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# 2019 Annual Shareholders' Meeting Handbook

Stock Code : 2103

Date: June 6, 2019

Location: Cathay Financial Center

1F., No. 9, Songren Rd., Xinyi Dist., Taipei City, Taiwan



台橡股份有限公司  
TSRC CORPORATION

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## Matter to be Reported

### (1) To Report 2018 Employee's Compensation and Director's Compensation

2018 Employee's Compensation of NTD 64,290,000 and Director's Compensation of NTD 14,064,000 was resolved by 5<sup>th</sup> Meeting and 6<sup>th</sup> Meeting of the 16<sup>th</sup> Term of Board of Directors which are distributed in cash in accordance with The Company Act and Article 28-1 of Article of Incorporation.

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## Matter to be Ratified

### Ratification Proposal I (Proposed by Board of Directors)

Proposal: To Ratify the Proposal for 2018 Business Report and Financial Report

Explanation: The business report for 2018 is shown in attachment 1 (please refer to p. 9-11 in the Handbook for the Meeting) as well as the standalone and consolidated financial report (also in attachment 1, please refer to p. 12-35 in the Handbook for the Meeting). The above reports were resolved by 6<sup>th</sup> Meeting of the 16<sup>th</sup> Term of Board of Directors where the financial statement was audited by certified accountant. The above business report and financial report were approved by the Audit Committee and audit report was provided (also in attachment 1, please refer to p.36 in the Handbook for the Meeting). Hence, we proposed to Annual Meeting of Shareholders for Ratification.

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## Matter to be Ratified

### Ratification Proposal II (Proposed by Board of Directors)

Proposal : To Ratify the Proposal for Distribution of 2018 Earnings

- Explanations:
- 1) The undistributed net profit in the beginning of 2018 is NT\$ 781,231,704. By adding with the net income after tax for 2018, which is NT\$1,192,185,902, subtracting the accurate loss from ensured welfare plan, which is NT\$21,853,619 and legal reserve, which is NT\$119,218,590, the net profit that can be distributed in this period is NT\$1,832,345,397.
  - 2) The proposed distributed cash dividend for shareholders this year was NT\$ 0.98 per share and in total NT\$ 809,195,778. After the distribution, the undistributed net profit is NT\$1,023,149,619. The distribution of shareholders' cash dividend is calculated to the dollar unit. The remaining amount less than NT\$ 1 will be listed as other income of the company.
  - 3) It is proposed the Shareholders' Meeting to ratify the aforementioned distribution of shareholders' dividend and to authorize the Board of Directors to determine ex-dividend date and payment date for cash dividend.
  - 4) The distribution table of net profit is as follows:

TSRC  
Disposition of Net Profit for 2018

	Unit:NTD
Beginning distributed net profit	781,231,704
Add: net income after tax for 2018	1,192,185,902
Subtract: accurate loss from ensured welfare plan	21,853,619
Subtract: legal reserve (net income after tax 10%)	119,218,590
Distributable net profit in this period	1,832,345,397
Distribution items	
Shareholders' dividend - cash (NT\$ 0.98 per share)	809,195,778
The undistributed net profit by the end of this period	1,023,149,619

Chairman: Nita Ing

Manager: Joseph Chai

Chief Accountant: Ming-Huang Chen

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## Matter to be Discussed

### Discussion Proposal I (proposed by Board of Directors)

Proposal: To Amend " Article of Incorporation"

Explanations: 1) Considering the practical operational needs of the company and the current regulations for internal operation, it is proposed to amended Article 1, 10, 13, 16-1, 18, 19, 20, 25, 27, 32,35 and delete Article 24 and 33 of Article of Incorporation of our company.

2) The comparison table for the amendment of Article of Incorporation is shown in attachment 2 (please refer to p. 37-41 in the Handbook for the Meeting)

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## Matter to be Discussed

### Discussion Proposal II (proposed by Board of Directors)

Proposal : To Amend "Procedures for Acquisition and Disposal of Asset"

- Explanations:
1. To comply with the amended "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" by competent agencies and to fit the practical operational needs of the company, we proposed to amend "Procedures for Acquisition and Disposal of Asset". The key points of the amendment are as follows:
    - 1) Right-of-use asset and other relevant regulations were added to comply with the IFRS 16, which has been effective since 2019. Thus, Article 2.2, 5.1, 5.3, 5.4.2, 5.4.3, 5.4.4, 5.4.5, 5.8.1, 5.8.2 and 5.9.2 were proposed to be amended.
    - 2) The scope of financial derivatives and relevant regulations were formulated clearly in accordance with the definition of financial tools in IFRS 9. Thus, Article 4.1, 5.5.1 and 5.5.5 were proposed to be amended.
    - 3) Our company established the Audit Committee in accordance with Article 14-4 of Securities Exchange Act, thus we proposed to revise Article 5.12 regarding the procedures set forth in the Regulations which is not applicable to Article 14-5 of the aforementioned act.
    - 4) Terms were unified or words were revised slightly in accordance with guidelines. Thus, Article 4.2, 4.10 and 4.11 were proposed to be amended.
  2. The comparison table for the amendment of "Procedures for Acquisition and Disposal of Asset" is shown in Attachment 3 (please refer to p.42-61 in the Handbook for the Meeting).

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## Matter to be Discussed

### Discussion Proposal III (proposed by Board of Directors)

Proposal: To Release the Prohibition on Directors from Participation in Competitive Business.

- Explanations:
1. In accordance with Section 1, Article 209 of the Company Act : "The directors should specify the important content for their actions and obtain the approval from meetings for shareholders for performing actions within the operational scope of the company for the benefit of their own or others" .
  2. Due to operational needs and in compliance with Article 209, we proposed to the Shareholders' Meeting for the approval to release the prohibition on directors from participation in competitive business for Huang, Chin-Lung who serve as the director of Continental Development Corporation and the director of Continental Engineering Corporation and Yang, Ying-Chou who serve as the director of GRANITTE INVESTMENTS (UK) LIMITED.

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Attachment 1

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## 2018 Business Report

In 2018, TSRC faced several significant industry challenges including weak demand for synthetic rubber caused by stagnant China automotive and tire market growth and abundant supply of low-price natural rubber, aggressive competitive pricing actions, and the negative impact on economy from the trade dispute. On the positive side, the investment in strengthening our specialty business portfolio has paid dividend with increased sales and profit contribution from thermoplastic elastomer (TPE) and advanced shoe materials (ASM). Our ASM business alliance with global brands in launching high performance sport shoes was very successful, and we were able to run full capacity for all ASM production lines. In total, the shipment of synthetic rubber and TPE products was 453 thousand metric tons in 2018, down 6% versus prior year. Consolidated revenue was NTD 29,751 million, down 6% from the previous year. Consolidated gross profit was up 5% to NTD 3,489 million with the margin improved to 12%. Consolidated operating profit was NTD 1,302 million, up 8% compared to 2017.

In addition, we were successful in turning around and significantly improving our joint venture investments in India and China with ISRPL (India) running at above 80% utilization rate in 2018 and turning in good profit, and ARLANXEO-TSRC (China) substantially improving its business performance and profitability. This led to growth in our investment income from the two JVs' strong profit contribution and coupled with good effort in financial management, further boosted TSRC' s overall profit resulting in strong Net Income and EPS (Earnings Per Share) improvement over 2017, thereby offsetting the impact from the difficult challenges from the economy and end use market. As a result, net income was NTD 1,192 million and EPS was NTD 1.44, representing a 36% increase from the previous year. 2018 net income and EPS has improved and is the highest in the past 5 years.

Technology innovation is a key foundation for TSRC in driving profitable growth in the long term. Over the past few years, we have successfully developed new solutions to support customers as well as engaging customers in new technology and product development. TSRC also focuses on developing new market segments and applications including material for medical devices, lubricant viscosity modifiers, green tires, and specialty films to improve our market position and value share of specialty polymers. The key research projects and progress milestones in 2018 include:

- Continued development of SSBR microstructure control technology platform with breakthrough in functional modification, successfully applied in next generation products and received approval from global leading tire makers.
- Launched the development of high-cis BR with new catalyst technology for use in plastic modification, tire, and shoe applications.

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- Technology development in co-polymerization, hydrogenation catalyst, and product finishing to support development of new generation of HSBC products which provide excellent mechanical properties and touch feel with application in films, medical, and automotive segments.
- Successful development of medical SEBS with proprietary structural modification and new process technologies for high transparency films and nonwoven fiber for medical applications.
- Continuous cooperation with leading global brands to jointly develop ASM with lightweight, rebound, anti-slip, and damping properties which can be applied via one-step injection process. We had already received positive confirmation from the market and customers entering into mass production process.
- The Company was granted 6 patents in 2018.

Looking ahead, there is strong consensus on the slowdown of global economic growth in 2019 due to trade conflicts, currency and crude oil price volatility, geopolitical uncertainties, and the weakening of the China economy. It is projected that global investment and manufacturing activities will likely contract in 2019 as a result, especially if the trade tensions between the United States and China were to continue. There are significant uncertainties in global economy warranting a cautious business projection.

In addition to the macroeconomic uncertainties described above, TSRC is expected to confront various challenging market dynamics such as raw materials cost increases due to trade barriers, continued abundant supply of natural rubber suppressing demand and price of synthetic rubber, price erosion by over supply and aggressive competition, and weak demand due to trade dispute uncertainties. These factors pose significant challenges for TSRC to drive value capture and profitable growth. Nevertheless, we are still pushing hard to target a 4% increase in sales volume in 2019 through ASM growth, new geographic markets, and selective growth opportunities with on-purpose products.

The efforts to grow our specialty chemical business remain on track with the new 20 thousand metric tons per year advanced SEBS line in Nantong, China projected to complete in the end of 2019 and the new 7 thousand metric tons per year production facility in Binh Duong Province, Vietnam, for ASM scheduled to start production in first half of 2020. The new advanced SEBS production line will incorporate the latest manufacturing processes and technologies, focusing on products for medical applications such as fluid bags and tubes. These two expansion projects are critical in strengthening our market position in specialty chemical materials applications and market segments.

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TSRC will continue to strengthen our competitive capabilities by enhancing our technology, quality, and customer services to respond to and win in a rapidly changing market condition. We are confident we will emerge from 2019 in a better position to grow the long term enterprise value of TSRC.

Chairman: Nita Ing

Manager: Joseph Chai

Chief Accountant: Ming-Huang Chen

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## Consolidated Financial Statements Independent Auditors' Report

To the Board of Directors of TSRC Corporation:

### Opinion

We have audited the consolidated financial statements of TSRC Corporation ("the Group"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

We conducted our audit in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the 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 the the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year end December 31, 2018. 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.



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## 1. Revenue recognition

Please refer to note 4(q), 6(v) and note 6(w) for disclosures related to revenue recognition.

Description of key audit matter:

Revenue is the key indicator used by investors and management while evaluating the Group's finance or operating performance. The Group initially adopted IFRS 15 and the accuracy of the timing and amount of revenue recognized have significant impact on the financial statements, for which the assumptions and judgments of revenue measurement and recognition rely on subjective judgments of the management. Therefore, we consider it as the key audit matter.

How the matter was addressed in our audit:

Testing the effectiveness of design and implementing the internal control (both manual and system control) of sales and collecting cycle; reviewing the revenue recognition of significant sales contracts to determine whether the accounting treatment, key judgment, estimation, and accounting treatment are reasonable; analyzing the changes in top 10 customers from the most recent period and last year, and the changes in the price and quantity of each category of product line to determine whether if there are any significant misstatements; selecting sales transactions from a period of time before and after the balance sheet date, and verifying with the vouchers to determine the accuracy of the timing and amounts of revenue recognized; understanding whether if there is a significant subsequent sales return or discount; and reviewing whether the disclosure of revenue made by the management is appropriate.

## 2. Inventory measurement

Please refer to note 4(h), note 5, and note 6(g) for disclosures related to inventory measurement.

Description of key audit matter:

The inventory of the Group includes various types of synthetic rubber and its raw material. Since there is an oversupply and a low market demand in the rubber manufacturing industry, which may result in a decline on the price of raw material, the carrying value of inventories may exceed its net realizable value. The measurement of inventory depends on the evaluation of the management based on evidence from internal and external, both subjective and objective. Therefore, we consider it as the key audit matter.

How the matter was addressed in our audit:

The key audit procedures performed is to understand management's accounting policy of inventory measurement and determine whether if it is reasonable and is being implement. The procedures includes reviewing the inventory aging documents and analyzing its changes; obtaining the documents of inventory measurement and evaluating whether if the bases used for net realizable value is reasonable; selecting samples and verifying them with the vouchers to test the accuracy of the amount; and reviewing whether the disclosure of inventory measurement made by the management is appropriate.

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## Other Matter

TSRC Corporation has additionally prepared its parent Company only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unqualified opinion.

## 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 Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed by the 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 the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditors' 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 the 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.

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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 Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

The engagement partners on the audit resulting in this independent auditor's report are Po-Shu Huang and Ann-Tien Yu.

