <p>(4) The interval between the date of the report submitted by a professional appraiser and the contract establishment date may not exceed three months. However, the original professional appraisers shall be asked to present an opinion if the publicly-announced current value for the same period is applicable and no more than six months have passed.</p> <p>(5) When the Company acquires or disposes of assets via court auction procedures, the court's verification documents may serve in lieu of an appraisal report or CPA's opinion.</p>	<p>Revisions in accordance with statute</p>
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<p>Article 8 Paragraph 2 Subparagraph 3</p>	<p>(Deleted)</p>	<p><del>When acquiring or disposing of assets, if the transaction must be approved by the Board of Directors in accordance with specified handling procedures or other laws or regulations, if directors express any objection, and there is a record or written statement, the Company must submit the directors' objections to the supervisors. If the Company has established independent directors, when submitting planned asset acquisition or disposition transactions to the Board of Directors for discussion in accordance with regulations, the views of the independent directors shall be taken fully into consideration; if the independent directors have dissenting opinions or qualified opinions, they should be explicitly stated in the meeting minutes of the Board of Directors.</del></p>	<p>Revisions in accordance with statute</p>
<p>Article 9 Paragraph 2</p>	<p>Assessment and operating procedures When the Company acquires or disposes of real estate <u>or its right-of-use assets</u> from or to a related party, or acquires or disposes of assets apart from real estate <u>or its right-of-use assets</u> from or to a related party, and the transaction amount exceeds 20% of the Company's paid-in capital, 10% of total assets, or NT\$300 million, apart from the purchase or sale of <u>domestic government bonds</u>, bonds with put/call options, subscription or redemption of currency market funds issued by a domestic securities investment trust enterprise, the following information must be submitted to and approved by the Audit Committee and Board of Directors before the transaction contract may be signed or the payment made:</p> <p>(1) Purpose, necessity, and expected benefit of the acquisition or disposition of assets.</p> <p>(2) The reason a related party has been chosen as the transaction counterparty.</p> <p>(3) When obtaining real estate <u>or its right-of-use assets</u> from a related party, information concerning the reasonableness of the proposed transaction terms must be assessed in accordance with subparagraphs (1) and</p>	<p>Assessment and operating procedures When the Company acquires or disposes of real estate from or to a related party, or acquires or disposes of assets apart from real estate from or to a related party, and the transaction amount exceeds 20% of the Company's paid-in capital, 10% of total assets, or NT\$300 million, apart from the purchase or sale of government bonds, bonds with put/call options, subscription or redemption of currency market funds issued by a domestic securities investment trust enterprise, the following information must be submitted to and approved by the Audit Committee and Board of Directors before the transaction contract may be signed or the payment made:</p> <p>(1) Purpose, necessity, and expected benefit of the acquisition or disposition of assets.</p> <p>(2) The reason a related party has been chosen as the transaction counterparty.</p> <p>(3) When obtaining real estate from a related party, information concerning the reasonableness of the proposed transaction terms must be assessed in accordance with subparagraphs (1) and (4) of Paragraph 3 of this Article.</p> <p>(4) Matters including the original price and</p>	<p>Revisions in accordance with statute</p>

	<p>(4) of Paragraph 3 of this Article.</p> <p>(4) Matters including the original price and date of acquisition by the related party, transaction counterparty, and the relationship between the Company and the related party.</p> <p>(5) Calculation of an expected cash receipt and disbursement table for each month during the one-year period after the month of contract establishment, and assessment of the necessity of the transaction and reasonableness of funds utilization.</p> <p>(6) An appraisal report obtained from a professional appraiser or a CPA's opinion obtained as specified in the foregoing paragraph.</p> <p>(7) Restrictive conditions on the transaction and other important specified matters.</p>	<p>date of acquisition by the related party, transaction counterparty, and the relationship between the Company and the related party.</p> <p>(5) Calculation of an expected cash receipt and disbursement table for each month during the one-year period after the month of contract establishment, and assessment of the necessity of the transaction and reasonableness of funds utilization.</p> <p>(6) An appraisal report obtained from a professional appraiser or a CPA's opinion obtained as specified in the foregoing paragraph.</p> <p>(7) Restrictive conditions on the transaction and other important specified matters.</p> <p><del>If the Company has established independent directors, when the transaction is submitted to the Board of Directors for discussion as specified in the foregoing subparagraph, the views of the independent directors shall be taken fully into consideration; if the independent directors have dissenting opinions or qualified opinions, they should be explicitly stated in the meeting minutes of the of the Board of Directors.</del></p>	
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<p>Article 9 Paragraph 3</p>	<p>Transaction cost reasonableness assessment</p> <p>(1) When the Company acquires real estate <u>or its right-of-use assets</u> from a related party, the reasonableness of the transaction cost must be assessed using the following method:</p> <p>1. According to the related party's transaction price plus interest on necessary funds and other costs that must be borne by the buyer in accordance with law. The interest on necessary funds shall be estimated on the basis of the average weighted interest rate of loans during the year for the purchase of assets by the company; however, this interest rate may not exceed the maximum loan interest rate for non-financial enterprises announced by the Ministry of Finance.</p> <p>2. If the related party had previously mortgaged the transaction target for a loan from a financial institution, the total loan assessment price of the target made by the financial institution; however, the financial institution's actual cumulative loan price for the target must have been at least 70% of the total assessed loan price, and the loan period must have been at least one year. However, this rule shall not be applicable when either the financial institution or a transaction party is a related party.</p> <p>(2) When making the combined purchase <u>or lease</u> of land and buildings, the transaction cost of land and buildings may be assessed separately using any of the methods listed in the foregoing paragraph.</p>	<p>Transaction cost reasonableness assessment</p> <p>(1) When the Company acquires real estate from a related party, the reasonableness of the transaction cost must be assessed using the following method:</p> <p>1. According to the related party's transaction price plus interest on necessary funds and other costs that must be borne by the buyer in accordance with law. The interest on necessary funds shall be estimated on the basis of the average weighted interest rate of loans during the year for the purchase of assets by the company; however, this interest rate may not exceed the maximum loan interest rate for non-financial enterprises announced by the Ministry of Finance.</p> <p>2. If the related party had previously mortgaged the transaction target for a loan from a financial institution, the total loan assessment price of the target made by the financial institution; however, the financial institution's actual cumulative loan price for the target must have been at least 70% of the total assessed loan price, and the loan period must have been at least one year. However, this rule shall not be applicable when either the financial institution or a transaction party is a related party.</p> <p>(2) When making the combined purchase of land and buildings, the transaction cost of land and buildings may be assessed separately using any of the methods listed in the foregoing paragraph.</p>	<p>Revisions in accordance with statute</p>
<p>Article 9 Paragraph 3</p>	<p>(3) When the Company acquires real estate <u>or its right-of-use assets</u> from a related party, the real estate <u>or its right-of-use assets</u> cost shall be assessed in accordance with Subparagraphs (1) and (2) of Paragraph 3 of this Article, and a CPA must be hired to review the case and submit a specific opinion.</p> <p>(4) When the Company acquires real estate <u>or its right-of-use assets</u> from a related party, and the results of assessment in accordance with Subparagraphs (1) and (2) of Paragraph 3 of this Article are</p>	<p>(3) When the Company acquires real estate from a related party, the real estate cost shall be assessed in accordance with Subparagraphs (1) and (2) of Paragraph 3 of this Article, and a CPA must be hired to review the case and submit a specific opinion.</p> <p>(4) When the Company acquires real estate from a related party, and the results of assessment in accordance with Subparagraphs (1) and (2) of Paragraph 3 of this Article are uniformly lower than the transaction price, the case shall be handled in accordance with</p>	<p>Revisions in accordance with statute</p>

<p>Article 9 Paragraph 3</p>	<p>uniformly lower than the transaction price, the case shall be handled in accordance with Paragraph 3, Subparagraph (5) of this Article. However, when the following circumstances exist, objective evidence has been submitted, and a specific, fair opinion has been obtained from a professional real estate appraiser and CPA, the case shall not be subject to this restriction:</p> <ol style="list-style-type: none"> <li>1. The related party performed construction after acquiring bare land or leasing land, and the evidence obtained meets one of the following conditions: <ol style="list-style-type: none"> <li>(1) The bare land was assessed using a method specified in the foregoing article, the buildings were assessed as the related party's construction costs plus a reasonable construction profit, and the total price exceeds the actual transaction price. Reasonable construction profit here refers to the lower of the average construction gross profit ratio of the related party's construction department during the most recent three years, or the construction industry gross profit ratio during the most recent period announced by the Ministry of Finance.</li> <li>(2) Other transaction cases with unrelated parties involving other floors of the same target building or in nearby areas during the past year when the area is similar and transaction terms are similar after assessment of the price differential with a reasonable floor or area conducted in accordance with real estate transaction practice.</li> </ol> </li> <li>2. The Company has presented evidence that the terms and area are similar to those of a <u>transaction</u> case involving real estate in a nearby area with an unrelated party during the most recent one-year period when <u>purchasing real estate or leasing then acquiring real estate right-of-use assets</u> from a related party. A <u>transaction</u> case in a nearby area here shall generally referred to a real estate transaction within the</li> </ol>	<p>Paragraph 3, Subparagraph (5) of this Article. However, when the following circumstances exist, objective evidence has been submitted, and a specific, fair opinion has been obtained from a professional real estate appraiser and CPA, the case shall not be subject to this restriction:</p> <ol style="list-style-type: none"> <li>1. The related party performed construction after acquiring bare land or leasing land, and the evidence obtained meets one of the following conditions: <ol style="list-style-type: none"> <li>(1) The bare land was assessed using a method specified in the foregoing article, the buildings were assessed as the related party's construction costs plus a reasonable construction profit, and the total price exceeds the actual transaction price. Reasonable construction profit here refers to the lower of the average construction gross profit ratio of the related party's construction department during the most recent three years, or the construction industry gross profit ratio during the most recent period announced by the Ministry of Finance.</li> <li>(2) Other transaction cases with unrelated parties involving other floors of the same target building or in nearby areas during the past year when the area is similar and transaction terms are similar after assessment of the price differential with a reasonable floor or area conducted in accordance with real estate transaction practice.</li> <li><del>(3) The transaction terms for another floor of the target real estate in a leasing case with another unrelated party during the most recent one year period are judged to be similar in view of a reasonable floor price differential according to real estate leasing practice.</del></li> </ol> </li> <li>2. The Company has presented evidence that the terms and area are similar to those of a <del>transaction</del> case involving real estate in a nearby area</li> </ol>	<p>Revisions in accordance</p>
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	<p>contiguous block or within a radius of less than 500m from the transaction target, or when the publicly-announced current value is similar; Similar area here generally refers to the area of a <u>transaction</u> case with an unrelated party that is no less than 50% of the transaction target's area; During the most recent one-year period here shall be based on the prior one-year period calculated from the date on which the acquisition of the real estate <u>or its right-of-use assets</u> actually occurred.</p>	<p>with an unrelated party during the most recent one-year period when purchasing real estate from a related party. A <del>transaction</del> case in a nearby area here shall generally referred to a real estate transaction within the contiguous block or within a radius of less than 500m from the transaction target, or when the publicly-announced current value is similar; Similar area here generally refers to the area of a <del>transaction</del> case with an unrelated party that is no less than 50% of the transaction target's area; During the most recent one-year period here shall be based on the prior one-year period calculated from the date on which the acquisition of the real estate actually occurred.</p>	
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<p>Article 9 Paragraph 3</p>	<p>(5) When the Company acquires real estate <u>or its right-of-use assets</u> from a related party, and the results of assessment in accordance with Subparagraphs (1) and (2) of Paragraph 3 of this Article are uniformly lower than the transaction price, the following matters shall be performed. When this Company and public companies whose investments in this Company are assessed using the equity method set aside a special reserve in accordance with the foregoing regulations, the special reserve may be used only after price decrease losses on assets that have been purchased <u>or leased</u> for high prices have been recognized, <u>or such assets have been disposed of, or the lease contract has been terminated</u>, or appropriate compensation or restoration to their original condition has been performed, or other evidence confirms that no unreasonable assumptions have been made, and the Financial Supervisory Commission's consent has been obtained.</p> <ol style="list-style-type: none"> <li>1. The Company shall in accordance with Article 41, Paragraph 1 of the Securities and Exchange Act set aside a special reserve based on the difference between the transaction price and assessed cost of real estate <u>or its right-of-use assets</u>, and may not use this reserve for distribution or capitalization of stock dividends. If investors whose investments in the Company are assessed using the equity method are public companies, they must also set aside a special reserve in proportion to their shareholdings in accordance with Article 41, Paragraph 1 of the Securities and Exchange Act.</li> <li>2. The independent directors who are members of the Audit Committee shall handle such cases in accordance with Article 218 of the Company Act and Article 14-4, Paragraph 4 of the Securities and Exchange Act.</li> <li>3. The state of matters handled in accordance with Paragraph 3, subparagraph (5), points 1 and 2 of this article shall be reported to the shareholder's meeting, and detailed transaction content shall be disclosed in the annual report and prospectus.</li> </ol> <p>(6) When the Company acquires real estate <u>or its right-of-use assets</u> from a related party, when any one of the following</p>	<p>(5) When the Company acquires real estate from a related party, and the results of assessment in accordance with Subparagraphs (1) and (2) of Paragraph 3 of this Article are uniformly lower than the transaction price, the following matters shall be performed. When this Company and public companies whose investments in this Company are assessed using the equity method set aside a special reserve in accordance with the foregoing regulations, the special reserve may be used only after price decrease losses on assets that have been purchased for high prices have been recognized, or such assets have been disposed of, or appropriate compensation or restoration to their original condition has been performed, or other evidence confirms that no unreasonable assumptions have been made, and the Financial Supervisory Commission's consent has been obtained.</p> <ol style="list-style-type: none"> <li>1. The Company shall in accordance with Article 41, Paragraph 1 of the Securities and Exchange Act set aside a special reserve based on the difference between the transaction price and assessed cost of real estate, and may not use this reserve for distribution or capitalization of stock dividends. If investors whose investments in the Company are assessed using the equity method are public companies, they must also set aside a special reserve in proportion to their shareholdings in accordance with Article 41, Paragraph 1 of the Securities and Exchange Act.</li> <li>2. The independent directors who are members of the Audit Committee shall handle such cases in accordance with Article 218 of the Company Act and Article 14-4, Paragraph 4 of the Securities and Exchange Act.</li> <li>3. The state of matters handled in accordance with Paragraph 3, subparagraph (5), points 1 and 2 of this article shall be reported to the shareholder's meeting, and detailed transaction content shall be disclosed in the annual report and prospectus.</li> </ol> <p>(6) When the Company acquires real estate from a related party, when any one of the following situations applies, the Company may simply handle the case in accordance with the assessment and operating procedure regulations in</p>	<p>Revisions in accordance with statute</p>
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	<p>situations applies, the Company may simply handle the case in accordance with the assessment and operating procedure regulations in paragraphs 1 and 2 of this Article, and transaction cost reasonableness assessment in Paragraph 3, subparagraphs (1), (2), and (3) of this Article shall not be applicable:</p> <ol style="list-style-type: none"> <li>1. The related party has acquired real estate <u>or its right-of-use assets</u> by inheritance or donation.</li> <li>2. Five years have passed between the time of the related party's contract signing and acquisition of real estate <u>or its right-of-use assets</u> and the contract signing date for the current transaction.</li> <li>3. The company has signed a joint construction contract with a related party, or has acquired real estate by hiring a related party to construct real estate via contracted construction on the Company's own land or leased land.</li> <li>4. <u>The Company acquires real estate right-of-use assets for business use from a subsidiary, or a subsidiary in which a subsidiary directly or indirectly holds 100% of total issued shares or capital.</u></li> </ol> <p>(7) When the Company acquires real estate <u>or its right-of-use assets</u> from a related party, if other evidence indicates that the transaction is inconsistent with routine operating requirements, the case shall also be handled in accordance with Paragraph 3, Subparagraph (5) of this Article.</p>	<p>paragraphs 1 and 2 of this Article, and transaction cost reasonableness assessment in Paragraph 3, subparagraphs (1), (2), and (3) of this Article shall not be applicable:</p> <ol style="list-style-type: none"> <li>1. The related party has acquired real estate by inheritance or donation.</li> <li>2. Five years have passed between the time of the related party's contract signing and acquisition of real estate and the contract signing date for the current transaction.</li> <li>3. The company has signed a joint construction contract with a related party, or has acquired real estate by hiring a related party to construct real estate via contracted construction on the Company's own land or leased land.</li> </ol> <p>(7) When the Company acquires real estate from a related party, if other evidence indicates that the transaction is inconsistent with routine operating requirements, the case shall also be handled in accordance with Paragraph 3, Subparagraph (5) of this Article.</p>	
<p>Article 9 Paragraph 4</p>	<p>The Company engages in any of the following transactions with a subsidiary, <u>or a subsidiary in which a subsidiary directly or indirectly holds 100% of total issued shares or capital,</u> the Board of Directors may authorize the Director &amp; Chairman to decide</p>	<p>When the Company's acquires or disposes of equipment for business use from or to a subsidiary, the Board of Directors shall authorize the Director &amp; Chairman to decide and act on the matter when the transaction is <del>within a certain amount,</del> and report the</p>	<p>Revisions in accordance with statute</p>

