

member of CSC Group 中鋼集團 



**中鴻銹鐵股份有限公司**  
**CHUNG HUNG STEEL CORPORATION**

2019

Stock Code: 2014

The Company's website:

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

TWSE Market Observation Post System website:

<http://mops.twse.com.tw/mops/web/index>

# **Chung Hung Steel Corporation**

## **2019 General Shareholders' Meeting**

# **Meeting Manual**

Time: 09:30 June 26, 2019 (Wednesday)

Venue: No. 2, Hongyi 1st Rd., Nanzi Dist., Kaohsiung City, Taiwan

CPC Corporation Hongnan Training Classroom (exit of R17 World Games MRT station)

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# **Chapter 1 Agenda of the Annual Meeting of Shareholders**

Time: 9:30 a.m., June 26, 2019 (Wednesday)

Venue: No. 2, Hongyi 1st Rd., Nanzi Dist., Kaohsiung City, Taiwan

CPC Corporation Hongnan Training Classroom (exit of R17 World Games MRT station)

Agenda: 1. Call Meeting to Order

2. Chairman's Speech

3. Reports

4. Ratifications and discussions

5. Extempore motions

6. Meeting adjourned

## **Chapter 2 Report Items**

### **I. The Company's 2018 business and financial report**

#### **(I) Business Overview**

Chung Hung shall uphold the business strategy of “Make full use of resources and equipment production capacity; Flexible production and sales to reduce lead time; Diverse career development to pass on knowledge; Ensure environmental protection and occupational safety and fulfill social responsibilities.” The Company maintains a positive outlook on the steel market and works with upstream and downstream partners to create optimal results.

The global economy is facing a decline in growth momentum as uncertainty and economic slowdown cause increase in risks. The speed of growth in certain major economies may have peaked. The United States and China decided to temporarily suspend tariff increase in December 2018 but the tension between two sides may intensify and cast doubts on the global economy. The Eurozone is faced with political and economic upheavals and Brexit may cause the economy to shrink by 5-8% over the long term. The French government was also forced to make concessions in terms of its fiscal policies in response to the yellow vests movement. Japan's plans for increasing the sales tax in October 2019 is expected to cause tremendous pressure on economic growth in the fourth quarter. In many emerging markets and developing economies, the growth of many energy exporters has improved due to the increase oil prices. However, the economic growth forecasts for countries like Argentina, Brazil, Iran, and Turkey have decreased due to a tightened financial environment, geopolitical tension, and increase in the cost of oil imports. The World Steel Association predicts that global steel demand will increase by 1.3% to 1.735 billion tons in 2019. Despite a recovery in steel demand in 2017 which continued to 2018, the prospect of growth now faces increase in risks. The exacerbation of trade tension and fluctuations in foreign exchange rates have increased uncertainty.

#### **(II) Business Plan Implementation Results**

##### **1. Results of production:**

Steel demand has continued to increase in the first three quarters of 2018 due to the status of supply and demand on the international market but a decline became apparent in the fourth quarter. The Company adjusted its production and sales plan in response. The combined production of hot-rolled products, cold-rolled products, steel pipes, and

galvanized products in 2018 amounted to 2.8549 million tons which was approximately 1.97% higher than the combined output in 2017.

## 2.Results of sales:

The price of steel products has continued to recover due to the reduced supply in the global steel market in 2018. Demand continues to grow but the increase in material prices and adjustments in upstream suppliers' production and sales contributed to the consolidated sales volume of 2.4793 million tons in 2018 which was a 6.73% increase from 2017.

In terms of total product sales volume in 2018, domestic sales accounted for 52.85% and exports accounted for 47.15%. Domestic sales declined by 7.70% from the same period in the previous year. In terms of product sales, hot-rolled products accounted for the largest share with 71.78 % while cold-rolled products placed second with 16.70%. Steel pipes accounted for 6.80% and galvanized products accounted for 4.72%.

### **(III) Analysis of operating income/expenses and profitability**

The after-tax net profit was NT\$3.033 billion in 2018. The operating revenue/expenses and profitability are as follows:

#### 1.Revenue:

The Company's consolidated operating revenue in 2018 was NT\$48.239 billion which was an increase of approximately 18.26% from the operating revenue of NT\$40.792 billion in 2017.

#### 2.Expenditures:

The Company's consolidated operating costs and consolidated operating expenses in 2018 totaled NT\$45.363 billion which was a 18.69% increase from NT\$38.219 billion in 2017.

#### 3.Profitability:

The increase in sales price in 2018 was greater than the increase in costs and it increased pre-tax profit by NT\$427 million from 2017.

### **(IV) Research and Development**

The Company continues to update the hot rolling, cold rolling, galvanized products, and steel pipe equipment, refine the process, and advance personal quality accountability to improve product quality. It also actively expands the product line and seeks to develop high add-value products with steel slab suppliers to improve the Company's overall

competitiveness. The Company's material R&D and improvement in 2018 were as follows:

1.Product development:

Development of hot-rolling SAE4130 products, hot-rolling QStE380TM products, development of cold-rolling SPCC-1D, and development of hot-dipped galvanized steel plates for the bottom of containers.

2.Product improvement:

Improved the break-off rust on hot-rolled API steel pipe materials, continuous improvement for tail stamp marks on hot-rolled coils, continuous improvement for rust on high-quality PO materials, improvement for crowning on hot-rolled fineblanking materials, improvement for hot-rolled coiling form, continuous improvement for cold-rolled fineblanking drilling marks, continuous improvement for tearing of adhesives on cold-rolled products, improvement of cleanliness on cold-rolled steel coils, improvement of external press marks on cold-rolled products, improvement of continuous scratch marks on the surface of pickled steel rolls of the Pickling and Galvanizing Department, and improvement for spark marks on pickled steel coils in the Pickling and Galvanizing Department.

3.Process research and improvement:

Establishment of the technology for controlling the difference in thickness of hot-rolling fineblanking materials.

4.Equipment technology establishment:

Establishment of horizontal setting technologies of the hot-rolling finishing mill, replacement of tube and skids in the No.1 furnace boiler, update of No. 1 cold-rolling product line equipment, replacement of air compressor for cold-rolling, replacement and update of the cleaning tank on the cold-rolling pickling line, replacement and update of the deviation correction system on the tension leveler for cold-rolling, installation of the welding brush roller at the exit of the pickling and galvanizing CPL welding machine, update of the pickling CGL galvanizing and film machine, energy efficiency improvement of the pickling and galvanizing chiller machine room, increase in the speed of the No. 1 process in Lukang Plant, supplementary welding for incomplete welding during outages to reduce wear for the production of steel pipes, establishment of heat treatment simulation and test capabilities for the production of steel pipes, and additional crane for Building Q in the storage area in Lukang Plant.

## **(V) Summary of 2019 Business Plan**

According to estimates of the International Monetary Fund (IMF), the global economic growth rate may reach 3.3% in 2019. The estimate is 0.4% lower than the estimate in October 2018. As the United States increased tariffs on Chinese products and the Chinese government tightened its fiscal policies, economic growth in China will decrease from 6.6% in 2018 to 6.3% in 2019. The estimated economic growth rate in the Eurozone was lowered to 1.3%, down 0.6% from the forecast in the fall of 2018. In the overall international steel market, despite a recovery in steel demand which continued to 2018, the exacerbation of trade tension and fluctuations in foreign exchange rates have increased uncertainty in the economy. However, the United States Federal Reserve's decision to slow the increase in interest rates gradually relieved pressure on the emerging market which is set to bounce back in 2019.

The Company's consolidated sales target for all products this year (2019) is 2.3 million tons with 56.53% in domestic sales and 43.47% for exports. Hot-rolled products account for the largest share with 75.22% while cold-rolled products place second with 13.57%. Steel pipe products account for 7.30% and galvanized products account for 3.91%. The management team will dedicate full efforts on achieving and exceeding goals.

In the new year, we shall continue to strengthen our advantages in mobility and flexibility and actively develop new sources of revenue while controlling costs. We shall create product diversification and increase the added value in the upstream and downstream industrial chain while enhancing market segmentation. We shall expand development and deployment in overseas markets and establish Chung Hung as a small but refined, professional, and dedicated company.

## **II. The Audit Committee's review report on statements for 2018**

Chung Hung Steel Corporation

Audit Committee's Audit Report

Hereby approves

The Company's 2018 Individual Financial Report and Consolidated Financial Report (audited and certified by CPAs Jui-Hsuan Hsu and Yu-Hsiang Liu of Deloitte, Taiwan), Business Report, and Earnings Distribution Proposal prepared by the Board of Directors who found them to be compliant with regulations. The Audit Report is therefore provided in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act and filed for approval.

Please review and assess the preceding items.

Respectfully submitted to

The Company's 2019 General Shareholders Meeting

Audit Committee, Chung Hung Steel Corporation

Convener: Chu-Shan Chiu

March 19, 2019

### **III. Report on the 2018 distribution of remuneration to employees and Directors.**

**Proposed by the Board of Directors**

Explanation:

- I. Processed in accordance with Article 28 of the Company's Articles of Incorporation and Jing-Shang No. 10402436190 Letter of the Ministry of Economic Affairs dated January 4, 2016.
- II. According to Article 28 of the Articles of Incorporation passed by the shareholders' meeting on June 24, 2016, the Company's remuneration for employees and Directors shall be no lower than 1‰ and under 1% of the earnings before tax of the year after making up for losses and before deducting remuneration for employees and Directors.
- III. The profitability shall be based on the applicable explanations provided by the Ministry of Economic Affairs after the promulgation of the amendments: The Articles of Incorporation shall include provisions on remuneration of employees as well as remuneration of Directors. When calculating employee and director remuneration, the Company shall use the profits before tax deducted by pre-tax interest for distribution of remuneration to employees and Directors.
- IV. The 2018 employees' remuneration on the account is 5% of net profit for the current year after making up for losses amounted to NT\$22,262,406, which is equivalent to 2.10% of the pre-tax profit after making up for losses and deduction of interest for employee and director remuneration. The director remuneration on the account is 1% of net profit for the current year after making up for losses amounted to NT\$4,452,481, which is equivalent to 0.42% of the pre-tax profit after making up for losses and deduction of interest for employee and director remuneration. The items specified above meet requirements in Article 28 of the Company's Articles of Incorporation and all remuneration shall be distributed in cash.

## **IV. Report on the Amendment of the Company's "Corporate Governance Best Practice Principles".**

**Proposed by the Board of Directors**

Explanation:

- I. The amendment is implemented in accordance with the amendment of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" promulgated by Taiwan Stock Exchange on December 12, 2018 and the Company's actual operations.
- II. Article 1.4, Article 2.2, Article 2.3, Article 3.1.3, Article 3.1.4, Article 3.1.8, Article 3.4.3, Article 3.4.4, Article 3.5.1, Article 3.5.3, Article 3.6.2, Article 3.6.3, Article 3.7.3, Article 3.7.5, Article 3.8.1, Article 3.8.3, and Article 3.10.1 are amended.
- III. The comparison table for revised clauses is provided in the Attachment.

## Comparison Table of Revision of Rules

### Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
1.4 The unit responsible for the maintenance of the Principles is the Finance Department and the unit responsible for management is the Administration Department.	1.4 The unit responsible for the maintenance and management of the Principles is the Administration Department.	The Finance Department was assigned the task of processing related corporate governance affairs on November 15, 2018. Therefore, the unit responsible for maintenance of the Principles is the Finance Department.
2.2 Establishment of the internal control system The Company shall establish an effective internal control system based on the Company and its subsidiary companies' overall operation activities in accordance with the Regulations Governing Establishment of Internal Control Systems by Public Companies. The Company shall conduct reviews at any time to respond to changes in the Company's internal and external environment as well as to ensure that the system design and implementation remain effective.  The Company's Board of Directors and management shall review the results of self-assessment of each unit and the audit reports at least once each year. With respect to internal control system reviews, Directors shall meet regularly with internal audit personnel and keep	2.2 Establishment of the internal control system The Company shall establish an effective internal control system based on the Company and its subsidiary companies' overall operation activities in accordance with the Regulations Governing Establishment of Internal Control Systems by Public Companies. The Company shall conduct reviews at any time to respond to changes in the Company's internal and external environment as well as to ensure that the system design and implementation remain effective. <u>The establishment and revision of the internal control system must be approved by at least one half of all members of the Audit Committee and submitted to the Board of Directors for resolution.</u> The results of self-assessment of each unit and the audit reports shall be reviewed at least once each year. With respect to internal control system reviews, Directors shall meet regularly with internal audit personnel and keep minutes of discussions, which shall be	Article 2.2 is revised in accordance with Article 3 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies": 1. Paragraph 2 of this Article specifies that the regulations in the Regulations Governing Establishment of Internal Control Systems by Public Companies shall apply which will include contents in Paragraph 3, Paragraph 6, and Paragraph 7. To make the Articles more concise, Paragraph 3, Paragraph 6, and Paragraph 7 are deleted. 2. The Company amended Paragraph

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p>minutes of discussions, which shall be followed up and used to implement improvements. They shall also be reported to the Board of Directors. <u>The Company is advised to establish channels and mechanisms of communication between the Audit Committee and chief internal auditors. The convener of the Audit Committee shall also report on the status of communication with the internal audit manager in the shareholders' meeting.</u></p> <p>In addition to fully implementing the self-assessments in the internal control system, the Company's management shall respect the internal audit unit and personnel and grant them sufficient authority and oversight so that they may perform effective inspections and assessments of the internal control system and measure operational efficiency in order to ensure the continuing effective operation of the system, assist the Board of Directors and management in fully performing their duties, and implement the Company's corporate governance.</p>	<p>followed up and used to implement improvements. They shall also be reported to the Board of Directors. <u>The evaluation of the effectiveness of the internal control system must be approved by at least one half of all members of the Audit Committee and submitted to the Board of Directors for resolution.</u></p> <p>In addition to fully implementing the self-assessments in the internal control system, the Company's management shall respect the internal audit unit and personnel and grant them sufficient authority and oversight so that they may perform effective inspections and assessments of the internal control system and measure operational efficiency in order to ensure the continuing effective operation of the system, assist the Board of Directors and management in fully performing their duties, and implement the Company's corporate governance.</p> <p><u>To ensure the internal control system is effectively implemented, strengthen the professional abilities of the deputy of the internal auditor, and further improve and maintain the quality and implementation outcomes of internal audits, the Company shall appoint a deputy to act on behalf of internal auditing personnel.</u></p>	<p>3 of this Article to ensure information transparency and let shareholders learn about the status of communication between the Audit Committee and the internal audit manager. The Company is advised to establish channels and mechanisms of communication and the convener of the Audit Committee shall report to the shareholders' meeting.</p> <p>3. Paragraph 5 of this Article is added to enhance the independence of internal audit.</p>

## Comparison Table of Revision of Rules

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p><u>The appointment, dismissal, performance evaluation, and remuneration of the Company's auditors shall be processed in accordance with the Company's internal control system. The appointment and dismissal of the chief auditor shall require the approval of the Board of Directors. If there is any objection or reservation from an independent director, it should be clearly recorded in the minutes of the board meeting.</u></p>	<p><u>Article 11, Paragraph 6 of the Regulations Governing Establishment of Internal Control Systems by Public Companies regarding the criteria of internal auditors, Article 16, Article 17, and Article 18 shall apply mutatis mutandis to the deputy specified in the preceding paragraph.</u></p>	
<p>2.3 The Company shall designate a corporate governance officer as the highest-ranking officer responsible for related corporate governance affairs. The officers shall be required to have obtained attorney or accountant licenses or work experience in the securities, financial or futures management field or served in a management role in the legal affairs, finance, stock affairs, or related corporate governance units of a public company for more than three years. The corporate governance matters specified in the preceding paragraph shall include at least the following content:</p>	<p>2.3 The Company may set up a full-time (part-time) unit or personnel to take charge of corporate governance related matters which shall be supervised by the Vice President of the Department based on the duties of each Department.</p> <p>The corporate governance matters specified in the preceding paragraph should include at least the following content:</p>	<p>Article 2.3 is revised in accordance with Article 3 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies":</p> <p>1. Paragraph 1 of this Article is amended in accordance with Article 20, Paragraph 3 of the "Operation Directions for Compliance with the Establishment of Board of Directors</p>