KPMG

Taipei, Taiwan (Republic of China)

March 14, 2019

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TSRC CORPORATION AND SUBSIDIARIES

### Consolidated Balance Sheets

December 31, 2018 and 2017  
(Expressed in Thousands of New Taiwan Dollars)

Assets	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
<b>Current assets</b>				
Cash and cash equivalents	\$ 4,527,752	15	3,560,440	12
Financial assets at fair value through profit or loss - current	679	-	-	-
Notes receivable, net	558,944	2	909,467	3
Accounts receivable, net	2,873,893	10	2,907,588	10
Other receivable	91,395	-	76,088	-
Current income tax assets	21,636	-	38,795	-
Inventories	6,449,363	21	6,040,680	21
Other current assets	337,496	1	380,569	1
<b>Total current assets</b>	<b>14,861,158</b>	<b>49</b>	<b>13,913,627</b>	<b>47</b>
<b>Non-current assets:</b>				
Non-current financial assets at fair value through other comprehensive income	1,299,806	4	-	-
Available-for-sale financial assets - non-current	-	-	1,120,121	4
Investments accounted for under equity method	1,067,378	4	1,123,944	4
Property, plant and equipment	8,768,849	29	8,558,709	29
Investment property	1,596,324	5	1,611,050	6
Intangible assets	1,851,601	6	1,942,350	7
Deferred income tax assets	244,319	1	292,498	1
Other non-current assets	540,734	2	437,042	2
<b>Total non-current assets</b>	<b>15,369,011</b>	<b>51</b>	<b>15,085,714</b>	<b>53</b>
<b>Total assets</b>	<b>\$ 30,230,169</b>	<b>100</b>	<b>28,999,341</b>	<b>100</b>



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Liabilities and Equity	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
<b>Current liabilities:</b>				
Short-term borrowings	\$ 4,147,772	14	6,365,254	22
Current portion of long-term borrowings	850,000	3	800,000	3
Short-term commercial paper payable	-	-	349,975	1
Financial liabilities at fair value through profit or loss – current	2,066	-	226	-
Accounts payable	1,514,522	5	1,793,092	6
Accounts payable - related parties	-	-	35,663	-
Current income tax liabilities	133,032	-	118,045	-
Other payable	1,330,672	4	1,170,557	4
Other current liabilities	194,549	1	178,461	1
<b>Total current liabilities</b>	<b>8,172,613</b>	<b>27</b>	<b>10,811,273</b>	<b>37</b>
<b>Non-Current liabilities:</b>				
Long-term bank borrowings	3,718,325	12	800,000	3
Other long-term borrowings	499,693	2	-	-
Provision liabilities - non-current	29,189	-	26,999	-
Deferred income tax liabilities	695,682	2	665,560	2
Other non-current liabilities	232,826	1	252,063	1
<b>Total non-current liabilities</b>	<b>5,175,715</b>	<b>17</b>	<b>1,744,622</b>	<b>6</b>
<b>Total liabilities</b>	<b>13,348,328</b>	<b>44</b>	<b>12,555,895</b>	<b>43</b>
<b>Equity attributable to shareholders of the Company :</b>				
Common stock	8,257,099	27	8,257,099	29
Capital surplus	45,158	-	41,043	-
Retained earnings:				
Legal reserve	3,857,922	13	3,770,512	13
Unappropriated earnings	1,951,564	6	1,661,324	6
	5,809,486	19	5,431,836	19
Other equity:				
Financial statement translation differences for foreign operations	465,589	2	512,008	2
Unrealized gain on financial assets measured at fair value through other comprehensive income	801,805	3	-	-
Unrealized gain on valuation of available-for-sale financial assets	-	-	623,809	2
Gain (loss) on effective portion of cash flow hedges	(68,134)	-	11,721	-
	1,199,260	5	1,147,538	4
<b>Total equity attributable to shareholders of the Company</b>	<b>15,311,003</b>	<b>51</b>	<b>14,877,516</b>	<b>52</b>
<b>Non-controlling interests</b>	<b>1,570,838</b>	<b>5</b>	<b>1,565,930</b>	<b>5</b>
<b>Total equity</b>	<b>16,881,841</b>	<b>56</b>	<b>16,443,446</b>	<b>57</b>
<b>Total liabilities and equity</b>	<b>\$ 30,230,169</b>	<b>100</b>	<b>28,999,341</b>	<b>100</b>

Chairman:Nita Ing

Manager:Joseph Chai

Chief Accountant:Ming-Huang Chen

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## Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017  
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Common Share)

	2018		2017	
	Amount	%	Amount	%
Revenue	\$ 29,751,218	100	31,766,237	100
Operating costs	26,262,504	88	28,437,358	90
Gross profit	3,488,714	12	3,328,879	10
Operating expenses:				
Selling expenses	959,417	3	950,976	3
General and administrative expenses	1,081,834	4	1,018,863	3
Research and development expenses	387,948	1	375,550	1
Expected credit losses for bad debt expense	10,214	-	-	-
Total operating expenses	2,439,413	8	2,345,389	7
Other income and expenses, net	252,513	-	219,036	1
Operating profit	1,301,814	4	1,202,526	4
Non-operating income and expenses:				
Other income	171,366	1	103,465	-
Other gains and losses	28,977	-	179,259	1
Finance costs	(169,434)	(1)	(188,149)	(1)
Share of gain of associates and joint ventures accounted for under equity method	297,720	1	(159,966)	-
Total non-operating income and expenses	328,629	1	(65,391)	-
Net income before tax	1,630,443	5	1,137,135	4
Less: Tax expense	396,773	1	287,418	1
Net income	1,233,670	4	849,717	3
Other comprehensive income (loss):				
Components of other comprehensive income that will not be reclassified to profit or loss				
Gains (losses) on remeasurements of defined benefit plans	(21,854)	-	2,427	-
Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	177,996	-	-	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
Components of other comprehensive income that will not be reclassified to profit or loss	156,142	-	2,427	-
Items that may be reclassified subsequently to profit or loss				
Financial statements translation differences for foreign operations	(12,155)	-	(550,512)	(2)
Unrealized gains (losses) on valuation of available-for-sale financial assets	-	-	(111,655)	-
Share of other comprehensive income (loss) of associates and joint ventures accounted for under equity method	(150,695)	-	91,145	-
Income tax expense relating to components of other comprehensive income (loss)	-	-	-	-
Components of other comprehensive income that will be reclassified to profit or loss	(162,850)	-	(571,022)	(2)
Other comprehensive income (loss), net of tax	(6,708)	-	(568,595)	(2)
Total comprehensive income	\$ 1,226,962	4	281,122	1
Net income (loss) attributable to:				
Shareholders of parent	\$ 1,192,186	4	874,107	3
Non-controlling interests	41,484	-	(24,390)	-
	\$ 1,233,670	4	849,717	3
Total comprehensive income attributable to:				
Shareholders of parent	\$ 1,222,054	4	321,811	1
Non-controlling interests	4,908	-	(40,689)	-
	\$ 1,226,962	4	281,122	1
Basic earnings per share (Diluted earnings per share) (in New Taiwan dollars)	\$	1.44		1.06

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## Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017  
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent				
	Common stock	Capital surplus	Retained earnings		Total
			Legal reserve	Unappropriated retained earnings	
<b>Balance at January 1, 2017</b>	\$ 8,257,099	849	3,671,676	1,709,336	5,381,012
Appropriation and distribution:					
Legal reserve	-	-	98,836	(98,836)	-
Cash dividends	-	-	-	(825,710)	(825,710)
Other changes in capital surplus	-	40,194	-	-	-
Net income	-	-	-	874,107	874,107
Other comprehensive income (loss)	-	-	-	2,427	2,427
Total comprehensive income (loss)	-	-	-	876,534	876,534
Changes in ownership interests in subsidiaries	-	-	-	-	-
<b>Balance at December 31, 2017</b>	8,257,099	41,043	3,770,512	1,661,324	5,431,836
Effects of retrospective application	-	-	-	29,848	29,848
Equity at beginning of period after adjustments	<u>8,257,099</u>	<u>41,043</u>	<u>3,770,512</u>	<u>1,691,172</u>	<u>5,461,684</u>
Appropriation and distribution:					
Legal reserve	-	-	87,410	(87,410)	-
Cash dividends	-	-	-	(792,682)	(792,682)
Other changes in capital surplus	-	4,115	-	-	-
Net income	-	-	-	1,192,186	1,192,186
Other comprehensive income (loss)	-	-	-	(21,854)	(21,854)
Total comprehensive income (loss)	-	-	-	1,170,332	1,170,332
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	(29,848)	(29,848)
<b>Balance at December 31, 2018</b>	<u>\$ 8,257,099</u>	<u>45,158</u>	<u>3,857,922</u>	<u>1,951,564</u>	<u>5,809,486</u>

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Equity attributable to owners of parent							
Total other equity interest							
Financial statements translation differences for foreign operations	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Total	Total equity attributable to owners of parent	Non controlling interests	Total equity
990,359	-	735,464	(23,562)	1,702,261	15,341,221	1,710,604	17,051,825
-	-	-	-	-	-	-	-
-	-	-	-	-	(825,710)	(36,664)	(862,374)
-	-	-	-	-	40,194	-	40,194
-	-	-	-	-	874,107	(24,390)	849,717
(478,351)	-	(111,655)	35,283	(554,723)	(552,296)	(16,299)	(568,595)
(478,351)	-	(111,655)	35,283	(554,723)	321,811	(40,689)	281,122
-	-	-	-	-	-	(67,321)	(67,321)
512,008	-	623,809	11,721	1,147,538	14,877,516	1,565,930	16,443,446
-	593,961	(623,809)	-	(29,848)	-	-	-
512,008	593,961	-	11,721	1,117,690	14,877,516	1,565,930	16,443,446
-	-	-	-	-	-	-	-
-	-	-	-	-	(792,682)	-	(792,682)
-	-	-	-	-	4,115	-	4,115
-	-	-	-	-	1,192,186	41,484	1,233,670
(46,419)	177,996	-	(79,855)	51,722	29,868	(36,576)	(6,708)
(46,419)	177,996	-	(79,855)	51,722	1,222,054	4,908	1,226,962
-	29,848	-	-	29,848	-	-	-
465,589	801,805	-	(68,134)	1,199,260	15,311,003	1,570,838	16,881,841

Chairman:Nita Ing

Manager:Joseph Chai

Chief Accountant:Ming-Huang Chen

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## Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017  
(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
<b>Cash flows from operating activities:</b>		
Consolidated net income before tax	\$ 1,630,443	1,137,135
<b>Adjustments:</b>		
Adjustments to reconcile profit and loss:		
Depreciation	874,575	868,770
Amortization	152,640	149,004
Expected credit losses for bad debt expense	10,214	-
Interest expense	169,434	188,149
Interest income	(78,175)	(51,122)
Dividend income	(81,371)	(52,343)
Share of profit of associates and joint ventures accounted for under equity method	(297,720)	159,966
Loss on disposal of property, plan and equipment	23,824	8,997
Gains on disposal of investments	-	(154,458)
Amortization of long-term prepaid rent	9,768	9,960
Gains from bargain purchase	(11,820)	-
Total adjustments to reconcile profit and loss	<u>771,369</u>	<u>1,126,923</u>
Changes in operating assets and liabilities:		
Net changes in operating assets:		
Financial assets at fair value through profit or loss	(679)	-
Notes receivable	350,523	(251,508)
Accounts receivable	23,481	378,265
Other receivable	(6,304)	54,605
Inventories	(408,683)	(660,772)
Other current assets	<u>43,073</u>	<u>224,593</u>
Total changes in operating assets, net	<u>1,411</u>	<u>(254,817)</u>
Net changes in operating liabilities:		
Financial liabilities at fair value through profit or loss	1,840	226
Accounts payable	(278,570)	13,936
Accounts payable - related parties	(35,663)	33,128
Other payable	176,107	(116,087)
Other current liabilities	16,088	(20,553)
Net defined benefit liability	(56,752)	2,761
Other operating liabilities	<u>22,245</u>	<u>4,013</u>
Total changes in operating liabilities, net	<u>(154,705)</u>	<u>(82,576)</u>
Total changes in operating assets and liabilities, net	<u>(153,294)</u>	<u>(337,393)</u>
Total adjustments	<u>618,075</u>	<u>789,530</u>



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	2018	2017
Cash provided by operating activities	\$ 2,248,518	1,926,665
Interest income received	69,172	52,558
Interest paid	(158,376)	(187,060)
Income taxes paid	(286,326)	(200,917)
<b>Net cash provided by operating activities</b>	<b>1,872,988</b>	<b>1,591,246</b>
<b>Cash flows from investing activities:</b>		
Proceeds from disposal of available-for-sale financial assets	-	254,448
Acquisition of investments accounted for under equity method	(42,184)	-
Acquisition of property, plant and equipment	(1,237,645)	(652,568)
Proceeds from disposal of property, plant and equipment	727	2,082
Decrease in other non-current assets	(89,986)	29,481
Dividends received	131,845	52,343
Other investing activities (Proceeds from capital repayments of investments accounted for under equity method/Loss control of subsidiaries)	245,391	(81,959)
<b>Net cash used in investing activities</b>	<b>(991,852)</b>	<b>(396,173)</b>
<b>Cash flows from financing activities:</b>		
Increase in short-term borrowings	36,511,929	37,497,175
Decrease in short-term borrowings	(39,037,284)	(36,871,867)
Increase in short-term commercial paper payable	1,119,523	3,742,751
Decrease in short-term commercial paper payable	(1,470,000)	(3,392,776)
Proceeds from long-term borrowings	3,753,662	-
Repayments of long-term borrowings	(800,000)	(984,638)
Increase in other long-term borrowings	494,940	-
Decrease in finance lease liabilities	(6,584)	(6,509)
Cash dividends paid	(791,238)	(861,089)
Overaging unclaimed dividends	4,115	40,194
<b>Net cash provided by financing activities</b>	<b>(220,937)</b>	<b>(836,759)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>307,113</b>	<b>(306,214)</b>
<b>Net increase in cash and cash equivalents</b>	<b>967,312</b>	<b>52,100</b>
Cash and cash equivalents at beginning of period	3,560,440	3,508,340
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,527,752</b>	<b>3,560,440</b>

Chairman:Nita Ing

Manager:Joseph Chai

Chief Accountant:Ming-Huang Chen

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## Parent Company Only Financial Statements Independent Auditors' Report

### To the Board of Directors of TSRC Corporation:

#### Opinion

We have audited the financial statements of TSRC Corporation, which comprise the statements of financial position as of December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2018 and 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the TSRC Corporation as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years ended December 31, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

#### Basis for Opinion

We conducted our audit in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the 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 the TSRC Corporation in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year end December 31, 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

##### 1. Revenue recognition

Please refer to note 4(q), note 6(t) and 6(u) for disclosures related to revenue recognition.

Description of key audit matter:

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Revenue is the key indicator used by investors and management while evaluating the TSRC Corporation's finance or operating performance. TSRC Corporation initially adopted IFRS 15 and the accuracy of the timing and amount of revenue recognized have significant impact on the financial statements, for which the assumptions and judgments of revenue measurement and recognition rely on subjective judgments of the management. Therefore, we consider it as the key audit matter.

How the matter was addressed in our audit:

Testing the effectiveness of design and implementing the internal control (both manual and system control) of sales and collecting cycle; reviewing the revenue recognition of significant sales contracts to determine whether the accounting treatment key judgment, estimation, and accounting treatment are reasonable; analyzing the changes in top 10 customers from the most recent period and last year, and the changes in the price and quantity of each category of product line to determine whether if there are any significant misstatements; selecting sales transactions from a period of time before and after the balance sheet date, and verifying with the vouchers to determine the accuracy of the timing and amounts of revenue recognized; understanding whether if there is a significant subsequent sales return or discount; and reviewing whether the disclosure of revenue made by the management is appropriate.

## 2. Inventory measurement

Please refer to note 4(g), note 5, and note 6(g) for disclosures related to inventory measurement.

Description of key audit matter:

The inventory of TSRC Corporation includes various types of synthetic rubber and its raw material. Since there is an oversupply and a low market demand in the rubber manufacturing industry, which may result in a decline on the price of raw material, the carrying value of inventories may exceed its net realizable value. The measurement of inventory depends on the evaluation of the management based on evidence from internal and external, both subjective and objective. Therefore, we consider it as the key audit matter.