	<p>and act on the matter when the transaction is <u>less than NT\$500 million</u>, and report the transaction to the next meeting of Board of Directors for retroactive acknowledgment;</p> <p>(1) <u>Acquisition or disposition of equipment for business use or its right-of-use assets.</u></p> <p>(2) <u>Acquisition or disposition of real estate right-of-use assets for business use.</u></p>	<p>transaction to the next meeting of Board of Directors for retroactive acknowledgment.</p>	
<p>Article 10</p>	<p>Procedures for the acquisition or disposition of intangible assets <u>or their right-of-use assets or memberships</u></p> <p>1. Assessment and operating procedures When acquiring or disposing of intangible assets <u>or their right-of-use assets or memberships</u> shall be handled in accordance with fixed asset cycle procedures in the Company's internal control system fixed assets cycle procedures in all cases.</p> <p>2. Transaction terms and authorized amount determination procedures</p> <p>(1) When acquiring or disposing of memberships, transaction terms and transaction prices shall be determined in reference to fair market prices, and an analytical report must be submitted to the President; when the transaction amount is less than 1% of paid-in capital or NT\$5 million, the President's approval must be obtained and the case subsequently submitted to the next meeting of the Board of Directors for acknowledgment; when the transaction amount exceeds NT\$5 million, the approval of the Board of Directors must be obtained before the transaction may be made.</p> <p>(2) When acquiring or disposing of intangible assets <u>or their right-of-use assets</u>, transaction terms and transaction prices shall be determined in reference to experts' assessment reports or fair market prices, and an analytical report containing this information</p>	<p>Procedures for acquisition or disposition of <del>memberships</del> or intangible assets</p> <p>1. Assessment and operating procedures When acquiring or disposing of <del>memberships</del> or intangible assets shall be handled in accordance with fixed asset cycle procedures in the Company's internal control system fixed assets cycle procedures in all cases.</p> <p>2. Transaction terms and authorized amount determination procedures</p> <p>(1) When acquiring or disposing of memberships, transaction terms and transaction prices shall be determined in reference to fair market prices, and an analytical report must be submitted to the President; when the transaction amount is less than 1% of paid-in capital or NT\$5 million, the President's approval must be obtained and the case subsequently submitted to the next meeting of the Board of Directors for acknowledgment; when the transaction amount exceeds NT\$5 million, the approval of the Board of Directors must be obtained before the transaction may be made.</p> <p>(2) When acquiring or disposing of intangible assets, transaction terms and transaction prices shall be determined in reference to experts' assessment reports or fair market prices, and an analytical report containing this information must be submitted to the Director &amp; Chairman; when the transaction amount is less than 10% of paid-in</p>	<p>Revisions in accordance with statute</p>

	<p>must be submitted to the Director &amp; Chairman; when the transaction amount is less than 10% of paid-in capital or NT\$50 million, the Director &amp; Chairman's approval must be obtained and the case subsequently submitted to the next meeting of the Board of Directors for acknowledgment; When the transaction amount exceeds NT\$50 million, the approval of the Board of Directors must be obtained before the transaction may be made.</p> <p>3. Implementing unit When acquiring or disposing of intangible assets <u>or their right-of-use assets or memberships</u>, the case must be submitted for approval in accordance with the decision-making authority levels in the foregoing paragraph, and the using department and financial or administrative department shall bear responsibility for implementation.</p>	<p>capital or NT\$50 million, the Director &amp; Chairman's approval must be obtained and the case subsequently submitted to the next meeting of the Board of Directors for acknowledgment; When the transaction amount exceeds NT\$50 million, the approval of the Board of Directors must be obtained before the transaction may be made.</p> <p>3. Implementing unit When acquiring or disposing of <del>memberships</del> or intangible assets, the case must be submitted for approval in accordance with the decision-making authority levels in the foregoing paragraph, and the using department and financial or administrative department shall bear responsibility for implementation.</p>	
Article 10	<p>4. Expert assessment opinion reports for intangible assets <u>or their right-of-use assets or memberships</u></p> <p>(1) When acquiring or disposing of memberships, an expert shall be hired to provide an appraisal report when the transaction amount is at least 1% of paid-in capital or NT\$5 million.</p> <p>(2) When acquiring or disposing of intangible assets <u>or their right-of-use assets</u>, an expert shall be hired to submit an appraisal report when the transaction amount is at least 10% of paid-in capital or NT\$50 million.</p> <p>(3) When acquiring or disposing of intangible assets <u>or their right-of-use assets or memberships</u>, and the transaction amount is at least 20% of the Company's paid-in capital or NT\$300 million, apart from transactions involving domestic government agencies, a CPA must be hired prior to the completion of</p>	<p>4. Expert assessment opinion reports for <del>memberships</del> or intangible assets</p> <p>(1) When acquiring or disposing of memberships, an expert shall be hired to provide an appraisal report when the transaction amount is at least 1% of paid-in capital or NT\$5 million.</p> <p>(2) When acquiring or disposing of intangible assets, an expert shall be hired to submit an appraisal report when the transaction amount is at least 10% of paid-in capital or NT\$50 million.</p> <p>(3) When acquiring or disposing of <del>memberships</del> or intangible assets, and the transaction amount is at least 20% of the Company's paid-in capital or NT\$300 million, apart from transactions involving government agencies, a CPA must be hired prior to the completion of the transaction to assess the reasonableness of the transaction price, and the CPA must handle the matter in accordance with</p>	Revisions in accordance with statute

	<p>the transaction to assess the reasonableness of the transaction price, and the CPA must handle the matter in accordance with Regulation No. 20 of the Statements of Auditing Standards issued by the Accounting Research and Development Foundation.</p>	<p>Regulation No. 20 of the Statements of Auditing Standards issued by the Accounting Research and Development Foundation.</p>	
<p>Article 12 Paragraph 1 Subparagraph 1</p>	<p>Transaction type</p> <p>1. The derivative financial products that may be handled by the Company refer to forward contracts, option contracts, futures contracts, leveraged guarantee contracts, or swaps where the value of the product is a derivative of <u>specific interest rates, financial instrument prices, product prices, exchange rates, price or expense rate indexes, credit ratings or credit indexes, or other variables, or combinations of the foregoing contracts, or composite contracts or structured products containing embedded derivatives. As referred to here, forward contracts do not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term stocking (sales) contracts.</u></p> <p>2. Matters connected with bond guarantee transactions shall be handled in accordance with the relevant requirements of these handling procedures. Bond with repurchase options shall not be subject to the requirements of these handling procedures.</p>	<p>Transaction type</p> <p>1. The derivative financial products that may be handled by the Company include <del>transaction</del> contracts whose value is derived from <del>assets</del>, interest rates, exchange rates, indexes, and <del>other gains or products</del>—(and may include forward contracts, options, futures, interest rates or exchange rates, swaps, <del>and composite contracts composed of the foregoing products, etc.</del>).</p> <p>2. Matters connected with bond guarantee transactions shall be handled in accordance with the relevant requirements of these handling procedures. Bond with repurchase options shall not be subject to the requirements of these handling procedures.</p>	<p>Revisions in accordance with statute</p>

<p>Article 12 Paragraph 2 Subparagraph 5</p>	<p>Operational risk management</p> <ol style="list-style-type: none"> <li>1. To avoid operational risk, transactions must faithfully comply with the Company's authorized amounts and operating procedures, and must be included in internal audits.</li> <li>2. The same personnel may not concurrently engage in derivative transactions and perform confirmation and settlement tasks.</li> <li>3. Personnel performing risk assessment, supervision, and control shall be in a different department than the personnel in the foregoing subparagraph, and shall report to the Board of Directors or upper management personnel who are not responsible for transaction or position decisions.</li> <li>4. The position held due to derivative transactions shall be assessed at least once each week; however, hedging derivative transactions required for business reasons shall be assessed at least twice each month; relevant assessment reports shall be sent to upper management personnel authorized by the Board of Directors.</li> </ol>	<p>Operational risk management</p> <ol style="list-style-type: none"> <li>1. To avoid operational risk, transactions must faithfully comply with the Company's authorized amounts and operating procedures, and must be included in internal audits.</li> <li>2. The same personnel may not concurrently engage in derivative transactions and perform confirmation and settlement tasks.</li> <li>3. Personnel performing risk assessment, supervision, and control shall be in a different department than the personnel in the foregoing subparagraph, and shall report to the Board of Directors or upper management personnel who are not responsible for transaction or position decisions.</li> <li>4. The position held due to derivative transactions shall be assessed at least once each week; however, hedging derivative transactions required for business reasons shall be assessed at least twice each month; relevant assessment reports shall be sent to upper management personnel authorized by the Board of Directors.</li> </ol>	<p>Revisions in accordance with statute</p>
<p>Article 12 Paragraph 4</p>	<p>Regular assessment methods</p> <ol style="list-style-type: none"> <li>(1) The Board of Directors shall authorize upper management personnel to regularly supervise and assess whether derivative transactions have been handled faithfully in accordance with the Company's <u>prescribed</u> transaction procedures, and whether the assumed risk is within a tolerable scope; if market value assessment reports contain any abnormalities (such as when a position has already exceeded the upper limit of losses), a report must be made to the Board of Directors, and response measures taken.</li> <li>(2) The position held due to derivative transactions shall be assessed at least once each week; however, hedging derivative transactions required for business reasons shall be assessed at least twice each month; relevant assessment reports shall be sent to upper management personnel authorized by the Board of Directors.</li> </ol>	<p>Regular assessment methods</p> <ol style="list-style-type: none"> <li>(1) The Board of Directors shall authorize upper management personnel to regularly supervise and assess whether derivative transactions have been handled faithfully in accordance with the Company's <del>prescribed</del> transaction procedures, and whether the assumed risk is within a tolerable scope; if market value assessment reports contain any abnormalities (such as when a position has already exceeded the upper limit of losses), a report must be made to the Board of Directors, and response measures taken.</li> <li>(2) The position held due to derivative transactions shall be assessed at least once each week; however, hedging derivative transactions required for business reasons shall be assessed at least twice each month; relevant assessment reports shall be—sent to upper management personnel authorized by the Board of Directors.</li> </ol>	<p>Revisions in accordance with statute</p>

<p>Article 12 Paragraph 5</p>	<p>Principles of supervision and management by the Board of Directors when engaging in derivative transactions</p> <p>(1) The Board of Directors shall designate upper management personnel to regularly monitor derivative transaction risks supervision and control employing the following management principles:</p> <ol style="list-style-type: none"> <li>1. Regular assessment of whether current management measures are appropriate and are faithfully implemented in accordance with this guidelines and the Company's procedures for engaging in derivative transactions.</li> <li>2. If any abnormal items are discovered when supervising trading and gains/losses, necessary response measures should be adopted, and the case promptly reported to the Board of Directors; independent directors shall be present at relevant discussions of Board of Directors, and their opinions noted.</li> </ol> <p>(2) Regular assessment of whether derivative trading performance complies with existing business strategies and whether assumed risk is within the Company's permissible scope.</p> <p>(3) Relevant personnel shall be authorized in accordance with the procedures for engaging in derivative transactions to perform derivative transactions, and the results of completed transactions shall be reported to the next meeting of Board of Directors.</p> <p>(4) When the Company engages in derivative transactions, a memorandum book shall be established to record the types of derivative transactions, amounts involved, Board of Directors approval dates, and the items that must be assessed in accordance with Paragraph 4, Subparagraph (2) and Paragraph 5, subparagraphs (1) and (2) of this Article for future reference.</p>	<p>Principles of supervision and management by the Board of Directors when engaging in derivative transactions</p> <p>(1) The Board of Directors shall designate upper management personnel to regularly monitor derivative transaction risks supervision and control employing the following management principles:</p> <ol style="list-style-type: none"> <li>1. Regular assessment of whether current management measures are appropriate and are faithfully implemented in accordance with this guidelines and the Company's procedures for engaging in derivative transactions.</li> <li>2. If any abnormal items are discovered when supervising trading and gains/losses, necessary response measures should be adopted, and the case promptly reported to the Board of Directors; <del>if the company has established independent directors,</del> independent directors shall be present at relevant discussions of Board of Directors, and their opinions noted.</li> </ol> <p>(2) Regular assessment of whether derivative trading performance complies with existing business strategies and whether assumed risk is within the Company's permissible scope.</p> <p>(3) Relevant personnel shall be authorized in accordance with the procedures for engaging in derivative transactions to perform derivative transactions, and the results of completed transactions shall be reported to the next meeting of Board of Directors.</p> <p>(4) When the Company engages in derivative transactions, a memorandum book shall be established to record the types of derivative transactions, amounts involved, Board of Directors approval dates, and the items that must be assessed in accordance with Paragraph 4, Subparagraph (2) and Paragraph 5, subparagraphs (1) and (2) of this Article for future reference.</p>	<p>Revisions in accordance with statute</p>

<p>Article 14 Paragraph 1</p>	<p>Items to be reported and reporting standards</p> <p>(1) The acquisition or disposition of real estate <u>or its right-of-use assets</u> from or to a related party, or the acquisition or disposition of other assets apart from real estate <u>or its right-of-use assets</u> from or to a related party when the transaction amount constitutes at least 20% of the Company's paid-in capital, 10% of total assets, or NT\$300 million. However, this restriction shall not apply to transactions involving <u>domestic</u> government bonds, bonds with put/call options, or the subscription or redemption of currency market funds issued by a domestic securities investment trust enterprise.</p> <p>(2) Engaging in mergers, divisions, acquisitions, or transfer of shares.</p> <p>(3) Derivative transaction losses reaching the overall upper loss limit or individual contract upper loss limit specified in handling procedures.</p> <p>(4) Acquisition or disposition of equipment for business use <u>or its right-of-use assets</u>, and the transaction counterparty is not a related party, but the transaction amount exceeds NT\$1 billion.</p>	<p>Items to be reported and reporting standards</p> <p>(1) When acquiring or disposing of real estate from or to a related party, or acquiring or disposing of other assets apart from real estate from or to a related party when the transaction amount is at least 20% of the Company's paid-in capital, 10% of total assets, or NT\$300 million. However, this restriction shall not apply to transactions involving government bonds, bonds with put/call options, or the subscription or redemption of currency market funds issued by a domestic securities investment trust enterprise.</p> <p>(2) Engaging in mergers, divisions, acquisitions, or transfer of shares.</p> <p>(3) Derivative transaction losses reaching the overall upper loss limit or individual contract upper loss limit specified in handling procedures.</p> <p>(4) Acquired or disposed <del>assets constitute</del> equipment for business use, and the transaction counterparty is not a related party, but the transaction amount exceeds NT\$1 billion.</p>	<p>Revisions in accordance with statute</p>
<p>Article 14 Paragraph 1</p>	<p>(5) When real estate is acquired via commissioned construction on self-owned or leased land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, <u>the transaction counterparty is not a related party</u>, and the Company expects the transaction amount to reach at least NT\$500 million.</p> <p>(6) Apart from the asset transactions in the five foregoing subparagraphs and investments in the mainland China area, transactions reaching at least 20% of the Company's paid-in capital or NT\$300 million. However, the following situations shall not be subject to this restriction:</p> <ol style="list-style-type: none"> <li>1. Purchase or sale of <u>domestic</u> government bonds.</li> <li>2. Transactions involving bonds with put/call options, subscription or redemption of currency market funds issued by a domestic</li> </ol>	<p>(5) When real estate is acquired via commissioned construction on self-owned or leased land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the Company expects the transaction amount to reach at least NT\$500 million.</p> <p>(6) Apart from the asset transactions in the five foregoing subparagraphs and investments in the mainland China area, transactions reaching at least 20% of the Company's paid-in capital or NT\$300 million. However, the following situations shall not be subject to this restriction:</p> <ol style="list-style-type: none"> <li>1. Purchase and sale of government bonds.</li> <li>2. Transactions involving bonds with put/call options, subscription or redemption of currency market funds issued by a domestic securities investment trust</li> </ol>	<p>Revisions in accordance with statute</p>