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p>(1) Execute related affairs for the Board of Directors meetings and shareholders' meetings.</p> <p>(2) Produce meeting minutes for the meetings of the Board of Directors and shareholders' meetings.</p> <p>(3) Assist the Directors in taking office and continuing education.</p> <p>(4) Provide Directors with information required for the execution of businesses.</p> <p>(5) Assist the Directors in regulatory compliance.</p> <p>(6) Other matters set forth in the Company's Articles of Incorporation or contracts.</p>	<p><u>(1) Company registration and change registration.</u></p> <p>(2) Execute related affairs for the Board of Directors meetings and shareholders' meetings <u>and assist the Company in compliance with laws and regulations governing such meetings.</u></p> <p>(3) Produce meeting minutes for the meetings of the Board of Directors and shareholders' meetings.</p> <p>(4) Provide Directors with information required for the execution of businesses <u>and the latest regulatory development for the operations of the Company to help Directors with regulatory compliance.</u></p> <p><u>(5) Matter related to investor relations.</u></p> <p>(6) Other matters set forth in the Company's Articles of Incorporation or contracts.</p>	<p>by TWSE Listed Companies and the Board's Exercise of Powers" to implement corporate governance and improve the performance of the Board of Directors.</p> <p>2. Paragraph 2 of this Article is amended in accordance with Article 21, Paragraph 1 of the "Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers".</p>
<p>3.1.3 The Company's Board of Directors shall properly arrange shareholders' meetings and proceedings, establish principles and operating procedures for shareholders' nomination of Directors and filing proposal in shareholders' meetings. It shall also process proposals filed by shareholders in accordance with laws in an appropriate manner. Shareholders' meeting should be</p>	<p>3.1.3 The Company's Board of Directors shall properly arrange shareholders' meetings and proceedings, establish principles and operating procedures for shareholders' nomination of Directors and filing proposal in shareholders' meetings. It shall also process proposals filed by shareholders in accordance with laws in an appropriate manner. Shareholders' meeting should be</p>	<p>Paragraph 2 of this Article is revised in accordance with Article 6 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" and Article 1.3 of the Corporate Governance Evaluation Indicators.</p>

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p>organized at locations with convenient access. The Company shall set aside sufficient time and assign suitable and sufficient personnel to the registration procedures. With regard to the certification documents for shareholders' attendance, the Company may not arbitrarily request shareholders to present other additional certification documents. In addition, it shall also set aside reasonable time to discuss meetings and provide shareholders with appropriate opportunities to speak.</p> <p>Shareholders meetings convened by the Board of Directors should be chaired by the Chairman in person, attended by more than half of the board (including at least one independent director) <u>and the convener of the Audit Committee</u> in person, and attended by at least one representative member of each of the <u>other</u> functional committee. In addition, a record of attendance shall be made in the minutes of the shareholders' meeting.</p>	<p>organized at locations with convenient access. The Company shall set aside sufficient time and assign suitable and sufficient personnel to the registration procedures. With regard to the certification documents for shareholders' attendance, the Company may not arbitrarily request shareholders to present other additional certification documents. In addition, it shall also set aside reasonable time to discuss meetings and provide shareholders with appropriate opportunities to speak.</p> <p>Shareholders meetings convened by the Board of Directors should be chaired by the Chairman in person, attended by more than half of the board (including at least one independent director) in person, and attended by at least one representative member of <u>each</u> functional committee. In addition, a record of attendance shall be made in the minutes of the shareholders' meeting.</p>	
<p>3.1.4 The Company shall encourage shareholders to participate in corporate governance and appoint a professional stock affairs agency to take charge of affairs related to shareholders' meetings to ensure shareholders' meetings are convened under legal, valid and secure conditions. The Company shall use all methods and measures available and fully adopt technology for information disclosure to</p>	<p>3.1.4 The Company shall encourage shareholders to participate in corporate governance and appoint a professional stock affairs agency to take charge of affairs related to shareholders' meetings to ensure shareholders' meetings are convened under legal, valid and secure conditions. The Company shall use all methods and measures available <u>and</u> fully adopt technology for information</p>	<p>Article 3.1.4 is revised in accordance with Article 7 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies":</p> <p>1. A listed company with a paid-in capital of more than NT\$10 billion or foreign</p>

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p><u>simultaneously upload the Annual Report and Financial Report in Chinese and English, shareholders' meeting notices, meeting manual, and supplemental meeting information and adopt electronic voting to increase shareholder attendance rates at shareholder meetings and to ensure that shareholders may exercise their rights at such meetings in accordance with the law.</u></p> <p>The Company adopts the candidate nomination system for the election of Directors. <u>The Company is advised to avoid raising extempore motions or amending original proposals.</u></p> <p>The Company is advised to arrange for their shareholders to vote on each separate proposal in the shareholders' meeting agenda, and to, on the same day following conclusion of the meeting, enter the voting results (namely the numbers of votes cast for and against and the number of abstentions) into the Market Observation Post System.</p>	<p>disclosure <u>and voting</u> to upload shareholders' meeting notices, meeting manual, and supplemental meeting information to increase shareholder attendance rates at shareholder meetings and to ensure that shareholders may exercise their rights at such meetings in accordance with the law.</p> <p>The Company adopts the candidate nomination system for the election of Directors. The Company <u>employs electronic voting</u> at shareholders' meetings and it is therefore advisable to avoid raising extempore motions or amending original proposals.</p> <p>The Company is advised to arrange for their shareholders to vote on each separate proposal in the shareholders' meeting agenda, and to, on the same day following conclusion of the meeting, enter the voting results (namely the numbers of votes cast for and against and the number of abstentions) into the Market Observation Post System.</p> <p><u>The Company may not offer preferential treatment or discrimination if it distributes souvenirs for shareholders' meetings to shareholders.</u></p>	<p>capital shareholding ratio over 30% shall publish English versions of the Procedures Manual and supplemental information of the meetings, annual reports, and annual financial reports. Therefore, wording in Paragraph 1 of this Article is amended.</p> <p>2. The competent authority required all TWSE/TPEX-listed companies to fully adopt electronic voting for shareholders' meeting starting from 2018. Wording in Paragraph 1 and Paragraph 2 of this Article is therefore amended.</p> <p>3. Article 11 of the "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies" already stipulates related contents regarding the issuance of souvenirs for shareholders' meetings. Therefore,</p>

### Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
		Paragraph 4 of this Article is deleted.
<p>3.1.8 Shareholders have the right to share the Company's earnings. In order to protect the investment interests of shareholders, the shareholder meetings may, pursuant to Article 184 of the Company Act, examine the records and books prepared and submitted by the Board of Directors and decide profit distributions or loss makeup plans by resolution. The shareholders' meeting may appoint an examiner to conduct the aforementioned examination.</p> <p>Shareholders may also petition to the court to assign an examiner in accordance with Article 245 of the Company Act to inspect the Company's business records, <u>assets, or document and record of a particular transaction of the company.</u></p> <p>The Board of Directors and managerial officers shall fully cooperate in the examination conducted by the examiners without <u>any evasion, obstruction, or refusal.</u></p>	<p>3.1.8 Shareholders have the right to share the Company's earnings. In order to protect the investment interests of shareholders, the shareholder meetings may, pursuant to Article 184 of the Company Act, examine the records and books prepared and submitted by the Board of Directors and decide profit distributions or loss makeup plans by resolution. The shareholders' meeting may appoint an examiner to conduct the aforementioned examination.</p> <p>Shareholders may also petition to the court to assign an examiner in accordance with Article 245 of the Company Act to inspect the Company's business records <u>and</u> assets.</p> <p>The Board of Directors and managerial officers shall fully cooperate in the examination conducted by the examiners without <u>any obstruction, refusal or evasion</u></p>	<p>Article 3.1.8 is amended in accordance with Article 11 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies":</p> <p>Paragraph 2 and 3 of this Article are amended in accordance with regulations regarding inspectors in Article 245 of the Company Act.</p>
<p>3.4.3 The Company follows the regulations in the Company Act and specifies the candidate nomination system for the election of Directors in the Articles of Incorporation. <u>It shall carefully review</u> the qualifications of the nominees and whether any of them exhibit circumstances as prescribed in Article 30 of the Company Act. <u>The process shall be completed in accordance with Article 192-1 of the</u></p>	<p>3.4.3 The Company follows the regulations in the Company Act and specifies the candidate nomination system for the election of Directors in the Articles of Incorporation. It also specifies the qualifications, <u>academic and experience information of the candidates for Directors recommended by shareholders or Directors</u> and whether any of them exhibit circumstances as prescribed in</p>	<p>Article 3.4.3 is amended in accordance with Article 22 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies":</p> <p>According to the simplified nomination procedures for</p>

## Comparison Table of Revision of Rules

### Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<u>Company Act.</u>	Article 30 of the Company Act. <u>The Company may not arbitrarily add requirements for documentation of other qualifications. The results of the review shall be submitted to shareholders for their reference in selecting the suitable Directors. Before the Board of Directors proposes the list of candidates for Directors, it shall carefully review the qualifications listed in the preceding paragraph and the candidates' willingness to serve as a Director once elected.</u>	shareholders in Article 192-1, Paragraph 4 of the Company Act amended and promulgated on August 1, 2018, the inclusion of a candidate on the list of candidates of Directors shall also be determined Paragraph 5 of the same Article and the Company shall not request the Board of Directors or other individuals with convening rights to review the nominee. Therefore, Paragraph 1 of this Article is amended and Paragraph 2 is deleted.
3.4.4 The responsibilities of the Company's Chairman and President shall be clearly divided. The Chairman <u>and</u> President should not be the same individual. Where the Chairman <u>and</u> President are the same individual, spouses, or relatives within the first degree of <u>kinship</u> , the Company <u>should</u> appoint additional Independent Directors <u>and more than half of the Directors should not be comprised of employees or managerial officers.</u> When the Company establishes functional committees, they shall assign specific duties to them.	3.4.4 The responsibilities of the Company's Chairman and President shall be clearly divided. The Chairman <u>and</u> President should not be the same individual. Where the Chairman <u>and</u> President <u>are</u> the same individual, spouses, or relatives within the first degree of kinship, the Company <u>should</u> appoint additional Independent Directors.  When the Company establishes functional committees, they shall assign specific duties to them.	Article 3.4.4 is amended in accordance with Article 23 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies": The Company amended Paragraph 2 of this Article to clearly separate the powers of the Chairman and President and strengthen the independence of the Board of Directors.

## Comparison Table of Revision of Rules

### Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
		Where the Chairman and President is the same person, or are spouses or first-degree relatives, the Board of Directors should add independent directors and not have a majority of the directors consisting of employees or managerial officers.
<p>3.5.1 The Company may appoint more than three Independent Directors in accordance with the Articles of Incorporation. The number of Independent Directors shall not be lower than 1/5 of all Directors. Independent Directors shall possess professional knowledge and there shall be restrictions on their shareholding status. Unless otherwise provided by laws and regulations, Independent Directors should not hold offices concurrently as a director (including as an independent director) or supervisor of more than five other TWSE/TPEX listed companies. Independent directors shall also maintain independence within the scope of their directorial duties and may not have any direct or indirect interest in the Company.</p>	<p>3.5.1 The Company may appoint more than three Independent Directors in accordance with the Articles of Incorporation. The number of Independent Directors shall not be lower than 1/5 of all Directors. Independent Directors shall possess professional knowledge and there shall be restrictions on their shareholding status. Unless otherwise provided by laws and regulations, Independent Directors should not hold offices concurrently as a director (including as an independent director) or supervisor of more than five other TWSE/TPEX listed companies. Independent directors shall also maintain independence within the scope of their directorial duties and may not have any direct or indirect interest in the Company.</p> <p><u>The election of Independent Directors of the Company shall be based on the candidate nomination system stipulated in Article 192-1 of the Company Act and it shall be specified in the Articles of</u></p>	<p>Article 3.5.1 is amended in accordance with Article 24 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies":</p> <p>Paragraph 8 of this Article includes content in Paragraph 3 and Paragraph 7. To make the articles more concise, Paragraph 3 and Paragraph 7 are deleted.</p>

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p>Where the Company and the group enterprise or organization and another company in another group enterprise or organization nominate a Director to each other's Board or where Supervisors or managerial officers are candidates for Independent Directors, the Company shall disclose such information when processing the nomination of the Independent Director and describe the qualifications of the candidate for Independent Directors. The number of votes received by candidates elected as Independent Directors shall be disclosed.</p> <p>The group enterprises and organization specified in the preceding paragraph include the Company's subsidiaries, any foundation to which the Company's direct or indirect contribution of funds exceeds 50% of the total funds received, and other institutions or legal entities that are substantially controlled by the Company.</p> <p>Independent or non-independent directors are not allowed to change their independent/non-independent status during their tenure.</p>	<p><u>Incorporation. Shareholders shall elect independent directors from the list of candidates. According to Article 198 of the Company Act, independent and non-independent directors shall be elected concurrently and the seats shall be calculated separately.</u></p> <p>Where the Company and the group enterprise or organization and another company in another group enterprise or organization nominate a Director to each other's Board or where Supervisors or managerial officers are candidates for Independent Directors, the Company shall disclose such information when processing the nomination of the Independent Director and describe the qualifications of the candidate for Independent Directors. The number of votes received by candidates elected as Independent Directors shall be disclosed.</p> <p>The group enterprises and organization specified in the preceding paragraph include the Company's subsidiaries, any foundation to which the Company's direct or indirect contribution of funds exceeds 50% of the total funds received, and other institutions or legal entities that are substantially controlled by the Company.</p> <p>Independent or non-independent directors are not allowed to change their independent/non-independent status during their tenure.</p> <p><u>When the number of independent</u></p>	

### Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p>The professional qualifications, restrictions on shareholding and concurrent employment, determination of independence, method of nomination and other requirements for independent directors shall be governed by the Securities and Exchange Act, Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies, and regulations of Taiwan Stock Exchange.</p>	<p><u>directors falls below that prescribed in the Paragraph 1 or the Articles of Incorporation due to the dismissal of an independent director, a by-election to fill the vacancy should ideally be held at the next shareholders' meeting. When the Independent Directors are dismissed en masse, a special shareholders meeting shall be called within 60 days from the date of occurrence to hold a by-election to fill the vacancies.</u></p> <p>The professional qualifications, restrictions on shareholding and concurrent employment, determination of independence, method of nomination and other requirements for independent directors shall be governed by the Securities and Exchange Act, Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies, and regulations of Taiwan Stock Exchange.</p>	
<p>3.5.3 The Company and other members of the Board of Directors may not obstruct, <u>refuse, or deny</u> Independent Directors in their performance of <u>business</u>. The Company shall determine the remuneration of Directors according to the related regulations and it may establish a separate but reasonable set of remuneration rules for Independent Directors.</p>	<p>3.5.3 The Company and other members of the Board of Directors may not <u>restrict or</u> obstruct Independent Directors in their performance of <u>duties</u>. The Company shall determine the remuneration of Directors according to the related regulations and it may establish a separate but reasonable set of remuneration rules for Independent Directors.</p>	<p>Article 3.5.3 is amended in accordance with Article 26 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" and Article 14-2 of the Securities and Exchange Act.</p>
<p>3.6.2 The Audit Committee shall be composed of all the Independent</p>	<p>3.6.2 The Audit Committee shall be composed of all the Independent</p>	<p>Article 3.6.2 is amended in</p>

## Comparison Table of Revision of Rules

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p>Directors. It shall have at least three committee members and one of them shall serve as the convener. At least one of the members shall have accounting or financial expertise.</p>	<p>Directors. It shall have at least three committee members and one of them shall serve as the convener. At least one of the members shall have accounting or financial expertise.</p> <p><u>Regulations in the Securities and Exchange Act, Company Act, and the regulations regarding supervisors shall apply mutatis mutandis to the Audit Committee. The following items must be approved by at least one half of all members of Audit Committee and submitted to the Board of Directors for resolution. Article 3.5.2 of the Best Practice Principles shall not be applicable.</u></p> <p><u>(1) Establishment or amendments to the internal control system according to Article 14-1 of the Securities and Exchange Act.</u></p> <p><u>(2) Evaluation of the effectiveness of internal control policies.</u></p> <p><u>(3) Establishment or amendments to asset acquisition/disposal procedures, derivative trading procedures, procedures on loans to others, endorsement and guarantee procedures, and other procedures of major financial consequences as specified in Article 36-1 of the Securities and Exchange Act.</u></p> <p><u>(4) Matters concerning the personal interests of directors.</u></p> <p><u>(5) Material asset transactions or derivatives.</u></p> <p><u>(6) Material loaning of funds, making of endorsements or provision of guarantees.</u></p> <p><u>(7) Offering, issuance, or private</u></p>	<p>accordance with Article 28 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies":</p> <p>The exercise of the powers of the Audit Committee and the duties of the Independent Directors and related provisions are established in Paragraph 4 of this Article and they shall be complete in accordance with related regulations. Paragraph 2 and Paragraph 3 are deleted to make the articles more concise.</p>

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p>The exercise of the powers of the Audit Committee and the duties of the Independent Directors and related provisions shall be processed in accordance with the Securities and Exchange Act, Regulations Governing the Exercise of Powers by Audit Committees of Public Companies, and regulations of Taiwan Stock Exchange.</p>	<p><u>placement of securities with equity characteristics.</u>  <u>(8) Appointment, dismissal, or compensation of the certifying CPAs.</u>  <u>(9) Appointment and removal of the financial, accounting, or internal auditing officers.</u>  <u>(10) Annual financial reports and semi-annual financial reports;</u>  <u>(11) Other major items required by the Company or the competent authority.</u></p> <p>The exercise of the powers of the Audit Committee and the duties of the Independent Directors and related provisions shall be processed in accordance with the Securities and Exchange Act, Regulations Governing the Exercise of Powers by Audit Committees of Public Companies, and regulations of Taiwan Stock Exchange.</p>	
<p>3.6.3 The Company has established a Remuneration Committee <u>and more than half of the member should consist of Independent Directors.</u> Their professional qualifications of the members, exercise of powers, establishment of its organization structure, and related items shall be processed in accordance with the “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter” and the Company’s Charter of the Remuneration Committee.</p>	<p>3.6.3 The Company has established a Remuneration Committee and the professional qualifications of the <u>members</u>, exercise of powers, establishment of its organization structure, and related items shall be processed in accordance with the “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter” and the Company’s Charter of the Remuneration Committee.</p>	<p>Article 3.6.3 is amended in accordance with Article 28-1 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies":</p> <ol style="list-style-type: none"> <li>1. Paragraph 1 of this Article is amended to continue to strengthen the independence of the Remuneration Committee.</li> <li>2. The exercise of the powers of the</li> </ol>