How the matter was addressed in our audit:

The key audit procedures performed is to understand management's accounting policy of inventory measurement and determine whether if it is reasonable and is being implement. The procedures includes reviewing the inventory aging documents and analyzing its changes; obtaining the documents of inventory measurement and evaluating whether if the bases used for net realizable value is reasonable; selecting samples and verifying them with the vouchers to test the accuracy of the amount; and reviewing whether the disclosure of inventory measurement made by the management is appropriate.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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In preparing the financial statements, management is responsible for assessing the TSRC Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the TSRC Corporation or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the TSRC Corporation's financial reporting process.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the 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 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 TSRC Corporation's internal control.

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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 TSRC Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the TSRC Corporation to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the TSRC Corporation 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.



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

The engagement partners on the audit resulting in this independent auditor's report are Po-Shu Huang and Ann-Tien Yu.

KPMG

Taipei, Taiwan (Republic of China)

March 14, 2019

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TSRC CORPORATION

## Balance Sheets

December 31, 2018 and 2017  
(Expressed in Thousands of New Taiwan Dollars)

Assets	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
<b>Current assets:</b>				
Cash and cash equivalents	\$ 338,449	1	231,989	1
Notes receivable, net	2,041	-	348	-
Accounts receivable, net	1,062,295	4	1,030,480	5
Account receivable - related parties	58,782	-	39,864	-
Other receivable	134,365	1	140,819	1
Current income tax assets	74	-	114	-
Inventories	2,469,128	10	2,171,015	10
Other current assets	<u>134,929</u>	<u>1</u>	<u>94,933</u>	<u>-</u>
<b>Total current assets</b>	<b><u>4,200,063</u></b>	<b><u>17</u></b>	<b><u>3,709,562</u></b>	<b><u>17</u></b>
<b>Non-current assets:</b>				
Non-current financial assets at fair value through other comprehensive income	1,095,695	5	-	-
Available-for-sale financial assets - non-current	-	-	936,362	4
Investments accounted for under equity method	14,442,549	59	13,457,697	60
Property, plant and equipment	2,789,755	12	2,760,238	12
Investment property	1,596,324	7	1,611,050	7
Intangible assets	65,778	-	86,312	-
Deferred income tax assets	71,154	-	85,326	-
Other non-current assets	<u>42,515</u>	<u>-</u>	<u>13,966</u>	<u>-</u>
<b>Total non-current assets</b>	<b>20,103,770</b>	<b>83</b>	<b>18,950,951</b>	<b>83</b>
<b>Total assets</b>	<b><u>\$ 24,303,833</u></b>	<b><u>100</u></b>	<b><u>22,660,513</u></b>	<b><u>100</u></b>

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	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
<b>Liabilities and Equity</b>				
<b>Current liabilities:</b>				
Short-term borrowings	\$ 2,354,568	10	3,809,306	17
Current portion of long-term borrowings)	850,000	3	800,000	3
Short-term commercial paper payable	-	-	349,975	2
Financial liabilities at fair value through profit or loss – current	-	-	226	-
Accounts payable	914,222	4	719,356	3
Other payable	614,005	3	584,292	3
Current income tax liabilities	-	-	5,797	-
Other current liabilities	57,572	-	35,438	-
<b>Total current liabilities</b>	<b>4,790,367</b>	<b>20</b>	<b>6,304,390</b>	<b>28</b>
<b>Non-current liabilities:</b>				
Long-term borrowings	2,950,000	12	800,000	4
Other long-term borrowings	499,693	2	-	-
Provision liabilities - non-current	29,189	-	26,999	-
Deferred income tax liabilities	538,403	2	425,853	2
Other non-current liabilities	185,178	1	225,755	1
<b>Total non-current liabilities</b>	<b>4,202,463</b>	<b>17</b>	<b>1,478,607</b>	<b>7</b>
<b>Total liabilities</b>	<b>8,992,830</b>	<b>37</b>	<b>7,782,997</b>	<b>35</b>
<b>Equity attributable to shareholders of the Company :</b>				
Common stock	8,257,099	34	8,257,099	36
Capital surplus	45,158	-	41,043	-
Retained earnings:				
Legal reserve	3,857,922	16	3,770,512	17
Unappropriated earnings	1,951,564	8	1,661,324	7
	5,809,486	24	5,431,836	24
Other equity:				
Financial statement translation differences for foreign operations	465,589	2	512,008	-
Unrealized gain on financial assets measured at fair value through other comprehensive income	801,805	3	-	-
Unrealized gain on valuation of available-for-sale financial assets	-	-	623,809	2
Gain (loss) on effective portion of cash flow hedges	(68,134)	-	11,721	3
	1,199,260	5	1,147,538	5
<b>Total equity</b>	<b>15,311,003</b>	<b>63</b>	<b>14,877,516</b>	<b>65</b>
<b>Total liabilities and equity</b>	<b>\$ 24,303,833</b>	<b>100</b>	<b>22,660,513</b>	<b>100</b>

Chairman:Nita Ing

Manager:Joseph Chai

Chief Accountant:Ming-Huang Chen

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## TSRC CORPORATION

### Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017  
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Common Share)

	2018		2017	
	Amount	%	Amount	%
Revenue	\$ 10,834,520	100	11,254,655	100
Operating costs	9,718,836	90	10,359,649	92
Gross profit from operations	1,115,684	10	895,006	8
Less: Unrealized gain (loss) on affiliated transactions	7,794	-	(1,992)	-
Gross profit	1,107,890	10	896,998	8
Operating expenses:				
Selling expenses	353,113	3	355,972	3
General and administrative expenses	490,195	5	454,706	4
Research and development expenses	250,918	2	239,232	2
Expected credit losses for bad debt expense	1,624	-	-	-
Total operating expenses	1,095,850	10	1,049,910	9
Other income and expenses, net	238,926	2	259,119	2
Operating profit	250,966	2	106,207	1
Non-operating income and expenses:				
Other income	73,955	1	57,380	-
Other gains and losses	11,051	-	170,939	2
Finance costs	(81,035)	(1)	(71,568)	(1)
Share of profit from the subsidiaries, the associates and joint ventures	1,073,192	10	633,589	6
Total non-operating income and expenses	1,077,163	10	790,340	7
Net income before tax	1,328,129	12	896,547	8
Less: Tax expense	135,943	1	22,440	-
Net income	1,192,186	11	874,107	8
Other comprehensive income (loss):				
Components of other comprehensive income that will not be reclassified to profit or loss				
Gains (losses) on remeasurements of defined benefit plans	(21,854)	-	2,427	-
Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	159,333	1	-	-
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	18,663	-	-	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
Components of other comprehensive income that will not be reclassified to profit or loss	156,142	1	2,427	-
Items that may be reclassified subsequently to profit or loss				
Financial statements translation differences for foreign operations	(46,419)	-	(478,351)	(4)
Unrealized gains (losses) on valuation of available-for-sale financial assets	-	-	(80,331)	(1)
Share of other comprehensive income (loss) of associates and joint ventures accounted for under equity method	(79,855)	(1)	3,959	-
Income tax expense relating to components of other comprehensive income (loss)	-	-	-	-
Components of other comprehensive income that will be reclassified to profit or loss	(126,274)	(1)	(554,723)	(5)
Other comprehensive income (loss), net of tax	29,868	-	(552,296)	(5)
Total comprehensive income	\$ 1,222,054	11	321,811	3
Basic earnings per share (Diluted earnings per share) (in New Taiwan dollars)	\$	1.44		1.06

Chairman: Nita Ing

Manager: Joseph Chai

Chief Accountant: Ming-Huang Chen

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## Statements of Changes in Equity

For the years ended December 31, 2018 and 2017  
(Expressed in Thousands of New Taiwan Dollars)

	<u>Retained earnings</u>				
	<u>Common stock</u>	<u>Capital surplus</u>	<u>Legal reserve</u>	<u>Unappropriated retained earnings</u>	<u>Total</u>
<b>Balance at January 1, 2017</b>	\$ 8,257,099	849	3,671,676	1,709,336	5,381,012
Appropriation and distribution:					
Legal reserve	-	-	98,836	(98,836)	-
Cash dividends	-	-	-	(825,710)	(825,710)
Other changes in capital surplus	-	40,194	-	-	-
Net income	-	-	-	874,107	874,107
Other comprehensive income (loss)	-	-	-	2,427	2,427
Total comprehensive income (loss)	-	-	-	876,534	876,534
<b>Balance at December 31, 2017</b>	8,257,099	41,043	3,770,512	1,661,324	5,431,836
Effects of retrospective application	-	-	-	29,848	29,848
Equity at beginning of period after adjustments	<u>8,257,099</u>	<u>41,043</u>	<u>3,770,512</u>	<u>1,691,172</u>	<u>5,461,684</u>
Appropriation and distribution:					
Legal reserve	-	-	87,410	(87,410)	-
Cash dividends	-	-	-	(792,682)	(792,682)
Other changes in capital surplus	-	4,115	-	-	-
Net income	-	-	-	1,192,186	1,192,186
Other comprehensive income (loss)	-	-	-	(21,854)	(21,854)
Total comprehensive income (loss)	-	-	-	1,170,332	1,170,332
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	(29,848)	(29,848)
<b>Balance at December 31, 2018</b>	<u>\$ 8,257,099</u>	<u>45,158</u>	<u>3,857,922</u>	<u>1,951,564</u>	<u>5,809,486</u>



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Total other equity interest					
Financial state- ments translation differences for foreign operations	Unrealized gains (losses) on financial assets measured at fair value through other comprehen- sive income	Unrealized gains (losses) on avail- able-for-sale finan- cial assets	Gains (losses) on effective portion of cash flow hedges	Total	Total equity
	990,359	-	735,464	(23,562)	15,341,221
	-	-	-	-	-
	-	-	-	-	(825,710)
	-	-	-	-	40,194
	-	-	-	-	874,107
<u>(478,351)</u>	<u>-</u>	<u>(111,655)</u>	<u>35,283</u>	<u>(554,723)</u>	<u>(552,296)</u>
<u>(478,351)</u>	<u>-</u>	<u>(111,655)</u>	<u>35,283</u>	<u>(554,723)</u>	<u>321,811</u>
512,008	-	623,809	11,721	1,147,538	14,877,516
<u>-</u>	<u>593,961</u>	<u>(623,809)</u>	<u>-</u>	<u>(29,848)</u>	<u>-</u>
<u>512,008</u>	<u>593,961</u>	<u>-</u>	<u>11,721</u>	<u>1,117,690</u>	<u>14,877,516</u>
	-	-	-	-	-
	-	-	-	-	(792,682)
	-	-	-	-	4,115
	-	-	-	-	1,192,186
<u>(46,419)</u>	<u>177,996</u>	<u>-</u>	<u>(79,855)</u>	<u>51,722</u>	<u>29,868</u>
<u>(46,419)</u>	<u>177,996</u>	<u>-</u>	<u>(79,855)</u>	<u>51,722</u>	<u>1,222,054</u>
<u>-</u>	<u>29,848</u>	<u>-</u>	<u>-</u>	<u>29,848</u>	<u>-</u>
<u>465,589</u>	<u>801,805</u>	<u>-</u>	<u>(68,134)</u>	<u>1,199,260</u>	<u>15,311,003</u>

Chairman:Nita Ing

Manager:Joseph Chai

Chief Accountant:Ming-Huang Chen

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## Statements of Cash Flows

For the years ended December 31, 2018 and 2017  
(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
<b>Cash flows from operating activities:</b>		
Consolidated net income before tax	\$ 1,328,129	896,547
<b>Adjustments:</b>		
Adjustments to reconcile profit and loss:		
Depreciation	274,913	272,809
Amortization	27,123	21,973
Expected credit losses for bad debt expense	1,624	-
Interest expense	81,035	71,568
Interest income	(7,485)	(5,601)
Dividend income	(66,470)	(51,779)
Share of profit of subsidiaries, associates and joint ventures accounted for under equity method	(1,073,192)	(633,589)
Loss on disposal of property, plan and equipment	1,088	373
Gains on disposal of investments	-	(154,458)
Unrealized profit (loss) from sales	7,794	(1,992)
Unearned revenue from technology provided to investee	8,014	(6,140)
Total adjustments to reconcile profit and loss	<u>(745,556)</u>	<u>(486,836)</u>
Changes in operating assets and liabilities:		
Net changes in operating assets:		
Notes receivable	(1,693)	957
Accounts receivable	(33,439)	284,481
Accounts receivable due from related parties	(18,918)	16,341
Other receivable	3,008	185
Inventories	(298,113)	(150,050)
Other current assets	<u>(39,996)</u>	<u>(10,381)</u>
Total changes in operating assets, net	<u>(389,151)</u>	<u>141,533</u>
Net changes in operating liabilities:		
Financial liabilities at fair value through profit or loss	(226)	226
Accounts payable	194,866	(401,929)
Other payable	50,923	29,085
Other current liabilities	22,134	(7,741)
Net defined benefit liability	(56,752)	2,761
Other operating liabilities	<u>905</u>	<u>(84)</u>
Total changes in operating liabilities, net	<u>211,850</u>	<u>(377,682)</u>
Total changes in operating assets and liabilities, net	<u>(177,301)</u>	<u>(236,149)</u>
Total adjustments	<u>(922,857)</u>	<u>(722,985)</u>

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	Unit: thousand NTD	
	2018	2017
Cash provided by operating activities	\$ 405,272	173,562
Interest income received	10,931	6,259
Interest paid	(75,195)	(71,181)
Income taxes paid	(14,978)	54,145
<b>Net cash provided by operating activities</b>	<b>326,030</b>	<b>162,785</b>
<b>Cash flows from investing activities:</b>		
Proceeds from disposal of available-for-sale financial assets	-	254,448
Acquisition of investments accounted for under equity method	(278,280)	-
Acquisition of property, plant and equipment	(320,621)	(346,599)
Increase in other non-current assets	(28,548)	(5,020)
Dividends received	66,470	51,779
Proceeds from capital repayments of investments accounted for under equity method	245,391	-
<b>Net cash used in investing activities</b>	<b>(315,588)</b>	<b>(45,392)</b>
<b>Cash flows from financing activities:</b>		
Increase in short-term borrowings	27,822,749	23,587,030
Decrease in short-term borrowings	(29,277,487)	(22,843,428)
Increase in short-term commercial paper payable	1,119,523	3,742,751
Decrease in short-term commercial paper payable	(1,470,000)	(3,392,776)
Proceeds from long-term borrowings	3,000,000	-
Repayments of long-term borrowings	(800,000)	(400,000)
Increase in other long-term borrowings	494,940	-
Decrease in finance lease liabilities	(6,584)	(6,509)
Cash dividends paid	(791,238)	(824,425)
Overaging unclaimed dividends	4,115	40,194
<b>Net cash provided by (used in) financing activities</b>	<b>96,018</b>	<b>(97,163)</b>
<b>Net increase in cash and cash equivalents</b>	<b>106,460</b>	<b>20,230</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>231,989</b>	<b>211,759</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 338,449</b>	<b>231,989</b>

Chairman:Nita Ing

Manager:Joseph Chai

Chief Accountant:Ming-Huang Chen

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## Audit Committee's Audit Report

The Board of Directors has prepared and submitted the Company's 2018 Business Report, Financial Statements and earnings distribution proposal. The above Financial Statements have been audited by KPMG and an audit report is accordingly issued.