	<p>securities investment trust enterprise.</p> <p>(7) The transaction amounts in the various foregoing subparagraphs shall be calculated using the following methods, where within one year shall constitute the one-year period prior to the date upon which the transaction was completed as a base date, and the portion already announced in accordance with regulations shall not be re-added.</p> <ol style="list-style-type: none"> <li>1. Amount of each transaction.</li> <li>2. Cumulative amount of acquisition or disposition transactions involving targets of a similar nature with the same counterparty during a one-year period.</li> <li>3. Cumulative amount of acquisition or disposition transactions (separate cumulative totals of acquisitions and dispositions) involving real estate <u>or its right-of-use assets</u> in the same development project during a one-year period.</li> <li>4. Cumulative amount of acquisition or disposition transactions (separate cumulative totals of acquisitions and dispositions) involving the same negotiable security during a one-year period.</li> </ol> <p>(8) The calculation of transaction amounts in articles 7, 8, and 10 shall be performed as specified in Subparagraph 7. Those amounts that are the subject of a CPA's opinion or an appraisal report when a professional appraiser has been engaged in accordance with these handling procedures shall not be included. Furthermore, the calculation of transaction amounts in Article 9 shall also be performed as specified in Subparagraph 7. Those amounts that have been submitted to and approved by the Audit Committee and the Board of Directors shall not be included.</p>	<p>enterprise.</p> <p>(7) The transaction amounts in the various foregoing subparagraphs shall be calculated using the following methods, where within one year shall constitute the one-year period prior to the date upon which the transaction was completed as a base date, and the portion already announced in accordance with regulations shall not be re-added.</p> <ol style="list-style-type: none"> <li>1. Amount of each transaction.</li> <li>2. Cumulative amount of acquisition or disposition transactions involving targets of a similar nature with the same counterparty during a one-year period.</li> <li>3. Cumulative amount of acquisition or disposition transactions (separate cumulative totals of acquisitions and dispositions) involving real estate in the same development project during a one-year period.</li> <li>4. Cumulative amount of acquisition or disposition transactions (separate cumulative totals of acquisitions and dispositions) involving the same negotiable security during a one-year period.</li> </ol> <p>(8) The calculation of transaction amounts in articles 7, 8, and 10 shall be performed as specified in Subparagraph 7. Those amounts that are the subject of a CPA's opinion or an appraisal report when a professional appraiser has been engaged in accordance with these handling procedures shall not be included. Furthermore, the calculation of transaction amounts in Article 9 shall also be performed as specified in Subparagraph 7. Those amounts that have been submitted to and approved by the Audit Committee and the Board of Directors shall not be included.</p>	
<p>Article 15 Paragraph 4</p>	<p>The Company's subsidiaries shall implement in accordance with the following regulations: (Paragraphs 1-3 have been omitted)</p> <p>4. This Company's paid-in capital or total</p>	<p>The Company's subsidiaries shall implement in accordance with the following regulations: (Paragraphs 1-3 have been omitted)</p> <p>4. In subsidiaries' reporting standards,</p>	<p>Revisions in accordance with statute</p>



	<p>assets should be prevailed <u>when subsidiaries' reporting standards contain regulations related to paid-in capital or total assets.</u></p>	<p>references to "<del>at least 20% of the Company's paid-in capital</del>" and "<del>10% of total assets</del>" shall refer to this Company's paid-in capital and total assets.</p>	
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**KING YUAN ELECTRONICS CO., LTD.**

**PARENT COMPANY ONLY FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
WITH  
INDEPENDENT AUDITOR'S REPORT TRANSLATED FROM CHINESE**

**Address: No. 81, Sec. 2, Gongdao 5th Rd., Hsinchu City 300, Taiwan (R.O.C.)**

**Telephone: 886-3-5751888**

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese

**Independent Auditors' Report**

To the Board of Directors and Shareholders  
of King Yuan Electronics Co., Ltd.

**Opinion**

We have audited the accompany parent company only balance sheets of King Yuan Electronics Co., Ltd. as of December 31, 2018 and 2017, and the related parent company only statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the parent company only financial statements, including the summary of significant accounting policies (together "the financial statements").

In our opinion, the parent company only financial statements referred to above present fairly, in all material respects, the financial position of King Yuan Electronics Co., Ltd. as of December 31, 2018 and 2017, and its financial performance and cash flows for the years ended December 31, 2018 and 2017, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

**Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of King Yuan Electronics Co., Ltd. in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. 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 2018 parent company only financial statements. 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, and we do not provide a separate opinion on these matters.

Revenue recognition

King Yuan Electronics Co., Ltd. recognized NT\$18,469,742 thousand as net sales. Their mainly activities are providing testing and assembly services that represented 94%, or NT\$17,417,745 thousand in the amount, of the net operating revenues.



Since the primary activities of King Yuan Electronics Co., Ltd. are providing testing and assembly services, and the services comprise various wafers/integrated circuits testing and assembly processing, as well as rental of machinery, timing of revenue recognition may vary due to varied nature of revenues that increases the complexity of the revenue recognition. Therefore, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) assessing the appropriateness of the accounting policy for revenue recognition; evaluating and testing the effectiveness of internal control relating to the timing of revenue recognition; analyzing the reasonableness of gross profit margin by products, performing cutoff testing for a period before and after the balance sheet date on a sampling basis, performing test of details on selected samples: reviewing the significant terms of sales agreements and examining relevant delivery documents, and reviewing the selected samples of the quantity, specification, period and relevant documents of machinery services.

We also considered the appropriateness of the disclosures of sales. Please refer to Note 4 and Note 6 in notes to financial statements.

#### **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 requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of 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 ability to continue as a going concern of King Yuan Electronics Co., Ltd. disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate King Yuan Electronics Co., Ltd. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of King Yuan Electronics Co., Ltd.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China 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 financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of King Yuan Electronics Co., Ltd.
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 ability to continue as a going concern of King Yuan Electronics Co., Ltd. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause King Yuan Electronics Co., Ltd. to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the accompanying notes, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the parent company only financial information of the entities or business activities within King Yuan Electronics Co., Ltd. to express an opinion on the 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 control 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 2018 parent company only financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Kuo, Shao-Pin

Fuh, Wen-Fun

Ernst & Young, Taiwan  
March 14, 2019

#### Notice to Readers

- The accompanying parent company only financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in 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, Ernst & Young 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.

English Translation of Financial Statements Originally Issued in Chinese

**KING YUAN ELECTRONICS CO., LTD.  
PARENT COMPANY ONLY BALANCE SHEETS**

As of December 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	December 31, 2018	%	December 31, 2017	%
<b>Current assets</b>					
Cash and cash equivalents	4, 6(1)	\$3,887,001	9	\$4,043,906	10
Financial assets at fair value through profit or loss-current	4, 6(2)	101,461	-	-	-
Financial assets at fair value through other comprehensive income-current	4, 6(3)	15,989	-	-	-
Available-for-sale financial assets-current	4, 6(4)	-	-	112,730	-
Contract assets-current	4, 6(17), 6(18), 7	289,427	1	-	-
Notes receivable, net	4, 6(5), 6(18)	13,844	-	10,655	-
Accounts receivable, net	4, 6(6), 6(18)	3,900,814	8	3,256,792	8
Accounts receivable from related parties, net	4, 6(6), 6(18), 7	752,618	2	674,225	2
Other receivables		144,666	-	168,440	-
Other receivables from related parties	4, 7	123,577	-	217,941	-
Inventories, net	4, 6(7)	962,615	2	350,430	1
Prepayments	6(8)	300,194	1	300,725	1
Other current assets		190,755	-	272,875	1
Total current assets		10,682,961	23	9,408,719	23
<b>Non-current assets</b>					
Financial assets at fair value through other comprehensive income-non-current	4, 6(3)	1,752,480	4	-	-
Available-for-sale financial assets-non-current	4, 6(4)	-	-	22,082	-
Financial assets measured at cost-noncurrent	4, 6(9)	-	-	1,785,558	5
Investments accounted for using the equity method	4, 6(10)	4,816,516	11	5,257,688	13
Property, plant and equipment	4, 6(11), 7, 8	28,321,210	61	23,397,902	58
Intangible assets	4, 6(12)	162,619	-	43,316	-
Deferred tax assets	4, 6(23)	405,398	1	333,914	1
Other financial assets-non-current	8	109,912	-	99,521	-
Other non-current assets		3,487	-	7,087	-
Total non-current assets		35,571,622	77	30,947,068	77
<b>Total assets</b>		<b>\$46,254,583</b>	<b>100</b>	<b>\$40,355,787</b>	<b>100</b>

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

(continued)

English Translation of Financial Statements Originally Issued in Chinese

**KING YUAN ELECTRONICS CO., LTD.**  
**PARENT COMPANY ONLY BALANCE SHEETS**

As of December 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars)

<b>LIABILITIES AND EQUITY</b>		Notes	December 31, 2018	%	December 31, 2017	%
<b>Current liabilities</b>						
Contract liabilities-current			\$84,834	-	\$-	-
Notes payable	4, 6(17)		39,512	-	11,815	-
Accounts payable			944,104	2	445,546	1
Accounts payable to related parties	7		12,391	-	7,236	-
Other payables			2,129,717	4	1,807,868	5
Other payables to related parties	7		110,605	-	52,888	-
Payables on equipment			778,069	2	417,338	1
Current tax liabilities	4, 6(23)		288,772	1	334,724	1
Bonds payable, current portion	4, 6(13)		-	-	64,829	-
Current portion of long-term liabilities	4, 6(14), 8		-	-	2,991,661	7
Other current liabilities			278,321	1	226,062	1
Total current liabilities			4,666,325	10	6,359,967	16
<b>Non-current liabilities</b>						
Long-term loans	4, 6(14), 6(21)		16,628,004	36	8,501,737	21
Net defined benefit liabilities	4, 6(15)		481,570	1	446,624	1
Guarantee deposits			1,573	-	1,123	-
Total non-current liabilities			17,111,147	37	8,949,484	22
Total liabilities			21,777,472	47	15,309,451	38
<b>Equity</b>						
Share capital	4, 6(13), 6(16)		12,227,451	27	12,202,383	31
Common stock			4,844,536	10	5,327,372	13
Capital surplus	4, 6(13), 6(16)					
Retained earnings	4, 6(16)		2,179,765	5	1,956,400	5
Legal reserve			431,239	1	386,010	1
Special reserve			5,597,293	12	5,403,995	13
Undistributed earnings			8,208,297	18	7,746,405	19
Total retained earnings			(803,173)	(2)	(229,824)	(1)
Other equity	4		24,477,111	53	25,046,336	62
Total equity			\$46,254,583	100	\$40,355,787	100
<b>Total liabilities and equity</b>						

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



## KING YUAN ELECTRONICS CO., LTD.

## PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars, except for earnings per share)

Description	Notes	2018	%	2017	%
<b>Net sales</b>	4, 6(17), 7	\$18,469,742	100	\$17,532,168	100
<b>Operating costs</b>	4, 6(5), 6(12), 6(15), 6(19), 6(20), 7	(13,625,400)	(74)	(12,314,401)	(70)
<b>Gross profit</b>		<u>4,844,342</u>	<u>26</u>	<u>5,217,767</u>	<u>30</u>
<b>Operating expenses</b>	4, 6(12), 6(15), 6(19), 6(20)				
Selling expenses		(325,580)	(2)	(303,750)	(1)
Administrative expenses		(1,116,369)	(5)	(952,309)	(5)
Research and development expenses		(727,857)	(4)	(652,922)	(4)
Expected credit losses		(1,933)	-	-	-
Total operating expenses		<u>(2,171,739)</u>	<u>(11)</u>	<u>(1,908,981)</u>	<u>(10)</u>
<b>Operating income</b>		<u>2,672,603</u>	<u>15</u>	<u>3,308,786</u>	<u>20</u>
<b>Non-operating income and expenses</b>					
Other income	4, 6(21), 7	45,290	-	73,295	-
Other gains and losses	4, 6(4), 6(9), 6(21)	242,583	1	86,446	-
Finance costs	4, 6(11), 6(21)	(191,478)	(1)	(186,229)	(1)
Share of profit of associates accounted for using the equity method	4, 6(10)	(415,341)	(2)	(371,676)	(2)
Total non-operating income and expenses		<u>(318,946)</u>	<u>(2)</u>	<u>(398,164)</u>	<u>(3)</u>
<b>Net income before income tax</b>		2,353,657	13	2,910,622	17
<b>Income tax expense</b>	4, 6(23)	(558,313)	(3)	(676,976)	(4)
<b>Net income</b>		<u>1,795,344</u>	<u>10</u>	<u>2,233,646</u>	<u>13</u>
<b>Other comprehensive income</b>	4, 6(22)				
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of the defined benefit plan		(41,788)	-	(89,523)	-
Unrealized gains or losses from equity instruments investments measured at fair value through other comprehensive income		(164,411)	(1)	-	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		17,118	-	-	-
Items that will be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of foreign operations		(81,743)	(1)	(100,133)	(1)
Unrealized gains from available-for-sale financial assets		-	-	6,722	-
Income tax related to components of other comprehensive income that will be reclassified to profit or loss		24,851	-	48,180	-
<b>Other comprehensive income, net of tax</b>		<u>(245,973)</u>	<u>(2)</u>	<u>(134,754)</u>	<u>(1)</u>
<b>Total comprehensive income</b>		<u>\$1,549,371</u>	<u>8</u>	<u>\$2,098,892</u>	<u>12</u>
<b>Earning per share(NT\$)</b>	4, 6(24)				
Basic Earnings Per Share		<u>\$1.47</u>		<u>\$1.88</u>	
Diluted Earnings Per Share		<u>\$1.46</u>		<u>\$1.87</u>	

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

KING YUAN ELECTRONICS CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars)

Description	Common stock	Capital surplus	Retained earnings			Other equity			Total Equity
			Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from equity instruments measured at fair value through other comprehensive income	Unrealized gains (losses) from available-for sale financial assets	
Balance as of January 1, 2017	\$11,674,833	\$4,965,413	\$1,658,280	\$201,416	\$5,382,228	\$(183,283)	\$-	\$(1,310)	\$23,697,577
Appropriation and distribution of 2016 earnings :	-	-	298,120	-	(298,120)	-	-	-	-
Legal reserve	-	-	-	-	(184,594)	-	-	-	-
Special reserve	-	(468,469)	-	184,594	(1,639,642)	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(2,108,111)
Profit for the year ended December 31, 2017	-	-	-	-	2,233,646	-	-	-	2,233,646
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	(89,523)	(51,953)	-	6,722	(134,754)
Total comprehensive income	-	-	-	-	2,144,123	(51,953)	-	6,722	2,098,892
Conversion of convertible bonds	527,550	830,428	-	-	-	-	-	-	1,357,978
Balance as of December 31, 2017	\$12,202,383	\$5,327,372	\$1,956,400	\$386,010	\$5,403,995	\$(235,236)	\$-	\$5,412	\$25,046,336
Balance as of January 1, 2018	\$12,202,383	\$5,327,372	\$1,956,400	\$386,010	\$5,403,995	\$(235,236)	\$-	\$5,412	\$25,046,336
Effects of retrospective application and retrospective restatement	-	-	-	-	448,328	-	-	(5,412)	48,961
Balance at beginning of period after adjustments	12,202,383	5,327,372	1,956,400	386,010	5,852,323	(235,236)	(393,955)	-	25,095,297
Appropriation and distribution of 2017 earnings :	-	-	223,365	-	(223,365)	-	-	-	-
Legal reserve	-	-	-	-	(45,229)	-	-	-	-
Special reserve	-	(488,511)	-	45,229	(1,709,789)	-	-	-	(2,198,300)
Cash dividends	-	-	-	-	-	-	-	-	(33,755)
Share of changes in net assets of associates and joint ventures accounted for using equity method	-	(33,755)	-	-	-	-	-	-	(33,755)
Profit for the year ended December 31, 2018	-	-	-	-	1,795,344	-	-	-	1,795,344
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	(41,788)	(56,892)	(147,293)	-	(245,973)
Total comprehensive income	-	-	-	-	1,753,556	(56,892)	(147,293)	-	1,549,371
Conversion of convertible bonds	25,068	39,430	-	-	-	-	-	-	64,498
Disposal of equity instruments investments measured at fair value through other comprehensive income	-	-	-	-	(30,203)	-	30,203	-	-
Balance as of December 31, 2018	\$12,227,451	\$4,844,536	\$2,179,765	\$431,239	\$5,597,293	\$(292,128)	\$(511,045)	\$-	\$24,477,111