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
	<p><u>The Remuneration Committee shall exercise the care of a prudent manager to fulfill the duties specified in Article 2.4, Paragraph 1 of the Company's Charter of the Remuneration Committee and offer recommendations for discussion by the Board of Directors.</u></p> <p><u>The Remuneration Committee shall perform the aforementioned duties in accordance with Article 2.4, Paragraph 2 of the Company's Charter of the Remuneration Committee.</u></p>	<p>Remuneration Committee and the duties of the Independent Directors and related provisions are established in Paragraph 1 of this Article and they shall be complete in accordance with related regulations. Paragraph 2 is deleted to make the articles more concise.</p>
<p>3.7.3 For any decisions that need to be through a board meeting under Article 14-3 of the Securities and Exchange Act, the Independent Directors of the Company shall attend the meetings in person and they may not appoint non-independent directors as proxies. If there is any objection or reservation from an Independent Director, it should be clearly recorded in the minutes of the board meeting. If an Independent Director is unable to express objections or qualified opinions personally at the board meeting, the opinion shall be raised in writing in advance unless there is justifiable reason not to do so. Such opinions shall also be recorded in board meeting minutes. If the board resolution involves any of the following, the details of which shall be addressed in the meeting minutes and reported to the Market Observation Post System 2</p>	<p>3.7.3 For any decisions that need to be through a board meeting under Article 14-3 of the Securities and Exchange Act, the Independent Directors of the Company shall attend the meetings in person and they may not appoint non-independent directors as proxies. If there is any objection or reservation from an Independent Director, it should be clearly recorded in the minutes of the board meeting. If an Independent Director is unable to express objections or qualified opinions personally at the board meeting, the opinion shall be raised in writing in advance unless there is justifiable reason not to do so. Such opinions shall also be recorded in board meeting minutes. If the board resolution involves any of the following, the details of which shall be addressed in the meeting minutes and reported to the Market Observation Post System</p>	<p>Article 3.7.3 is amended in accordance with Article 33 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies":</p> <p>Paragraph 2 of this Article is amended in accordance with regulations of the Taiwan Stock Exchange regarding the disclosure and reporting of matters listed in Paragraph 2 of this Article on the Market Observation Post System.</p>

### Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p><u>hours</u> before trading commences on the business day after the board resolution is made:</p> <p>(1) Objections or qualified opinions expressed by Independent Directors on record or in writing.</p> <p>(2) Items that have not been approved by the Audit Committee shall require the approval of more than two-thirds of all Directors.</p> <p>During a board meeting, the Company may, based on the content of the agenda, notify managers of relevant departments who are not board members to attend the meeting as non-voting participants to report the Company's current business status and answer Directors' questions. Certified public accountants, lawyers, or other professionals may also be invited to participate in board meetings where necessary to help Directors understand situations and make decisions accordingly but they shall leave the meeting during discussions and votes.</p>	<p>before trading commences on the business day after the board resolution is made:</p> <p>(1) Objections or qualified opinions expressed by Independent Directors on record or in writing.</p> <p>(2) Items that have not been approved by the Audit Committee shall require the approval of more than two-thirds of all Directors.</p> <p>During a board meeting, the Company may, based on the content of the agenda, notify managers of relevant departments who are not board members to attend the meeting as non-voting participants to report the Company's current business status and answer Directors' questions. Certified public accountants, lawyers, or other professionals may also be invited to participate in board meetings where necessary to help Directors understand situations and make decisions accordingly but they shall leave the meeting during discussions and votes.</p>	
<p>3.7.5 The following issues shall be raised for discussion in board meetings of the Company:</p> <p>(1) The Company's Business Plan.</p> <p>(2) The Annual Financial Report.</p> <p>(3) Establishment or amendment to the internal control system <u>and review of its effectiveness</u>.</p> <p>(4) Establishment or amendments to asset acquisition/disposal procedures, derivative trading procedures, procedures on loans to others, endorsement and</p>	<p>3.7.5 The following issues shall be raised for discussion in board meetings of the Company:</p> <p>(1) The Company's Business Plan.</p> <p>(2) The Annual Financial Report.</p> <p>(3) Establishment or amendment of the Company's internal control system.</p> <p>(4) Establishment or amendments to asset acquisition/disposal procedures, derivative trading procedures, procedures on loans to others, endorsement and</p>	<p>Article 3.7.5 is amended in accordance with Article 35 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies":</p> <p>Subparagraph (3) and Subparagraph (8) of this Article are</p>

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p>guarantee procedures, and other procedures of major financial consequences.</p> <p>(5) Offering, issuance, or private placement of securities with equity characteristics.</p> <p>(6) Appointment and removal of the financial, accounting, or internal auditing officers.</p> <p>(7) Donations to related parties or major donations to non-related parties. However, in the event of a major natural disaster, emergency aids of charitable nature can be made first and ratified later in the next board meeting.</p> <p>(8) Decisions that shall be <u>resolved</u> through a shareholders' meeting or a board meeting according to Article 14-3 of the Securities and Exchange Act, the Articles of Incorporation or other laws, and any major issues prompted by the competent authority.</p> <p>Except for the items listed in the preceding paragraph that shall be resolved through a board meeting, the Board of Directors may authorize other parties to exercise duties on their behalf in manners that comply with laws and the Articles of Incorporation during periods where board meetings are not convened. In which case, the level, the extent and details of such authorization shall be clearly stated and general authorization may not be granted.</p>	<p>guarantee procedures, and other procedures of major financial consequences.</p> <p>(5) Offering, issuance, or private placement of securities with equity characteristics.</p> <p>(6) Appointment and removal of the financial, accounting, or internal auditing officers.</p> <p>(7) Donations to related parties or major donations to non-related parties. However, in the event of a major natural disaster, emergency aids of charitable nature can be made first and ratified later in the next board meeting.</p> <p>(8) Decisions that shall <u>be</u> resolved through a shareholders' meeting or a board meeting according to Article 14-3 of the Securities and Exchange Act, the Articles of Incorporation or other laws, and any major issues prompted by the competent authority.</p> <p>Except for the items listed in the preceding paragraph that shall be resolved through a board meeting, the Board of Directors may authorize other parties to exercise duties on their behalf in manners that comply with laws and the Articles of Incorporation during periods where board meetings are not convened. In which case, the level, the extent and details of such authorization shall be clearly stated and general authorization may not be granted.</p>	<p>amended in accordance with Article 7, Paragraph 1 of the Regulations Governing Procedure for Board of Directors Meetings of Public Companies.</p>
3.8.1 Board members shall perform duties and exercise due care of a	3.8.1 Board members shall perform duties and exercise due care of a	Article 3.8.1 is revised in accordance with

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p>prudent manager. They shall also exercise their powers with high levels of self-discipline and prudence. Business operations shall be executed pursuant to the resolutions to be adopted by the Board of Directors except for matters that require resolutions of the shareholders' meeting as specified in laws or the Articles of Incorporation of the Company.</p>	<p>prudent manager. They shall also exercise their powers with high levels of self-discipline and prudence. Business operations shall be executed pursuant to the resolutions to be adopted by the Board of Directors except for matters that require resolutions of the shareholders' meeting as specified in laws or the Articles of Incorporation of the Company. <u>Where resolution of the Board of Directors affects business development and material decisions, the Company shall carefully consider the implementation of the resolution. The resolution may not affect the advancement and operations of corporate governance.</u></p>	<p>Article 37 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies":  Paragraph 1 of this Article includes content in Paragraph 2 which is therefore deleted.</p>
<p>3.8.3 The Company <u>shall</u> take out liability insurance for its Directors to cover their terms of service based on the compensation liabilities associated with their business liabilities to reduce and diversify the risk of any material damages to the Company and its shareholders caused by any error or negligence of its Directors.  The Company <u>shall</u> report the insured amount, coverage, premium rate, and other major contents of the liability insurance it has <u>purchased</u> or renewed for Directors at the next board meeting.</p>	<p>3.8.3 The Company <u>may purchase</u> liability insurance for its Directors to cover their terms of service based on the compensation liabilities associated with their business liabilities to reduce and diversify the risk of any material damages to the Company and its shareholders caused by any error or negligence of its Directors.  The Company <u>is advised to report</u> the insured amount, coverage, premium rate, and other major contents of the liability insurance it has <u>purchased</u> or renewed for Directors at the next board meeting.</p>	<p>Article 3.8.3 is amended in accordance with Article 39 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies":  This Article is amended in accordance with the requirements for directors' liability insurance in Article 193-1 of the Company Act to allow Directors to dedicate their full attention to their duties and maximize benefits for shareholders.</p>

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p>3.10.1 Disclosure of information is one of the Company's key responsibilities and Company shall be performed with due diligence in accordance with applicable laws, and the regulations of the Taiwan Stock Exchange Corporation and Taipei Exchange.</p> <p><u>The Company should report the financial reports for the first, second, and third quarters, annual financial reports, and monthly operations before the specified deadline.</u></p> <p>The Company shall establish an online reporting system for information disclosure and assign designated personnel to be responsible for the collection and disclosure of data. The Company shall appoint a spokesperson to ensure that information which may have an impact on the decision-making processes of shareholders and stakeholders is disclosed in a timely and appropriate manner.</p>	<p>3.10.1 Disclosure of information is one of the Company's key responsibilities and Company shall be performed with due diligence in accordance with applicable laws, and the regulations of the Taiwan Stock Exchange Corporation and Taipei Exchange.</p> <p>The Company shall establish an online reporting system for information disclosure and assign designated personnel to be responsible for the collection and disclosure of data. The Company shall appoint a spokesperson to ensure that information which may have an impact on the decision-making processes of shareholders and stakeholders is disclosed in a timely and appropriate manner.</p>	<p>Article 3.10.1 is amended in accordance with Article 55 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies":</p> <p>Paragraph 2 of this Article is added to allow shareholders to gain information on quarterly and annual financial reports as well as financial information in monthly operations for use in their decisions.</p>

## **Chapter 3 Ratifications and discussions**

### **Agenda item #1**

### **Proposed by the Board of Directors**

Agenda: Ratification of the company's 2018 business report and financial statements.

Explanation: The Company's 2018 Individual Financial Statements and Consolidated Financial Statements have been audited and certified by CPAs Jui-Hsuan Hsu and Yu-Hsiang Liu of Deloitte, Taiwan. The Audit Committee submitted the Audit Report which found them to be compliant with regulations.

Resolution:

## **2018 Business Report**

### **(I) Business policies**

Vision: Chung Hung maintains ethical business operations and strives to become a sustainable, reliable, and approachable steel company.

Philosophy: Flexibility in response to changes, streamlined efficiency, development of niches, and value creation

Tangible actions: ◎Make full use of resources and equipment production capacity;

◎Flexible production and sales to reduce lead time;

◎Diverse career development to pass on knowledge;

◎Ensure environmental protection and occupational safety and fulfill social responsibilities.”

### **(II) Implementation overview**

1. The Company's consolidated operating revenue in 2018 was NT\$48.239 billion which was an increase of approximately 18.26% from the operating revenue of NT\$40.792 billion in 2017. Consolidated operating costs and consolidated operating expenses totaled NT\$45.363 billion which was a 18.69% increase from NT\$38.219 billion in 2017.
2. The following new products were developed in 2018: Development of hot-rolling SAE4130 products, hot-rolling QStE380TM products, development of cold-rolling SPCC-1D, and development of hot-dipped galvanized steel plates for the bottom of containers.
3. The Company continues to update various plant equipment, make improvements, and optimize the process control system to improve product quality and grade and expand the variety of steel types for production. The specific accomplishments in 2018 are as follows:
  - (1)Improvements in crowning of hot-rolling fineblanking materials.
  - (2)Continuous improvement for drilling marks cold-rolled fineblanking materials.
  - (3)Improvement of continuous scratch marks on the surface of pickled steel rolls of the Pickling and Galvanizing Department.
  - (4)Improvement for spark marks on pickled steel coils in the Pickling and Galvanizing Department.

4. The Company implements occupational safety systems such as OHSAS 18001 and TOSHMS and it received the following honors from related agencies for its outstanding performance:

(1)The Hot Rolling Department was recognized as an “Outstanding Unit in the Advancement of Occupational Safety and Health in Kaohsiung City in 2017” and received the “Five-Star Award” as a “2017 Outstanding Occupational Safety and Health Unit” from the Ministry of Labor, Executive Yuan on September 5, 2018.

(2)The engineer Meng-Pin Lin of the Hot Rolling Department was recognized as an “Outstanding Employee in the Advancement of Occupational Safety and Health in Kaohsiung City in 2017” and received the “2017 Outstanding Occupational Safety and Health Employee Award” from the Ministry of Labor, Executive Yuan on September 5, 2018.

(3)Lukang Steel Pipe Plant received the “Excellence Award” for safety and health performance in 2017 from Taiwan Steel & Iron Industries Association on October 31, 2018.

5. The Company implements ISO 14001 and ISO 50001 to strengthen environment and energy management, actively conserve energy and reduce waste, and fulfill its corporate social responsibilities. It received recognition for inter-department greenhouse gas reduction and cooperation program in 2018 from the Environmental Protection Bureau of Kaohsiung City Government.

6. Certifications:

(1)The Hot Rolling Department and Dafa Steel Pipe Plant passed the three-year extension of the JIS Mark certification.

(2)The Hot Rolling Department, Cold Rolling Department, Dafa Steel Pipe Plant, and Lukang Steel Pipe Plant passed ISO 14001: 2015 certification review.

(3)Lukang steel pipe plant passed ISO 50001 certification.

(4)Lukang steel pipe plant obtained JIS Mark Certification.

(5)Awarded the silver medal certification in the Talent Quality-management System (TTQS) of the Ministry of Labor.

(6)The Company received the “Authorized Economic Operator” (AEO) certification from the Customs Administration of the Ministry of Finance.

### **(III) Business plan implementation results**

1. Production plan implementation status:

Steel demand has continued to increase in the first three quarters of 2018 due to the status of supply and demand on the international market but a decline became apparent in the fourth quarter. The Company adjusted its production and sales plan in response

and the product output compared to the previous year is listed as follows:

Item \ Year	2018 production (10,000 tons)	2017 production (10,000 tons)	Difference (10,000 tons)	Difference %
Hot-rolled products	225.25	223.46	1.79	0.80%
Cold-rolled products	39.98	40.25	-0.27	-0.67%
Steel pipe products	17.40	13.10	4.30	32.82%
Galvanized products	2.86	3.16	-0.30	-9.49%
<b>Total</b>	285.49	279.97	5.52	1.97%

## 2.Sales plan implementation status:

The price of steel products has continued to recover due to the reduced supply in the global steel market in 2018. Demand continues to grow but the increase in material prices and adjustments in upstream suppliers' production and sales contributed to the consolidated sales volume of 2.4793 million tons in 2018 which was a 6.73% increase from 2017.

## (IV) Analysis of operating income/expenses and profitability

The after-tax net profit was NT\$3.033 billion in 2018. The operating revenue/expenses and profitability are as follows:

### 1.Revenue:

The Company's consolidated operating revenue in 2018 was NT\$48.239 billion which was an increase of approximately 18.26% from the operating revenue of NT\$40.792 billion in 2017.

### 2.Expenditures:

The Company's consolidated operating costs and consolidated operating expenses in 2018 totaled NT\$45.363 billion which was a 18.69% increase from NT\$38.219 billion in 2017.

### 3.Profitability:

The increase in sales price in 2018 was greater than the increase in costs and it increased pre-tax profit by NT\$427 million from 2017.

## (V) Research and development status

The Company continues to update the hot rolling, cold rolling, galvanized products, and steel pipe equipment, refine the process, and advance personal quality accountability to

improve product quality. It also actively expands the product line and seeks to develop high add-value products with steel slab suppliers to improve the Company's overall competitiveness. The Company's material R&D and improvement in 2018 were as follows:

1.Product development:

Development of hot-rolling SAE4130 products, hot-rolling QStE380TM products, development of cold-rolling SPCC-1D, and development of hot-dipped galvanized steel plates for the bottom of containers.

2.Product improvement:

Improved the break-off rust on hot-rolled API steel pipe materials, continuous improvement for tail stamp marks on hot-rolled coils, continuous improvement for rust on high-quality PO materials, improvement for crowning on hot-rolled fineblanking materials, improvement for hot-rolled coiling form, continuous improvement for cold-rolled fineblanking drilling marks, continuous improvement for tearing of adhesives on cold-rolled products, improvement of cleanliness on cold-rolled steel coils, improvement of external press marks on cold-rolled products, improvement of continuous scratch marks on the surface of pickled steel rolls of the Pickling and Galvanizing Department, and improvement for spark marks on pickled steel coils in the Pickling and Galvanizing Department.