The above Business Report, Financial Statements, and earnings distribution proposal have been examined and deemed as fairly presented by Audit Committee. This Audit Report is duly submitted in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act. Submission for perusal.

To:

The 2019 Annual Shareholders' Meeting

TSRC Corporation

The convener of Audit Committee Robert Hung

Date: March 14, 2019

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Attachment 2

## Comparison Table for Amendment of "Article of Incorporation"

Amended Articles	Current Articles	Explanations
Article 1 Our company is <u>named</u> as TSRC Corporation and organized in accordance with the regulations set forth in The Company Act.	Article 1 Our company is <u>called</u> TSRC Corporation and organized in accordance with the regulations set forth in The Company Act.	Revision of words
Article 10 Stock transfer and register actions shall be stopped within 60 days before annual shareholders' meetings and within 30 days before temporary shareholders' meetings as well as within 5 days before the record dates for distribution of dividend or other interests.	Article 10 Stock transfer and register actions shall be stopped within 60 days before <u>every</u> annual shareholders' <u>meeting</u> and within 30 days before temporary shareholders' meetings as well as within 5 days before the record dates for distribution of dividend or other interests.	Revision of words
Article 13 The chairman of the annual shareholders' meeting is <u>served by</u> the chairman of the board. When the shareholders' meeting is convened by other convener other than the Board of Directors, the chairman of the shareholders' meeting is served by that convener. In case of two conveners, one shall be selected among them to serve as the chairman.	Article 13 The chairman of the annual shareholders' meeting is the chairman of the board. <u>If the chairman is absent or cannot perform his/her duties due to some reasons, the vice chairman shall act on his/her behalf; if the vice chairman is absent or cannot perform his/her duties due to some reasons, the chairman shall assigned a person to act on his/her behalf; in case of the chairman did not assign a proxy, then the directors shall select one director as the proxy among themselves.</u>	Serving as the chairman of the shareholders' meeting is only one of the legal duties for the chairman of the board. For simplicity, all regulations involving the absence of the chairman or incapable of performing his/her duties due to some reasons shall be moved to Article 18 of Article of Incorporation. The rest of the revisions are only word revisions.



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Amended Articles	Current Articles	Explanations
<p>Article 16-1 The Board of Directors establishes 3 independent directors in the particular number of directors set forth in the previous Article. Independent directors and the non-independent directors shall be elected at the same time but calculate the particular elected numbers separately. Professional qualifications, shareholding and concurrency limitations, recognition of independency, nomination and election method, duties performed and other compliance matters regarding the independent directors shall be handled in accordance with Securities and Exchange Act and relevant regulations.</p>	<p>Article 16-1 The Board of Directors establishes 3 independent directors in the particular number of directors set forth in the previous Article <u>since the 15<sup>th</sup> Board.</u> Independent directors and the non-independent directors shall be elected at the same time but calculate the particular elected numbers separately. Professional qualifications, shareholding and concurrency limitations, recognition of independency, nomination and election method, duties performed and other compliance matters regarding the independent directors shall be handled in accordance with Securities and Exchange Act and relevant regulations.</p>	<p>Revision of words</p>
<p>Article 18 Directors shall select one director among themselves as the chairman of the board who will represent the company externally. <u>In addition, directors shall also select one director among themselves as the vice chairman of the board.</u> <u>If the chairman is absent or cannot perform his/her duties due to some reasons, the vice chairman shall act on his/her behalf; if there are no vice chairman or the vice chairman is absent or cannot perform his/her duties due to some reasons, the chairman shall assign a person to act on his/her behalf; in case of the chairman did not assign a proxy, then the directors shall select one director as the proxy among themselves.</u></p>	<p>Article 18 Directors shall select one director among themselves as the chairman of the board who will represent the company externally. Directors can select one director among themselves as the vice chairman of the board. <u>If the chairman is absent or cannot perform his/her duties due to some reasons, the vice chairman shall act on his/her behalf.</u></p>	<ol style="list-style-type: none"><li>1. Organize and combine Paragraph 1 and 2 of this Article.</li><li>2. All regulations involving the absence of the chairman or incapable of performing his/her duties due to some reasons are moved to this Article.</li></ol>

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Amended Articles	Current Articles	Explanations
<p>Article 19 The Board of Directors decides the business strategies of the company and other important matters. Other than the matters regarding The Company Act or Article of Incorporation, which shall be resolved with resolutions in shareholders' meeting, all matters shall be resolved with resolutions in the board meeting. Board meetings are convened by the chairman, who shall also serve as the chairman of the meeting. If a director cannot be present at the board meeting due to some reasons, then he/she can entrust one of the other directors to act on his/her behalf. The proxy mentioned in previous paragraph is limited to one entrusted person. The notice for convening board meetings can be send in written form, fax or email.</p>	<p>Article 19 The Board of Directors decides the business strategies of the company and other important matters. Other than the matters regarding The Company Act or Article of Incorporation, which shall be resolved with resolutions in shareholders' meeting, all matters shall be resolved with resolutions in the board meeting. Board meetings are convened by the chairman, who shall also serve as the chairman of the meeting.<u>If the chairman is absent, the vice chairman shall act on his/her behalf; if the vice chairman is also absent, the chairman shall assigned a person to act on his/her behalf; in case of the chairman did not assign a proxy, then the directors shall select one director as the proxy among themselves.</u> If a director cannot be present at the board meeting due to some reasons, then he/she can entrust one of the other directors to act on his/her behalf. The proxy mentioned in previous paragraph is limited to one entrusted person. The notice for convening board meetings can be send in written form, fax or email.</p>	<ol style="list-style-type: none"><li>1. All regulations involving the absence of the chairman or incapable of performing his/her duties due to some reasons shall be moved to Article 18. Hence, words related to this are omitted.</li><li>2. Amend Paragraph 1 of this Article. For simplicity, adjust the content structure and statement order and add independent items for description.</li></ol>
<p>Article 20 Unless otherwise specified, resolution of the Board shall be carried out under the agreement of more than half of the present directors <u>with more than half of the directors</u> being present in the meeting.</p>	<p>Article 20 Unless otherwise specified, resolution of the Board shall be carried out under the agreement of more than half of the present directors <u>and the present directors shall not be less than the half of the Board.</u></p>	<p>It is amended in accordance with Article 206 of Company Act.</p>
<p>Article 24 [omitted]</p>	<p>Article 24 <u>The company can establish several consultants, which will be appointed by the chairman, for business demands.</u></p>	<p>The review procedure of appointing consultants shall be in accordance with the regulations on internal operations and hence has been omitted here.</p>

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<p>Article 25 The company establishes several managers. Their appointment and dismissal shall be handled in accordance with Article 29 of The Company Act. The managers mentioned in the previous paragraph <u>are entitled to sign on behalf of the company in accordance with the authorized scope in the relevant regulations.</u></p>	<p>Article 25 The company establishes several managers. Their appointment and dismissal shall be handled in accordance with Article 29 of The Company Act. The managers mentioned in the previous paragraph <u>are required to obtain authorization documents from the company in written form in order to sign on behalf of the company.</u></p>	<p>The scope where managers can sign on behalf of the company is clearly stated in accordance with Paragraph 2 of Article 31.</p>
<p>Article 27 In accordance with instruction of the President and resolution of the Board, the Manager shall handle affairs of the Company within the scope of his or her own duties.</p>	<p>Article 27 In accordance with instruction of the President and resolution of the Board, the Manager shall handle <u>daily</u> affairs of the Company within the scope of his or her own duties.</p>	<p>Wording Amended</p>
<p>Article 32 When the legal earned surplus has reached <u>paid-in capital</u>, then allocation shall be stopped with the resolution in the shareholders' meeting.</p>	<p>Article 32 When the legal earned surplus has reached <u>the total capital</u>, then allocation shall be stopped with the resolution in the shareholders' meeting.</p>	<p>Revise the words in accordance with Article 237 of The Company Act.</p>
<p>Article 33 [omitted]</p>	<p>Article 33 <u>The organization procedure and rules shall be set forth additionally.</u></p>	<p>Th internal regulation of the company shall be set forth with regulations based on business demands and given title of the regulation according to its properties. Hence, the regulations regarding this are omitted here to match the actual situations.</p>

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<p>Article 35. These Articles of incorporation were concluded on July 27, 1973. 1st amendments thereof was made on June 25, 1974, 2nd amendments thereof on April 23, 1975, 3rd amendments on February 17, 1976, 4th amendments thereof on June 30, 1976, 5th amendments thereof on April 26, 1977, 6th amendments thereof on June 20, 1979, 7th amendments thereof on May 23, 1980, 8th amendments thereof on May 11, 1981, 9th amendments thereof on November 25, 1981, 10th amendments thereof on May 24, 1983, 11th amendments thereof on May 23, 1984, 12th amendments thereof on April 26, 1985, 13th amendments thereof on April 29, 1986, 14th amendments thereof on April 29, 1987, 15th amendments thereof on May 10, 1988, 16th amendments thereof on May 12, 1989, 17th amendments thereof on April 12, 1990, 18th amendments thereof on April 24, 1991, 19th amendments thereof on May 14, 1992, 20th amendments thereof on May 20, 1993, 21st amendments thereof on June 27, 1995, 22nd amendments thereof on June 16, 1996, 23rd amendments thereof on May 24, 1997, 24th amendments thereof on May 26, 1998, 25th amendments on May 29, 1999, 26th amendments thereof on May 27, 1990, 27th amendments thereof on June 20, 2002, 28th amendments thereof on May 30, 2003, 29th amendments thereof on May 31, 2005, 30th amendments thereof on June 13, 2008, 31st amendments thereof on June 10, 2011, 32nd amendments thereof on June 6, 2012 and 33rd amendments thereof on June 11, 2014. 34th amendments thereof on June 10, 2015, 35th amendments thereof on June 24, 2016, 36th amend-</p>	<p>Article 35. These Articles of incorporation were concluded on July 27, 1973. 1st amendments thereof was made on June 25, 1974, 2nd amendments thereof on April 23, 1975, 3rd amendments on February 17, 1976, 4th amendments thereof on June 30, 1976, 5th amendments thereof on April 26, 1977, 6th amendments thereof on June 20, 1979, 7th amendments thereof on May 23, 1980, 8th amendments thereof on May 11, 1981, 9th amendments thereof on November 25, 1981, 10th amendments thereof on May 24, 1983, 11th amendments thereof on May 23, 1984, 12th amendments thereof on April 26, 1985, 13th amendments thereof on April 29, 1986, 14th amendments thereof on April 29, 1987, 15th amendments thereof on May 10, 1988, 16th amendments thereof on May 12, 1989, 17th amendments thereof on April 12, 1990, 18th amendments thereof on April 24, 1991, 19th amendments thereof on May 14, 1992, 20th amendments thereof on May 20, 1993, 21st amendments thereof on June 27, 1995, 22nd amendments thereof on June 16, 1996, 23rd amendments thereof on May 24, 1997, 24th amendments thereof on May 26, 1998, 25th amendments on May 29, 1999, 26th amendments thereof on May 27, 1990, 27th amendments thereof on June 20, 2002, 28th amendments thereof on May 30, 2003, 29th amendments thereof on May 31, 2005, 30th amendments thereof on June 13, 2008, 31st amendments thereof on June 10, 2011, 32nd amendments thereof on June 6, 2012 and 33rd amendments thereof on June 11, 2014. 34th amendments thereof on June 10, 2015, 35th amendments thereof on June 24, 2016, 36th amend-</p>	<p>Add the revision date.</p>



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Amended Articles	Current Articles	Explanations
<p>2. Scope</p> <p>2.2 The applicable scope referred in the procedure is as follows:</p> <p>2.2.2 Real estate (including the land, houses and buildings and real state for investment) and equipment</p> <p>2.2.3 Membership card</p> <p>2.2.4 Intangible assets such as patents, copyrights, trademarks, permissions, etc.</p> <p><u>2.2.5 Right-of-use asset</u></p> <p>2.2.6 Law of obligations of the financial institute (including receivables, bills purchased &amp; discounted, loans and overdues)</p> <p>2.2.7 Financial derivatives</p> <p>2.2.8 Assets acquired or disposed by merger, demerger, acquisition or stock transfer in accordance with the law</p> <p>2.2.9 Other important assets</p>	<p>2. Scope</p> <p>2.2 The applicable scope referred in the procedure is as follows:</p> <p>2.2.2 Real estate (including lands, houses and buildings, investment property, <u>land use rights</u>) and equipment.</p> <p>2.2.3 Membership card</p> <p>2.2.4 Intangible assets such as patents, copyrights, trademarks, permissions, etc.</p> <p>2.2.5 Law of obligations of the financial institute (including receivables, bills purchased &amp; discounted, loans and overdues)</p> <p>2.2.6 Financial derivatives</p> <p>2.2.7 Assets acquired or disposed by merger, demerger, acquisition or stock transfer in accordance with the law</p> <p>2.2.8 Other important assets</p>	<ul style="list-style-type: none"><li>• The procedure is set forth in accordance with "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" issued by Securities and Futures Bureau, Financial Supervisory Commission and will be abbreviated as the "procedure" hereunder.</li><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies.</li><li>• The order of the current Articles 2.2.5~2.2.8 is changed accordingly.</li></ul>
<p>4. Definition</p> <p>4.1 Financial derivatives: refer to forward agreement, options contract, futures contract, leverage contract, exchange contract, the combination of the above contracts or combined contracts or <u>structured note of the embedded financial derivatives, etc.</u> such that its value is derived from <u>particular interest, price of the financial tools, price of products, exchange rate, index of price or rate, credit rating or credit index or other variables.</u> The referred forward agreement does not include insurance agreement, performance contract, after-sales service agreement, long-term rent agreement and long-term procurement (sales) <u>agreement.</u></p>	<p>4. Definition</p> <p>4.1 Financial derivatives: refer to forward agreement, options contract, futures contract, leverage contract, exchange contract <u>and composite contract formed by the combination of the products below, etc.</u> such that its value is derived from <u>products such as assets, interest, exchange rate, index or other interests.</u> The referred forward agreement does not include insurance agreement, performance contract, after-sales service agreement, long-term rent agreement and long-term procurement (sales) <u>contract.</u></p>	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies.</li></ul>