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

English Translation of Financial Statements Originally Issued in Chinese  
**KING YUAN ELECTRONICS CO., LTD.**  
**PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2018 and 2017**  
(Amounts in thousands of New Taiwan Dollars)

Description	2018	2017	Description	2018	2017
<b>Cash flows from operating activities :</b>			<b>Cash flows from investing activities :</b>		
Profit before tax from continuing operations	\$2,353,657	\$2,910,622	Proceeds from disposal of financial assets at fair value through other comprehensive income	\$1,113	\$-
Adjustments for:			Proceeds from capital return of financial assets at fair value through other comprehensive income	8,625	-
The profit or loss items which did not affect cash flows:			Proceeds from disposal of available-for-sale financial assets	-	7,542
Depreciation	6,083,925	5,786,300	Acquisition of financial assets measured at cost	-	(275,000)
Amortization	39,208	25,985	Proceeds from capital return of financial assets measured at cost	-	12,351
Expected credit loss (reversal of provision)	1,933	(16,000)	Acquisition of investments accounted for using the equity method	(280,938)	-
Gains on financial assets and liabilities at fair value through profit or loss	(418)	-	Acquisition of property, plant and equipment	(7,755,488)	(4,649,350)
Interest expenses	191,478	186,229	Proceeds from disposal of property, plant and equipment	225,975	436,658
Interest income	(9,919)	(10,498)	Decrease in refundable deposits	28,337	3,456
Dividend income	(880)	(4,295)	Acquisition of intangible assets	(15,925)	(39,159)
Investment loss accounted for using the equity method	415,341	371,676	Proceeds from disposal of intangible assets	246	-
Gain on disposal of property, plant and equipment	(83,565)	(74,812)	Net cash outflows from acquisition of subsidiaries	(209,444)	-
Gain on disposal of investments	-	(246)	Increase in other financial assets	(10,391)	(5,525)
Gain on disposal of investments accounted for using the equity method	(74,427)	-	Dividend received	10,940	15,755
Impairment loss of financial assets	-	14,627	Net cash used in investing activities	(7,996,950)	(4,493,272)
Unrealized foreign exchange loss (gain)	58,154	(110,044)			
Changes in operating assets and liabilities :			<b>Cash flows from financing activities :</b>		
Contract assets	(289,427)	-	Decrease in short-term loans	(413,652)	-
Notes receivable	(3,189)	3,595	Borrowing in long-term loans	21,368,956	5,611,600
Accounts receivable	46,728	(3,807)	Repayments of long-term loans	(18,716,667)	(7,321,930)
Accounts receivable from related parties	(78,393)	299,913	Increase in guarantee deposits	450	-
Other receivables	68,803	(92,931)	Decrease in guarantee deposits	-	(75)
Other receivables from related parties	127,309	(18,663)	Cash dividends	(2,198,300)	(2,108,111)
Inventories	(185,581)	204,484	Interest paid	(187,801)	(169,990)
Prepayments	(33,494)	16,418	Net cash used in financing activities	(147,014)	(3,988,506)
Other current assets	82,120	51,581			
Contract liabilities	84,834	-	Net (decrease) increase in cash and cash equivalents	(156,905)	15,039
Notes payable	27,697	645	Cash and cash equivalents at the beginning of the year	4,043,906	4,028,867
Accounts payable	(41,577)	(37,170)	Cash and cash equivalents at the end of the year	\$3,887,001	\$4,043,906
Accounts payable to related parties	5,155	(669)			
Other payables	(229,987)	(262,173)			
Other payables to related parties	51,475	(8,213)			
Other current liabilities	10,742	13,429			
Accrued pension liabilities	(6,842)	(4,376)			
Cash generated from operating activities	8,610,860	9,241,607			
Interest received	9,979	11,043			
Income tax paid	(633,780)	(755,833)			
Net cash provided by operating activities	7,987,059	8,496,817			

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

English Translation of a Report and Financial Statements Originally Issued in Chinese

**KING YUAN ELECTRONICS CORP.  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**WITH**

**INDEPENDENT AUDITOR'S REPORT TRANSLATED FROM CHINESE**

**Address: No. 81, Sec. 2, Gongdao 5th Rd., Hsinchu City 300, Taiwan (R.O.C.)**

**Telephone: 886-3-5751888**

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

## REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2018 and for the year then ended prepared under the International Financial Reporting Standards, No.10 are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as “Combined Financial Statements”). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

King Yuan Electronics Corp.

Chairman: C. K. Lee

March 14, 2019

English Translation of a Report Originally Issued in Chinese

**Independent Auditors' Report**

To the Board of Directors and Shareholders  
of King Yuan Electronics Co., Ltd.

**Opinion**

We have audited the accompanying consolidated balance sheets of King Yuan Electronics Co., Ltd. and its subsidiaries as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of King Yuan Electronics Co., Ltd. and its subsidiaries as of December 31, 2018 and 2017, and their consolidated financial performance and cash flows for the years ended December 31, 2018 and 2017, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effectively by Financial Supervisory Commission of the Republic of China.

**Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of King Yuan Electronics Co., Ltd. and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the “Norm”), and we have fulfilled our other ethical responsibilities in accordance with the Norm. 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 2018 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Revenue recognition

King Yuan Electronics Co., Ltd. and its subsidiaries recognized NT\$20,815,369 thousand as net sales. Their mainly activities are providing testing and assembly services that represented 95%, or NT\$19,701,773 thousand in the amount, of the net operating revenues.

Since the primary activities of King Yuan Electronics Co., Ltd. and its subsidiaries are providing testing and assembly services, and the services comprise various wafers/integrated circuits testing and assembly processing, as well as rental of machinery, timing of revenue recognition may vary due to varied nature of revenues that increases the complexity of the revenue recognition. Therefore, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) assessing the appropriateness of the accounting policy for revenue recognition; evaluating and testing the effectiveness of internal control relating to the timing of revenue recognition; analyzing the reasonableness of gross profit margin by products, performing cutoff testing for a period before and after the balance sheet date on a sampling basis, performing test of details on selected samples: reviewing the significant terms of sales agreements and examining relevant delivery documents, and reviewing the selected samples of the quantity, specification, period and relevant documents of machinery services.

We also considered the appropriateness of the disclosures of sales. Please refer to Note 4 and Note 6 in notes to consolidated financial statements.

## **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 requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China 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 ability to continue as a going concern of King Yuan Electronics Co., Ltd. and its subsidiaries, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate King Yuan Electronics Co., Ltd. and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of King Yuan Electronics Co., Ltd. and its subsidiaries.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China 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 auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of King Yuan Electronics Co., Ltd. and its subsidiaries.
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 ability to continue as a going concern of King Yuan Electronics Co., Ltd. and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause King Yuan Electronics Co., Ltd. and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, 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 King Yuan Electronics Co., Ltd. and its subsidiaries 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 control 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 2018 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



## Others

We have audited and expressed an unqualified opinion on the parent company only financial statements of King Yuan Electronics Co., Ltd. as of and for the years ended December 31, 2018 and 2017.

Kuo, Shao-Pin

Fuh, Wen-Fun

Ernst & Young, Taiwan  
March 14, 2019

### Notice to Readers

- The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in 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, Ernst & Young 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.

English Translation of Financial Statements Originally Issued in Chinese  
**KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

As of December 31, 2018 and 2017

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	December 31, 2018	%	December 31, 2017	%
<b>Current assets</b>					
Cash and cash equivalents	4, 6(1)	\$4,786,626	10	\$5,395,029	13
Financial assets at fair value through profit or loss-current	4, 6(2)	101,461	-	-	-
Financial assets at fair value through other comprehensive income-current	4, 6(3)	15,989	-	-	-
Available-for-sale financial assets-current	4, 6(4)	-	-	112,730	-
Contract assets-current	4, 6(19), 6(20), 7	289,427	1	-	-
Notes receivable, net	4, 6(5), 6(20)	13,844	-	10,656	-
Accounts receivable, net	4, 6(6), 6(20)	4,418,689	9	3,804,112	9
Accounts receivable from related parties, net	4, 6(6), 6(20), 7	769,731	2	673,148	2
Other receivables	233,559	197,342	1	197,342	1
Other receivables from related parties	4, 7	11,337	-	156,419	-
Inventories, net	4, 6(7)	1,137,152	2	473,829	1
Prepayments	6(8)	656,455	2	408,405	1
Other current assets		191,099	-	273,253	1
Other financial assets-current	8	4	-	472	-
Total current assets		12,625,373	27	11,505,395	28
<b>Non-current assets</b>					
Financial assets at fair value through other comprehensive income-non-current	4, 6(3)	1,752,480	4	-	-
Available-for-sale financial assets-non-current	4, 6(4)	-	-	22,082	-
Financial assets measured at cost-non-current	4, 6(9)	-	-	1,785,558	4
Investments accounted for using the equity method	4, 6(10)	62,352	-	578,082	2
Property, plant and equipment	4, 6(11), 7, 8	31,907,296	68	26,657,896	65
Intangible assets	4, 6(12)	171,062	-	44,915	-
Deferred tax assets	4, 6(25)	405,398	1	333,914	1
Other financial assets-non-current	8	109,912	-	99,521	-
Other non-current assets	4, 6(13)	121,886	-	130,881	-
Total non-current assets		34,530,386	73	29,652,849	72
<b>Total assets</b>		\$47,155,759	100	\$41,158,244	100

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

(continued)

English Translation of Financial Statements Originally Issued in Chinese  
**KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**As of December 31, 2018 and 2017**  
(Amounts in thousands of New Taiwan Dollars)

<b>LIABILITIES AND EQUITY</b>	Notes	December 31, 2018	%	December 31, 2017	%
<b>Current liabilities</b>					
Short-term loans	4, 6(14), 8, 9	\$111,879	-	\$-	-
Contract liabilities-current	4, 6(19)	85,963	-	-	-
Notes payable		50,156	-	11,815	-
Accounts payable		1,183,765	2	614,951	1
Accounts payable to related parties	7	12,391	-	7,236	-
Other payables		2,276,173	5	1,927,442	5
Other payables to related parties	7	80,831	-	28,343	-
Payables on equipment		800,724	2	450,769	1
Current tax liabilities	4, 6(24)	291,830	1	340,217	1
Bonds payable, current portion	4, 6(15)	-	-	64,829	-
Current portion of long-term liabilities	4, 6(16), 8	184,284	-	3,289,181	8
Other current liabilities		323,908	1	273,222	1
Total current liabilities		5,401,904	11	7,008,005	17
<b>Non-current liabilities</b>					
Long-term loans	4, 6(16), 8	16,750,860	36	8,650,497	21
Net defined benefit liabilities	4, 6(17)	481,570	1	446,624	1
Guarantee deposits		1,573	-	1,124	-
Total non-current liabilities		17,234,003	37	9,098,245	22
Total liabilities		22,635,907	48	16,106,250	39
<b>Equity attributable to owners of the parent company</b>					
Share capital	4, 6(15), 6(18)				
Common stock		12,227,451	26	12,202,383	30
Capital surplus	4, 6(15), 6(18)	4,844,536	10	5,327,372	13
Retained earnings	4, 6(18)				
Legal reserve		2,179,765	4	1,956,400	5
Special reserve		431,239	1	386,010	1
Undistributed earnings		5,597,293	12	5,403,995	13
Total retained earnings		8,208,297	17	7,746,405	19
Other equity	4	(803,173)	(1)	(229,824)	(1)
Equity attributable to owners of the parent company		24,477,111	52	25,046,336	61
<b>Non-controlling interests</b>	4, 6(18)	42,741	-	5,658	-
Total equity		24,519,852	52	25,051,994	61
<b>Total liabilities and equities</b>		\$47,155,759	100	\$41,158,244	100

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

**KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**For the years ended December 31, 2018 and 2017**

(Amounts in thousands of New Taiwan Dollars, except for earnings per share)

Description	Notes	2018	%	2017	%
<b>Net sales</b>	4, 6(19), 7	\$20,815,369	100	\$19,686,911	100
<b>Operating costs</b>	4, 6(7), 6(12), 6(17), 6(21), 6(22), 7	(15,451,671)	(74)	(13,904,506)	(71)
<b>Gross profit</b>		<u>5,363,698</u>	<u>26</u>	<u>5,782,405</u>	<u>29</u>
<b>Operating expenses</b>	4, 6(12), 6(17), 6(20), 6(22)				
Selling expenses		(331,677)	(2)	(303,217)	(1)
Administrative expenses		(1,400,283)	(7)	(1,194,459)	(6)
Research and development expenses		(909,086)	(4)	(818,105)	(4)
Expected credit losses		(2,971)	-	-	-
Total operating expenses		<u>(2,644,017)</u>	<u>(13)</u>	<u>(2,315,781)</u>	<u>(11)</u>
<b>Operating income</b>		<u>2,719,681</u>	<u>13</u>	<u>3,466,624</u>	<u>18</u>
<b>Non-operating income and expenses</b>					
Other income	4, 6(23), 7	91,280	-	110,781	1
Other gains and losses	4, 6(9), 6(23), 7	324,961	2	58,731	-
Finance costs	4, 6(11), 6(23)	(204,987)	(1)	(197,634)	(1)
Share of profit of associates accounted for using the equity method	4, 6(10)	(541,377)	(3)	(503,337)	(3)
Total non-operating income and expenses		<u>(330,123)</u>	<u>(2)</u>	<u>(531,459)</u>	<u>(3)</u>
<b>Net income before income tax</b>		<u>2,389,558</u>	<u>11</u>	<u>2,935,165</u>	<u>15</u>
<b>Income tax expense</b>	4, 6(25)	<u>(595,668)</u>	<u>(2)</u>	<u>(701,085)</u>	<u>(4)</u>
<b>Net income</b>		<u>1,793,890</u>	<u>9</u>	<u>2,234,080</u>	<u>11</u>
<b>Other comprehensive income</b>	4, 6(24)				
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of the defined benefit plan		(41,788)	-	(89,523)	-
Unrealized gains or losses from equity instruments investments measured at fair value through other comprehensive income		(164,411)	(1)	-	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		17,118	-	-	-
Items that will be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of foreign operations		(81,443)	-	(100,371)	-
Unrealized gains from available-for-sale financial assets		-	-	6,722	-
Income tax related to components of other comprehensive income that will be reclassified to profit or loss		24,851	-	48,180	-
<b>Other comprehensive income, net of tax</b>		<u>(245,673)</u>	<u>(1)</u>	<u>(134,992)</u>	<u>-</u>
<b>Total comprehensive income</b>		<u>\$1,548,217</u>	<u>8</u>	<u>\$2,099,088</u>	<u>11</u>
<b>Net income attributable to :</b>					
Owners of the parent company		\$1,795,344	9	\$2,233,646	11
Non-controlling interests		(1,454)	-	434	-
		<u>\$1,793,890</u>	<u>9</u>	<u>\$2,234,080</u>	<u>11</u>
<b>Total comprehensive income attributable to :</b>					
Owners of the parent company		\$1,549,371	8	\$2,098,892	11
Non-controlling interests		(1,154)	-	196	-
		<u>\$1,548,217</u>	<u>8</u>	<u>\$2,099,088</u>	<u>11</u>
<b>Earning per share(NT\$)</b>	4, 6(26)				
Basic Earnings Per Share		<u>\$1.47</u>		<u>\$1.88</u>	
Diluted Earnings Per Share		<u>\$1.46</u>		<u>\$1.87</u>	