3.Process research and improvement:

Establishment of the technology for controlling the difference in thickness of hot-rolling fineblanking materials.

4.Equipment technology establishment:

Establishment of horizontal setting technologies of the hot-rolling finishing mill, replacement of tube and skids in the No.1 furnace boiler, update of No. 1 cold-rolling product line equipment, replacement of air compressor for cold-rolling, replacement and update of the cleaning tank on the cold-rolling pickling line, replacement and update of the deviation correction system on the tension leveler for cold-rolling, installation of the welding brush roller at the exit of the pickling and galvanizing CPL welding machine, update of the pickling CGL galvanizing and film machine, energy efficiency improvement of the pickling and galvanizing chiller machine room, increase in the speed of the No. 1 process in Lukang Plant, supplementary welding for incomplete welding during outages to reduce wear for the production of steel pipes, establishment

of heat treatment simulation and test capabilities for the production of steel pipes, and additional crane for Building Q in the storage area in Lukang Plant.

Chairman: I-Chung Han

Managerial Officer: Tsung-Chang Lee

Chief Accounting Officer: Pei-Yu Lee

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and the shareholders  
Chung Hung Steel Corporation

### **Opinion**

We have audited the accompanying standalone financial statements of Chung Hung Steel Corporation (the "Corporation"), which comprise the standalone balance sheets as of December 31, 2018 and 2017, and the standalone statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the standalone financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying standalone financial statements present fairly, in all material respects, the standalone financial position of the Corporation as of December 31, 2018 and 2017, and its standalone financial performance and its standalone cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### **Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the standalone financial statements section of our report. We are independent of the Corporation in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter**

As disclosed in Note 3 to the standalone financial statements, in 2018 the Corporation adopted the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the FSC.

As disclosed in Note 15 to the standalone financial statements, in 2018 the Corporation merged the subsidiary Hung Li Steel Corporation, which is classified as structure reorganizations under joint control, pursuant to EITF 101-301 of the Accounting Research and Development Foundation, R.O.C. and questions and answers of IFRSs issued by Accounting Research and Development Foundation, R.O.C. In the comparative financial statements are regarded it as the initial merger and restating the prior years' standalone financial statements. Our opinion is not modified in respect of this matter.

### **Key Audit Matters**

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

Key audit matters for the Corporation's standalone financial statements for the year ended December 31, 2018 are stated as follows:

#### Measurement of Inventories

Inventories are one of the significant assets in the balance sheet. As of December 31, 2018 the carrying amount

of inventories held by the Corporation, amounted to NT\$8,240,151 thousand, which accounted for 25% of total assets. Due to the fluctuations in the prices of raw materials and finished goods in steel industry and due to the use of accounting estimates, inventory valuation is deemed to be a key audit matter.

For the accounting policies on inventories and critical accounting estimates and judgments on inventories, refer to Note 4 and Note 5 to the standalone financial statements, respectively.

We focused on the inventory valuation, including valuation of obsolete inventory and the measurement of inventories. Our main audit procedures performed included the following:

1. We observed year-end inventory counts and assessed the condition of inventory to evaluate the adequacy of inventory provisions for obsolete goods;
2. We obtained the year-end inventory aging profile and tested whether its accuracy based on supporting documents and we evaluated the provision for slow-moving and obsolete inventory was made according to the Corporation's policy;
3. We evaluated the appropriateness of the methodology used to value the inventory at the year end.
4. We checked the calculation of inventory provisions, the market value of inventory from supporting documentation and the amounts of inventory.

### **Responsibilities of Management and Those Charged with Governance for the Standalone Financial Statements**

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

In preparing the standalone financial statements, management is responsible for assessing the 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 Corporation, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Corporation's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the standalone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 standalone financial statements.

As part of an audit in accordance with the 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 standalone 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 Corporation'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 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 auditors' report to the related disclosures in the standalone 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 auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone 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 entities or business activities within the Corporation to express an opinion on the standalone financial statements. We are responsible for the direction, supervision, and performance of the Corporation audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' 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 auditors' report are Jui-Hsuan Hsu and Yu-Hsiang Liu.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 19, 2019

Notice to Readers

*The accompanying standalone financial statements are intended only to present the standalone financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such standalone financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying standalone financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and standalone financial statements shall prevail.*

# CHUNG HUNG STEEL CORPORATION

## STANDALONE BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2018		December 31, 2017		LIABILITIES AND EQUITY	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash (Notes 4 and 6)	\$ 195,675	1	\$ 214,788	1	Short-term borrowings (Notes 18, 30 and 31)	\$ 6,381,773	19	\$ 7,464,815	24
Financial assets at fair value through profit or loss - current (Notes 3, 4 and 7)	217,281	1	215,464	1	Short-term bills payable (Note 18)	3,198,953	10	669,849	2
Financial assets at fair value through other comprehensive income - current (Notes 3,4 and 8)	802,899	2	-	-	Contract liabilities - current (Notes 3, 4, 13 and 23)	96,445	-	-	-
Available-for-sale financial assets - current (Notes 3, 4 and 9)	-	-	819,454	3	Accounts payable (Note 19)	45,304	-	56,160	-
Accounts receivable (Notes 4, 10 and 23)	948,932	3	1,291,784	4	Accounts payable to related parties (Notes 19 and 30)	595,764	2	1,219,265	4
Accounts receivable from related parties (Notes 4, 10, 23 and 30)	183,440	-	168,187	-	Other payables (Note 20)	1,013,366	3	874,129	3
Other receivables (Note 10)	16,002	-	10,433	-	Current portion of long-term bank borrowings (Notes 18 and 31)	950,000	3	150,000	-
Other receivables from related parties (Notes 10 and 30)	344,560	1	398,509	1	Refund liabilities - current (Note 3)	115,720	-	-	-
Current tax assets (Note 25)	392	-	279	-	Other current liabilities (Note 20)	30,974	-	183,673	1
Inventories (Notes 4, 5 and 11)	8,240,151	25	5,019,625	16	Total current liabilities	12,428,299	37	10,617,891	34
Prepayments (Note 12)	373,650	1	202,644	1	<b>NONCURRENT LIABILITIES</b>				
Non-current assets held for sale (Notes 4 and 13)	22,525	-	-	-	Long-term bank borrowings (Notes 18 and 31)	3,900,000	12	5,097,450	16
Other financial assets - current (Notes 13, 14 and 31)	302,897	1	500,000	1	Long-term bills payable (Note 18)	1,679,558	5	3,149,062	10
Other current assets	6,590	-	6,392	-	Deferred tax liabilities (Notes 4 and 25)	182,222	1	182,222	1
Total current assets	11,654,994	35	8,847,559	28	Net defined benefit liabilities (Notes 4, 5 and 21)	430,719	1	365,756	1
<b>NONCURRENT ASSETS</b>					Guarantee deposits received (Note 27)	35,120	-	35,120	-
Financial assets at fair value through other comprehensive income - noncurrent (Notes 3, 4 and 8)	51,219	-	-	-	Other noncurrent liabilities (Notes 3 and 13)	-	-	2,380	-
Available-for-sale financial assets - noncurrent (Notes 3, 4 and 9)	-	-	54,563	-	Total noncurrent liabilities	6,227,619	19	8,831,990	28
Investments accounted for using equity method (Notes 4 and 15)	2,493,577	7	2,455,462	8	Total liabilities	18,655,918	56	19,449,881	62
Property, plant and equipment (Notes 4, 16, 30 and 31)	13,249,030	40	14,031,648	45	<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION</b>				
Investment properties (Notes 4, 13, 17 and 24)	5,907,018	18	5,940,891	19	(Notes 4 and 22)				
Prepayments for equipment	57,694	-	37,185	-	Ordinary shares	14,355,444	43	14,355,444	46
Refundable deposits	5,632	-	5,847	-	Capital surplus	903	-	903	-
Other financial assets - noncurrent (Notes 13 and 14)	-	-	2,385	-	Retained earnings (Accumulated deficit)	904,506	3	(2,083,776)	(7)
Total noncurrent assets	21,764,170	65	22,527,981	72	Other equity	(497,607)	(2)	(346,912)	(1)
<b>TOTAL</b>	<b>\$ 33,419,164</b>	<b>100</b>	<b>\$ 31,375,540</b>	<b>100</b>	Total equity	14,763,246	44	11,925,659	38
					<b>TOTAL</b>	<b>\$ 33,419,164</b>	<b>100</b>	<b>\$ 31,375,540</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated March 19, 2019)

# CHUNG HUNG STEEL CORPORATION

## STANDALONE STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 23 and 30)				
Sales	\$ 47,565,824	99	\$ 39,693,097	97
Service revenue	600,922	1	1,039,390	3
Other operating revenue	<u>66,975</u>	<u>-</u>	<u>56,103</u>	<u>-</u>
Total operating revenue	48,233,721	100	40,788,590	100
OPERATING COSTS (Notes 11, 24 and 30)	<u>43,853,999</u>	<u>91</u>	<u>36,903,341</u>	<u>91</u>
GROSS PROFIT	<u>4,379,722</u>	<u>9</u>	<u>3,885,249</u>	<u>9</u>
OPERATING EXPENSES (Note 24)				
Selling and marketing expenses	1,117,746	2	940,718	2
General and administrative expenses	<u>390,078</u>	<u>1</u>	<u>373,225</u>	<u>1</u>
Total operating expenses	<u>1,507,824</u>	<u>3</u>	<u>1,313,943</u>	<u>3</u>
PROFIT FROM OPERATIONS	<u>2,871,898</u>	<u>6</u>	<u>2,571,306</u>	<u>6</u>
NON-OPERATING INCOME AND EXPENSES (Notes 15, 24, 27 and 30)				
Other income	129,822	-	143,588	-
Other gains and losses	79,374	-	(12,152)	-
Finance costs	(139,883)	-	(180,936)	-
Share of profit of subsidiaries and associates	<u>92,012</u>	<u>-</u>	<u>84,322</u>	<u>-</u>
Total non-operating income and expenses	<u>161,325</u>	<u>-</u>	<u>34,822</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	3,033,223	6	2,606,128	6
INCOME TAX (Notes 4, 5 and 25)	<u>0</u>	<u>-</u>	<u>(145)</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>3,033,223</u>	<u>6</u>	<u>2,606,273</u>	<u>6</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 5, 21 and 22)				
Items that will not be reclassified subsequently to profit or loss				

(Continued)

# CHUNG HUNG STEEL CORPORATION

## STANDALONE STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Remeasurement of defined benefit plans	\$ (128,800)	-	\$ (109,039)	-
Unrealized gains and losses on investments in equity instruments at fair value through other comprehensive income	(13,975)	-	-	-
Share of the other comprehensive income of subsidiaries and associates	(52,861)	-	-	-
	<u>(195,636)</u>	<u>-</u>	<u>(109,039)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss				
Unrealized gains on available-for-sale financial assets	-	-	7,700	-
Share of the other comprehensive income of subsidiaries and associates	-	-	10,911	-
	<u>-</u>	<u>-</u>	<u>18,611</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(195,636)</u>	<u>-</u>	<u>(90,428)</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>\$ 2,837,587</u>	<u>6</u>	<u>\$ 2,515,845</u>	<u>6</u>
<b>EARNINGS PER SHARE (Note 26)</b>				
Basic	<u>\$ 2.11</u>		<u>\$ 1.82</u>	
Diluted	<u>\$ 2.11</u>		<u>\$ 1.82</u>	

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

(Concluded)

(With Deloitte & Touche audit report dated March 19, 2019)

## CHUNG HUNG STEEL CORPORATION

### STANDALONE STATEMENTS OF CHANGES IN EQUITY YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	Issued and Outstanding Ordinary Shares	Capital Surplus	Retained Earnings (Accumulated Deficit)	Other Equity		Total	Total Equity
				Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets		
BALANCE AT JANUARY 1, 2017	\$ 14,355,444	\$ 903	\$ (4,581,010)	\$ -	\$ (365,523)	\$ (365,523)	\$ 9,409,814
Net profit for the year ended December 31, 2017	-	-	2,606,273	-	-	-	2,606,273
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	(109,039)	-	18,611	18,611	(90,428)
Total comprehensive income for the year ended December 31, 2017	-	-	2,497,234	-	18,611	18,611	2,515,845
BALANCE AT DECEMBER 31, 2017	14,355,444	903	(2,083,776)	-	(346,912)	(346,912)	11,925,659
Effect of retrospective application (Note 3)	-	-	84,398	(431,310)	346,912	(84,398)	-
BALANCE AFTER ADJUSTMENT AT JANUARY 1, 2018	14,355,444	903	(1,999,378)	(431,310)	-	(431,310)	11,925,659
Net profit for the year ended December 31, 2018	-	-	3,033,223	-	-	-	3,033,223
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	(128,800)	(66,836)	-	(66,836)	(195,636)
Total comprehensive income for the year ended December 31, 2018	-	-	2,904,423	(66,836)	-	(66,836)	2,837,587
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	(539)	539	-	539	-
BALANCE AT DECEMBER 31, 2018	\$ 14,355,444	\$ 903	\$ 904,506	\$ (497,607)	\$ -	\$ (497,607)	\$ 14,763,246

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

(With Deloitte & Touche audit report dated March 19, 2019)

# CHUNG HUNG STEEL CORPORATION

## STANDALONE STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 3,033,223	\$ 2,606,128
Adjustments for:		
Depreciation expense	1,181,132	1,418,660
Net gain on financial assets at fair value through profit or loss	(3,057)	(7,059)
Finance costs	139,883	180,936
Interest income	(4,154)	(3,749)
Dividend income	(41,894)	(61,399)
Share of profit of subsidiaries and associates	(92,012)	(84,322)
Gain on disposal of property, plant and equipment	-	(290)
Write-downs (reversal) of inventories	417,871	(148,046)
Changes in operating assets and liabilities		
Financial instruments held for trading	-	23,548
Financial assets mandatorily classified as at fair value through profit or loss	1,240	-
Accounts receivable	342,852	(574,617)
Accounts receivable from related parties	(15,253)	76,346
Other receivables	(5,579)	(2,820)
Other receivables from related parties	53,949	(256,322)
Inventories	(3,638,397)	(281,275)
Prepayments	(171,006)	104,263
Other current assets	(198)	(3,087)
Contract liabilities	(67,300)	-
Accounts payable	(10,856)	7,640
Accounts payable to related parties	(623,501)	(111,561)
Other payables	309,457	38,210
Other current liabilities	8,666	39,136
Net defined benefit liabilities	(63,837)	(59,384)
Refund liabilities	(47,715)	-
Cash generated from operations	703,514	2,900,936
Income taxes refund(paid)	(113)	112
Net cash generated from operating activities	<u>703,401</u>	<u>2,901,048</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of financial assets at fair value through other comprehensive income	962	-
Proceeds from the capital reduction on financial assets at fair value through other comprehensive income	4,962	-
Proceeds from the capital reduction on available-for-sale financial assets	-	4,489
Proceeds from the capital reduction on investments accounted for using equity method	-	25,000
Acquisition of property, plant and equipment	(412,440)	(553,808)
Proceeds from disposal of property, plant and equipment	-	12,233

# CHUNG HUNG STEEL CORPORATION

## STANDALONE STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Decrease in refundable deposits	\$ 215	\$ 543
Decrease(increase) in other financial assets	199,488	(2)
Interest received	4,164	3,749
Dividends received from subsidiaries and associates	1,036	1,169
Dividends received from others	<u>41,894</u>	<u>61,399</u>
Net cash used in investing activities	<u>(159,719)</u>	<u>(445,228)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	109,451,453	118,734,081
Repayments of short-term borrowings	(110,534,495)	(119,686,547)
Increase (decrease) in short-term bills payable	2,529,104	(1,249,028)
Proceeds from long-term borrowings	3,500,000	2,300,000
Repayments of long-term borrowings	(3,900,000)	(3,272,308)
Proceeds from long-term bills payable	1,600,496	1,200,283
Repayments of long-term bills payable	(3,070,000)	(100,000)
Interest paid	<u>(139,353)</u>	<u>(179,688)</u>
Net cash used in financing activities	<u>(562,795)</u>	<u>(2,253,207)</u>
NET INCREASE (DECREASE) IN CASH	(19,113)	202,613
CASH AT THE BEGINNING OF THE YEAR	<u>214,788</u>	<u>12,175</u>
CASH AT THE END OF THE YEAR	<u>\$ 195,675</u>	<u>\$ 214,788</u>

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

(Concluded)

(With Deloitte & Touche audit report dated March 19, 2019)

## REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Chung Hung Steel Corporation as of and for the year ended December 31, 2018, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standard 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Chung Hung Steel Corporation and its subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

Chung Hung Steel Corporation

By

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Yi-Chung Han  
Chairman

March 19, 2019

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and the shareholders  
Chung Hung Steel Corporation

### **Opinion**

We have audited the accompanying consolidated financial statements of Chung Hung Steel Corporation (the "Corporation") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, 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 then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission (FSC) of the Republic of China.