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4.2 Assets acquired or disposed by merger, demerger, acquisition or stock transfer in accordance with the law: refer to the assets acquired or disposed by merger, demerger or acquisition in accordance with Enterprises Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institutions Merger Law or other laws; or new stocks issued in accordance with Article 156-3 of The Company Act for the stock transferred from other company (abbreviated as stock transfer hereunder).	4.2 Assets acquired or disposed by merger, demerger, acquisition or stock transfer in accordance with the law: refer to the assets acquired or disposed by merger, demerger or acquisition in accordance with Enterprises Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institutions Merger Law or other laws; or new stocks issued in accordance with <u>Paragraph 8</u> of Article 156 of The Company Act for the stock transferred from other company (abbreviated as stock transfer hereunder).	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies.</li></ul>
4.10 Total assets: <u>refers</u> to the total capital in the recent individual or separate financial statements.	4.10 Total assets: recognized by the total capital in the recent individual or separate financial statements.	<ul style="list-style-type: none"><li>• Revise some words in the procedure.</li></ul>
4.11 The company stock without denomination or the stock that is not NTD 10 shall be referred to this procedure. Regarding the transaction amount as in 20% of the paid-in capital, it shall be calculated by 20% of the equities belonged to the owner of the parent company; <u>regarding the transaction amount reaching NTD 10 billion, it shall be calculated by NTD 20 billion of the equities belonged to the owner of the parent company.</u>	4.11 The company stock without denomination or the stock that is not NTD 10 shall be referred to this procedure. Regarding the transaction amount as in 20% of the paid-in capital, it shall be calculated by 20% of the equities belonged to the owner of the parent company.	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies.</li></ul>

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<p>5. Operation Procedure</p> <p>5.1 Acquisition or disposal of real estate, equipment <u>or its right-of-use assets</u></p> <p>5.1.1 Execution unit: the department and relevant responsible unit that applied.</p> <p>5.1.2 Assessment and operation procedure: shall be assessed and executed by the execution unit.</p> <p>5.1.3 Determination method and reference basis for transaction criteria: you shall perform benefit analysis, reference the current announced value and assess the current value and close-by actual transaction price of the real estate, etc. in order to determine the price of the assets. Other than the transactions with <u>domestic</u> government agencies, the land acquired under an arrangement on engaging others to build on the company's own land or engaging others to build on rented land or acquisition or disposal of the equipment <u>or its use-of-rights assets</u> for business use, if the transaction price has reached 20% of the actual capital of the company or exceeds NTD300 million, then valuation report shall be provided by professionals of valuation before the fact occurred and also the following regulations shall be complied:</p> <p>(I) If limited price, particular price or special price are required as the reference basis for the transaction price due to special reasons, then the transaction shall be proposed to the board first and passed by resolution during the board meeting; in case of the transaction criteria changed afterwards, then <u>similar shall be applied</u>.</p>	<p>5. Operation Procedure</p> <p>5.1 Acquisition or disposal of real estate or equipment</p> <p>5.1.1 Execution unit: <u>the execution unit that acquired or disposed real estate of equipment is the department and relevant responsible unit that applied</u></p> <p>5.1.2 Assessment and operation procedure: <u>the acquisition or disposal of the real estate or equipment shall be assessed and executed by the execution unit</u></p> <p>5.1.3 Determination method and reference basis for transaction criteria: you shall perform benefit analysis, reference the current announced value and assess the current value and close-by actual transaction price of the real estate, etc. in order to determine the price of the assets. Other than the transactions with government agencies, the land acquired under an arrangement on engaging others to build on the company's own land or engaging others to build on rented land or acquisition or disposal of the equipment, if the transaction price has reached 20% of the actual capital of the company or exceeds NTD300 million, then valuation report shall be provided by professionals of valuation before the fact occurred and also the following regulations shall be complied:</p> <p>(I) If limited price, particular price or special price are required as the reference basis for the transaction price due to special reasons, then the transaction shall be proposed to the board first and passed by resolution during the board meeting. In case of the transaction criteria changed <u>in the future, then it shall be handled based on the procedure above</u>.</p>	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies.</li><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies. Also, some words are slightly revised.</li></ul>

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<p>5.3 Gain or dispose intangible assets or its right-of-use assets or membership card</p> <p>5.3.1 Execution unit: the department and relevant responsible unit that applied.</p> <p>5.3.2 Assessment and operation procedure: shall be assessed and executed by the execution unit.</p> <p>5.3.3 Determination method and reference basis for transaction criteria:</p> <p>(I) When acquiring or disposing membership card, the benefits aroused shall be considered and negotiation shall be made by referencing the recent deal; when acquiring or disposing intangible assets, such as patents, copyrights, trademarks, permissions, etc., or its right-of-use, negotiation shall be made by referencing international or market convention, lifetime and the effect on the company's technologies and business.</p> <p>(II) When the transaction amount reached 20% of the paid-in capital or exceeded NTD 300 million, you shall ask the accountant to give comment on the rationality of the transaction price before the fact occurrence date other than the transactions with domestic government agencies. The accountant shall handle it in accordance with the 20th Statements on Auditing Standards (SASs) issued by accounting research and development foundation.</p>	<p>5.3 Gain or dispose <u>membership card of intangible assets</u></p> <p>5.3.1 Execution unit: the department and relevant responsible unit that applied</p> <p>5.3.2 Assessment and operation procedure: <u>the acquisition or disposal of the membership card or intangible assets</u> shall be assessed and executed by the execution unit.</p> <p>5.3.3 Determination method and reference basis for transaction criteria:</p> <p>(I) When acquiring or disposing membership card, the benefits aroused shall be considered and negotiation shall be made by referencing the recent deal; when acquiring or disposing intangible assets, such as patents, copyrights, trademarks, permissions, etc., negotiation shall be made by referencing international or market convention, lifetime and the effect on the company's technologies and business.</p> <p>(II) When the transaction amount reached 20% of the paid-in capital or exceeded NTD 300 million, you shall ask the accountant to give comment on the rationality of the transaction price before the fact occurrence date other than the transactions with government agencies. The accountant shall handle it in accordance with the 20th Statements on Auditing Standards (SASs) issued by accounting research and development foundation.</p>	<ul style="list-style-type: none"><li>Revise the procedure in accordance with the regulations set forth by the competent agencies.</li></ul>

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<p>5.4 Transaction with related party</p> <p>5.4.2 Assessment on the rationality of the transaction cost: When acquiring real estate <u>or its right-of-use assets</u> from related party, you shall assess the rationality of the transaction cost according the following methods and also ask the accountant to review and give practical comments:</p> <p>(I) Necessary fund interest and the cost that the buyer should take on by law are added to the transaction price of the related party. The necessary fund interest referred here is based on weighted average interest for the loan during the year of acquiring the assets, provided that it is not higher than the maximum loan rate for non-financial sector announced by the Ministry of Finance.</p> <p>(II) If the related party has used such target to set up mortgage loan with the financial institute, then the financial institute should assess the total value for the loan of such target; provided, the actual accumulated loan of such target reached over 70% of the total value assessed by financial institute and the loan term is due over a year. If the financial institute and the transaction party are related parties, then this subparagraph is not applicable.</p> <p>(III) When purchasing <u>or renting</u> combination of lands and houses of the same targets, you can use either methods listed previously in (I) and(II) to assess the transaction cost of the lands and houses.</p>	<p>5.4 Transaction with a related party</p> <p>5.4.2 Assessment on the rationality of the transaction cost: When acquiring real estate from a related party, you shall assess the rationality of the transaction cost according the following methods and also ask the accountant to review and give practical comments:</p> <p>(I) Necessary fund interest and the cost that the buyer should take on by law are added to the transaction price of the related party. The necessary fund interest referred here is based on weighted average interest for the loan during the year of acquiring the assets, provided that it is not higher than the maximum loan rate for non-financial sector announced by the Ministry of Finance.</p> <p>(II) If the related party has used such target to set up mortgage loan with the financial institute, then the financial institute should assess the total value for the loan of such target; provided, the actual accumulated loan of such target reached over 70% of the total value assessed by financial institute and the loan term is due over a year. If the financial institute and the transaction party are related parties, then this subparagraph is not applicable.</p> <p>(III) When purchasing combination of lands and houses of the same targets, you can use either methods listed previously in (I) and (II) to assess the transaction cost of the lands and houses.</p>	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies.</li></ul>



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<p>When acquiring real estate <u>or its right-of-use assets</u> from a related party, if the following situations occur, then the regulations in previous paragraph are not applicable and you shall handle it according to 5.4.4:</p> <p>(I) The related party acquired the real estate <u>or its right-of-use assets</u> from inheritance or grant.</p> <p>(II) The related party acquired the real estate <u>or its right-of-use assets</u> from an agreement, which is distanced with the transaction date for over five years.</p> <p>(III) Joint construction contract is signed with a related party; or acquire the real estate under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land.</p> <p>(IV) <u>The real estate or its right-of-use assets are acquired for business use from among the company and its subsidiaries or the subsidiaries, which the company holds 100% issued stocks or total capital directly or indirectly.</u></p>	<p>When acquiring real estate from a related party, if the following situations occur, then the regulations in previous paragraph are not applicable and you shall handle it according to 5.4.4:</p> <p>(I) The related party acquired the real estate from inheritance or grant</p> <p>(II) The related party acquired the real estate from an agreement, which is distanced with the transaction date for over five years.</p> <p>(III) Joint construction contract is signed with a related party; or acquire the real estate under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land.</p>	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies. Exempt the needs to acquire assessment procedure and the comments from the accountants to review for the acquisition of the real estate and its use-of-right assets used in business between the company and its subsidiaries, or between the company and the subsidiaries holding 100% directly or indirectly.</li></ul>



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<p>5.4.3 The matters shall be handled when the assessed transaction cost is lower than the transaction price:</p> <p>(I) If the assessment results in accordance with the regulations in 5.4.2 is lower than the transaction price, then it shall be handled by the regulations in 5.4.3 (II) except for the following situations where objective proof and the practical and reasonable comments provided from the professionals of valuation for real estate and the accountants are provided:</p> <p>(1) If the related party will construct the land after acquiring the original land or rented land, then proof can be made for the compliance to one of the following conditions:</p> <p>(a) The total amount, which comprises the price of the original land assessed by the method mentioned in the previous regulation and the price of the houses calculated by adding the construction cost of the related party and reasonable construction profit, exceeds the actual transaction price. Reasonable construction profit referred here should be based on the lower between the average gross profit margin of the construction department of the related party during the last three years and the gross margin of the recent construction industry announced by the Ministry of Finance.</p>	<p>5.4.3 The matters shall be handled when the assessed transaction cost is lower than the transaction price:</p> <p>(I) If the assessment results in accordance with the regulations in 5.4.2 is lower than the transaction price, then it shall be handled by the regulations in 5.4.3 (II) except for the following situations where objective proof and the practical and reasonable comments provided from the professionals of valuation for real estate and the accountants are provided:</p> <p>(1) If the related party will construct the land after acquiring the original land or rented land, then proof can be made for the compliance to one of the following conditions:</p> <p>(a) The total amount, which comprises the price of the original land assessed by the method mentioned in the previous regulation and the price of the houses calculated by adding the construction cost of the related party and reasonable construction profit, exceeds the actual transaction price. Reasonable construction profit referred here should be based on the lower between the average gross profit margin of the construction department of the related party during the last three years and the gross margin of the recent construction industry announced by the Ministry of Finance.</p>	<ul style="list-style-type: none"><li>Revise the procedure in accordance with the regulations set forth by the competent agencies.</li></ul>
<p>(b) Transaction cases of other floors in the houses and lands of the same target or nearby region with</p>	<p>(b) Transaction cases of other floors in the houses and lands of the same target or nearby region with</p>	

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<p>nearby region with other non-operating parties within a year have similar areas with it and have similar transaction conditions estimated by calculating the reasonable price difference for different floors by Real Estate Sales <u>or Lease Rules.</u></p> <p>(c) (omitted)</p> <p>(2) <u>The company makes proof for the purchased or rent to acquire real estate or its right-of-use assets,</u> that its transaction condition is relatively similar to the transaction case with other non-related party in nearby region within a year and they have similar areas. The referred transaction case in nearby region is considered by the principle that they are in the same or nearby block and the distances to the transaction target do not exceed 500 meters or its announced current value is similar; the referred similar areas is based on the principle that the area of the transaction case with non-related party is not 50% lower than the transaction target; and the term "within a year" referred here is calculated by tracing back a year on the basis of the acquisition of the real estate <u>or its right-of-use assets.</u></p>	<p>other non-operating parties within a year have similar areas with it and have similar transaction conditions estimated by calculating the reasonable price difference for different floors by Real Estate Sales Rules.</p> <p>(c) <u>Renting cases of other floors in the houses and lands of the same target with other non-operating parties within a year have similar transaction conditions estimated by calculating the reasonable price difference for different floors by Real Estate Lease Rules.</u></p> <p>(2) <u>Listed</u> company makes proof for the purchased real estate that its transaction condition is relatively similar to the transaction case with other non-related party in nearby region within a year and they have similar areas. The referred transaction case in nearby region is considered by the principle that they are in the same or nearby block and the distances to the transaction target do not exceed 500 meters or its announced current value is similar; the referred similar areas is based on the principle that the area of the transaction case with non-related party is not 50% lower than the transaction target; and the term "within a year" referred here is calculated by tracing back a year on the basis of the acquisition of the real estate.</p>	