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

English Translation of Financial Statements Originally Issued in Chinese  
**KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**For the years ended December 31, 2018 and 2017**  
(Amounts in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent company										Non-controlling interests	Total Equity
	Retained earnings				Other equity							
	Common stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from equity investments measured at fair value through other comprehensive income	Unrealized gains (losses) from available-for sale financial assets	Equity attributable to owners of the parent			
Balance as of January 1, 2017	\$11,674,833	\$4,965,413	\$1,658,280	\$201,416	\$5,382,228	\$(183,283)	\$-	\$(1,310)	\$23,697,577	\$5,462	\$23,703,039	
Appropriation and distribution of 2016 earnings:	-	-	298,120	-	(298,120)	-	-	-	-	-	-	
Legal reserve	-	-	-	184,594	(184,594)	-	-	-	-	-	-	
Special reserve	-	(468,469)	-	-	(1,639,642)	-	-	-	(2,108,111)	-	(2,108,111)	
Cash dividends	-	-	-	-	2,233,646	(89,523)	-	6,722	2,233,646	434	2,234,080	
Profit for the year ended December 31, 2017	-	-	-	-	(89,523)	(51,953)	-	6,722	(134,754)	(238)	(134,992)	
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	2,144,123	(51,953)	-	6,722	2,098,892	196	2,099,088	
Total comprehensive income	-	-	-	-	2,144,123	(51,953)	-	6,722	2,098,892	196	2,099,088	
Conversion of convertible bonds	57,550	830,428	-	-	-	-	-	-	1,357,978	-	1,357,978	
Balance as of December 31, 2017	\$12,202,383	\$5,327,372	\$1,956,400	\$386,010	\$5,403,995	\$(235,236)	\$-	\$5,412	\$25,046,336	\$5,658	\$25,051,994	
Balance as of January 1, 2018	\$12,202,383	\$5,327,372	\$1,956,400	\$386,010	\$5,403,995	\$(235,236)	\$-	\$5,412	\$25,046,336	\$5,658	\$25,051,994	
Effects of retrospective application and retrospective restatement	-	-	-	-	448,328	-	(393,955)	(5,412)	48,961	-	48,961	
Balance at beginning of period after adjustments	12,202,383	5,327,372	1,956,400	386,010	5,852,323	(235,236)	(393,955)	-	25,095,297	5,658	25,100,955	
Appropriation and distribution of 2017 earnings:	-	-	223,365	-	(223,365)	-	-	-	-	-	-	
Legal reserve	-	-	-	45,229	(45,229)	-	-	-	-	-	-	
Special reserve	-	-	-	-	(1,709,789)	-	-	-	(2,198,300)	-	(2,198,300)	
Cash dividends	-	(488,511)	-	-	-	-	-	-	-	-	(488,511)	
Share of changes in net assets of associates and joint ventures accounted for using equity method	-	(33,755)	-	-	-	-	-	-	(33,755)	-	(33,755)	
Profit for the year ended December 31, 2018	-	-	-	-	1,795,344	-	-	-	1,795,344	(1,454)	1,793,890	
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	(41,788)	(56,892)	(147,293)	-	(245,973)	300	(245,673)	
Total comprehensive income	-	-	-	-	1,753,556	(56,892)	(147,293)	-	1,549,371	(1,154)	1,548,217	
Conversion of convertible bonds	25,068	39,430	-	-	-	-	-	-	64,498	-	64,498	
Non-controlling interests	-	-	-	-	-	-	-	-	-	38,237	38,237	
Disposal of equity instruments investments measured at fair value through other comprehensive income	-	-	-	-	(30,203)	-	30,203	-	-	-	-	
Balance as of December 31, 2018	\$12,227,451	\$4,844,536	\$2,179,765	\$431,239	\$5,597,293	\$(292,128)	\$(511,045)	\$-	\$24,477,111	\$42,741	\$24,519,852	

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

English Translation of Financial Statements Originally Issued in Chinese  
**KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2018 and 2017  
(Amounts in thousands of New Taiwan Dollars)

Description	2018	2017	Description	2018	2017
<b>Cash flows from operating activities :</b>			<b>Cash flows from investing activities :</b>		
Profit before tax from continuing operations	\$2,389,558	\$2,935,165	Proceeds from disposal of financial assets at fair value through other comprehensive income	\$1,113	\$-
Adjustments for:			Proceeds from capital return of financial assets at fair value through other comprehensive income	8,625	-
The profit or loss items which did not affect cash flows:			Proceeds from disposal of available-for-sale financial assets	-	7,542
Depreciation	6,686,191	6,317,667	Acquisition of financial assets measured at cost	-	(275,000)
Amortization	40,203	26,498	Proceeds from capital return of financial assets measured at cost	-	12,351
Expected credit loss (reversal of provision)	2,971	(14,038)	Acquisition of investments accounted for using the equity method	(245,408)	-
Gains on financial assets and liabilities at fair value through profit or loss	(418)	-	Acquisition of property, plant and equipment	(8,680,807)	(5,249,763)
Interest expenses	204,987	197,634	Proceeds from disposal of property, plant and equipment	271,099	337,445
Interest income	(22,217)	(30,590)	Decrease (Increase) in refundable deposits	29,842	(7,682)
Dividend income	(880)	(4,295)	Acquisition of intangible assets	(23,774)	(39,827)
Investment loss accounted for using the equity method	541,377	503,337	Net cash inflows from acquisition of subsidiaries	(167,009)	-
Gain on disposal of property, plant and equipment	(165,812)	(44,777)	Increase in other financial assets	(9,923)	(5,993)
Gain on disposal of investments	-	(246)	Decrease in other prepayments	2,142	2,117
Gain on disposal of investments accounted for using the equity method	(74,427)	-	Dividend received	10,940	15,755
Impairment loss of financial assets	-	14,627	Net cash used in investing activities	(8,803,160)	(5,203,055)
Unrealized foreign exchange loss	72,386	(149,392)			
Changes in operating assets and liabilities :			<b>Cash flows from financing activities :</b>		
Contract Assets	(289,427)	-	Increase in short-term loans	111,142	-
Notes receivable	(3,188)	3,594	Decrease in short-term loans	(413,652)	(13,658)
Accounts receivable	82,660	(85,819)	Borrowing in long-term loans	21,516,981	5,762,575
Accounts receivable from related parties	(96,583)	296,052	Repayments of long-term loans	(19,017,327)	(7,541,377)
Other receivables	9,337	(81,591)	Increase in guarantee deposits	449	-
Other receivables from related parties	145,199	(27,067)	Decrease in guarantee deposits	-	(74)
Inventories	(209,119)	200,665	Cash dividends	(201,192)	(2,108,111)
Prepayments	(282,075)	(18,940)	Interest paid	(4,081,661)	(181,016)
Other current assets	82,154	51,498	Net cash used in financing activities	(2,198,300)	(2,108,111)
Contract liabilities	85,963	-	Effect of changes in exchange rate on cash and cash equivalents	(201,899)	(181,016)
Notes payable	38,341	645	Net decrease in cash and cash equivalents	(31,174)	(13,154)
Accounts payable	(11,431)	(669)	Cash and cash equivalents at the beginning of the year	(608,403)	(222,374)
Accounts payable to related parties	5,155	(234,061)	Cash and cash equivalents at the end of the year	5,395,029	5,617,403
Other payables to related parties	48,768	(9,895)			
Other current liabilities	9,025	22,700			
Accrued pension liabilities	(6,842)	(4,376)			
Cash generated from operating activities	9,077,696	9,828,235			
Interest received	23,704	29,844			
Income tax paid	(673,570)	(782,583)			
Net cash provided by operating activities	8,427,830	9,075,496			

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

**King Yuan Electronics Co., Ltd.  
Shareholders' meeting rules of procedure**

- Article 1: The Company's shareholders' meeting shall be conducted in accordance with these rules.
- Article 2: Shareholders (or their proxies) shall wear attendance badges when participating, and shall submit sign-in cards in order to sign in; number of shares shall be calculated as the number of shares on their sign-in cards.
- Article 3: When shareholders with a number of represented shares exceeding the statutory number are in attendance, the Chairman shall announce the start of the meeting. If the number of represented shares has not reached the statutory number by the scheduled starting time, the Chairman may announce a delay in the meeting. If the number of represented shares is still insufficient after two delays (the first delay shall be for 20 minutes and the second delay for 10 minutes), but shareholders representing more than one third of the total number of issued shares are present, in accordance with Article 175 of the Company Act, the majority of the voting rights in attendance shall be sufficient for a provisional resolution. When the foregoing provisional resolution has been reached, if the number of shares represented by the shareholders in attendance has reached the statutory number, the formal start of the meeting shall be announced, and any provisional resolutions that have already been made shall be submitted to the meeting for retroactive acknowledgment.
- Article 4: When shareholders in attendance wish to speak, they must first submit a speaking slip noting their attendance badge number and name, and the Chairman shall determine their speaking order.
- Article 5: Shareholders' meeting shall comply with the procedures specified in the meeting agenda; the drafting of meeting agendas shall comply with the following guidelines:
1. Annual general meetings: Drafted by the Board of Directors.
  2. Extraordinary general meetings: Drafted by the person with convening right.
- The Chairman may not arbitrarily announce the end of the meeting without a resolution when the procedures called for in the agenda (including extraordinary motions) in the two foregoing paragraphs have not yet been completed. After the meeting has ended, shareholders may not additionally select a chairman on the spot or seek another place in which to hold a continuing meeting.
- Article 6: Without the chairman's consent, each shareholder may speak for no more than two times concerning each proposal, and each time may not exceed 5 minutes. Institutional shareholders may designate only one person to attend shareholders' meeting. If an institutional shareholder designates two persons to represent at a shareholders' meeting, only one person may speak concerning each proposal.
- Article 7: Apart from those proposals listed in the agenda, shareholders may propose other proposals, or revisions or replacements to the original proposals; in such cases, when seconded by other shareholders, the shares represented by the proposer and the seconder must come to at least 1% of the total shares of common stock in circulation.
- Article 8: An issue may not be discussed or voted on without a proposal. When discussing proposals,



discussion should proceed in the order provided in the agenda. The Chairman may immediately put an end to a participant's speech when in violation of procedures or going beyond the issue at hand; the chairman may declare the end of discussion at an appropriate time, and may stop discussion when necessary.

Article 9: After the end or termination of discussion has been announced, the chairman shall promptly put the proposal to a vote. Each shareholder's voting rights shall be calculated in accordance with the Company's Articles of Incorporation.

Article 10: Except when the Company Act has special regulations concerning voting on proposals, a proposal will be deemed to have passed when a majority of the voting rights represented by the shareholders in attendance are in favor. However, when the chairman announces that a proposal has passed after seeking and finding no objections, the validity shall be the same as passage by a vote. If there are objections, the chairman may have those opposed call out their names in lieu of voting; after calculating the shares of those who have abstained, if the number of shares is insufficient to affect the passage of the proposal, the proposal shall be deemed to have passed, and the validity shall be equivalent to passage by voting.

Article 11: When shareholders commission a proxy to attend a shareholders' meeting, except in the case of a trust enterprise or transfer agent organization approved by the competent authority in charge of securities, when one proxy is commissioned by two or more shareholders, the proxy's voting rights may not exceed 3% of the total number of issued shares, and any excess portion of voting rights shall not be calculated.

Article 12: The chairman may announce a break during a meeting when time permits.

Article 13: Any matters not dealt with in these Rules shall be handled in accordance with the Company's Articles of Incorporation, the Company Act, and other relevant laws and regulations.

Article 14: These Rules shall take effect after passage by the shareholders' meeting, and likewise in the case of revisions.

Article 15: These Rules were established on August 20, 1997.

1st revision: May 7, 2002.

<Appendix 2>

## **King Yuan Electronics Co., Ltd. Company Articles of Incorporation**

### Chapter 1 General Provisions

Article 1: The Company is organized as prescribed in the Company Act, and is formally named the King Yuan Electronics Co., Ltd. (its English name is KING YUAN ELECTRONICS CO. LTD.)

Article 2: The Company is engaged in the following business activities:

1. Design, manufacturing, testing, tooling, processing, packaging, and sale of all types of integrated circuits.
2. Manufacturing, processing, and sale of all types of burn-in oven and parts and accessories.
3. Import/export trade in the foregoing products.
4. Price quotation, bidding, and distribution services for the foregoing products on behalf of domestic and foreign vendors.
5. ZZ99999 Apart from the permitted business activities, other business is not prohibited or restricted by laws or regulations.

Article 2-1: When this Company is a limited liability shareholder of another company, total investment in that company shall not be subject to the restriction of Article 13 of the Company Act that total investment may not exceed 40% of total paid-in capital.

Article 2-2: The Company may provide guarantees to third parties when warranted by business needs.

Article 3: The Company's headquarters are located in Hsinchu. When necessary, the Company may establish subsidiaries in Taiwan or overseas following a resolution of Board of Directors.

Article 4: Deleted.

### Chapter 2 Shares

Article 5: The Company has total capital set at NT\$ 15.0 billion, which is divided into 1.5 billion shares (including 30 million stock options for provision to employees), and each share has a value of NT\$10, with shares issued in batches. The Board of Directors has been authorized to issue those as yet unissued shares in batches in order to meet business needs.

Article 5-1: Employee stock options may be issued only when the subscription price of shares issued by the Company is less than that of the closing price of the Company's common stock on the day of issuance, and shareholders representing two-thirds of voting rights at a shareholders' meeting with shareholders representing a majority of outstanding shares in attendance are in agreement.

The Company shall transfer stock options to employees at a price lower than the actual average stock buyback price. Before transfer, shareholders representing two-thirds of voting rights at a shareholders' meeting with shareholders representing a majority of outstanding shares in attendance must provide their agreement.

Article 6: Deleted.

Article 7: Since the Company's shares are registered, at least three directors must sign or applied their

seals to shares, which must be notarized, before issuance. The company may also issue large face value shares at the same time.

The Company need not print out stock when issuing shares, and may instead register issued shares at a centralized securities depository enterprise.

Article 8: The transfer of shares shall cease during a 60-day period prior to the annual general meeting, during a 30-day period prior to an extraordinary general meeting, or during a 5-day period before the based day determined by the Company for the distribution of dividends, bonuses, or other benefits.

#### Chapter 3 Shareholders' meeting

Article 9: Shareholders' meetings consist of general meetings and extraordinary meetings. General meetings are held once annually, and shall be convened by the Board of Directors in accordance with law within the six-month period after the end of each fiscal year. Extraordinary meetings shall be convened in accordance with law when necessary.

Article 10: A shareholder who cannot attend a shareholders' meeting for some reason may authorize a proxy to attend after signing and applying his or her seal to a letter of authorization printed by the company explicitly stating the scope of authorization.

Article 11: With regard to the Company's shareholders, apart from those situations specified in Article 179 of the Company Act in which shares have no voting rights and in Article 197-1, Paragraph 2 of the Company act in which directors' ability to mortgage their voting rights are restricted, each share shall have one voting right.

Article 12: Except when the Company's other regulations apply, proposals that shareholders' meetings shall be passed when the majority of the voting rights of shareholders in attendance are in agreement at a shareholders' meeting at which shareholders representing a majority of the total outstanding shares are in attendance.

Article 12-1: Except when laws and regulations and other requirements of the Company's Articles of Incorporation are applicable, the procedures at shareholders' meetings shall be handled in accordance with this Company's shareholders' meeting rules of procedure.

#### Chapter 4 Directors and the Audit Committee

Article 13: The Company shall have from 7 to 11 directors, who shall be appointed for terms of three years. Candidates for director positions shall be nominated, and the directors shall be selected from a list of candidates at a shareholders' meeting. Directors may serve consecutive terms if selected repeatedly. In accordance with law, within their periods of appointment, directors must purchase liability insurance in light of possible compensation obligations reflecting the scope of their duties.

Independent directors may account for no less than three of the number of directors in the foregoing paragraph, and may constitute no less than one-fifth of all directors. Independent directors' professional qualifications, shareholdings, part-time working restrictions, nomination and selection methods, and other binding matters shall be handled in accordance with the relevant regulations of the competent authority in charge of securities.

Article 13-1: The Company has had an Audit Committee since the 12th Board of Directors; the Audit Committee is composed of all independent directors.

The Audit Committee's size, members' periods of appointment and duties, rules of procedure, and resources that must be provided by the Company when the committee members are exercising their official powers shall be determined in accordance with the Audit Committee Organizational Rules.

Article 14: The Board of Directors shall be composed of the directors. The Director & Chairman shall be selected from among the directors by a majority vote at a meeting at which at least two-thirds of the directors are in attendance, and another person may be chosen as Director & Vice-Chairman employing the same method. The Director & Chairman shall serve as the chairman of shareholders and Board of Directors meetings, and shall represent the Company in an external capacity.

Article 15: If the Director & Chairman has taken leave or cannot exercise his authority for some reason, a deputy may be designated in accordance with Article 208 of the Company Act.

Article 15-1: Directors must attend meetings of Board of Directors in person. A director who cannot attend a meeting of Board of Directors may employ a letter of authorization to entrust another director to attend that meeting on his or her behalf; each director may accept such authorization from only one other director.