### **Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter**

As disclosed in Note 3 to the consolidated financial statements, in 2018 the Group adopted the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the FSC. Our opinion is not modified in respect of this matter.

### **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 ended 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.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2018 are stated as follows:

### Measurement of Inventories

Inventories are one of the significant assets in the balance sheet. As of December 31, 2018 the carrying amount of inventories held by the Group, amounted to NT\$8,240,151 thousand, which accounted for 25% of total assets. Due to the fluctuations in the prices of raw materials and finished goods in steel industry and due to the use of accounting estimates, inventory valuation is deemed to be a key audit matter.

For the accounting policies on inventories and critical accounting estimates and judgments on inventories, refer to Note 4 and Note 5 to the consolidated financial statements, respectively.

We focused on the inventory valuation, including valuation of obsolete inventory and the measurement of inventories. Our main audit procedures performed included the following:

1. We observed year-end inventory counts and assessed the condition of inventory to evaluate the adequacy of inventory provisions for obsolete goods;
2. We obtained the year-end inventory aging profile and tested whether its accuracy based on supporting documents and we evaluated the provision for slow-moving and obsolete inventory was made according to the Group's policy;
3. We evaluated the appropriateness of the methodology used to value the inventory at the year end.
4. We checked the calculation of inventory provisions, the market value of inventory from supporting documentation and the amounts of inventory.

### **Other Matter**

We have also audited the standalone financial statements of the Corporation as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion with emphasis of a matter paragraphs and an unmodified opinion, respectively.

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

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

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

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

### **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 auditors' 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.

As part of an audit in accordance with the 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 auditors' 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 auditors' 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 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.

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 for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' 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 auditors' report are Jui-Hsuan Hsu and Yu-Hsiang Liu.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 19, 2019

Notice to Readers

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

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.*

## CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2018		December 31, 2017		LIABILITIES AND EQUITY	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash (Notes 4 and 6)	\$ 200,081	1	\$ 217,955	1	Short-term borrowings (Notes 18, 30 and 31)	\$ 6,381,773	19	\$ 7,464,815	24
Financial assets at fair value through profit or loss - current (Notes 3, 4 and 7)	217,281	1	215,464	1	Short-term bills payable (Note 18)	3,198,953	10	669,849	2
Financial assets at fair value through other comprehensive income - current (Notes 3,4 and 8)	802,899	2	-	-	Contract liabilities - current (Notes 3, 4, 13 and 23)	96,445	-	-	-
Available-for-sale financial assets - current (Notes 3, 4 and 9)	-	-	819,454	3	Accounts payable (Note 19)	45,304	-	56,160	-
Accounts receivable (Notes 4, 10 and 23)	948,932	3	1,291,784	4	Accounts payable to related parties (Notes 19 and 30)	595,764	2	1,219,265	4
Accounts receivable from related parties (Notes 4, 10, 23 and 30)	183,440	-	168,187	-	Other payables (Note 20)	1,014,578	3	875,367	3
Other receivables (Note 10)	16,002	-	10,433	-	Current tax liabilities (Note 25)	537	-	73	-
Other receivables from related parties (Notes 10 and 30)	348,709	1	401,324	1	Current portion of long-term bank borrowings (Notes 18 and 31)	950,000	3	150,000	-
Current tax assets (Note 25)	420	-	339	-	Refund liabilities - current (Note 3)	115,720	-	-	-
Inventories (Notes 4, 5 and 11)	8,240,151	25	5,019,625	16	Other current liabilities (Note 20)	<u>30,974</u>	<u>-</u>	<u>183,673</u>	<u>1</u>
Prepayments (Note 12)	373,830	1	202,824	1	<b>Total current liabilities</b>	<u>12,430,048</u>	<u>37</u>	<u>10,619,202</u>	<u>34</u>
Non-current assets held for sale (Notes 4 and 13)	22,525	-	-	-	<b>NONCURRENT LIABILITIES</b>				
Other financial assets - current (Notes 13, 14 and 31)	302,897	1	500,000	1	Long-term bank borrowings (Notes 18 and 31)	3,900,000	12	5,097,450	16
Other current assets	<u>6,590</u>	<u>-</u>	<u>6,393</u>	<u>-</u>	Long-term bills payable (Note 18)	1,679,558	5	3,149,062	10
<b>Total current assets</b>	<u>11,663,757</u>	<u>35</u>	<u>8,853,782</u>	<u>28</u>	Deferred tax liabilities (Notes 4 and 25)	182,222	1	182,222	1
<b>NONCURRENT ASSETS</b>					Net defined benefit liabilities (Notes 4, 5 and 21)	430,719	1	365,756	1
Financial assets at fair value through other comprehensive income - noncurrent (Notes 3, 4 and 8)	75,565	-	-	-	Guarantee deposits received (Note 27)	35,120	-	35,120	-
Available-for-sale financial assets - noncurrent (Notes 3, 4 and 9)	-	-	79,411	-	Other noncurrent liabilities (Notes 3 and 13)	<u>-</u>	<u>-</u>	<u>2,380</u>	<u>-</u>
Investments accounted for using equity method (Notes 4 and 15)	2,462,217	7	2,425,702	8	<b>Total noncurrent liabilities</b>	<u>6,227,619</u>	<u>19</u>	<u>8,831,990</u>	<u>28</u>
Property, plant and equipment (Notes 4, 16, 30 and 31)	13,249,030	40	14,031,648	45	<b>Total liabilities</b>	<u>18,657,667</u>	<u>56</u>	<u>19,451,192</u>	<u>62</u>
Investment properties (Notes 4, 13, 17 and 24)	5,907,018	18	5,940,891	19	<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION</b>				
Prepayments for equipment	57,694	-	37,185	-	(Notes 4 and 22)				
Refundable deposits	5,632	-	5,847	-	Ordinary shares	14,355,444	43	14,355,444	46
Other financial assets - noncurrent (Notes 13 and 14)	<u>-</u>	<u>-</u>	<u>2,385</u>	<u>-</u>	Capital surplus	903	-	903	-
<b>Total noncurrent assets</b>	<u>21,757,156</u>	<u>65</u>	<u>22,523,069</u>	<u>72</u>	Retained earnings (Accumulated deficit)	904,506	3	(2,083,776)	(7)
<b>TOTAL</b>	<u>\$ 33,420,913</u>	<u>100</u>	<u>\$ 31,376,851</u>	<u>100</u>	Other equity	<u>(497,607)</u>	<u>(2)</u>	<u>(346,912)</u>	<u>(1)</u>
					<b>Total equity</b>	<u>14,763,246</u>	<u>44</u>	<u>11,925,659</u>	<u>38</u>
					<b>TOTAL</b>	<u>\$ 33,420,913</u>	<u>100</u>	<u>\$ 31,376,851</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated March 19, 2019)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 23 and 30)				
Sales	\$ 47,565,824	99	\$ 39,693,097	97
Investment revenue	884	-	853	-
Service revenue	605,202	1	1,042,391	3
Other operating revenue	66,975	-	56,103	-
Total operating revenue	48,238,885	100	40,792,444	100
OPERATING COSTS (Notes 11, 24 and 30)	43,853,999	91	36,903,341	91
GROSS PROFIT	4,384,886	9	3,889,103	9
OPERATING EXPENSES (Note 24)				
Selling and marketing expenses	1,117,746	2	940,718	2
General and administrative expenses	391,363	1	374,645	1
Total operating expenses	1,509,109	3	1,315,363	3
PROFIT FROM OPERATIONS	2,875,777	6	2,573,740	6
NON-OPERATING INCOME AND EXPENSES (Notes 15, 24, 27 and 30)				
Other income	129,705	-	142,354	-
Other gains and losses	79,374	-	(12,152)	-
Finance costs	(139,883)	-	(180,936)	-
Share of the profit of associates	88,875	-	83,297	-
Total non-operating income and expenses	158,071	-	32,563	-
PROFIT BEFORE INCOME TAX	3,033,848	6	2,606,303	6
INCOME TAX (Notes 4, 5 and 25)	625	-	30	-
NET PROFIT FOR THE YEAR	3,033,223	6	2,606,273	6
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 5, 21 and 22)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	(128,800)	-	(109,039)	-

(Continued)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Unrealized gains and losses on investments in equity instruments at fair value through other comprehensive income	\$ (14,477)	-	\$ -	-
Share of the other comprehensive income of associates	<u>(52,359)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(195,636)</u>	<u>-</u>	<u>(109,039)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss				
Unrealized gains on available-for-sale financial assets	-	-	7,800	-
Share of the other comprehensive income of associates	<u>-</u>	<u>-</u>	<u>10,811</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>18,611</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(195,636)</u>	<u>-</u>	<u>(90,428)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 2,837,587</u>	<u>6</u>	<u>\$ 2,515,845</u>	<u>6</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	<u>\$ 3,033,223</u>	<u>6</u>	<u>\$ 2,606,273</u>	<u>6</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	<u>\$ 2,837,587</u>	<u>6</u>	<u>\$ 2,515,845</u>	<u>6</u>
EARNINGS PER SHARE (Note 26)				
Basic	<u>\$ 2.11</u>		<u>\$ 1.82</u>	
Diluted	<u>\$ 2.11</u>		<u>\$ 1.82</u>	

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

(Concluded)

(With Deloitte & Touche audit report dated March 19, 2019)

## CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	Issued and Outstanding Ordinary Shares	Capital Surplus	Retained Earnings (Accumulated Deficit)	Other Equity		Total	Total Equity
				Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets		
BALANCE AT JANUARY 1, 2017	\$ 14,355,444	\$ 903	\$ (4,581,010)	\$ -	\$ (365,523)	\$ (365,523)	\$ 9,409,814
Net profit for the year ended December 31, 2017	-	-	2,606,273	-	-	-	2,606,273
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	(109,039)	-	18,611	18,611	(90,428)
Total comprehensive income for the year ended December 31, 2017	-	-	2,497,234	-	18,611	18,611	2,515,845
BALANCE AT DECEMBER 31, 2017	14,355,444	903	(2,083,776)	-	(346,912)	(346,912)	11,925,659
Effect of retrospective application (Note 3)	-	-	84,398	(431,310)	346,912	(84,398)	-
BALANCE AFTER ADJUSTMENT AT JANUARY 1, 2018	14,355,444	903	(1,999,378)	(431,310)	-	(431,310)	11,925,659
Net profit for the year ended December 31, 2018	-	-	3,033,223	-	-	-	3,033,223
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	(128,800)	(66,836)	-	(66,836)	(195,636)
Total comprehensive income for the year ended December 31, 2018	-	-	2,904,423	(66,836)	-	(66,836)	2,837,587
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	(539)	539	-	539	-
BALANCE AT DECEMBER 31, 2018	\$ 14,355,444	\$ 903	\$ 904,506	\$ (497,607)	\$ -	\$ (497,607)	\$ 14,763,246

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

(With Deloitte & Touche audit report dated March 19, 2019)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 3,033,848	\$ 2,606,303
Adjustments for:		
Depreciation expense	1,181,132	1,418,660
Net gain on financial assets at fair value through profit or loss	(3,057)	(7,059)
Finance costs	139,883	180,936
Interest income	(4,157)	(3,847)
Dividend income	(42,778)	(62,252)
Share of the profit of associates	(88,875)	(83,297)
Gain on disposal of property, plant and equipment	-	(290)
Write-downs (reversal) of inventories	417,871	(148,046)
Changes in operating assets and liabilities		
Financial instruments held for trading	-	23,548
Financial assets mandatorily classified as at fair value through profit or loss	1,240	-
Accounts receivable	342,852	(574,617)
Accounts receivable from related parties	(15,253)	76,346
Other receivables	(5,579)	(2,821)
Other receivables from related parties	52,615	(256,298)
Inventories	(3,638,397)	(281,275)
Prepayments	(171,006)	104,257
Other current assets	(197)	(3,088)
Contract liabilities	(67,300)	-
Accounts payable	(10,856)	7,640
Accounts payable to related parties	(623,501)	(111,561)
Other payables	309,432	38,235
Other current liabilities	8,666	39,137
Net defined benefit liabilities	(63,837)	(59,384)
Refund liabilities	(47,715)	-
Cash generated from operations	705,031	2,901,227
Income taxes paid	(242)	(170)
Net cash generated from operating activities	<u>704,789</u>	<u>2,901,057</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of financial assets at fair value through other comprehensive income	962	-
Proceeds from the capital reduction on financial assets at fair value through other comprehensive income	4,962	-
Proceeds from the capital reduction on available-for-sale financial assets	-	4,489
Acquisition of property, plant and equipment	(412,440)	(553,808)
Proceeds from disposal of property, plant and equipment	-	12,233

(Continued)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Decrease in refundable deposits	\$ 215	\$ 543
Decrease in other financial assets	199,488	25,498
Interest received	4,167	4,068
Dividends received from others	<u>42,778</u>	<u>62,252</u>
Net cash used in investing activities	<u>(159,868)</u>	<u>(444,725)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	109,451,453	118,734,081
Repayments of short-term borrowings	(110,534,495)	(119,686,547)
Increase (decrease) in short-term bills payable	2,529,104	(1,249,028)
Proceeds from long-term borrowings	3,500,000	2,300,000
Repayments of long-term borrowings	(3,900,000)	(3,272,308)
Proceeds from long-term bills payable	1,600,496	1,200,283
Repayments of long-term bills payable	(3,070,000)	(100,000)
Interest paid	<u>(139,353)</u>	<u>(179,688)</u>
Net cash used in financing activities	<u>(562,795)</u>	<u>(2,253,207)</u>
NET INCREASE (DECREASE) IN CASH	(17,874)	203,125
CASH AT THE BEGINNING OF THE YEAR	<u>217,955</u>	<u>14,830</u>
CASH AT THE END OF THE YEAR	<u>\$ 200,081</u>	<u>\$ 217,955</u>

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

(Concluded)

(With Deloitte & Touche audit report dated March 19, 2019)

To help shareholders learn more and download the contents of the full financial report,

please visit Chung Hung Steel's website

(URL: <http://www.chsteel.com.tw> )

and inquire in “Financial Information” under “Stockholder Services”

**Agenda item #2****Proposed by the Board of Directors**

Agenda: The Company's 2018 earnings distribution proposal is filed for acknowledgment.

## Explanation:

- I. The earnings distribution is processed in accordance with Article 228 of the Company Act and Article 28-1 of the Company's Articles of Incorporation.
- II. After making up for losses and appropriating special earnings reserve, the Company plans to distribute shareholder bonuses in common stocks at NT\$0.1 per share.
- III. The Company plans to authorize the Chairman to determine the ex-dividend date for the cash dividends after the shareholder's meeting passes the earnings distribution proposal. Cash dividends shall be issued to the "NTD" to each shareholder. The decimals shall be rounded up to the nearest NTD and the difference shall be listed as company expenses.
- IV. The Company has drafted the earnings distribution statement for 2018 as follows:

**Earnings Distribution Statement****2018**

Unit: NT\$

Item	Amount
Balance of losses to be made up at the beginning of the year	(2,083,776,774)
Effects of retrospective application and retrospective restatement	84,398,330
Balance of losses to be made up at the beginning of the year after adjustment	(1,999,378,444)
Remeasurement of defined benefit plan converted into retained earnings	(128,800,271)
Disposal of investments in equity instruments measured at fair value through other comprehensive gain and loss with accumulated profit or loss transferred directly to retained earnings	(539,151)
Balance of losses to be made up after adjustment	(2,128,717,866)
After-tax net profit of 2018	3,033,223,430
Minus: Statutory surplus reserves	(90,450,556)

Minus: Appropriation for special earnings reserve	(497,607,149)
Distributable earnings	<u>316,447,859</u>
Common stock bonus available for distribution - 1,435,544,446 common stocks at NT\$0.1 per share (cash NT\$0.1)	(143,554,445)
Undistributed earnings at the end of the period	<u><u>172,893,414</u></u>

Chairman: I-Chung Han

Managerial Officer: Tsung-Chang Lee

Chief Accounting Officer: Pei-Yu Lee

Resolution:

**Agenda item #3**

**Proposed by the Board of Directors**

Agenda: The amendment of the Company's "Procedures for the Acquisition or Disposal of Assets" is filed for approval.

Explanation:

- I. The Company's "Procedures for the Acquisition or Disposal of Assets" is amended based on an amendment of the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies", adoption of IFRS 9 Financial instruments, IFRS 16 Leases, and the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".
- II. The amendments included Article 3, Paragraph 1, Subparagraph 5; Article 4, Paragraph 1, Subparagraph 1-3 and Subparagraph 11; Article 5, Paragraph 1, Subparagraph 1-3 and Paragraph 2; Article 7, Paragraph 1 and Paragraph 2; Article 8, Paragraph 1, Subparagraph 1-4 and Subparagraph 6; Article 10, Paragraph 1, Subparagraph 2 and Subparagraph 3; Article 13, Paragraph 2; Article 17, Paragraph 1, Subparagraph 1 and Subparagraph 3.
- III. The comparison table for revised clauses is provided in the Attachment.