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<p>(II) If the assessment results in accordance with 5.4.2 and 5.4.3 (I) for the acquisition of the real estate <u>or its right-of-use assets</u> by <u>the company</u> is lower than the transaction price, then the following matters shall be handled:</p> <ol style="list-style-type: none"><li>(1) The differences between the transaction price of the real estate <u>or its right-of-use assets</u> and the assessed cost shall be proposed as special earned surplus in accordance with Paragraph 1 of Article 41 of the Securities and Exchange Act and shall not be allocated as stocks by distribution or re-investment. If the investors, who adopted equity method for evaluation of the investment, are listed companies, then special earned surplus shall be proposed based on the shareholding ratio in accordance with Paragraph 1 of Article 41 of the Securities and Exchange Act.</li><li>(2) The members of the Audit Committee shall handle it in accordance with Article 218 of the Company Act.</li><li>(3) The handling situations of the previous subparagraph (1) and (2) shall be propose to the shareholders' meeting and the details of the transaction shall be exposed in the annual report and prospectus.</li></ol>	<p>(II) If the assessment results in accordance with 5.4.2 and 5.4.3 (I) for the acquisition of the real estate by <u>listed</u> company is lower than the transaction price, then the following matters shall be handled:</p> <ol style="list-style-type: none"><li>(1) The differences between the transaction price of the real estate and the assessed cost shall be proposed as special earned surplus in accordance with Paragraph 1 of Article 41 of the Securities and Exchange Act and shall not be allocated as stocks by distribution or re-investment. If the investors, who adopted equity method for evaluation of the investment, are listed companies, then special earned surplus shall be proposed based on the shareholding ratio in accordance with Paragraph 1 of Article 41 of the Securities and Exchange Act.</li><li>(2) The members of the Audit Committee shall handle it in accordance with Article 218 of the Company Act.</li><li>(3) The handling situations of the previous subparagraph (1) and (2) shall be propose to the shareholders' meeting and the details of the transaction shall be exposed in the annual report and prospectus.</li></ol>	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies.</li></ul>
<p>5.4.4 Resolution procedure: For acquisition or disposal of real estate <u>or its right-of-use assets</u> from a related party or acquisition <u>or disposal of assets</u> other than real estate or its right-of-use assets from a related party with their transaction amount reached 20% of the paid-in capital, 10%</p>	<p>5.4.4 Resolution procedure: For acquisition or disposal of real estate from a related party or acquisition or disposal of assets other than real estate from a related party with their transaction amount reached 20% of the paid-in capital, 10% of total capital or exceeded NTD 300 million,</p>	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies.</li></ul>

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<p>of total capital or exceeded NTD 300 million, the following information shall be proposed to the board meeting and passed before signing transaction contract and making payments except the trading of <u>domestic</u> government bond, trading of bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises is not limited.</p> <ul style="list-style-type: none"><li>(I) Purpose, necessity and expected benefits for the acquisition or disposal of assets.</li><li>(II) Reasons for selecting a related party as the transaction object.</li><li>(III) Assessment of the relevant information for the rationality of the expected transaction conditions in accordance with Article 5.4.2 and 5.4.3 for the acquisition of real estate <u>or its right-of-use assets</u> from a related party.</li><li>(IV) Matters, such as the original acquisition date &amp; price, transaction object by the related party and the relationship between the transaction object and the company or the related party.</li><li>(V) Cash balance forecast of each month in the future year starting from the expected month of establishing the agreement and the assessment of the necessity of the transaction and rationality of the application of funds.</li><li>(VI) Acquire valuation report provided by professionals of valuation or the comments from the accountants in accordance with the regulations in Article 5.4.1.</li><li>(VII) The limited conditions of the transaction and other important agreed items.</li></ul>	<p>the following information shall be proposed to the board meeting and passed before signing transaction contract and making payments except the trading of government bond, trading of bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises is not limited.</p> <ul style="list-style-type: none"><li>(I) Purpose, necessity and expected benefits for the acquisition or disposal of assets.</li><li>(II) Reasons for selecting a related party as the transaction object.</li><li>(III) Assessment of the relevant information for the rationality of the expected transaction conditions in accordance with Article 5.4.2 and 5.4.3 for the acquisition of real estate from a related party.</li><li>(IV) Matters, such as the original acquisition date &amp; price, transaction object by the related party and the relationship between the transaction object and the company or the related party.</li><li>(V) Cash balance forecast of each month in the future year starting from the expected month of establishing the agreement and the assessment of the necessity of the transaction and rationality of the application of funds.</li><li>(VI) Acquire valuation report provided by professionals of valuation or the comments from the accountants in accordance with the regulations in Article 5.4.1.</li><li>(VII) The limited conditions of the transaction and other important agreed items.</li></ul>	



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<p>The calculation of the previous transaction amount shall be handled in accordance with 5.9.2 (I)(7) and the term "within a year" referred here is calculated by tracing back a year on the basis of the occurrence of the transaction fact. The parts that have been announced based on the procedure is exempted from the calculation.</p> <p>For the acquisition or disposal of the equipment <u>or its right-of-use assets for business use and the right-of-use assets of the real estate for business use between the company and its subsidiaries, or between the company and the subsidiaries holding 100% issued stocks or total capital directly or indirectly</u>, the board of directors has authorized the chairman to make decisions on the ones lower than (equal to) NTD 300 million and then these shall be proposed to the recent board meeting for recognition afterwards.</p>	<p>The calculation of the previous transaction amount shall be handled in accordance with 5.9.2 (I)(7) and the term "within a year" referred here is calculated by tracing back a year on the basis of the occurrence of the transaction fact. The parts that have been announced based on the procedure is exempted from the calculation.</p> <p>For the acquisition or disposal of the equipment for business use between the company and its subsidiaries, the board of directors has authorized the chairman to make decisions on the ones lower than (equal to) NTD 300 million and then these shall be proposed to the recent board meeting for recognition afterwards.</p>	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies. Add the subparagraph that the chairman is entitled to make decisions on acquisition or disposal of equipment and real estate for business between the company and its subsidiaries holding 100% directly or indirectly before proposing.</li></ul>
<p>5.4.5 Other cautions:</p> <p>(I) The special earned surplus proposed in accordance with the regulations in 5.4.3 (II) shall be used after the purchased <u>or rented</u> assets with high price have been recognized as falling price loss or penalty <u>or termination of renting contract</u> or appropriate compensation or the return to original state or have other proof to ensure no unreasonable matters. The special earned surplus shall be used after obtaining the approval from the competent agencies.</p> <p>(II) For the acquisition of real estate <u>or its right-of-use assets</u> from a related party with other proof showing the transaction does not comply to the normal business regulations, it shall be handled in accordance with the regulations in Subparagraph (I) of the previous paragraph and 5.4.3 (II).</p>	<p>5.4.5 Other cautions:</p> <p>(I) The special earned surplus proposed in accordance with the regulations in 5.4.3 (II) shall be used after the purchased assets with high price have been recognized as falling price loss or penalty or appropriate compensation or the return to original state or have other proof to ensure no unreasonable matters. The special earned surplus shall be used after obtaining the approval from the competent agencies.</p> <p>(II) For the acquisition of real estate from a related party with other proof showing the transaction does not comply to the normal business regulations, it shall be handled in accordance with the regulations in Subparagraph (I) of the previous paragraph and 5.4.3 (II).</p>	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies.</li></ul>



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<p>5.5 Transaction of financial derivatives 5.5.1 Transaction principles and strategies</p> <p>(I) Type of transaction: refer to forward agreement, options contract, futures contract, leverage contract, exchange contract, the combination of the above <u>contracts or combined contracts or structured note of the embedded financial derivatives, etc.</u> such that its value is derived from <u>particular interest, price of the financial tools, price of products, exchange rate, index of price or rate, credit rating or credit index or other variables.</u> The referred forward agreement does not include insurance agreement, performance contract, after-sales service agreement, long-term rent agreement and long-term procurement (sales) <u>agreement.</u></p> <p>(III) Division of responsibilities (2)(a) Responsibility for the operation of financial derivatives: For risk-off contract with amount lower than (equal to) NTD 300 million can be traded by transaction personnel entitled by the authorization from the chairman <u>and proposed to the recent board meeting afterwards.</u></p>	<p>5.5 Transaction of financial derivatives 5.5.1 Transaction principles and strategies</p> <p>(I) Type of transaction: refer to forward agreement, options contract, futures contract, leverage contract, exchange contract <u>and composite contract formed by the combination of the products below, etc.</u> such that its value is derived from <u>products such as assets, interest, exchange rate, index or other interests.</u> The referred forward agreement does not include insurance agreement, performance contract, after-sales service agreement, long-term rent agreement and long-term procurement (sales) <u>contract. The matters regarding transaction of bond margin shall be handled in accordance with relevant regulations in the procedure.</u></p> <p>(III) Division of responsibilities (2)(a) Responsibility for the operation of financial derivatives: For risk-off contract with amount lower than (equal to) NTD 300 million can be traded by transaction personnel entitled by the authorization from the chairman <u>and proposed to the board meeting every season.</u></p>	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies.</li><li>• The original transaction of bond margin is included in the definition mentioned in previous paragraph and hence is omitted here.</li><li>• Revise based on the regulations in the procedure.</li></ul>

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<p>5.5.5 Periodic assessment (I) The accounting department assesses the unrealized income and loss for the remaining part of the transaction of the financial derivatives based on the market price or fair value. (II) The financial department assesses once a week for the holding part of the transaction of the financial derivatives. In case of handling risk-off transaction due to business needs, the assessment shall be performed twice a month and its assessment report shall be sent to the senior managers authorized by the board of directors.</p>	<p>5.5.5 Periodic assessment (I) The accounting department assesses the unrealized income and loss for the remaining part of the transaction of the financial derivatives based on the market price or fair value. (II) The financial department assesses once a week for the holding part of the transaction of the financial derivatives. In case of handling risk-off transaction due to business needs, the assessment shall be performed twice a month and its assessment report shall be <u>submitted</u> to the senior managers authorized by the board of directors.</p>	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies. Some words are revised slightly.</li></ul>
<p>5.8 Authorization and Amount 5.8.1 Other than the equipment <u>or its right-of-use assets</u> for business use and the transaction objects are not an actual related party, acquisition or disposal of assets, such as real estate <u>or its right-of-use assets</u>, other fixed assets, investment on equity and transfer company bonds, etc. with its transaction amount lower than (or equal to) NTD 300 million shall be handled after being approved according to the level of authorization in the Management Regulations based on Levels of Responsibilities; for the one with transaction amount greater than NTD300 million, it shall be handled after being reported to the board and passed by resolution.</p>	<p>5.8 Authorization and Amount 5.8.1 Other than the <u>machine</u> equipment for business use and its transaction objects are not an actual related party, acquisition or disposal of assets, such as real estate, other fixed assets, investment on equity and transfer company bonds, etc. with its transaction amount lower than (or equal to) NTD 300 million shall be handled after being approved according to the level of authorization in the Management Regulations based on Levels of Responsibilities; for the one with transaction amount greater than NTD300 million, it shall be handled after being reported to the board and passed by resolution.</p>	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies.</li></ul>

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<p>5.8.2 Other than acquiring assets for business use, the company and the subsidiaries can invest in the real estate <u>or its right-of-use assets</u> for non-operating use and marketable securities, where the limitations of its amount are given as follows: The total amount that the company invested to purchase real estate <u>or its right-of-use assets</u> for non-operating use shall not exceed 50% of the net value of the company; the total price of the marketable securities shall not exceed 200% of the net value of the company ; the limit amount for the investment of individual marketable securities shall not exceed 75% of the net value of the company; provided, the ones that passed by resolution during the shareholders' meeting are not limited here. The total amount that the subsidiaries invested to purchase real estate <u>or its right-of-use assets</u> for non-operating use shall not exceed 50% of the net value of the company; the total price of the marketable securities shall not exceed 100% of the net value of the company; the limit amount for the investment of individual marketable securities shall not exceed 75% of the net value of the company.</p>	<p>5.8.2 Other than acquiring assets for business use, the company and the subsidiaries can invest in the real estate for non-operating use and marketable securities, where the limitations of its amount are given as follows: The total amount that the company invested to purchase real estate for non-operating use shall not exceed 50% of the net value of the company; the total price of the marketable securities shall not exceed 200% of the net value of the company ; the limit amount for the investment of individual marketable securities shall not exceed 75% of the net value of the company; provided, the ones that passed by resolution during the shareholders' meeting are not limited here. The total amount that the subsidiaries invested to purchase real estate for non-operating use shall not exceed 50% of the net value of the company; the total price of the marketable securities shall not exceed 100% of the net value of the company; the limit amount for the investment of individual marketable securities shall not exceed 75% of the net value of the company.</p>	
<p>5.9 Freedom of Information 5.9.1 The execution unit for reporting the announcements of the company is the accounting department. 5.9.2 The report procedure and standards for the announcements: (I) If the following circumstances occurred on the assets acquired or disposed by our company, then announce and report relevant information in the designated websites of the competent agencies within two days starting from the occurrence of the fact according to the regulated format based on their properties:</p>	<p>5.9 Freedom of Information 5.9.1 The execution unit for reporting the announcements of the company is the accounting department. 5.9.2 The report procedure and standards for the announcements: (I) If the following circumstances occurred on the assets acquired or disposed by our company, then announce and report relevant information in the designated websites of the competent agencies within two days starting from the occurrence of the fact according to the regulated format based on their properties:</p>	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies</li></ul>

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<p>(1) Acquire or dispose the real estate <u>or its right-of-use assets</u> from or to the related party; or acquire or dispose other assets other than the real estate <u>or its right-of-use assets</u> from or to the related party and the transaction amount reached 20% of the paid-in capital, 10% of the total capital or exceeded NTD 300 million; provided, the trading of <u>domestic</u> government bond, trading of bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises is not limited.</p> <p>(2) Perform merger, demerger, acquisition or stock transfer.</p> <p>(3) Transaction loss from financial derivatives, which reached the upper limit amount of all or individual contract loss set forth in the procedure.</p> <p>(4) Acquire or dispose <u>equipment or its right-of-use assets</u> for business use and their transaction objects are not a related party. In addition, the transaction amount reached one of the following regulations:</p> <p>(a) When the paid-in capital is less than NTD10 billion, the transaction amount reaches NTD500 million or more.</p> <p>(b) When the paid-in capital is NTD10 billion or more, the transaction amount reaches NTD1 billion or more.</p>	<p>(1) Acquire or dispose the real estate from or to the related party; or acquire or dispose other assets other than the real estate from or to the related party and the transaction amount reached 20% of the paid-in capital, 10% of the total capital or exceeded NTD 300 million; provided, the trading of government bond, trading of bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises is not limited.</p> <p>(2) Perform merger, demerger, acquisition or stock transfer.</p> <p>(3) Transaction loss from financial derivatives, which reached the upper limit amount of all or individual contract loss set forth in the procedure.</p> <p>(4) Acquire or dispose <u>the type of assets</u>, which are <u>equipment</u> for business use and their transaction counterparties are not a related party. In addition, the transaction amount reached one of the following regulations:</p> <p>(a) When the paid-in capital is less than NTD10 billion, the transaction amount reaches NTD500 million or more.</p> <p>(b) When the paid-in capital is NTD10 billion or more, the transaction amount reaches NTD1 billion or more.</p>	