Article 15-2: The following tasks shall be performed at meetings of Board of Directors:

1. Deliberation of business strategies and medium-/long-term development plans.
2. Deliberation of annual business plans and supervision of implementation.
3. Budget approval and deliberation of final accounting.
4. Deliberation of capital increase or decrease plans.
5. Deliberation of plans for distribution of earnings program or make-up of losses.
6. Approval of major external contracts.
7. Deliberation of the Company's Articles of Incorporation or revisions.
8. Approval of the Company's organizational rules and major business rules.
9. Decisions concerning the establishment, reorganization, or elimination of branch organizations.
10. Decision of plans involving major capital expenditures.
11. Hiring and dismissal of managers.
12. Implementation of shareholders' meeting resolutions.
13. Deliberation of matters proposed by managers for review.
14. Holding of shareholders' meetings and business reports.
15. Other matters that must be handled in accordance with law.

Article 16: The Board of Directors has been authorized to determine compensation for all directors on the basis of the degree of directors' participation in the Company's operations and the value of their contribution, and in consideration of prevailing standards in the industry.

#### Chapter 5 Managers

Article 17: The appointment, dismissal, and compensation of managers shall be handled in accordance with Article 29 of the Company Act and other relevant laws and regulations.

## Chapter 6 Accounting

Article 18: The Company shall have the Board of Directors compile a (1) business report, (2) financial statement, and (3) proposed distribution of earnings or plan to make up losses after the end of each fiscal year. These statements shall be presented for acknowledgment at the annual general meeting.

Article 19: Company shall, depending on the earnings for the year, distribute 8%-10% of earnings as employee compensation, and shall distribute less than 1% of earnings to directors as remuneration. However, if the Company has cumulative losses, an amount sufficient to make up losses shall be retained.

Employee compensation shall be distributed in the form of stock or cash, and such stock or cash may also be distributed to the employees of affiliated companies who meet certain conditions.

In Paragraph 1, current-year earnings refer to profit before tax, employee compensation and directors' remuneration.

The proposed distribution of employee compensation and directors' remuneration shall be approved by a majority at a meeting of Board of Directors at which more than two-thirds of the directors are in attendance, and shall be reported to the shareholders' meeting.

Article 20: If the Company's final statement for the year shows earnings, funds shall first be set aside for tax payments and to make up past losses, and another 10% shall be then be set aside as a legal reserve; Furthermore, depending on the Company's operating needs and the requirements of laws and regulations, the Company may set aside or reverse a special reserve; if there are still earnings and undistributed earnings at the beginning of the period, the Board of Directors may draft a proposed earnings distribution plan, which shall be presented to the shareholders' meeting for resolution.

The Company's dividends distribution policy shall be determined on the basis of the Company's current and future investment environment, need for funds, state of domestic and foreign competition, and funds need budget, etc., and should also reflect shareholders' interests and strike a balance between dividends and the Company's long-term financial plans. In accordance with law, the Board of Directors shall draft an annual distribution plan, which shall be reported to the shareholders' meeting. Since the industry in which the Company is situated is currently at the growth stage, and the Company expects to have future expansion plans and funding needs, with regard to the distribution of shareholders' dividends for the year, cash dividends shall comprise no less than 20% of all shareholders' dividends.

## Chapter 7 Supplementary provisions

Article 21: Any matters not dealt with fully in the Company's Articles of Incorporation shall uniformly be handled in accordance with the Company Act.

Article 21-1: The Company's various rules, regulations, and operating bylaws shall be separately determined.

Article 22: These Articles of Incorporation were established on May 2, 1987

1st revision: May 20, 1987  
2nd revision: November 22, 1988  
3rd revision: December 12, 1988  
4th revision: February 5, 1990  
5th revision: May 3, 1990  
6th revision: June 7, 1992  
7th revision: April 28, 1994  
8th revision: December 28, 1994  
9th revision: July 21, 1995  
10th revision: September 13, 1995  
11th revision: August 2, 1996  
12th revision: September 25, 1996  
13th revision: March 14, 1997  
14th revision: August 20, 1997  
15th revision: April 30, 1998  
16th revision: April 20, 1999  
17th revision: April 10, 2000  
18th revision: March 12, 2001  
19th revision: May 7, 2002  
20th revision: December 19, 2002  
21st revision: June 9, 2003  
22nd revision: June 1, 2004  
23rd revision: June 1, 2004  
24th revision: June 13, 2005  
25th revision: June 13, 2005  
26th revision: June 12, 2006  
27th revision: June 12, 2006  
28th revision: June 13, 2007  
29th revision: June 13, 2008  
30th revision: June 10, 2009  
31st revision: June 15, 2010  
32nd revision: June 15, 2011  
33rd revision: June 15, 2012  
34th revision: June 12, 2014  
35th revision: June 8, 2016

## King Yuan Electronics Co., Ltd.

### Procedures for the Acquisition or Disposal of Assets

#### Article 1: Purpose

These Procedures have been drafted in order to safeguard assets and achieve the disclosure of information.

#### Article 2: Legal basis

These Procedures have been determined in accordance with relevant regulations of Article 36-1 of the Securities and Exchange Act (hereinafter referred to as this Act) and the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" of the Financial Supervisory Commission, Executive Yuan (hereinafter referred to as the "Financial Supervisory Commission").

#### Article 3: Scope of assets

1. Securities: Includes investments in stocks, government bonds, corporate bonds, financial bonds, securities in a recognized fund, depository receipts, call (put) warrants, beneficiary securities, and asset backed securities.
2. Real estate (including land, homes and buildings, investment-type real estate, land use rights, and construction industry inventory) and equipment.
3. Memberships.
4. Intangible assets: Includes such intangible assets as patent rights, copyrights, trademark rights, and concessions.
5. Financial institution's creditors' rights (including receivables, bills purchased and discounted, and loans and nonperforming loans).
6. Derivative products.
7. Assets obtained or disposed of due to lawful merger, division, acquisition, or transfer of shares.
8. Other important assets.

#### Article 4: Definitions

1. Derivative products: Refers to forward contracts, option contracts, futures contracts, leveraged guarantee contracts, or swaps where the value of the product is a derivative of assets, interest rates, exchange rate, indexes, or other gains or products, and composite products consisting of combinations of the foregoing products. As referred to here, forward contracts do not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term stocking (sales) contracts.
2. Assets obtained or disposed of due to lawful merger, division, acquisition, or transfer of shares: Refers to assets obtained or disposed of due to lawful merger, division, acquisition in accordance with the Business Mergers and Acquisitions Act, Financial Holding Company Act, The Financial Institutions Merger Act, or other laws, or due to the issuance of new shares and transfer of another company's shares (herein referred to as transfer of shares) in accordance with the regulations of Article 156, Paragraph 8 of the Company Act.

3. Related parties, subsidiaries: Shall be determined on the basis of the Regulations Governing the Preparation of Financial Reports by Securities Issuers.
4. Professional appraiser: Refers to a real estate appraiser or other part permitted by law to engage in real estate or equipment appraisal.
5. Date of occurrence: Refers to the transaction contract signing date, payment date, commissioned transaction date, transfer date, Board of Directors resolution date, or other earliest date of confirmation of transaction counterparty and transaction amount. However, in the case investments that must be approved by the competent authority, the earliest of the foregoing date or date of approval by the competent authority shall be employed.
6. Mainland China area investments: Refers to investments in the mainland China area made in accordance with the permit regulations of the Investment Commission, MOEA for investments or technological cooperation in the mainland China area.
7. "Within one year" here refers to the one-year period prior to the base date of the current acquisition or disposition of assets, where the already-announced portion shall not be added.
8. "Financial statement for the most recent period" here refers to the Company's CPA-attested or reviewed financial statement disclosed in accordance with law prior to the acquisition or disposition of assets.
9. "10% of total assets" are here calculated on the basis of total assets on the Company's most recent group or individual financial report prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Article 5: Limit of investment in real estate not for business purposes and negotiable securities

The limits of the foregoing assets that may be obtained individually by the Company and its subsidiaries shall be determined as follows:

1. The total value of the Company's real estate not for business use may not exceed 10% of the net value of the Company's financial statement for the most recent period; In the case of subsidiaries, the sum of such assets may not exceed 10% of the net value of the subsidiary's financial statement for the most recent period.
2. The total value of the Company's investment in securities may not exceed 70% of the net value of the Company's most recent financial statement; Investments in securities may not comprise more than 150% of the paid-in capital of subsidiaries specializing in investment; Investments in securities may not comprise the net value of the most recent financial statement of subsidiaries not specializing in investment.
3. The amount of the Company's investment in individual securities may not exceed 40% of the net value of the Company's most recent financial statement; In the case of subsidiaries specializing in investment, the amount of investment in individual securities may not exceed the subsidiary's paid-in capital; In the case of subsidiaries not specializing in investment, the amount of investment in individual securities may not exceed 20% of the net value of the subsidiary's most recent financial statement.

Article 6: When in accordance with the prescribed handling procedures or other laws or regulations, the acquisition or disposition of assets by the Company is submitted to the Board of



Directors for discussion, the views of the independent directors shall be taken fully into consideration; if the independent directors have dissenting opinions or qualified opinions, they should be explicitly stated in the meeting minutes of the Board of Directors.

The Company's major asset or derivative transactions must be approved by a majority of the members of the Audit Committee, and must be submitted to the Board of Directors for a resolution.

If, in the foregoing paragraph, a majority of Audit Committee members fail to give their consent, more than two-thirds of the directors must approve the transaction, and the Audit Committee's resolution must be explicitly stated in the meeting minutes of Board of Directors.

The full number of Audit Committee members in Paragraph 2 and the full number of directors in the foregoing paragraph shall be calculated as the actual number of incumbent members.

When the Company obtains an appraisal report or opinion of a CPA, attorney, or securities underwriter, the professional appraiser and its appraisal personnel, CPA, attorney, or securities underwriter, and parties to the transaction may not be related parties.

Article 7: Handling procedures for the acquisition or disposition of real estate or other fixed assets

1. Assessment and operating procedures

The Company's acquisition or disposition of real estate and other fixed assets shall be handled in accordance with fixed asset cycle procedures in the Company's internal control system fixed assets cycle procedures in all cases.

2. Transaction terms and authorized amount determination procedures

(1) When acquiring or disposing of real estate, an analysis report referring to publicly-announced current value, appraised value, actual transaction prices of nearby real estate, etc. and the determined transaction terms and transaction prices must be submitted to the Director & Chairman; when the transaction amount is less than NT\$300 million, the Director & Chairman shall be asked to approve the transaction, which shall be reported at the first meeting of Board of Directors following the transaction; If the amount exceeds NT\$300 million, the transaction may be performed only after submission to the Board of Directors.

(2) When acquiring or disposing of equipment, either a price inquiry, price comparison, price negotiation, or bid request should be performed; when the amount does not exceed NT\$300 million, the transaction should be approved at relevant levels in accordance with authorization regulations; when the transaction amount exceeds NT\$300 million, the transaction must be submitted to and approved by the Board of Directors after approval by the President before it may be implemented. However, the purchasing of equipment for the Company's business use may be performed in accordance with purchasing operating procedure regulations when within the Company's approved budget scope, in which case the Director & Chairman's approval shall be obtained.

3. Implementing unit

When acquiring or disposing of real estate or other fixed assets, after presentation for

approval in accordance with the approval right levels in the foregoing paragraph, the using department and administrative department is bear responsibility for implementation of the transaction.

4. Real estate or equipment appraisal report

When acquiring or disposing of real estate or equipment, except in cases when the transaction is with a government agency, performing commissioned construction on the company's own land or leased land, or acquiring or disposing of equipment for business use, when the transaction amount exceeds 20% of the Company's paid-in capital or NT\$300 million, an appraisal report from a professional appraiser must be obtained prior to the transaction date, and the transaction must comply with the following:

- (1) If a restricted price, designated price, or special price must be used as a reference basis for the transaction price for some special reason, the transaction must first be submitted to the Board of Directors for approval by resolution; the case must also be handled in accordance with the foregoing procedures when transaction terms subsequently change.
- (2) When the transaction amount exceeds NT\$1 billion, two or more professional appraisers must be hired to perform appraisal.
- (3) If a professional appraiser's appraisal results have any of the following situations, except when the appraisal results for assets to be acquired are, in general, higher than the transaction amount, or the appraisal results for assets to be disposed are, in general, less than the transaction amount, a CPA must be hired to handle the case in accordance with the Regulation No. 20 of the Statements of Auditing Standards issued by the Accounting Research and Development Foundation, and submit a specific opinion concerning the reason for the difference and appropriateness of the transaction price:
  1. The difference between appraisal results and the transaction amount exceeds 20% of the transaction amount.
  2. The difference between the appraisal results of two or more professional appraisers exceeds 10% of the transaction amount.
- (4) The interval between the date of the report submitted by a professional appraiser and the contract establishment date may not exceed three months. However, the original professional appraisers shall be asked to present an opinion if the publicly-announced current value for the same period is applicable and no more than six months have passed.
- (5) When the Company acquires or disposes of assets via court auction procedures, the court's verification documents may serve in lieu of an appraisal report or CPA's opinion.

Article 8: Procedures for the acquisition or disposition of securities investments

1. Assessment and operating procedures

The Company's purchase and sale of securities purchase shall be handled in accordance with the investment cycle of the Company's internal control system in all cases.

2. Transaction terms and authorized amount determination procedures

- (1) The responsible unit shall decide securities purchases and sales on the Taiwan Stock Exchange or at a securities trader's place of business in accordance with market prices. Securities trades with a value of NT\$100 million or less shall be approved by the Director & Chairman and submitted to the next meeting of the Board of Directors for acknowledgment.
  - (2) In the case of securities trading not on the Taiwan Stock Exchange or a securities trader's place of business, the target company's most recent CPA-attested or reviewed financial statement should be obtained to guide assessment of the transaction price, and net value per share, profitability, and future development potential should be taken into consideration. Securities trades with a value of NT\$100 million or less shall be approved by the Director & Chairman and submitted to the next meeting of the Board of Directors.
  - (3) When acquiring or disposing of assets if the transaction must be approved by the Board of Directors in accordance with specified handling procedures or other laws or regulations, if directors express any objection, and there is a record or written statement, the Company must submit the directors' objections to the supervisors. If the Company has established independent directors, when submitting planned asset acquisition or disposition transactions to the Board of Directors for discussion in accordance with regulations, the views of the independent directors shall be taken fully into consideration; if the independent directors have dissenting opinions or qualified opinions, they should be explicitly stated in the meeting minutes of the of Board of Directors.
3. Implementing unit
- When the Company makes securities investments, the financial unit shall bear responsibility for implementation after approval at the appropriate levels of authorization.
4. Obtaining experts' opinions
- (1) When acquiring or disposing of securities, the target company's most recent CPA-attested or reviewed financial statement should be obtained prior to the transaction to serve as a reference for assessment of the transaction price; if the transaction amount is at least 20% of the Company's paid-in capital or NT\$300 million, a CPA must be hired prior to the completion of the transaction to assess the reasonableness of the transaction price; if the CPA must compile an expert report, the CPA shall handle the matter in accordance with Regulation No. 20 of the Statements of Auditing Standards issued by the Accounting Research and Development Foundation. However, the case shall not be subject to this restriction if the security has an active market disclosed price quotation or the competent authority in charge of securities has other regulations governing the case.
  - (2) When the Company acquires or disposes of assets via court auction procedures, the court's verification documents may serve in lieu of an appraisal report or CPA's opinion.

## Article 9: Related party transactions

1. When the Company acquires or disposes of assets from or to a related party, apart from handling the case in accordance with Article 7, and implementing resolution procedures and assessment of the reasonableness of transaction terms in accordance with the following regulations, when the transaction amount is at least 10% of the Company's total assets, the Company must in accordance with Article 7 entrust a professional appraiser to submit an appraisal report or obtain a CPA's opinion. Furthermore, when judging whether the transaction counterparty is a related party, apart from considering legal formalities, the Company must also consider its material relationship.

2. Assessment and operating procedures

When the Company acquires or disposes of real estate from or to a related party, or acquires or disposes of assets apart from real estate from or to a related party, and the transaction amount exceeds 20% of the Company's paid-in capital, 10% of total assets, or NT\$300 million, apart from the purchase or sale of government bonds, bonds with put/call options, subscription or redemption of currency market funds issued by a domestic securities investment trust enterprise, the following information must be submitted to and approved by the Audit Committee and Board of Directors before the transaction contract may be signed or the payment made:

- (1) Purpose, necessity, and expected benefit of the acquisition or disposition of assets.
- (2) The reason a related party has been chosen as the transaction counterparty.
- (3) When obtaining real estate from a related party, information concerning the reasonableness of the proposed transaction terms must be assessed in accordance with subparagraphs (1) and (4) of Paragraph 3 of this Article.
- (4) Matters including the original price and date of acquisition by the related party, transaction counterparty, and the relationship between the Company and the related party.
- (5) Calculation of an expected cash receipt and disbursement table for each month during the one-year period after the month of contract establishment, and assessment of the necessity of the transaction and reasonableness of funds utilization.
- (6) An appraisal report obtained from a professional appraiser or a CPA's opinion obtained as specified in the foregoing paragraph.
- (7) Restrictive conditions on the transaction and other important specified matters.