Resolution:

## Comparison Table of Revision of Rules

### Name of Rules: Procedures for the Acquisition or Disposal of Assets

Clause after Revision	Existing Clauses	Description
<p>Article 3 The term "assets" as used in these Procedures includes the following:</p> <p>I. Investments in stocks, government bonds, corporate bonds, financial bonds, securities representing interest in a fund, depositary receipts, call (put) warrants, beneficial interest securities, and asset-backed securities.</p> <p>The funds specified in the preceding subparagraph refers to securities investment funds publicly or privately offered by securities investment trust enterprises, mutual funds publicly or privately offered by foreign companies, beneficiary certificates of unit trusts and investment trusts, shares or investment units in funds, or other forms of securities for other funds.</p> <p>II. Real property (including land, houses and buildings, investment property, inventory in construction business) and equipment.</p> <p>III. Memberships.</p> <p>IV. Patents, copyrights, trademarks, franchise rights, and other intangible assets.</p> <p><u>V. Right-of-use assets.</u></p> <p><u>VI. Creditor rights of financial institutions (including receivables, bills purchased and discounted,</u></p>	<p>Article 3 The term "assets" as used in these Procedures includes the following:</p> <p>I. Investments in stocks, government bonds, corporate bonds, financial bonds, securities representing interest in a fund, depositary receipts, call (put) warrants, beneficial interest securities, and asset-backed securities.</p> <p>The funds specified in the preceding subparagraph refers to securities investment funds publicly or privately offered by securities investment trust enterprises, mutual funds publicly or privately offered by foreign companies, beneficiary certificates of unit trusts and investment trusts, shares or investment units in funds, or other forms of securities for other funds.</p> <p>II. Real property (including land, houses and buildings, investment property, <u>land use rights</u>, inventory in construction business) and equipment.</p> <p>III. Memberships.</p> <p>IV. Patents, copyrights, trademarks, franchise rights, and other intangible assets.</p> <p><u>V. Creditor rights of financial institutions (including receivables, bills purchased and discounted,</u></p>	<p>This Article is amended in accordance with the amendment to Article 3 of the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" (hereinafter referred to as the Regulations) promulgated by the Financial Supervisory Commission:</p> <p>1. Paragraph 1, Subparagraph 5 is added in accordance with the amendments to IFRS 16 "Leases" to expand the scope of the right-of-use assets. The land usage right in Subparagraph 2 is incorporated into Subparagraph 5.</p> <p>2. The original Subparagraphs 5 to 8 of Paragraph 1 are transferred to Subparagraphs 6 to 9.</p>

Name of Rules: Procedures for the Acquisition or Disposal of Assets

Clause after Revision	Existing Clauses	Description
<p>loans, and non-accrual loans).</p> <p><u>VII.</u> Derivatives.</p> <p><u>VIII.</u> Assets legally acquired or disposed of through mergers, divestments, business acquisitions or share exchange.</p> <p><u>IX.</u> Other important assets.</p>	<p>loans, and non-accrual loans).</p> <p><u>VI.</u> Derivatives.</p> <p><u>VII.</u> Assets legally acquired or disposed of through mergers, divestments, business acquisitions or share exchange.</p> <p><u>VIII.</u> Other important assets.</p>	
<p>Article 4 Terms used these Procedures are defined as follows:</p> <p><u>I.</u> <u>Right-of-use assets: Assets in which the lessee retains control in the lease tenure as defined in the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".</u></p> <p><u>II.</u> Derivatives: Forward contracts, options contracts, futures contracts, leverage contracts, or swap contracts, whose value is derived from a <u>specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable; or hybrid contracts combining the above contracts; or hybrid contracts or structured products containing embedded derivatives.</u> The term "forward contracts" does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) <u>contracts.</u></p> <p><u>III.</u> Assets acquired or disposed of through mergers, demergers,</p>	<p>Article 4 Terms used these Procedures are defined as follows:</p> <p><u>I.</u> Derivatives: Forward contracts, options contracts, futures contracts, leverage contracts, and swap contracts, and <u>compound contracts combining the above products, whose value is derived from assets, interest rates, foreign exchange rates, indexes or other interests.</u> The term "forward contracts" does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) <u>agreements.</u></p> <p><u>II.</u> Assets acquired or disposed of through mergers, demergers,</p>	<p>1. The definitions of the right-of-use assets in Paragraph 1, Subparagraph 1 of this article are added in accordance with Article 9, Paragraph 4, Subparagraph 3 of the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".</p> <p>2. The original Subparagraphs 1 to 9 of Paragraph 1 are transferred to Subparagraph 2 to 10.</p> <p>3. Paragraph 1, Subparagraph 2 and 3 are amended and Subparagraph 11 of this Article is added in accordance with Article 4 of the Procedures: (1) Paragraph 1,</p>

Name of Rules: Procedures for the Acquisition or Disposal of Assets

Clause after Revision	Existing Clauses	Description
<p>acquisitions or transfer of shares in accordance with law: Refers to assets acquired or disposed through mergers, demergers, or acquisitions conducted under the Business Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institution Merger Act and other acts, or to transfer of shares from another company through issuance of new shares of its own as the consideration therefor (hereinafter "transfer of shares") under Article 156-3 of the Company Act.</p> <p><u>IV.</u> Related party and subsidiary: As defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers.</p> <p><u>V.</u> Professional appraiser: Refers to a real property appraiser or other person duly authorized by law to engage in the value appraisal of real property or equipment.</p> <p><u>VI.</u> Date of occurrence: Refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, dates of board resolutions, or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier; provided, for investment for which approval of the competent authority is required,</p>	<p>acquisitions or transfer of shares in accordance with law: Refers to assets acquired or disposed through mergers, demergers, or acquisitions conducted under the Business Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institution Merger Act and other acts, or to transfer of shares from another company through issuance of new shares of its own as the consideration therefor (hereinafter "transfer of shares") under Article 156, <u>Paragraph 8</u> of the Company Act.</p> <p><u>III.</u> Related party and subsidiary: As defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers.</p> <p><u>IV.</u> Professional appraiser: Refers to a real property appraiser or other person duly authorized by law to engage in the value appraisal of real property or equipment.</p> <p><u>V.</u> Date of occurrence: Refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, dates of board resolutions, or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier; provided, for investment for which approval of the competent authority is required, the earlier of the above</p>	<p>Subparagraph 2 of this Article is amended and wording is revised in accordance with amendments of definitions in IFRS 9 "Financial instruments".</p> <p>(2) The amended articles of the Company Act promulgated on August 1, 2018 were implemented on November 1, 2018. The "Article 156, Paragraph 8" specified in Paragraph 1, Subparagraph 3 of this Article is therefore amended to "Article 156-3" based on the amended article number.</p> <p>(3) Subparagraph 11 is added to clarify the scope of the domestic and foreign</p>

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<p>the earlier of the above date or the date of receipt of approval by the competent authority shall apply.</p> <p><u>VII.</u> Mainland China area investment: Refers to investments in the mainland China area approved by the Ministry of Economic Affairs Investment Commission or conducted in accordance with the provisions of the Regulations Governing Permission for Investment or Technical Cooperation in the Mainland Area.</p> <p><u>VIII.</u> Total Assets: The total assets stated in the most recent parent company-only financial report or individual financial report prepared under the Regulations Governing the Preparation of Financial Reports by Securities Issuers shall be used.</p> <p><u>IX.</u> All members of the Audit Committee: "All members of the Audit Committee" shall include only the persons who are currently holding such offices.</p> <p><u>X.</u> All Directors: "All Directors" shall refer to the actual number of Directors who are currently holding the such offices.</p> <p><u>XI.</u> <u>Securities brokerage operation venue: A domestic OTC venue refers to a venue for OTC trading provided by a securities firm in accordance with the Regulations Governing Securities Trading on</u></p>	<p>date or the date of receipt of approval by the competent authority shall apply.</p> <p><u>VI.</u> Mainland China area investment: Refers to investments in the mainland China area approved by the Ministry of Economic Affairs Investment Commission or conducted in accordance with the provisions of the Regulations Governing Permission for Investment or Technical Cooperation in the Mainland Area.</p> <p><u>VII.</u> Total Assets: The total assets stated in the most recent parent company-only financial report or individual financial report prepared under the Regulations Governing the Preparation of Financial Reports by Securities Issuers shall be used.</p> <p><u>VIII.</u> All members of the Audit Committee: "All members of the Audit Committee" shall include only the persons who are currently holding such offices.</p> <p><u>IX.</u> All Directors: "All Directors" shall refer to the actual number of Directors who are currently holding the such offices.</p>	<p>securities brokerage operation venue for compliance by the Company.</p>

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<p><u>the Taipei Exchange. A foreign OTC venue refers to a venue at a financial institution that is regulated by a foreign competent authority and permitted to conduct securities business.</u></p>		
<p>Article 5 Professional appraisers and their officers, certified public accountants, attorneys, and securities underwriters that provide public companies with appraisal reports, certified public accountant's opinions, attorney's opinions, or underwriter's opinions <u>shall meet the following requirements:</u></p> <p>I. <u>May not have previously received a final and unappealable sentence to imprisonment for 1 year or longer for a violation of the Securities and Exchange Act, the Company Act, the Banking Act of The Republic of China, the Insurance Act, the Financial Holding Company Act, or the Business Entity Accounting Act, or for fraud, breach of trust, embezzlement, forgery of documents, or occupational crime. However, this provision does not apply if 3 years have already passed since completion of service of the sentence, since expiration of the period of a suspended sentence, or since a pardon was received.</u></p> <p>II. <u>May not be a related party or de</u></p>	<p>Article 5 Professional appraisers and their officers, certified public accountants, attorneys, and securities underwriters that provide public companies with appraisal reports, certified public accountant's opinions, attorney's opinions, or underwriter's opinions <u>shall not be a related party of any party to the transaction.</u></p>	<p>This Article is amended in accordance with Article 5 of the Regulations:</p> <p>1. Paragraph 1, Subparagraph 1 to 3 of this Article are added to clarify the negative qualifications of related experts and the regulations regarding the transaction counterparties which should not be related parties are transferred to Paragraph 1, Subparagraph 2 of this Article.</p> <p>2. Paragraph 2 of this Article is added to clarify the appraisal reports or opinions, audits, and statements submitted by external experts.</p>

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<p><u>facto related party of any party to the transaction.</u></p> <p><u>III. If the Company is required to obtain appraisal reports from two or more professional appraisers, the different professional appraisers or appraisal officers may not be related parties or de facto related parties of each other.</u></p> <p><u>The aforementioned personnel shall meet the following criteria when submitting an appraisal report or opinion:</u></p> <p><u>I. Prior to accepting a case, they shall prudently assess their own professional capabilities, practical experience, and independence.</u></p> <p><u>II. When examining a case, they shall appropriately plan and execute adequate working procedures, in order to produce a conclusion and use the conclusion as the basis for issuing the report or opinion. The related working procedures, data collected, and conclusion shall be fully and accurately specified in the case working papers.</u></p> <p><u>III. They shall undertake an item-by-item evaluation of the comprehensiveness, accuracy, and reasonableness of the sources of data used, the parameters, and the information, as the basis for issuance of the appraisal report or the opinion.</u></p> <p><u>IV. They shall issue a statement</u></p>		

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<p><u>attesting to the professional competence and independence of the personnel who prepared the report or opinion, and that they have evaluated and found that the information used is reasonable and accurate, and that they have complied with applicable laws and regulations.</u></p>		
<p>Article 7 Restrictions on the total amount of real property, <u>right-of-use assets thereof</u>, and securities acquired by the Company not for business use</p> <p>The restrictions on the total amount of real property, <u>right of use assets thereof</u>, and securities <u>acquired</u> by the Company and subsidiaries not for business use shall be subject to the following restrictions:</p> <p>I. The total amount of securities and real property or <u>right-of-use assets thereof</u> <u>acquired</u> by the Company not for business use may not exceed the Company's net value at the time of the purchase. The total amount of securities and real property or <u>right-of-use assets thereof</u> <u>acquired</u> by a subsidiary not for business use may not exceed the subsidiary's net value at the time of the purchase.</p> <p>II. The Company's investment in individual securities shall be restricted to 90% of the Company's net value at the time</p>	<p>Article 7 Restrictions on the total amount of real property and securities acquired by the Company not for business use</p> <p>The restrictions on the total amount of real property and securities <u>purchased</u> by the Company and subsidiaries not for business use shall be subject to the following restrictions:</p> <p>I. The total amount of securities and real property <u>purchased</u> by the Company not for business use may not exceed the Company's net value at the time of the purchase. The total amount of securities and real property <u>purchased</u> by a subsidiary not for business use may not exceed the subsidiary's net value at the time of the purchase.</p> <p>II. The Company's investment in individual securities shall be restricted to 90% of the Company's net value at the time of the</p>	<p>This Article is amended in accordance with Article 7, Paragraph 1, Subparagraph 5 of the Regulations: Paragraph 1, Paragraph 2, and Subparagraph 1 of Paragraph 2 are amended in accordance with IFRS 16 "Leases. The real property right-of-use assets not for business use are included into the scope governed by the Company's Procedures. Wording is also revised.</p>

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of the purchase. A subsidiary's investment in individual securities shall be restricted to 90% of the subsidiary's net value at the time of the purchase.	purchase. A subsidiary's investment in individual securities shall be restricted to 90% of the subsidiary's net value at the time of the purchase.	
<p>Article 8 Procedures for the acquisition or disposal of assets</p> <p>I. Evaluation and operating procedures</p> <p>(I) The Company's acquisition or disposal of real property, equipment, <u>or right-of-use assets thereof</u> shall be processed in accordance with the related procedures in the real property, plant and equipment cycle procedures in the Company's internal control system.</p> <p>(II) The Company's procedures for the purchase and sales of long-term or short-term securities shall be processed in accordance with regulations regarding investment cycles in the Company's internal control system.</p> <p>II. Procedures for determining transaction terms and the limit of the authorized amount</p> <p>(I) The disposal of investments and shares for business use shall be reported to the Board of Directors for approval. The management department is authorized to process</p>	<p>Article 8 Procedures for the acquisition or disposal of assets</p> <p>I. Evaluation and operating procedures</p> <p>(I) The Company's acquisition or disposal of real property <u>or</u> equipment shall be processed in accordance with the related procedures in the real property, plant and equipment cycle procedures in the Company's internal control system.</p> <p>(II) The Company's procedures for the purchase and sales of long-term or short-term securities shall be processed in accordance with regulations regarding investment cycles in the Company's internal control system.</p> <p>II. Procedures for determining transaction terms and the limit of the authorized amount</p> <p>(I) The disposal of investments and shares for business use shall be reported to the Board of Directors for approval. The management department is authorized to process low-risk</p>	<p>1. Item (1) of Subparagraph 1, Item (4) and (5) of Subparagraph 2, Subparagraph 3, and Subparagraph 4 of Paragraph 1 are added in accordance with IFRS 16 "Leases" to include right-of-use assets into the scope.</p>

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<p>low-risk investments such as government bonds, corporate bonds, financial bonds, domestic and foreign currency funds, transferable time deposit certificates, short-term commercial promissory notes and bank acceptance bills acquired or disposed of for financial planning purposes at its sole discretion.</p> <p>(II) Purchase or sales of other singular long-term or short-term securities with a singular or cumulative transaction amount within one year exceeding NT\$200 million (in NTD, same hereunder) shall be reported to the Board of Directors for approval. If it does not exceed NT\$200 million, the Chairman or management unit shall be authorized to process such transactions at its sole discretion and report to the next board meeting for records.</p> <p>(III) The acquisition or disposal of real property or equipment shall be processed in accordance with the following regulations: (1) Acquisition: Items listed in the annual operations budget shall be approved</p>	<p>investments such as government bonds, corporate bonds, financial bonds, domestic and foreign currency funds, transferable time deposit certificates, short-term commercial promissory notes and bank acceptance bills acquired or disposed of for financial planning purposes at its sole discretion.</p> <p>(II) Purchase or sales of other singular long-term or short-term securities with a singular or cumulative transaction amount within one year exceeding NT\$200 million (in NTD, same hereunder) shall be reported to the Board of Directors for approval. If it does not exceed NT\$200 million, the Chairman or management unit shall be authorized to process such transactions at its sole discretion and report to the next board meeting for records.</p> <p>(III) The acquisition or disposal of real property or equipment shall be processed in accordance with the following regulations: (1) Acquisition: Items listed in the annual operations budget shall be approved by</p>	

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<p>by the President or a supervisor authorized by the President for processing. Items not listed in the budget or items that exceed the original budget shall be approved by the President or a supervisor authorized by the President for processing after the Board of Directors or its authorized management level approves the use or increases the budget.</p> <p>(2) Disposal: Unless otherwise specified in Subparagraph 4, Item (1) of this Article, items for which discarding procedures have been completed shall be approved by the President or a supervisor authorized by the President for processing. Items for which discarding procedures have not been completed shall be approved by the President or a supervisor authorized by the President for disposal after the Board of Directors or its authorized management level approves the disposal.</p> <p>(IV) The definitions of</p>	<p>the President or a supervisor authorized by the President for processing. Items not listed in the budget or items that exceed the original budget shall be approved by the President or a supervisor authorized by the President for processing after the Board of Directors or its authorized management level approves the use or increases the budget.</p> <p>(2) Disposal: Unless otherwise specified in Subparagraph 4, Item (1) of this Article, items for which discarding procedures have been completed shall be approved by the President or a supervisor authorized by the President for processing. Items for which discarding procedures have not been completed shall be approved by the President or a supervisor authorized by the President for disposal after the Board of Directors or its authorized management level approves the disposal.</p>	