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<p>(5) Where land is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and <u>separate sale, and furthermore the transaction counterparty is not a related party,</u> and the amount the company expects to invest in the transaction reaches NTD500 million.</p> <p>(6) Where an asset transaction other than any of those referred to in the preceding five subparagraphs, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20 percent or more of paid-in capital or NTD300 million ; provided, this shall not apply to the following circumstances:</p> <ol style="list-style-type: none"><li>(a) Trading of <u>domestic</u> government bonds.</li><li>(b) Trading of bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises.</li></ol> <p>(7) The transaction amount shall be calculated according to the following methods:</p> <ol style="list-style-type: none"><li>(a) Amount of every transaction</li><li>(b) Accumulated amount of the transaction for acquisition or disposal of targets of same properties with the same relative person within a year.</li><li>(c) Accumulated amount of the acquisition or disposal of (acquisition and disposal are accumulated separately) the real estate <u>or its right-of-use assets</u> from the same development plan within a year.</li></ol>	<p>(5) Where land is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the amount the company expects to invest in the transaction reaches NTD500 million.</p> <p>(6) Where an asset transaction other than any of those referred to in the preceding five subparagraphs, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20 percent or more of paid-in capital or NTD300 million ; provided, this shall not apply to the following circumstances:</p> <ol style="list-style-type: none"><li>(a) Trading of government bonds.</li><li>(b) Trading of bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises.</li></ol> <p>(7) The transaction amount shall be calculated according to the following methods:</p> <ol style="list-style-type: none"><li>(a) Amount of every transaction</li><li>(b) Accumulated amount of the transaction for acquisition or disposal of targets of same properties with the same relative person within a year.</li><li>(c) Accumulated amount of the acquisition or disposal of (acquisition and disposal are accumulated separately) the real estate or its right-of-use assets from the same development plan within a year.</li></ol>	



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<p>(d) Accumulated amount of the acquisition or disposal of (acquisition and disposal are accumulated separately) the same marketable securities within a year.</p> <p>"Within a year" referred here is calculated by tracing back a year on the basis of the occurrence of the transaction fact. The parts that have been announced based on the procedure is exempted from the calculation.</p> <p>(II) The situations of performing transactions of financial derivatives performed by the company and its subsidiaries, which do not belong to the domestic listed companies, till the end of last month shall be entered in the information reporting website designated by the competent agencies according to the regulated format before the 10th each month on a monthly basis.</p> <p>(III) If the announced items have errors or are missing in accordance with the regulations and shall be revised or added, the company shall announce and report all items again within two days after being notified.</p> <p>(IV) After the company announced and reported the transaction in accordance with the regulations in 5.9.2 (I), if the following situations occurred, then the company shall announce and report relevant information on the website designated by the competent agencies within two days after the occurrence of the fact:</p> <p>(1) The signed contract related to the original transaction is changed, terminated or dismissed.</p>	<p>(d) Accumulated amount of the acquisition or disposal of (acquisition and disposal are accumulated separately) the same marketable securities within a year.</p> <p>"Within a year" referred here is calculated by tracing back a year on the basis of the occurrence of the transaction fact. The parts that have been announced based on the procedure is exempted from the calculation.</p> <p>(II) The situations of performing transactions of financial derivatives performed by the company and its subsidiaries, which do not belong to the domestic listed companies, till the end of last month shall be entered in the information reporting website designated by the competent agencies according to the regulated format before the 10th each month on a monthly basis.</p> <p>(III) If the announced items have errors or are missing in accordance with the regulations and shall be revised or added, the company shall announce and report all items again within two days after being notified.</p> <p>(IV) After the company announced and reported the transaction in accordance with the regulations in 5.9.2 (I), if the following situations occurred, then the company shall announce and report relevant information on the website designated by the competent agencies within two days after the occurrence of the fact:</p> <p>(1) The signed contract related to the original transaction is changed, terminated or dismissed.</p>	

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<p>(2) The merger, demerger, acquisition or stock transfer is not completed according to the expected schedule on the contract.</p> <p>(3) If the original announcement or report contents are changed.</p> <p>(V) Reporting the announcement of the subsidiaries:</p> <p>(1) For the subsidiaries, which do not belong to the domestic listed companies, its acquisition or disposal of assets shall be announced and reported by the company.</p> <p>(2) The standards for announcement and report mentioned in 5.9.2 (I), which applicable to the subsidiaries that is related to regulations on paid-in capital or total capital shall be in accordance with the paid-in capital or total capital of the company.</p>	<p>(2) The merger, demerger, acquisition or stock transfer is not completed according to the expected schedule on the contract.</p> <p>(3) If the original announcement or report contents are changed.</p> <p>(V) Reporting the announcement of the subsidiaries:</p> <p>(1) For the subsidiaries, which do not belong to the domestic listed companies, its acquisition or disposal of assets shall be announced and reported by the company.</p> <p>(2) The standards for announcement and report mentioned in 5.9.2 (I), which applicable to the subsidiaries that is related to regulations on <u>reaching 20%</u> of paid-in capital or <u>10%</u> of total capital shall be in accordance with the paid-in capital or total capital of the company.</p>	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies.</li></ul>
<p>5.12 Other cautions</p> <p>(I) The procedure is implemented after it is approved by over ½ members of the Audit Committee, proposed to the board meeting and passed and proposed to the shareholders' meeting and approved. Similar process shall be applied for the amendment of the procedure. If the procedure is not approved by over ½ members of the Audit Committee, then it can also be approved by 2/3 of all directors. In case of this, it shall be recorded clearly on the meeting record of the board meeting about the resolution from the Audit Committee.</p>	<p>5.12 Other cautions</p> <p>(I) The procedure is implemented after it is approved by over ½ members of the Audit Committee, proposed to the board meeting and passed and proposed to the shareholders' meeting and approved. Similar process shall be applied for the amendment of the procedure. If the procedure is not approved by over ½ members of the Audit Committee, then it can also be approved by 2/3 of all directors. In case of this, it shall be recorded clearly on the meeting record of the board meeting about the resolution from the Audit Committee. <u>In addition, when the procedure is proposed to board meeting for discussion in accordance with the law, the comments from each independent director shall be considered sufficiently and their approval or disapproval comments and reasons shall be recorded clearly on the board meeting record.</u></p>	<ul style="list-style-type: none"><li>• The company has established Audit Committee. Hence, the procedure is revised in accordance the regulations of the competent agencies and part of the procedure, which does not comply with Article 14-5 of the Securities and Exchange Act, is omitted.</li></ul>

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<p>(II) According to <u>the</u> procedure or other laws and regulations, the acquisition or disposal of assets, which shall be passed through the board meeting, shall be approved by over ½ members of the Audit Committee first or otherwise approved by over 2/3 of all directors. In case of this, it shall be recorded clearly on the meeting record of the board meeting about the resolution from the Audit Committee.</p> <p>(III) <u>All members of the Audit Committee and all directors referred in the procedure are counted by the ones who are still in their term.</u></p> <p>(IV) <u>For the valuation report or the comments received from the accountants, lawyers or securities underwriter acquired by the company, these professionals of valuation and their valuation personnel, accountants, lawyers or securities underwriters shall comply with the following regulations:</u></p> <p>(1) <u>They shall not be sentenced with over a year of fixed-term imprisonment due to violation of this procedure, The company Act, The Banking Act, The Insurance Company Act, Financial Holding Company Act, Business Account Act, or commit fraud, breach of trust, criminal conversion, forging instruments or seals or business crimes. However, they shall not be limited if the imprisonment was done; probation was expired; or after remitted from a punishment over three years.</u></p>	<p>(II) According to <u>this</u> procedure or other laws and regulations, the acquisition or disposal of assets, which shall be passed through the board meeting, shall be approved by over ½ members of the Audit Committee first or otherwise approved by over 2/3 of all directors. In case of this, it shall be recorded clearly on the meeting record of the board meeting about the resolution from the Audit Committee. <u>In addition, when the acquisition or disposal of assets is proposed to board meeting for discussion in accordance with the previous regulation, the comments from each independent director shall be considered sufficiently and their approval or disapproval comments and reasons shall be recorded clearly on the board meeting record.</u></p> <p>(III) <u>For the valuation report or the comments received from the accountants, lawyers or securities underwriter acquired, these professionals of valuation and their valuation personnel, accountants, lawyers or securities underwriters cannot be a related party of the transaction party.</u></p> <p>(IV) <u>If listed company acquired or disposed assets through court auction procedure, then the verification documents provided by the court can replace the valuation report or the comments from the accountants.</u></p>	<ul style="list-style-type: none"><li>• Revise the procedure in accordance with the regulations set forth by the competent agencies.</li><li>• The order of Paragraph (III) ~ (VI) is changed accordingly.</li></ul>

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<p><u>(2)</u>The transaction party cannot be a related party or an actual related party.</p> <p><u>(3)</u> If the company shall obtain valuation reports from more than two professionals of valuation, then the different professionals of valuation shall not be related parties or actual related parties.</p> <p><u>(V)</u> If the company acquired or disposed assets through court auction procedure, then the verification documents provided by the court can replace the valuation report or the comments from the accountants.</p> <p><u>(VI)</u> When the company acquired or disposed assets, we shall place the relevant contracts, meeting records, reference copy, valuation report, comments from the accountants, lawyers or securities underwriter in the company, which shall be kept for at least 5 years unless there are additional regulations in other laws.</p> <p><u>(VII)</u>The announcement format and the content of appraisal for the acquisition or disposal of assets shall comply with the regulations from the competent agencies.</p>	<p><u>(V)</u> When the company acquired or disposed assets, we shall place the relevant contracts, meeting records, reference copy, valuation report, comments from the accountants, lawyers or securities underwriter in the company, which shall be kept for at least 5 years unless there are additional regulations in other laws.</p> <p><u>(VI)</u>The announcement format and the content of appraisal for the acquisition or disposal of assets shall comply with the regulations from the competent agencies.</p>	<ul style="list-style-type: none"><li>• Revise the terms "listed company"</li></ul>



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## Appendix 1

# Rules and Procedures of Shareholders' Meeting

Amended on June 10, 2015

1. The company's shareholders' meeting shall be handled in accordance with the Rules.
2. Attending shareholders (or proxies) shall show their attendance certificates and submit sign-in cards for calculation of attending votes Plus electronic voting exercise options. The proxy that is not a shareholder and the shareholder with a letter of proxy issued must have their identity document ready for examination A shareholding with one of the following is without voting right and is excluded from the total stock shares issued and number of attendance:
  - (1) TSRC's shareholdings.
  - (2) TSRC's stock shares held by the wholly owned subsidiary that is with over 50% of its stock shares issued with voting rights or total stock capital held by TSRC.
  - (3) TSRC's stock shares held by the company that is with over 50% of its stock shares issued with voting rights or total stock capital held by TSRC and TSRC's subsidiary directly or indirectly.
- 2-1. The chairperson may designate the attorney, CPA or the relevant staff appointed by him to attend the meeting, and also designate the conference personnel in charge of the meeting and the personnel maintaining the order on site (or security guards) to help proceed with the meeting, provided that the personnel referred to herein shall wear identification certificates or badges.
3. The chairperson shall announce the opening of the meeting, provided that where a majority of the shareholders representing the total issued shares fail to attend the meeting when the meeting should commence, the chairperson may announce that the meeting is postponed, provided that the meeting should be postponed no more than twice and the time of extension shall be no more than one hour in total. Where a majority of the said shares still fail to attend the meeting but one-third of the shareholders representing the total issued shares attend the meeting after the meeting has been postponed for twice, the provisional resolution may be made pursuant to Paragraph 1 of Article 175 of the Company Act. Where the shares represented by the present shareholders have reached a majority of the total issued shares before the end of the meeting, the chairperson may re-submit the provisional resolution to the meeting for voting pursuant to Article 174 of the Company Act.



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4. The agenda of the meeting shall be defined by the Board. The meeting shall be held in the order of the scheduled agenda. Without the resolution of the meeting, the agenda shall not be changed.

The chairperson may not announce to have the meeting adjourned without the resolution of the directors before the scheduled agenda ( including motions) completed except for the routine query and reply of motion.

Shareholders may not have another chairperson elected to have the meeting continued at the same location or elsewhere once the meeting is adjourned. If chairperson has violated the conference rules and announced to have the meeting adjourned, another chairperson can be elected by attending shareholders with majority votes to keep the meeting in session.

The proposals for amendments or replacement with respect to the same proposal shall be voted in the order defined by the chairperson.

Where any of the proposals is approved, the other proposals shall be deemed overruled and it is not necessary to vote them.

Chairperson is to define the discussion and priority of the motion raised by shareholders.

- 4-1. The board of directors is to state in the agenda manual why the proposals that are proposed before the meeting are not enlisted in the agenda of directors' meeting and the record of agenda. If the proposals of shareholders that are to be enlisted in the agenda according to Article 4.2.3 of the Rules for Agenda are classified as the same type of proposals, Chairperson may have them consolidated for process according to Paragraph 5 of the preceding Article herein.

- 4-2. Shareholders who have a letter of proxy issued to legal person that is not a shareholder to attend the meeting on his

If the government or corporate shareholder has two representatives appointed to attend the meeting, or, the representative has attended the meeting as a proxy, only one representative is to speak at the meeting.

- 4-3. The chairperson of the shareholders' meeting shall be assumed by the company's Chairman, if the meeting is called by the board of directors. Where the Chairman fails to exercise his authority for leave or other causes, the Vice Chairman shall be his proxy. Where the Vice Chairman also fails to exercise his authority for leave or other causes, the Chairman shall nominate a director to be his proxy. Where the Chairman fails to nominate any proxy, the proxy shall be elected among the directors.

Where the shareholders' meeting is called by any competent person other than the board of directors, the chairperson shall be assumed by the competent person. Where there are more than two competent persons, one of them shall be elected to be the chairperson.