If the Company has established independent directors, when the transaction is submitted to the Board of Directors for discussion as specified in the foregoing subparagraph, the views of the independent directors shall be taken fully into consideration; if the independent directors have dissenting opinions or qualified opinions, they should be explicitly stated in the meeting minutes of the Board of Directors.

3. Transaction cost reasonableness assessment

- (1) When the Company acquires real estate from a related party, the reasonableness of the transaction cost must be assessed using the following method:
  1. According to the related party's transaction price plus interest on necessary funds and other costs that must be borne by the buyer in accordance with law. The interest on necessary funds shall be estimated on the basis of the average weighted interest rate of loans during the year for the purchase of assets by the company; however, this interest rate may not exceed the maximum loan interest rate for non-financial enterprises announced by the Ministry of Finance.
  2. If the related party had previously mortgaged the transaction target for a loan from a financial institution, the total loan assessment price of the target made by the financial institution; however, the financial institution's actual cumulative loan price for the target must have been at least 70% of the total assessed loan price, and the loan period must have been at least one year. However, this rule shall not be applicable when either the financial institution or a transaction party is a related party.
- (2) When making the combined purchase of land and buildings, the transaction cost of land and buildings may be assessed separately using any of the methods listed in the foregoing paragraph.
- (3) When the Company acquires real estate from a related party, the real estate cost shall be assessed in accordance with Subparagraphs (1) and (2) of Paragraph 3 of this Article, and a CPA must be hired to review the case and submit a specific opinion.
- (4) When the Company acquires real estate from a related party, and the results of assessment in accordance with Subparagraphs (1) and (2) of Paragraph 3 of this Article are uniformly lower than the transaction price, the case shall be handled in accordance with Paragraph 3, Subparagraph (5) of this Article. However, when the following circumstances exist, objective evidence has been submitted, and a specific, fair opinion has been obtained from a professional real estate appraiser and CPA, the case shall not be subject to this restriction:
  1. The related party performed construction after acquiring bare land or leasing land, and the evidence obtained meets one of the following conditions:
    - (1) The bare land was assessed using a method specified in the foregoing article, the buildings were assessed as the related party's construction costs plus a reasonable construction profit, and the total price exceeds the actual transaction price. Reasonable construction profit here refers to the lower of the average construction gross profit ratio of the related party's construction department during the most recent three years, or the construction industry gross profit ratio during the most recent period announced by the Ministry of Finance.
    - (2) Other transaction cases with unrelated parties involving other floors of the same target building or in nearby areas during the past year when the area is similar and transaction terms are similar after assessment of the price

differential with a reasonable floor or area conducted in accordance with real estate transaction practice.

- (3) The transaction terms for another floor of the target real estate in a leasing case with another unrelated party during the most recent one-year period are judged to be similar in view of a reasonable floor price differential according to real estate leasing practice.
  2. The Company has presented evidence that the terms and area are similar to those of a transaction case involving real estate in a nearby area with an unrelated party during the most recent one-year period when purchasing real estate from a related party. A transaction case in a nearby area here shall generally referred to a real estate transaction within the contiguous block or within a radius of less than 500m from the transaction target, or when the publicly-announced current value is similar; Similar area here generally refers to the area of a transaction case with an unrelated party that is no less than 50% of the transaction target's area; During the most recent one-year period here shall be based on the prior one-year period calculated from the date on which the acquisition of the real estate actually occurred.
- (5) When the Company acquires real estate from a related party, and the results of assessment in accordance with Subparagraphs (1) and (2) of Paragraph 3 of this Article are uniformly lower than the transaction price, the following matters shall be performed. When this Company and public companies whose investments in this Company are assessed using the equity method set aside a special reserve in accordance with the foregoing regulations, the special reserve may be used only after price decrease losses on assets that have been purchased for high prices have been recognized, or such assets have been disposed of, or appropriate compensation or restoration to their original condition has been performed, or other evidence confirms that no unreasonable assumptions have been made, and the Financial Supervisory Commission's consent has been obtained.
  1. The Company shall in accordance with Article 41, Paragraph 1 of the Securities and Exchange Act set aside a special reserve based on the difference between the transaction price and assessed cost of real estate, and may not use this reserve for distribution or capitalization of stock dividends. If investors whose investments in the Company are assessed using the equity method are public companies, they must also set aside a special reserve in proportion to their shareholdings in accordance with Article 41, Paragraph 1 of the Securities and Exchange Act.
  2. The independent directors who are members of the Audit Committee shall handle such cases in accordance with Article 218 of the Company Act and Article 14-4, Paragraph 4 of the Securities and Exchange Act.
  3. The state of matters handled in accordance with Paragraph 3, subparagraph (5), points 1 and 2 of this article shall be reported to the shareholder's meeting, and detailed transaction content shall be disclosed in the annual report and

prospectus.

- (6) When the Company acquires real estate from a related party, when any one of the following situations applies, the Company may simply handle the case in accordance with the assessment and operating procedure regulations in paragraphs 1 and 2 of this Article, and transaction cost reasonableness assessment in Paragraph 3, subparagraphs (1), (2), and (3) of this Article shall not be applicable:
  1. The related party has acquired real estate by inheritance or donation.
  2. Five years have passed between the time of the related party's contract signing and acquisition of real estate and the contract signing date for the current transaction.
  3. The company has signed a joint construction contract with a related party, or has acquired real estate by hiring a related party to construct real estate via contracted construction on the Company's own land or leased land.
- (7) When the Company acquires real estate from a related party, if other evidence indicates that the transaction is inconsistent with routine operating requirements, the case shall also be handled in accordance with Paragraph 3, Subparagraph (5) of this Article.
4. When the Company's acquires or disposes of equipment for business use from or to a subsidiary, the Board of Directors shall authorize the Director & Chairman to decide and act on the matter when the transaction is within a certain amount, and report the transaction to the next Board of Directors meeting for retroactive acknowledgment.

#### Article 10: Procedures for acquisition or disposition of memberships or intangible assets

1. Assessment and operating procedures  
When acquiring or disposing of memberships or intangible assets shall be handled in accordance with fixed asset cycle procedures in the Company's internal control system fixed assets cycle procedures in all cases.
2. Transaction terms and authorized amount determination procedures
  - (1) When acquiring or disposing of memberships, transaction terms and transaction prices shall be determined in reference to fair market prices, and an analytical report must be submitted to the President; when the transaction amount is less than 1% of paid-in capital or NT\$5 million, the President's approval must be obtained and the case subsequently submitted to the next meeting of the Board of Directors for acknowledgment; When the transaction amount exceeds NT\$5 million, the approval of the Board of Directors must be obtained before the transaction may be made.
  - (2) When acquiring or disposing of intangible assets, transaction terms and transaction prices shall be determined in reference to experts' assessment reports or fair market prices, and an analytical report containing this information must be submitted to the Director & Chairman; when the transaction amount is less than 10% of paid-in capital or NT\$50 million, the Director & Chairman's approval must be obtained and the case subsequently submitted to the next meeting of the

Board of Directors for acknowledgment; When the transaction amount exceeds NT\$50 million, the approval of the Board of Directors must be obtained before the transaction may be made.

3. Implementing unit

When acquiring or disposing of memberships or intangible assets, the case must be submitted for approval in accordance with the decision-making authority levels in the foregoing paragraph, and the using department and financial or administrative department shall bear responsibility for implementation.

4. Expert assessment opinion reports for memberships or intangible assets

(1) When acquiring or disposing of memberships, an expert shall be hired to provide an appraisal report when the transaction amount is at least 1% of paid-in capital or NT\$5 million.

(2) When acquiring or disposing of intangible assets, an expert shall be hired to submit an appraisal report when the transaction amount is at least 10% of paid-in capital or NT\$50 million.

(3) When acquiring or disposing of memberships or intangible assets, and the transaction amount is at least 20% of the Company's paid-in capital or NT\$300 million, apart from transactions involving government agencies, a CPA must be hired prior to the completion of the transaction to assess the reasonableness of the transaction price, and the CPA must handle the matter in accordance with Regulation No. 20 of the Statements of Auditing Standards issued by the Accounting Research and Development Foundation.

Article 11: Procedures for acquisition or disposition of a financial institution's creditor's rights

As a rule, the Company does not engage in the acquisition or disposition of financial institution's creditor's rights. In the future, if the Company wishes to engage in the acquisition or disposition of financial institution's creditor's rights, it will first submit a proposal to the Board of Directors for approval, and then determine assessment and operating procedures.

Article 12: Procedures for the acquisition or disposition of derivatives

1. Transaction principles and strategies

(1) Transaction type

1. The derivative financial products that may be handled by the Company include transaction contracts whose value is derived from assets, interest rates, exchange rates, indexes, and other gains or products (and may include forward contracts, options, futures, interest rates or exchange rates, swaps, and composite contracts composed of the foregoing products, etc.).

2. Matters connected with bond guarantee transactions shall be handled in accordance with the relevant requirements of these handling procedures. Bond with repurchase options shall not be subject to the requirements of these handling procedures.

(2) Operating (hedging) strategies

The Company generally engages in derivative transactions for the purpose of



hedging, and traded products should be selected in order to hedge risk entailed by the Company's business operations. Derivatives' currency types must be consistent with the foreign currencies needed in the Company's actual import/export transactions, and should generally seek to offset the Company's overall internal position (only foreign currency income and expenditures), which will provide the Company with a means of reducing its overall foreign exchange risk and lessening foreign exchange operating expenses. We will cautiously assess other transactions for specific purposes, and obtain the approval of the Audit Committee and Board of Directors before proceeding.

(3) Separation of duties and powers

1. Financial department

(1) Trading personnel

- A. Responsible for drafting financial product transaction strategies for the Company as a whole.
- B. Trading personnel shall regularly calculate the Company's position every two weeks, collect market information, perform trend analysis and risk assessment, draft operating strategies, and rely on authorization at the appropriate level as a basis for transactions.
- C. Implementation of transactions on the basis of authorization at the appropriate level and predetermined strategies.
- D. If any major changes occurred in the financial market, and trading personnel judge that existing strategies are no longer appropriate, they may submit an assessment report at any time and draft new strategies; after approval by the President, such strategies may serve as a basis for transactions.

(2) Financial accounting personnel

- A. Performing transaction confirmation.
- B. Checking whether transactions have authorization at the appropriate level and comply with existing strategies.
- C. Conducting monthly assessments and reporting assessment results to the President.
- D. Account handling.
- E. Performing reporting and announcement in accordance with the Financial Supervisory Commission's regulations.

(3) Settlement personnel: Implementing settlement tasks.

(4) Derivative approval authority

A. Approval authority for hedging transactions

Persons with approval authority	Daily transaction approval authority	Cumulative position transaction approval authority
Chief Financial	Less than US\$1M	Less than US\$2.5M (inclusive)

Officer		
President	US\$1M-5M (inclusive)	Less than US\$10M (inclusive)
Director & Chairman	More than US\$5M	More than US\$10M

B. Approval authority for forward exchange transactions: Authorized trading personnel must take the net position on the Company's weekly foreign currency assets balance sheet as a basis for trading activities, and engage in trading in accordance with approval authority regulations. With regard to transaction price zones, trading personnel must take the Company's foreign currency asset and liability book costs as a reference for transaction prices, and transaction maturity dates must accommodate the liquidity needs of the Company's operating funds.

Persons with approval authority	Daily transaction approval authority	Cumulative position transaction approval authority
Chief Financial Officer	Less than US\$1M	Less than US\$2.5M (inclusive)
President	US\$1M-5M (inclusive)	Less than US\$10M (inclusive)
Director & Chairman	More than US\$5M	More than US\$10M

C. The approval of the Audit Committee and Board of Directors must be obtained before proceeding with other transactions for specific purposes.

## 2. Audit department

Responsible for monitoring the appropriateness of internal controls on derivative transactions, auditing the Trading Department's compliance with operating procedures, analyzing the trading cycle, compiling audit reports, and reporting to the Audit Committee when major shortcomings occur.

## 3. Performance assessment

### (1) Hedging transactions

- A. Conducting performance assessment on the basis of the Company's book exchange rate costs and profit/loss from derivative trading.
- B. In order to fully monitor and express transaction valuation risk, the Company has adopted a monthly valuation method for the assessment of profit/loss.
- C. The financial department shall provide foreign exchange position valuation and foreign exchange market trends and market analysis to

the President to serve as a management reference.

(2) Special-purpose transactions

Actual profit/loss shall serve as the basis for performance assessment, and accounting personnel must regularly compile position statements to serve as a reference for management.

4. Determination of total contract amount and upper limits on losses

(1) Total contract amount

A. Hedging transaction limits

The financial department shall monitor the Company's overall position. In order to hedge transaction risk, hedging transaction amounts may not exceed two-thirds of the Company's overall net position.

B. Special-purpose transactions

The financial department may draft, when necessary, new strategies based on market change forecasts; these strategies may be implemented after submission to and approval by the President and Director & Chairman. With regard to special-purpose transaction amounts, company-wide net cumulative position contracts shall be limited to less than US\$10 million.

(2) Determination of upper limits on losses

A. The purpose of hedging transactions is to avoid risk, and assess and control risks ahead of time; losses from hedging transactions may not exceed 30% of the transaction contract amount.

B. In the case of transaction contracts with special purposes, after a position has been established, a stop-loss limit must be established to control the losses. With regard to the establishment of a stop-loss limit, the amount of individual losses may not exceed 10% of the transaction contract amount; if losses exceed 10% of the contract amount, the President must be immediately notified, and a report made to the Board of Directors, so the necessary response measures can be formulated.

C. The upper limit on all hedging transaction contract losses is US\$3 million.

D. The upper limit on all special-purpose transaction contract losses is US\$1 million.

2. Risk management measures

(1) Credit risk management:

Because changes in various market factors may easily lead to operating risk from derivatives, market risk management must comply with the following principles:

1. Transaction counterparties: Chiefly prominent domestic and foreign financial institutions.

2. Traded products: Limited to products provided by prominent domestic and foreign financial institutions.

3. Transaction amounts: Any one transaction counterparty's uncovered transaction amount may not exceed 25% of the authorized amount, but cases approved by the President shall not be subject to this restriction.

(2) Market risk management:

The Company chiefly relies on the open foreign exchange transaction market provided by banks, and is currently not considering the futures market.

(3) Liquidity risk management:

To ensure market liquidity, the Company chiefly selects financial products with relatively high liquidity (implying that they can be offset in the market at any time), and financial institutions entrusted with transactions must have adequate information and the ability to conduct transactions in any market at any time.

(4) Cash flow risk management

To maintain the stability of the Company's working capital, the Company relies on own funds as a source of funds for derivative trading, and trading amounts take into consideration projected cash income/expenditures and funding needs during the coming three months.

(5) Operational risk management

1. To avoid operational risk, transactions must faithfully comply with the Company's authorized amounts and operating procedures, and must be included in internal audits.

2. The same personnel may not concurrently engage in derivative transactions and perform confirmation and settlement tasks.

3. Personnel performing risk assessment, supervision, and control shall be in a different department than the personnel in the foregoing subparagraph, and shall report to the Board of Directors or upper management personnel who are not responsible for transaction or position decisions.

4. The position held due to derivative transactions shall be assessed at least once each week; however, hedging derivative transactions required for business reasons shall be assessed at least twice each month; relevant assessment reports shall be sent to upper management personnel authorized by the Board of Directors.

(6) Product risk management

In order to avoid risk from the improper use of financial products, internal trading personnel must have complete, correct professional knowledge of financial products, and must require banks to fully disclose risks.

(7) Legal risk management:

To avoid legal risk, documents signed with financial institutions must be inspected by foreign exchange and legal consulting professionals before they may be formally signed.

3. Internal audit system

(1) Internal audit personnel shall regularly monitored the appropriateness of internal controls on derivative transactions, audit the trading department's compliance

with the procedures for engaging in financial derivative transactions, analyze the trading cycle, compile audit reports, and notify the Audit Committee in writing if any major irregularities are discovered.