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<p><u>right-of-use assets and the calculations of the transaction amount shall be processed by the Finance Department in accordance with IFRS regulations. The authorization and responsibilities for acquisition and disposal shall be determined based on the Company's Duties Division Manual.</u></p> <p>(V) The Company's total investment in securities (including investment in other entities) shall not exceed 60% of the Company's paid-up capital; the total investment in other securities shall not exceed 40% of the Company's paid-up capital; investments in individual securities may not exceed 40% of the Company's paid-up capital; however, the securities shall not include low-risk investments acquired or disposed of for the purpose of financial operations as specified in Item (1) of this Subparagraph. Acquisition of real property or <u>right-of-use assets thereof</u> for non-business use may not exceed 10% of the Company's paid-up capital.</p>	<p>(IV) The Company's total investment in securities (including investment in other entities) shall not exceed 60% of the Company's paid-up capital; the total investment in other securities shall not exceed 40% of the Company's paid-up capital; investments in individual securities may not exceed 40% of the Company's paid-up capital; however, the securities shall not include low-risk investments acquired or disposed of for the purpose of financial operations as specified in Item (1) of this Subparagraph. Acquisition of real property for non-business use may not exceed 10% of the Company's paid-up capital.</p>	

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<p>III. Execution unit The Company's acquisition or disposal of real property, equipment, <u>or right-of-use assets thereof</u> shall be implemented by the usage department and the authorized department based on the approval granted in accordance with the Company's approval procedures in the preceding subparagraph.</p> <p>IV. Where the Company acquires or disposes of real property, equipment, <u>or right-of-use assets thereof</u> and the transaction amount reaches 20% or more of paid-in capital or NT\$300 million or more, except in transactions with a domestic government agency, engaging others to build on its own land or on rented land, or acquiring or disposing of equipment <u>or right-of-use assets thereof</u> for business use, the Company shall obtain an appraisal report (items that must be specified in the appraisal report are detailed in Attachment 1) prior to the date of occurrence of the event from a professional appraiser and shall comply with the following provisions:</p> <p>(I) Where due to special circumstances it is necessary to give a limited price, specified price, or special price as a reference basis for</p>	<p>III. Execution unit The Company's acquisition or disposal of real property <u>or</u> equipment shall be implemented by the usage department and the authorized department based on the approval granted in accordance with the Company's approval procedures in the preceding subparagraph.</p> <p>IV. Where the Company acquires or disposes of real property <u>or</u> equipment and the transaction amount reaches 20% or more of paid-in capital or NT\$300 million or more, except in transactions with a domestic government agency, engaging others to build on its own land or on rented land, or acquiring or disposing of equipment for business use, the Company shall obtain an appraisal report (items that must be specified in the appraisal report are detailed in Attachment 1) prior to the date of occurrence of the event from a professional appraiser and shall comply with the following provisions:</p> <p>(I) Where due to special circumstances it is necessary to give a limited price, specified price, or special price as a reference basis for the</p>	<p>2. Subparagraph 4 and Subparagraph 6 in Paragraph 1 of this Article are revised in accordance with Article 9 of the Regulations to specify conditions only apply for transactions with domestic government agencies. This is added as transactions with central and local government agencies require tenders and price competition in accordance with related regulations and the possibilities of price manipulation is less</p>

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<p>the transaction price, the transaction shall be submitted for approval in advance by the Board of Directors; the <u>same</u> procedure shall also be followed <u>whenever</u> there is any <u>subsequent</u> change to the terms and conditions of the transaction.</p> <p>(II) Where the transaction amount is NT\$1 billion or more, appraisals from two or more professional appraisers shall be obtained.</p> <p>(III) Where any one of the following circumstances applies with respect to the professional appraiser's appraisal results, unless all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be disposed of are lower than the transaction amount, a certified public accountant shall be engaged to perform the appraisal in accordance with the provisions of Statement of Auditing Standards No. 20 published by the ROC Accounting Research and Development Foundation (ARDF) and render a specific opinion regarding the reason for the</p>	<p>transaction price, the transaction shall be submitted for approval in advance by the Board of Directors and <u>the same procedure shall be followed</u> for <u>any future</u> changes to the terms and conditions of the transaction.</p> <p>(II) Where the transaction amount is NT\$1 billion or more, appraisals from two or more professional appraisers shall be obtained.</p> <p>(III) Where any one of the following circumstances applies with respect to the professional appraiser's appraisal results, unless all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be disposed of are lower than the transaction amount, a certified public accountant shall be engaged to perform the appraisal in accordance with the provisions of Statement of Auditing Standards No. 20 published by the ROC Accounting Research and Development Foundation (ARDF) and render a specific opinion regarding the reason for the discrepancy and the appropriateness of the</p>	<p>likely, expert opinions may be waived in such cases.</p> <p>3. Wording is revised in Paragraph 1, Subparagraph 4, Item (1) of this Article in accordance with Article 9, Paragraph 1, Subparagraph 1 of the Regulations to meet legal requirements.</p>

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<p>discrepancy and the appropriateness of the transaction price:</p> <p>(1) The discrepancy between the appraisal result and the transaction amount is 20% or more of the transaction amount.</p> <p>(2) The discrepancy between the appraisal results of two or more professional appraisers is 10% or more of the transaction amount.</p> <p>(IV) No more than three months may elapse between the date of the appraisal report issued by a professional appraiser and the contract execution date. However, if either of the appraisals complies with the current assessed value and the appraisal is dated less than six months ago, the original professional appraiser may issue a statement of opinion.</p> <p>(V) Where the Company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may be used as a substitute for the appraisal report or CPA opinion.</p> <p>However, if either of the appraisals complies with the current assessed value and</p>	<p>transaction price:</p> <p>(1) The discrepancy between the appraisal result and the transaction amount is 20% or more of the transaction amount.</p> <p>(2) The discrepancy between the appraisal results of two or more professional appraisers is 10% or more of the transaction amount.</p> <p>(IV) No more than three months may elapse between the date of the appraisal report issued by a professional appraiser and the contract execution date. However, if either of the appraisals complies with the current assessed value and the appraisal is dated less than six months ago, the original professional appraiser may issue a statement of opinion.</p> <p>(V) Where the Company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may be used as a substitute for the appraisal report or CPA opinion.</p> <p>However, if either of the appraisals complies with the current assessed value and the</p>	

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<p>the appraisal is dated less than six months ago, the original professional appraiser may issue a statement of opinion.</p> <p>V. Where the Company acquires or disposes of securities, it shall obtain the financial statements of the issuing company for the most recent period which shall be certified or reviewed by a certified public accountant as reference for the appraisal of the transaction price. Where the transaction amount reaches 20% or more of paid-in capital or NT\$300 million or more, the Company shall engage a certified public accountant prior to the date of occurrence of the event to render an opinion on the reasonableness of the transaction price. Where the CPA requires the use of expert reports, it shall comply with the provisions of Statement of Auditing Standards No. 20 published by the ARDF. This requirement does not apply, however, to securities with publicly quoted prices from an active market, or if it has been otherwise provided by the regulations of the Financial Supervisory Commission.</p> <p>VI. Where the Company acquires or disposes of intangible assets, <u>right-of-use</u> assets thereof, or</p>	<p>appraisal is dated less than six months ago, the original professional appraiser may issue a statement of opinion.</p> <p>V. Where the Company acquires or disposes of securities, it shall obtain the financial statements of the issuing company for the most recent period which shall be certified or reviewed by a certified public accountant as reference for the appraisal of the transaction price. Where the transaction amount reaches 20% or more of paid-in capital or NT\$300 million or more, the Company shall engage a certified public accountant prior to the date of occurrence of the event to render an opinion on the reasonableness of the transaction price. Where the CPA requires the use of expert reports, it shall comply with the provisions of Statement of Auditing Standards No. 20 published by the ARDF. This requirement does not apply, however, to securities with publicly quoted prices from an active market, or if it has been otherwise provided by the regulations of the Financial Supervisory Commission.</p> <p>VI. Where the Company acquires or disposes of <u>memberships</u> or intangible assets and the transaction</p>	

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<p><u>memberships</u> and the transaction amount reaches 20% or more of paid-in capital or NT\$300 million or more, except in transactions with a <u>domestic</u> government agency, the Company shall engage a certified public accountant prior to the date of occurrence of the event to render an opinion on the reasonableness of the transaction price; the CPA shall comply with the provisions of Statement of Auditing Standards No. 20 published by the ARDF.</p>	<p>amount reaches 20% or more of paid-in capital or NT\$300 million or more, except in transactions with a government agency, the Company shall engage a certified public accountant prior to the date of occurrence of the event to render an opinion on the reasonableness of the transaction price; the CPA shall comply with the provisions of Statement of Auditing Standards No. 20 published by the ARDF.</p>	<p>4. Wording in Paragraph 1, Subparagraph 6 of this Article is revised in accordance with Article 11 of the Regulations.</p>
<p>Article 10 Related party transaction processing procedures II. Evaluation and operating procedures When the Company intends to acquire or dispose of real property or <u>right-of-use assets thereof</u> from or to a related party, or when it intends to acquire or dispose of assets other than real property or <u>right-of-use assets thereof</u> from or to a related party and the transaction amount reaches 20% or more of paid-in capital, 10% or more of the Company's total assets, or NT\$300 million or more, except in trading of <u>domestic</u> government bonds or bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic</p>	<p>Article 10 Related party transaction processing procedures II. Evaluation and operating procedures When the Company intends to acquire or dispose of real property from or to a related party, or when it intends to acquire or dispose of assets other than real property from or to a related party and the transaction amount reaches 20% or more of paid-in capital, 10% or more of the Company's total assets, or NT\$300 million or more, except in trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises, the Company may not proceed to enter into a transaction contract or make</p>	<p>1. Paragraph 1, Subparagraph 2 of this Article is revised in accordance with Article 15 of the Regulations. (1) As the credit records of the central government and local governments of Taiwan can be easily found, only domestic bonds are included in this scope. (2) Right-of-use assets are included into the</p>

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<p>securities investment trust enterprises, the Company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by the Audit Committee and passed by the Board of Directors:</p> <p>(I) The purpose, necessity and anticipated benefit of the acquisition or disposal of assets.</p> <p>(II) The reason for choosing the related party as a transaction counterparty.</p> <p>(III) With respect to the acquisition of real property <u>or right-of-use assets thereof</u> from a related party, information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with Subparagraph 3, Item (1) to Item (5) of this Article.</p> <p>(IV) The date and price at which the related party originally acquired the assets, the original trading counterparty, and that trading counterparty's relationship to the Company and the related party.</p> <p>(V) Monthly cash flow forecasts for the year commencing from the anticipated month</p>	<p>a payment until the following matters have been approved by the Audit Committee and passed by the Board of Directors:</p> <p>(I) The purpose, necessity and anticipated benefit of the acquisition or disposal of assets.</p> <p>(II) The reason for choosing the related party as a transaction counterparty.</p> <p>(III) With respect to the acquisition of real property from a related party, information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with Subparagraph 3, Item (1) to Item (5) of this Article.</p> <p>(IV) The date and price at which the related party originally acquired the assets, the original trading counterparty, and that trading counterparty's relationship to the Company and the related party.</p> <p>(V) Monthly cash flow forecasts for the year commencing from the anticipated month of</p>	<p>scope of this Article in accordance with IFRS 16 "Leases".</p> <p>(3) Relaxed regulations on the acquisition and disposal of equipment, right-of-use assets thereof, or real property right-of-use assets held for business use between public companies and their parent and subsidiary companies. The Chairman is authorized to decide on such transactions.</p>

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<p>of signing of the contract, and evaluation of the necessity of the transaction, and reasonableness of the funds utilization.</p> <p>(VI) An appraisal report from a professional appraiser or a CPA's opinion obtained in compliance with the Subparagraph 1 of this Article.</p> <p>(VII) Restrictive covenants and other important stipulations associated with the transaction.</p> <p>The calculation of the transaction amounts referred to in the preceding paragraph shall be made in accordance with Article 17, Paragraph 1, Subparagraph 1, Item (8) herein, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been approved by the Board of Directors need not be counted toward the transaction amount.</p> <p>Each <u>transaction listed below</u> between the Company and its parent or subsidiary company that amounts to NT\$200 million shall be reported to the Board of Directors for approval. If a transaction does not exceed NT\$200 million, the Chairman shall be authorized to process</p>	<p>signing of the contract, and evaluation of the necessity of the transaction, and reasonableness of the funds utilization.</p> <p>(VI) An appraisal report from a professional appraiser or a CPA's opinion obtained in compliance with the Subparagraph 1 of this Article.</p> <p>(VII) Restrictive covenants and other important stipulations associated with the transaction.</p> <p>The calculation of the transaction amounts referred to in the preceding paragraph shall be made in accordance with Article 17, Paragraph 1, Subparagraph 1, Item (8) herein, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been approved by the Board of Directors need not be counted toward the transaction amount.</p> <p>Each <u>acquisition or disposal of equipment for business use</u> between the Company and its parent or subsidiary company that amounts to NT\$200 million shall be reported to the Board of Directors for approval. If a transaction does not exceed NT\$200 million, the Chairman shall be authorized to process such</p>	

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<p>such the transaction at its sole discretion and report to the next board meeting for ratification.</p> <p><u>(I) Acquisition or disposal of equipment or right-of-use assets thereof held for business use.</u></p> <p><u>(II) Acquisition or disposal of real property right-of-use assets held for business use.</u></p> <p>When proposed for discussion by the Board of Directors in accordance with this Subparagraph, Independent Directors' opinions must also be fully taken into consideration. Any objections or qualified opinions made by independent directors must be detailed in board meeting minutes.</p> <p>If the approval of a majority of all members of the Audit Committee is not obtained, the Procedures may be implemented if approved by more than two-thirds of all Directors, and the resolution of the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.</p> <p>III. Appraisal of the reasonableness of the transaction price</p> <p>(I) When the Company acquires real property <u>or right-of-use assets thereof</u> from a related party, it shall evaluate the reasonableness of the transaction costs by the following means:</p>	<p>the transaction at its sole discretion and report to the next board meeting for ratification.</p> <p>When proposed for discussion by the Board of Directors in accordance with this Subparagraph, Independent Directors' opinions must also be fully taken into consideration. Any objections or qualified opinions made by independent directors must be detailed in board meeting minutes.</p> <p>If the approval of a majority of all members of the Audit Committee is not obtained, the Procedures may be implemented if approved by more than two-thirds of all Directors, and the resolution of the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.</p> <p>III. Appraisal of the reasonableness of the transaction price</p> <p>(I) When the Company acquires real property from a related party, it shall evaluate the reasonableness of the transaction costs by the following means:</p>	<p>2. Paragraph 1, Subparagraph 3, Item (1) to Item (4) of this Article are</p>

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Clause after Revision	Existing Clauses	Description
<p>(1) Based upon the related party's <u>original acquisition</u> transaction price plus necessary interest on funding and the costs to be duly borne by the buyer. "Necessary interest on funding" is imputed as the weighted average interest rate on borrowing in the year the company purchases the property; provided, it may not be higher than the maximum non-financial industry lending rate announced by the Ministry of Finance.</p> <p>(2) Total loan value appraisal from a financial institution where the related party has previously created a mortgage on the property as security for a loan; provided, the actual cumulative amount loaned by the financial institution shall have been 70% or more of the financial institution's appraised loan value of the property and the period of the loan shall have been 1 year or more. However, this shall not apply where the financial institution is a related party of one of the transaction counterparties.</p>	<p>(1) Based upon the related party's transaction price plus necessary interest on funding and the costs to be duly borne by the buyer. "Necessary interest on funding" is imputed as the weighted average interest rate on borrowing in the year the company purchases the property; provided, it may not be higher than the maximum non-financial industry lending rate announced by the Ministry of Finance.</p> <p>(2) Total loan value appraisal from a financial institution where the related party has previously created a mortgage on the property as security for a loan; provided, the actual cumulative amount loaned by the financial institution shall have been 70% or more of the financial institution's appraised loan value of the property and the period of the loan shall have been 1 year or more. However, this shall not apply where the financial institution is a related party of one of the transaction counterparties.</p>	<p>revised in accordance with Article 16 of the Regulations.</p> <p>(1) Right-of-use assets acquired from related parties through leases are included into the scope of this Article in accordance with IFRS 16 "Leases".</p> <p>(2) As public companies, their parent companies, subsidiary companies, or subsidiaries in which they directly or indirectly hold 100% of shares may, for overall business planning, require consolidated centralized purchases or transfer of leased equipment for business use or sublease, Subparagraph 3,</p>