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5. It is necessary for shareholders to specify the gist of their statement, their attendance certificate numbers and names in the statement form before making statement in the meeting. The order in which the statement is made shall be subject to the chairperson's determination. The present shareholders who only submit the statement form instead of making statement verbally shall be deemed never making statement. In the event of any discrepancy in the contents of the statement and those specified in the form, the contents of statement shall prevail.
6. Shareholders may raise questions regarding the reports given at the end of the announcement by chairperson or by the designated personnel. Each speaker may not speak more than twice and five minutes each time unless it is with the consent of chairperson for one extension and five minutes maximum. The speech time and frequency of shareholders on the acceptance of resolution, each proposal, and motion is the same as the one in preceding paragraph.  
The speech time and frequency of shareholders on the queries irrelevant to the proposals are the same as mentioned in the preceding paragraph.
- 6-1. After the present shareholders make statement, the chairperson may give response personally or designate the relevant personnel to give the response.
7. here the statement exceeds the specific time limit or beyond the scope of proposals, the chairperson may suspend the shareholders from continuing making statement. Where the shareholders do not stop making statement, or try to interfere with the agenda, the chairperson may order the relevant personnel (or security guards) to maintain the order in the meeting or take necessary actions to help the procedure.
8. The chairman may announce the conclusion of discussion for proposals in a timely manner. If necessary, he may announce the suspension of discussion concluded or discussion may submit to voting per the chairperson's instruction.
9. Unless otherwise Provided in the Company Act or the Articles of Incorporation of this Company, motions should be approved by more than half of the shareholders present. For directors election, Rules for Election of Directors apply.  
Shareholders may exercise their voting rights in the written or electronic manner in shareholders' meetings. The manner of exercise is specified in the notice of shareholders' meeting. Any shareholder that exercises voting rights in the written or electronic form is deemed to have attended the shareholders' meeting in person. However, the shareholder is deemed to have waived his/her right in relation to any motion or amendment to original proposal in such shareholders' meeting.  
The resolutions shall be recorded in the minutes of meetings.
- 9-1. When the proposals are subject to voting, the chairperson shall designate certain scrutineers and ballot recorders to execute their job responsibility, provided that the scrutineers shall be shareholders. The voting of the various proposals shall be conducted in a manner other than recall.  
The result thereof shall be announced on site and recorded.

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10. The votes that are determined by scrutinizers to have one of the following actions are voided:
  - (1) Fail to use the ballot appointed by the board of directors or chairperson;
  - (2) Deposit a blank ballot into the box;
  - (3) Broken or smeared ballot that cannot be identified;
  - (4) Altered ballot or ballot with marks or literature;
  - (5) Tick the boxes for and against at the same time;
  - (6) Ballot that does not convey the decision for or against clearly;
11. If shareholders raise an objection over the process of resolution, ballot counting, effective or void votes, the scrutinizers are to have the shareholder number, stock shares, and cause of dispute of the shareholders in dispute stated, signed, and sealed for filing and for record.
12. The chairperson may announce to take a rest at his sole discretion in the process of the meeting.  
Where it is impossible to continue proceeding with the meeting due to air-raid alarm or other causes, the meeting should be stopped immediately and the relevant personnel should be evacuated automatically.  
The meeting should be continued after one hour upon the alarm or causes being lifted.
13. The procedure, agenda and resolution and other related matters shall be subject to the Rules. Any matters not provided herein shall be subject to the chairperson's sole discretion, unless they are provided in the Company Act, Securities and Exchange Act and the Company's articles of incorporation.
14. The Rules shall be enforced upon resolution of the shareholders' meeting. The same shall apply where they are amended.

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Appendix 2

## Article of Incorporation

Amended on June 21, 2018

### Chapter I. General Articles

Article 1. The company is incorporated pursuant to the Company Act and named " Corporation"

Article 2. The business run by the company includes the following:

1. C801060 Synthetic rubber manufacturing.

2. C804020 Industrial rubber products manufacturing.

3. C804990 Other rubber products manufacturing.

4. D101040 Of power generation which are not public.

5. D401010 Energy supply.

6. F401010 International trade.

7. ZZ99999 Business not prohibited or restricted by laws, other than business under license.

Article 2-1. Where the company trans-invests in another company as a limited liability shareholder, the gross capital invested is free from the restriction of 40% of the company's paid-in capital.

Article 2-2. The company may grant guarantees externally to meet the business or investment requirements.

Article 3. The Company is incorporated and registered in Kaohsiung City. The Company may establish domestic and overseas branches or factories. The Company's incorporation and change/abolishment shall be resolved by the Board of Directors.

Article 4. All notices of the company shall be published in accordance with the Company Law.

### Chapter II. Shares

Article 5. The total capital of our company is set as NTD 12 billion and is divided into 1,200,000,000 shares with NTD 10 per share. The Board of Directors is authorized to issue them in separate times based on actual needs.

It is not necessary to print stock certificates for the shares issued by the company, or the stock certificates shall be printed altogether when new shares are issued, provided that they should be registered or kept by a central depository organization.

Article 6. "Deleted"

Article 7. The stocks of our company will not be printed physically in accordance with regulations and all shall be registered. The stocks shall be issued in accordance with The Company Act and other relevant regulations.

Article 8. "Deleted"

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Article 9. When the shareholders of our company wish to handle stock-related matters, such as transfer stocks, establish right pledge, report missing, inherit, grant and report missing or change of seal or change address, etc., they shall handle them in accordance with "Regulations Governing the Administration of Shareholder Services of Public Companies" and relevant regulations.

Article 10. No registration of stock transfer shall be made 60 days prior to shareholders' regular meeting, 30 days prior to the shareholders' provisional meeting and 5 days prior to dividends and bonus distribution or other interest distribution.

Article 11. "Deleted"

## Chapter III. Shareholders' Meeting

Article 12. The shareholders' meeting includes regular meeting and provisional meeting. The regular meeting shall be held once a year and within six months upon finalization of the fiscal year by the board of directors.

The provisional meeting shall be held pursuant to laws.

The shareholders' regular meeting shall be notified to the shareholders 30 days ago, and in the case of the shareholders' provisional meeting, 15 days ago, provided that the meeting may be notified to the shareholders who hold less than 1,000 registered shares by public notice.

Article 13. The chairperson of the shareholders' meeting shall be assumed by the company's Chairman. Where the Chairman fails to exercise his authority for leave or other causes, the Vice Chairman shall be his proxy. Where the Vice Chairman also fails to exercise his authority for leave or other causes, the Chairman shall nominate a director to be his proxy. Where the Chairman fails to nominate any proxy, the proxy shall be elected among the directors.

Where the shareholders' meeting is called by any competent person other than the board of directors, the chairperson shall be assumed by the competent person. Where there are more than two competent persons, one of them shall be elected to be the chairperson.

Article 14. The company's shareholders shall, unless the decree otherwise Given outside the, have one voting right per share.

A representative trusted by the shareholder may take part in the shareholders' meeting, provided that he shall present the proxy in the format produced by the company and with affixation of the company's stamp on which the scope of authorization shall be stated.

Other than the trust business or stock brokers approved by the competent securities authority, any person who is trusted by more than two shareholders at the same time shall be entitled to not more than 3% of the votes of the issued shares, and the excessive votes shall not be calculated.

The proxy shall be served to the company 5 days prior to the meeting. Where it is repeated, the one served first shall be effective. However, this is not applicable if a declaration to withdraw a prior proxy is made.



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After the proxy is delivered to the Company, if the shareholder wishes to attend the shareholders' meeting in person or if the shareholder wishes to exercise the voting rights in the written or electronic manner, a written notice to withdraw the proxy shall be given to the Company 2 days before the shareholders' meeting. If the withdraw is given after this deadline, the voting right exercised by the proxy attending the meeting shall prevail.

Article 15. Unless otherwise provided for in laws and the company's articles of incorporation, the quorum necessary for a shareholders' meeting shall be no less than the shareholders' holding more than half of the total issued shares and resolution of the shareholders' meeting shall be passed upon a majority of votes of the present shareholders.

## Chapter IV. Directors

Article 16. Our company established 5 to 9 directors. The Board of Directors is authorized to establish the actual number of selected people. Directors are people with legal capacities chosen from the shareholders' meeting. Total shareholding ratio of all directors will be in accordance with the regulations of security management agencies. Directors of the Company shall be elected by the shareholders from a list of candidates of directors based on the candidate nomination system under Article 192 of the Company Act.

Article 16-1. The company's board of directors has installed Three independent directors elected from the directors defined in the preceding article as of 15<sup>th</sup> term. Independent directors and non-independent directors shall be elected altogether, and the number of the elected shall be calculated separately. The professional qualification, shareholding and part-time job restrictions, independence, nomination and mode of election, exercise of power and other requirements to be complied with of an independent director shall be handled in accordance with the Securities and Exchange Act and the relevant laws.

Article 16-2. The Company has formed the Audit Committee consisting of all independent directors in accordance with the applicable law. The power exercised by the Audit Committee and its independent directors members and the matters related thereto and regulated in accordance with the Securities and Exchange Act and other applicable laws.

Article 17. The duration of the directors is three years and the directors are eligible for re-election.

Article 18. The chairman will be selected among the directors, who will represent our company externally. The Vice Chairman shall be elected among directors, who shall be the proxy of the Chairman when the Chairman fails to exercise his authority for leave or other causes.

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Article 19. Unless otherwise to be subject to the resolution of the shareholders' meeting as provided in the Company Act or articles of incorporation, the company's business policies and other important issues shall be subject to the resolution of the board of directors. The chairperson of the directors' meeting shall be assumed by the company's Chairman. Where the Chairman is absent, the Vice Chairman shall be his proxy. Where the Vice Chairman is also absent, the Chairman shall nominate a director to be his proxy. Where the Chairman fails to nominate any proxy, the proxy shall be elected among the directors. Where the director fails to attend the directors' meeting personally, he may appoint another director to be his proxy. The proxy may accept the appointment from only one director. Board of Directors convened notification may be made in writing, Fax or email.

Article 20. Unless otherwise provided in laws, the quorum necessary for the directors' meeting shall be no less than a majority of the total directors and resolution of the directors' meeting shall be passed upon a majority of votes of the present directors.

Article 21. "Deleted"

Article 22. "Deleted"

Article 23. The board of directors is authorized to determine the remuneration for the Company's directors based on the level of participation and the contribution by the directors to the operation of the Company and in reference to the standard of the same industry.

Article 24. There are certain advisors in the company for business requirement, who shall be retained by the Chairman.

Article 24-1. In order to well found the supervisory function and strength the management mechanism, the board of directors may establish the various functional. The regulations governing the exercise of authority of functional commissions shall be defined by the board of directors.

Article 24-2. The Company shall purchase the liability insurance for directors with respect to the indemnity to be borne by them in the scope of business to be executed by them during their term of office.

## Chapter V. Managers

Article 25. There are several managers in the company. The appointment and dismissal of them shall be handled in accordance with Article 29 of the Company Act. The managers shall sign instruments on behalf of the company subject to the company's written authorization.

Article 26. "Deleted"

Article 27. The managers shall take care of the company's routine affairs within the scope of their job responsibility pursuant to the Chairman's instruction and resolution of the directors' meeting.

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## Chapter VI. Accounting

Article 28. The fiscal year of our company is from Jan. 1 to Dec. 31 each year. The Board of Directors shall make all kinds of reports in accordance with Article 228 of The Company Act by the end of each fiscal year and propose to the shareholders' meeting by legal procedure for recognition.

Article 28-1. The Company shall appropriate at least 1% of its earnings, if applicable, as compensation to the employees and not more than 1% as remuneration to the directors. The aforementioned and the regulation governing the remuneration to the directors and the compensation to employees shall be implemented as resolved by the Board.

Article 29. The business operated by our company has gone towards a mature and stable stage and currently is moving towards global and diversification development actively. To match with the long-term development of the company and pursue corporate sustainable growth, our company established the following policies for dividend. If there is surplus remained after annual settlement, then the steps below shall be performed regarding the distribution of the surplus: first, allocate 10% of the legal earned surplus after paying all taxes in accordance with the law and compensating the losses from previous years; next, the remaining amount after proposing or reversing special earned surplus in accordance with Securities and Exchange Act plus the undistributed surplus from the previous period can be served as distributable surplus; then, surplus distribution plan can be proposed for the distributable surplus.

The aforementioned distribution of shareholders' cash dividend should not be lower than 20% of the total distribution amount.

The aforementioned surplus distribution plan shall be drafted by Board of Directors and proposed to the shareholders' meeting by resolution.

Article 30. "Deleted"

Article 31. Our company can distribute new stocks or cash from a part of or all of the legal earned surplus and additional paid-in capital by the original share ratio of the shareholders' through the resolution in the shareholders' meeting in accordance with Article 241 of The Company Act.

Article 32. When the legal earned surplus reached the total capital, allocation can be stopped through the resolution in the shareholders' meeting.

## Chapter VII. Supplementary Provisions

Article 33. The company's articles of organization and enforcement rules thereof shall be defined separately.

Article 34. Any matters not provided in these Articles of incorporation shall be subject to the Company Act and the relevant laws.

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Article 35. These Articles of incorporation were concluded on July 27, 1973. 1st amendments thereof was made on June 25, 1974, 2nd amendments thereof on April 23, 1975, 3rd amendments on February 17, 1976, 4th amendments thereof on June 30, 1976, 5th amendments thereof on April 26, 1977, 6th amendments thereof on June 20, 1979, 7th amendments thereof on May 23, 1980, 8th amendments thereof on May 11 1981, 9th amendments thereof on November 25, 1981, 10th amendments thereof on May 24, 1983, 11th amendments thereof on May 23, 1984, 12th amendments thereof on April 26, 1985, 13th amendments thereof on April 29, 1986, 14th amendments thereof on April 29, 1987, 15th amendments thereof on May 10, 1988, 16th amendments thereof on May 12, 1989, 17th amendments thereof on April 12, 1990, 18th amendments thereof on April 24, 1991, 19th amendments thereof on May 14, 1992, 20th amendments thereof on May 20, 1993, 21st amendments thereof on June 27, 1995, 22nd amendments thereof on June 16, 1996, 23rd amendments thereof on May 24, 1997, 24th amendments thereof on May 26, 1998, 25th amendments on May 29, 1999, 26th amendments thereof on May 27, 1990, 27th amendments thereof on June 20, 2002, 28th amendments thereof on May 30, 2003, 29th amendments thereof on May 31, 2005, 30th amendments thereof on June 13, 2008, 31st amendments thereof on June 10, 2011, 32nd amendments thereof on June 6, 2012 33rd amendments thereof on June 11, 2014 34th amendments thereof on June 10, 2015 and 35th amendments thereof on June 24, 2016, the 36th amendment was made on June 21, 2018.

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## Disclosure of Directors' Shareholdings

April 8, 2019

Job title	Name	Stockholders No .	Shares held
Chairman	Hao Ran Foundation Statutory Representative: Nita Ing	158693	60,171,319
Director	Hao Ran Foundation Statutory Representative: Chin-Shan Chiang		
Director	Metacity Development Corporation Representative: Jing-Lung Huang	147214	31,093,108
Director	Metacity Development Corporation Representative: Tzu Wei Lee		
Director	Metacity Development Corporation Representative: John T. Yu		
Director	Hao Ran Foundation Statutory Representative: Tsai-Der Chen	17471	53,708,923
Independent Director	Robert Hung		0
Independent Director	Sean Chao		0
Independent Director	Rex Yang		0
Shareholdings of Directors subtotal			144,973,350
Minimum shareholdings of Directors			26,422,719

Remark: Up until April 8, 2019, share capital on book closure date, there are 825,709,978 shares.