- (2) Internal audit personnel shall report to the Financial Supervisory Commission at the end of each February in conjunction with the results of annual internal audits, and report the state of improvement of any irregularities to the Financial Supervisory Commission by the end of May at the latest.
4. Regular assessment methods
- (1) The Board of Directors shall authorize upper management personnel to regularly supervise and assess whether derivative transactions have been handled faithfully in accordance with the Company's prescribed transaction procedures, and whether the assumed risk is within a tolerable scope; if market value assessment reports contain any abnormalities (such as when a position has already exceeded the upper limit of losses), a report must be made to the Board of Directors, and response measures taken.
  - (2) The position held due to derivative transactions shall be assessed at least once each week; however, hedging derivative transactions required for business reasons shall be assessed at least twice each month; relevant assessment reports shall be sent to upper management personnel authorized by the Board of Directors.
5. Principles of supervision and management by the Board of Directors when engaging in derivative transactions
- (1) The Board of Directors shall designate upper management personnel to regularly monitor derivative transaction risks supervision and control employing the following management principles:
    1. Regular assessment of whether current management measures are appropriate and are faithfully implemented in accordance with this guidelines and the Company's procedures for engaging in derivative transactions.
    2. If any abnormal items are discovered when supervising trading and gains/losses, necessary response measures should be adopted, and the case promptly reported to the Board of Directors; if the company has established independent directors, independent directors shall be present at relevant discussions of Board of Directors, and their opinions noted.
  - (2) Regular assessment of whether derivative trading performance complies with existing business strategies and whether assumed risk is within the Company's permissible scope.
  - (3) Relevant personnel shall be authorized in accordance with the procedures for engaging in derivative transactions to perform derivative transactions, and the results of completed transactions shall be reported to the next meeting of the Board of Directors.
  - (4) When the Company engages in derivative transactions, a memorandum book shall be established to record the types of derivative transactions, amounts

involved, Board of Directors approval dates, and the items that must be assessed in accordance with Paragraph 4, Subparagraph (2) and Paragraph 5, subparagraphs (1) and (2) of this Article for future reference.

Article 13: Procedures for mergers, divisions, acquisitions, and transfer of shares

1. Assessment and operating procedures

(1) When implementing mergers, divisions, acquisitions, and transfer of shares, the Company should hire an attorney, CPA, and underwriter to draft a projected statutory procedure schedule, and a case task force shall perform implementation in accordance with statutory procedures. Before the Board of Directors is convened to reach a resolution, the CPA, attorney, or securities underwriter shall be asked their opinion concerning the reasonableness of the share exchange ratio, acquisition price, or cash or other property distributed to shareholders before the case is submitted to the Board of Directors for discussion and approval. However, when the Company merges with a subsidiary in which it directly or indirectly holds 100% of outstanding shares or capital, or subsidiaries in which the Company directly or indirectly holds 100% outstanding shares or capital merge, the foregoing expert opinion concerning reasonableness is not necessary.

(2) The Company shall produce public documents concerning major merger, division, or acquisition contract content and related matters for shareholders prior to the shareholders' meeting, and these documents shall be sent to shareholders together with the expert opinions and Paragraph 1, Subparagraph (1) of this Article and notification of the shareholders' meeting to serve as a reference for shareholders' decision whether to approve the merger, division, or acquisition. However, the case shall not be subject to this restriction of other laws or regulations specify that a shareholders' meeting need not be convened to decide on a merger, division, or acquisition. In addition, if any company participating in a merger, division, or acquisition cannot hold a shareholders' meeting due to insufficient shareholders in attendance, insufficient voting rights, or other legal restrictions, or the proposal is rejected by the shareholders' meeting, the companies participating in the merger, division, or acquisition shall immediately publicly explain the reason for failure, follow-up handling measures, and expected time of their next shareholders' meeting.

2. Other matters requiring attention

(1) Board of Directors meeting date: Except when companies participating in a merger, division, or acquisition must seek the Financial Supervisory Commission's early approval due to other legal requirements or special factors, all participating companies should hold meetings of the Board of Directors and shareholders' meeting on the same day to decide relevant matters connected with the merger, division, or acquisition. Except when companies participating in a transfer of shares must seek the Financial Supervisory Commission's early approval due to other legal requirements or special factors, all participating companies should hold meetings of the Board of Directors concerning the

transfer on the same day.

Companies participating in a merger, division, acquisition, or transfer of shares that are listed or whose stock is available for trading at securities brokerages shall compile a complete written record of the following data, which shall be preserved for five years to enable audit:

1. Basic information concerning personnel: Includes all persons participating in merger, division, acquisition, or transfer of shares planning or plan implementation prior to public disclosure, including their titles, names, and ID card number (or passport numbers in the case of foreign nationals).
2. Dates of important matters: Includes date of signing of letter of intent or memorandum, commissioning financial or legal consultants, signing contracts, and holding the meetings of Board of Directors.
3. Important documents and minutes: Includes merger, division, acquisition, or transfer of shares plans, letters of intent or memoranda, important contracts, and meeting minutes of Board of Directors, etc.

Companies participating in a merger, division, acquisition, or transfer of shares that are listed or whose stock is available for trading at securities brokerages shall submit the information in points 1 and 2 of the foregoing item in the prescribed format to the online information system for reporting to the Financial Supervisory Commission within 2 days after the resolution is passed by the Board of Directors.

Companies that are listed or whose stock is available for trading at securities brokerages shall sign agreements with those companies participating in a merger, division, acquisition, or transfer of shares that are not listed or whose stock is not available for trading at securities brokerages, and shall handle the matters in Items 2 and 3.

- (2) Pledge of confidentiality: All persons participating in or privy to the Company's merger, division, acquisition, or transfer of shares plan shall submit a written pledge of confidentiality and may not divulge the plan content prior to public disclosure. Such persons also may not, in their own name or in others' names, trade the shares or other securities with the nature of equity of any companies involved in the merger, division, acquisition, or transfer of shares.
- (3) Share exchange ratio and acquisition price determination and change principles: Prior to both parties' meetings of the Board of Directors, companies participating in a merger, division, acquisition, or transfer of shares shall commission CPAs, attorneys, or securities underwriters to submit opinions concerning the reasonableness of the share exchange ratio, acquisition price, or cash or other property distributed to shareholders, and their opinions shall be submitted to the shareholders' meeting. Although, in principle, the share exchange ratio or acquisition price may not be arbitrarily changed, cases in which change terms are determined in contract and when the change is publicly disclosed shall not be subject to this restriction. Terms for change of share

exchange ratio or acquisition price:

1. Implementation of the cash capital increase, issuance of convertible corporate bond, stock dividends, issuance of bond with warrant or preferred shares with warrants, stock options, or other securities of the nature of equity.
  2. Disposition of the Company's major assets and other actions affecting the Company's financial services.
  3. A major disaster or major technological transformation affects the Company's shareholder's equity or securities price.
  4. Any company participating in a merger, division, acquisition, or transfer of shares buys back treasury stock in accordance with law as an adjustment measure.
  5. There is an increase or decrease in the number of entities or companies participating in the merger, division, acquisition, or transfer of shares.
  6. Other change terms have already been determined in contract, and have been publicly disclosed.
- (4) Items that must be stated in contract: Apart from items specified in Article 317-1 of the Company Act and Article 22 of the Business Mergers and Acquisitions Act, contracts between companies participating in the merger, division, acquisition, or transfer of shares must explicitly state the following items.
1. Handling of breach of contract.
  2. The principles for handling equity-type securities and repurchase of treasury stock of the company that will be extinguished or divided as a consequence of the merger.
  3. The quantity of treasury stock that may be bought back by participating companies after the share exchange ratio calculation base day, and relevant handling principles.
  4. Procedures for handling increases or decreases in the number of participating entities or companies.
  5. Expected plan implementation timetable and expected date of completion.
  6. If the plan has not been completed by the deadline, procedures for handling the date of the shareholders' meeting that must be convened in accordance with law.
- (5) Changes in number of companies participating in a merger, division, acquisition, or transfer of shares changes: Any company participating in a merger, division, acquisition, or transfer of shares may plan a further merger, division, acquisition, or transfer of shares with another company following public disclosure. Apart from reductions in the number of participating companies, and cases in which the shareholders' meeting has made a resolution and authorized the Board of Directors to change approval authorization, when the participating companies need not convene a



shareholders' meeting to make another resolution, all participating companies in the original merger, division, acquisition, or transfer of shares must repeat the already-completed procedures and legal actions.

- (6) When companies participating in a merger, division, acquisition, or transfer of shares include non-public companies, the Company shall sign agreements with such companies, and handle the case in accordance with regulations governing Board of Directors meeting date in Paragraph 2, Subparagraph (1) of this Article, pledge of confidentiality in Subparagraph (2), and change in the number of companies participating in a merger, division, acquisition, or transfer of shares in Subparagraph (5).

#### Article 14: Information disclosure procedures

##### 1. Items to be reported and reporting standards

- (1) When acquiring or disposing of real estate from or to a related party, or acquiring or disposing of other assets apart from real estate from or to a related party when the transaction amount is at least 20% of the Company's paid-in capital, 10% of total assets, or NT\$300 million. However, this restriction shall not apply to transactions involving government bonds, bonds with put/call options, or the subscription or redemption of currency market funds issued by a domestic securities investment trust enterprise.
- (2) Engaging in mergers, divisions, acquisitions, or transfer of shares.
- (3) Derivative transaction losses reaching the overall upper loss limit or individual contract upper loss limit specified in handling procedures.
- (4) Acquired or disposed assets constitute equipment for business use, and the transaction counterparty is not a related party, but the transaction amount exceeds NT\$1 billion.
- (5) When real estate is acquired via commissioned construction on self-owned or leased land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the Company expects the transaction amount to reach at least NT\$500 million.
- (6) Apart from the asset transactions in the five foregoing subparagraphs and investments in the mainland China area, transactions reaching at least 20% of the Company's paid-in capital or NT\$300 million. However, the following situations shall not be subject to this restriction:
  1. Purchase and sale of government bonds.
  2. Transactions involving bonds with put/call options, subscription or redemption of currency market funds issued by a domestic securities investment trust enterprise.
- (7) The transaction amounts in the various foregoing subparagraphs shall be calculated using the following methods, where within one year shall constitute the one-year period prior to the date upon which the transaction was completed as a base date, and the portion already announced in accordance with

regulations shall not be re-added.

1. Amount of each transaction.
2. Cumulative amount of acquisition or disposition transactions involving targets of a similar nature with the same counterparty during a one-year period.
3. Cumulative amount of acquisition or disposition transactions (separate cumulative totals of acquisitions and dispositions) involving real estate in the same development project during a one-year period.
4. Cumulative amount of acquisition or disposition transactions (separate cumulative totals of acquisitions and dispositions) involving the same negotiable security during a one-year period.

- (8) The calculation of transaction amounts in articles 7, 8, and 10 shall be performed as specified in Subparagraph 7. Those amounts that are the subject of a CPA's opinion or an appraisal report when a professional appraiser has been engaged in accordance with these handling procedures shall not be included. Furthermore, the calculation of transaction amounts in Article 9 shall also be performed as specified in Subparagraph 7. Those amounts that have been submitted to and approved by the Audit Committee and the Board of Directors shall not be included.

## 2. Time limits on public reporting

When acquiring or disposing of assets, if the Company possesses the items and transaction amounts that must be announced in accordance with Paragraph 1 of this Article and these items and amounts have reached the announcement and reporting level specified in this Article, such items must be publicly reported within 2 days after their occurrence.

## 3. Public reporting procedures

- (1) The Company shall publicly report relevant information on the website designated by the Financial Supervisory Commission.
- (2) The Company shall post in the prescribed format the status of derivative transactions of the Company and the Company's overseas subsidiaries to the end of the month on the information reporting website designated by the Financial Supervisory Commission before the 10th day of each month.
- (3) If any of the items to be announced have errors or omissions at the time of announcement that must be corrected, the Company must re-announce and report all of those items within 2 days of discovering the problem.
- (4) When acquiring or disposing of assets, all relevant contracts, minutes, memorandum books, appraisal reports, and CPA, attorney, or securities underwriter's opinions must be kept at the Company, and, except when other legal requirements are applicable, must be preserved for at least five years.
- (5) After the Company has publicly reported transactions in accordance with this Article, when any one of the following situations apply, the Company must publicly report relevant information on the website designated by the Financial

Supervisory Commission within 2 days after the event:

1. The contract signed in the original transaction has been changed, terminated, or dissolved.
2. The merger, division, acquisition, or transfer of shares was not completed according to the schedule specified in contract.
3. The original publicly reported content has changed.

4. Publicly reported content

When the Company performs public reporting matters in accordance with this Article, the public reporting content shall be handled in accordance with the Financial Supervisory Commission's relevant regulations.

Article 15: The Company's subsidiaries shall implement in accordance with the following regulations:

1. The Company shall supervise the determination and implementation of "Procedures for the Acquisition or Disposal of Assets" by its subsidiaries in accordance with "Regulations Governing the Acquisition and Disposal of Assets by Public Companies."
2. The acquisition or disposition of assets by Company's subsidiaries shall be implemented in accordance with each subsidiary's "Procedures for the Acquisition or Disposal of Assets." If subsidiaries have not yet determined "Procedures for the Acquisition or Disposal of Assets," their acquisition or disposition of assets shall be implemented in accordance with these Procedures.
3. When subsidiaries are not public companies, if their acquisition or disposition of assets meets the public reporting standards specified in these Procedures, this Company shall perform public reporting matters.
4. In subsidiaries' reporting standards, references to "at least 20% of the Company's paid-in capital" and "10% of total assets" shall refer to this Company's paid-in capital and total assets.

Article 16: Penalties

When the handling of the acquisition or disposition of assets by the Company's employees violate the requirements of these Procedures, the cases shall be reported and evaluated in accordance with the Company's human resource management regulations and employee handbook, and penalties shall reflect the severity of the violations.

Article 17: Implementation and revision

After the Company's "Procedures for the Acquisition or Disposal of Assets" have been approved by the Audit Committee and Board of Directors, they shall be implemented after approval by the shareholders' meeting; likewise in the case of revisions. When presented to the Board of Directors for discussion, the views of the independent directors shall be taken fully into consideration; if the independent directors have dissenting opinions or qualified opinions, they should be explicitly stated in the meeting minutes of the Board of Directors.

The determination or revision of the "Procedures for the Acquisition or Disposal of Assets" in the foregoing paragraph must be approved by a majority of the members of the Audit Committee, and must be submitted to the Board of Directors for a resolution.

If, in the foregoing paragraph, a majority of Audit Committee members fail to give their

consent, more than two-thirds of the directors must approve the transaction, and the Audit Committee's resolution must be explicitly stated in the meeting minutes of Board of Directors.

The full number of Audit Committee members in Paragraph 2 and the full number of directors in the foregoing paragraph shall be calculated as the actual number of incumbent members.

Article 18: Supplementary provisions

Any matters not fully dealt with in these Procedures shall uniformly be handled in accordance with relevant laws and regulations.

<Appendix 4>

King Yuan Electronics Co., Ltd.

Shares held by the directors and the minimum number of shares that must be held

1. The Company has issued the following number of shares of common stock: 1,222,745,065 shares
2. The minimum statutory number of shares held by the directors is: 32,000,000 shares
3. As of the annual general meeting ex-dividend date (April 8, 2019), the directors held the number of shares shown in the table below:

Title	Name	Number of shares held on the ex-dividend date	
		Shares	Percentage of shares held (%)
Director & Chairman	Chin-Kung Lee	34,000,941	2.78
Director & Vice-Chairman	Chi-Chun Hsieh	5,552,037	0.45
Director	An-Hsuan Liu	1,100,000	0.09
Director	Kao-Yu Liu	4,808,267	0.39
Director	Kuan-Hua Chen	3,168,574	0.26
Director	Representative of Yann Yuan Investment Co., Ltd.: Chao-Jung Tsai	52,600,000	4.30
Independent director	Hsien-Tsun Yang	0	0
Independent director	Hui-Chun Hsu	0	0
Independent director	Dar-Yeh Hwang	0	0
Total number of shares held by all directors ( excluding independent directors) and percentage		101,229,819	8.28

<Appendix 5>

Effect of these stock dividends on the Company's operating performance, EPS, and shareholder of return on investment: Not applicable.



**京元電子股份有限公司**  
*The Testing Industry Benchmark*

- Headquarters : 30070 No.81,Sec.2,Gongdaowu Rd.,Hsin-Chu,Taiwan,R.O.C.
- Chu-nanBranch : 35053 No.118,Chung-Hua Rd.,Chu-Nan,Miao-Li,Taiwan,R.O.C.
- TongluoBranch : 36645 No.8,Tongke N. Rd., Tongluo Township,Miao-Li,Taiwan,R.O.C.