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Clause after Revision	Existing Clauses	Description
<p>(II) Where land and structures thereupon are combined as a single property purchased <u>or leased</u> in one transaction, the transaction costs for the land and the structures may be separately appraised in accordance with either of the means listed in the preceding paragraph.</p> <p>(III) Where the Company acquires real property <u>or right-of-use assets thereof</u> from a related party, the Company shall appraise the cost of the real property <u>or right-of-use assets thereof</u> in accordance with Item (1) and Item (2) of this Subparagraph and engage a CPA to review the appraisal and render a specific opinion.</p> <p>(IV) Where the Company acquires real property <u>or right-of-use assets thereof</u> from a related party and one of the following circumstances exists, the acquisition shall be conducted in accordance with regulations regarding evaluation and operating procedures in Subparagraph 2 of this Article, and the regulations on evaluation of the reasonableness of the transaction cost in</p>	<p>(II) Where land and structures thereupon are combined as a single property purchased in one transaction, the transaction costs for the land and the structures may be separately appraised in accordance with either of the means listed in the preceding paragraph.</p> <p>(III) Where the Company acquires real property from a related party, the Company shall appraise the cost of the real property in accordance with Item (1) and Item (2) of this Subparagraph and engage a CPA to review the appraisal and render a specific opinion.</p> <p>(IV) Where the Company acquires real property from a related party and one of the following circumstances exists, the acquisition shall be conducted in accordance with regulations regarding evaluation and operating procedures in Subparagraph 2 of this Article, and the regulations on evaluation of the reasonableness of the transaction cost in Subparagraph 3, Item (1), Item (2), and Item (3) shall not</p>	<p>Item (4), (4) is added and such transactions are excluded from regulations regarding the appraisal of the transaction cost (the transaction price paid by the related party for the acquisition or lease of the real property).</p>

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Clause after Revision	Existing Clauses	Description
<p>Subparagraph 3, Item (1), Item (2), and Item (3) shall not apply:</p> <p>(1) The related party acquired the real property or <u>right-of-use assets thereof</u> through inheritance or as a gift.</p> <p>(2) More than 5 years will have elapsed from the time the related party signed the contract to obtain the real property or <u>right-of-use assets thereof</u> to the signing date for the current transaction.</p> <p>(3) The real property is acquired through signing of a joint development contract with the related party, or through engaging a related party to build real property, either on the Company's own land or on rented land.</p> <p>(4) <u>The real property right-of-use assets for business use are acquired by the Company with its parent company, subsidiaries, or by its subsidiaries in which it directly or indirectly holds 100% of the issued shares or authorized capital.</u></p> <p>(V) When the Company acquires real property <u>or right-of-use</u></p>	<p>apply:</p> <p>(1) The related party acquired the real property through inheritance or as a gift.</p> <p>(2) More than 5 years will have elapsed from the time the related party signed the contract to obtain the real property to the signing date for the current transaction.</p> <p>(3) The real property is acquired through signing of a joint development contract with the related party, or through engaging a related party to build real property, either on the Company's own land or on rented land.</p> <p>(V) When the Company acquires real property from a related</p>	

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Clause after Revision	Existing Clauses	Description
<p><u>assets thereof</u> from a related party and appraises the cost of the real property in accordance with Subparagraph 3, Item (1) and Item (2) of this Article and the results are uniformly lower than the transaction price, the matter shall be handled in compliance with the regulations in Item (6) of this Subparagraph. However, where the following circumstances exist, objective evidence has been submitted and specific opinions on reasonableness have been obtained from a professional real property appraiser and a CPA have been obtained, this restriction shall not apply:</p> <p>(1) Where the related party acquired undeveloped land or leased land for development, it may submit proof of compliance with one of the following conditions:</p> <p>1. Where undeveloped land is appraised in accordance with the means in Subparagraph 3, Item (1) to Item (4), and structures according to the related party's construction cost plus</p>	<p>party and appraises the cost of the real property in accordance with Subparagraph 3, Item (1) and Item (2) of this Article and the results are uniformly lower than the transaction price, the matter shall be handled in compliance with the regulations in Item (6) of this Subparagraph. However, where the following circumstances exist, objective evidence has been submitted and specific opinions on reasonableness have been obtained from a professional real property appraiser and a CPA have been obtained, this restriction shall not apply:</p> <p>(1) Where the related party acquired undeveloped land or leased land for development, it may submit proof of compliance with one of the following conditions:</p> <p>1. Where undeveloped land is appraised in accordance with the means in Subparagraph 3, Item (1) to Item (4), and structures according to the related party's construction cost plus</p>	<p>3. Paragraph 1, Subparagraph 3, Item (5) of this Article are revised in accordance with Article 17 of the Regulations. Based on the actual operations of real property leases for plants, the regulations on related parties' acquisition of real property right-of-use assets are relaxed to allow the use of lease transactions of non-related parties in nearby areas within one year as reference cases for the calculation and estimation of the reasonableness of the transaction</p>

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Clause after Revision	Existing Clauses	Description
<p>reasonable construction profit are valued in excess of the actual transaction price. The "reasonable construction profit" shall be deemed the average gross operating profit margin of the related party's construction division over the most recent 3 years or the gross profit margin for the construction industry for the most recent period as announced by the Ministry of Finance, whichever is lower.</p> <p>2. <u>Transactions</u> by unrelated parties within the preceding year involving other floors of the same property or neighboring or closely valued parcels of land, where the land area and transaction terms are similar after calculation of reasonable price discrepancies in floor or area land prices in accordance with standard property market sale or <u>leasing</u> practices.</p>	<p>reasonable construction profit are valued in excess of the actual transaction price. The "reasonable construction profit" shall be deemed the average gross operating profit margin of the related party's construction division over the most recent 3 years or the gross profit margin for the construction industry for the most recent period as announced by the Ministry of Finance, whichever is lower.</p> <p>2. <u>Completed</u> transactions by unrelated parties within the preceding year involving other floors of the same property or neighboring or closely valued parcels of land, where the land area and transaction terms are similar after calculation of reasonable price discrepancies in floor or area land prices in accordance with standard property market sale practices.</p> <p>3. <u>Completed transactions</u></p>	<p>price. Item (5), (1)-3 is incorporated into Item (5), Item (1)-2 and lease cases were added as transaction case samples. Item (5), (2) is therefore added for clarification.</p>

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Clause after Revision	Existing Clauses	Description
<p>(2) Where the Company acquiring real property, <u>or obtaining real property right-of-use assets through leasing,</u> from a related party provides evidence that the terms of the transaction are similar to the terms of <u>transactions</u> involving neighboring or closely valued parcels of land of a similar size by unrelated parties within the preceding year. <u>Transactions</u> involving neighboring or closely valued parcels of land in principle refers to parcels on the same or an adjacent block and within a distance of no more than 500 meters or parcels close in publicly announced current value;</p>	<p><u>by unrelated parties within the preceding year involving other floors of the same property, where the land area and transaction terms are similar after calculation of reasonable price discrepancies in floor or area land prices in accordance with standard property market leasing practices.</u></p> <p>(2) Where the Company acquiring real property from a related party provides evidence that the terms of the transaction are similar to the terms of <u>completed</u> transactions involving neighboring or closely valued parcels of land of a similar size by unrelated parties within the preceding year. <u>Completed</u> transactions involving neighboring or closely valued parcels of land in principle refers to parcels on the same or an adjacent block and within a distance of no more than 500 meters or parcels close in publicly announced current value; transactions involving similarly sized parcels in principle refers to</p>	

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Clause after Revision	Existing Clauses	Description
<p>transactions involving similarly sized parcels in principle refers to <u>transactions</u> completed by unrelated parties for parcels with a land area of no less than 50 percent of the property in the planned transaction; within the preceding year refers to the year preceding the date of occurrence of the acquisition of the real property <u>or obtainment of the right-of-use assets thereof.</u></p> <p>(VI) Where the Company acquires real property <u>or right-of-use assets thereof</u> from a related party and the results of appraisals conducted in accordance with Subparagraph 3, Item (1) to Item (5) of this Article are uniformly lower than the transaction price, the following steps shall be taken:</p> <p>(1) The Company shall set aside a special reserve in accordance with Article 41, Paragraph 1 of the Securities and Exchange Act against the difference between the transaction price and the appraised</p>	<p>transactions <u>completed</u> by unrelated parties for parcels with a land area of no less than 50 percent of the property in the planned transaction; within the preceding year refers to the year preceding the date of occurrence of the acquisition of the real property.</p> <p>(VI) Where the Company acquires real property from a related party and the results of appraisals conducted in accordance with Subparagraph 3, Item (1) to Item (5) of this Article are uniformly lower than the transaction price, the following steps shall be taken:</p> <p>(1) The Company shall set aside a special reserve in accordance with Article 41, Paragraph 1 of the Securities and Exchange Act against the difference between the transaction price and the appraised cost</p>	<p>4. Paragraph 1, Subparagraph 3, Item (6) to Item (8) of this Article are revised in accordance with Article 18 of the Regulations.</p> <p>(1) Right-of-use assets acquired from related parties through leases are included into the scope of this Article through the amendment</p>

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Clause after Revision	Existing Clauses	Description
<p>cost of the real property <u>or right-of-use assets thereof</u>, and may not be distributed or used for capital increase or issuance of bonus shares. Where the Company uses the equity method to account for its investment in another company, the special reserve called for under Article 41, Paragraph 1 of the Securities and Exchange Act shall be set aside pro rata in a proportion consistent with the share of the Company's equity stake in the other company.</p> <p>(2) The Audit Committee shall comply with Article 218 of the Company Act.</p> <p>(3) Actions taken pursuant to Item (1) and Item (2) shall be reported to the shareholders meeting, and the details of the transaction shall be disclosed in the annual report and any investment prospectus.</p> <p>(VII) If the Company has set aside a special reserve in accordance with the preceding item, it shall not draw on the reserve unless it has recognized the loss on</p>	<p>of the real property, and may not be distributed or used for capital increase or issuance of bonus shares. Where the Company uses the equity method to account for its investment in another company, the special reserve called for under Article 41, Paragraph 1 of the Securities and Exchange Act shall be set aside pro rata in a proportion consistent with the share of the Company's equity stake in the other company.</p> <p>(2) The Audit Committee shall comply with Article 218 of the Company Act.</p> <p>(3) Actions taken pursuant to Item (1) and Item (2) shall be reported to the shareholders meeting, and the details of the transaction shall be disclosed in the annual report and any investment prospectus.</p> <p>(VII) If the Company has set aside a special reserve in accordance with the preceding item, it shall not draw on the reserve unless it has recognized the loss on decline in market value</p>	<p>of the introduction of Subparagraph 3, Item (6), (1), and Item (8) in accordance with IFRS 16 "Leases".</p> <p>(2) Revised wording in Subparagraph 3, Item (7).</p>

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Clause after Revision	Existing Clauses	Description
<p>decline in market value of the assets it purchased <u>or leased</u> at a premium; <u>terminated the lease contract</u>; has disposed of the assets or made adequate compensation; or has restored the status quo ante; or there is other evidence confirming that there was nothing unreasonable about the transaction. Agreement from the Securities and Futures Bureau is also required.</p> <p>(VIII) When the Company obtains real property <u>or right-of-use assets thereof</u> from a related party, it shall also comply with provisions in Subparagraph 3, Item (6) and Item (7) of this Article if there is other evidence indicating that the acquisition was not an arm's length transaction.</p>	<p>of the assets it purchased at a premium; has disposed of the assets or made adequate compensation; or has restored the status quo ante; or there is other evidence confirming that there was nothing unreasonable about the transaction. Agreement from the Securities and Futures Bureau is also required.</p> <p>(VIII) When the Company obtains real property from a related party, it shall also comply with provisions in Subparagraph 3, Item (6) and Item (7) of this Article if there is other evidence indicating that the acquisition was not an arm's length transaction.</p>	
<p>Article 13 Monitor trading activities, gains and losses, while executing necessary response measures and reporting to the Board of Directors upon discovering any abnormalities. Independent Directors shall be present at board meetings to express opinions.</p> <p>Derivatives transactions that are carried out by personnel who have been authorized under the</p>	<p>Article 13 Monitor trading activities, gains and losses, while executing necessary response measures and reporting to the Board of Directors upon discovering any abnormalities. Independent Directors shall be present at board meetings to express opinions.</p> <p>Derivatives transactions that are carried out by personnel who have been authorized under the Procedures for Engaging in</p>	<p>Wording in Paragraph 2 of this Article is revised in accordance with Article 21, Paragraph 2 of the Regulations.</p>

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Clause after Revision	Existing Clauses	Description
Procedures for Engaging in Financial Derivative Transactions <u>established</u> by the Company must be reported at the next board meeting.	Financial Derivative Transactions <u>enacted</u> by the Company must be reported at the next board meeting.	
<p>Article 17 Information disclosure procedures</p> <p>I. Public announcement items and regulatory filing standards</p> <p>(I) Acquisition or disposal of real property <u>or right-of-use assets thereof</u> from or to a related party, or acquisition or disposal of assets other than real property <u>or right-of-use assets thereof</u> from or to a related party where the transaction amount reaches 20% or more of paid-in capital, 10% or more of the company's total assets, or NT\$300 million or more; provided, this shall not apply to trading of <u>domestic</u> government bonds or bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises.</p> <p>(II) Merger, demerger, acquisition, or transfer of shares.</p> <p>(III) Losses from derivatives trading reaching the limits on aggregate losses or losses on</p>	<p>Article 17 Information disclosure procedures</p> <p>I. Public announcement items and regulatory filing standards</p> <p>(I) Acquisition or disposal of real property from or to a related party, or acquisition or disposal of assets other than real property from or to a related party where the transaction amount reaches 20% or more of paid-in capital, 10% or more of the company's total assets, or NT\$300 million or more; provided, this shall not apply to trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises.</p> <p>(II) Merger, demerger, acquisition, or transfer of shares.</p> <p>(III) Losses from derivatives trading reaching the limits on aggregate losses or losses on</p>	<p>This Article is amended in accordance with Article 31 of the Regulations:</p> <p>1. Item (1) of Subparagraph 1, Item (4) and (5), and Item (8)-(3) are added in accordance with IFRS 16 "Leases" to include right-of-use assets into the scope.</p> <p>2. As the credit records of the central government and local governments of Taiwan can be easily found, only domestic bonds are included in this scope. Paragraph 1, Subparagraph 1, Item (1) and Item (7) of this Article are therefore revised.</p> <p>3. Due to materiality concerns for information</p>

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Clause after Revision	Existing Clauses	Description
<p>individual contracts <u>set</u> out in the procedures adopted by the Company.</p> <p>(IV) Where equipment <u>or right-of-use assets thereof</u> for business use are acquired or disposed of, and furthermore the transaction counterparty is not a related party, and the transaction amount exceeds NT\$1 billion.</p> <p>(V) Acquisition or disposal in the construction business of real property <u>or right-of-use assets thereof</u> for construction use, and furthermore the transaction counterparty is not a related party, and the transaction amount reaches NT\$500 million; <u>if the transaction counterparty is not a related party, then the threshold for disposing of real property from a completed construction project that it constructed itself shall be a transaction amount reaching NT\$1 billion or more.</u></p> <p>(VI) Where real property 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</p>	<p>individual contracts <u>established</u> in the procedures adopted by the Company.</p> <p>(IV) Where equipment for business use is acquired or disposed of, and furthermore the transaction counterparty is not a related party, and the transaction amount exceeds NT\$1 billion.</p> <p>(V) Acquisition or disposal in the construction business of real property for construction use, and furthermore the transaction counterparty is not a related party, and the transaction amount reaches NT\$500 million.</p> <p>(VI) Where real property 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</p>	<p>disclosure, a new section is added to Subparagraph 1, Item (5) of this Article to relax the public announcement and regulatory filing standards for certain transactions where the transaction counterparty is not a related party based on the regulations for the aforementioned disposal.</p> <p>4. As Paragraph 1, Subparagraph 1, Item (1) of this Article already stipulated the regulations for announcement of related-party transactions and Item (6) in the same subparagraph regulates transactions for non-related parties. To facilitate compliance, Paragraph 1, Subparagraph 1, Item (6) is added for clarification.</p>

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Clause after Revision	Existing Clauses	Description
<p>housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, <u>and furthermore the transaction counterparty is not a related party</u>, and the amount the company expects to invest in the transaction reaches NT\$500 million.</p> <p>(VII) Where an asset transaction other than any of those referred to in the preceding six items, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20% or more of paid-in capital or NT\$300 million; provided, this shall not apply to the following circumstances:</p> <p>(1) Trading of <u>domestic</u> government bonds.</p> <p>(2) Trading of bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises.</p> <p>(VIII) The amount of transactions above shall be calculated as follows and "within one</p>	<p>allocation of ownership percentages, or joint construction and separate sale, and the amount the company expects to invest in the transaction reaches NT\$500 million.</p> <p>(VII) Where an asset transaction other than any of those referred to in the preceding six items, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20% or more of paid-in capital or NT\$300 million; provided, this shall not apply to the following circumstances:</p> <p>(1) Trading of government bonds.</p> <p>(2) Trading of bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises.</p> <p>(VIII) The amount of transactions above shall be calculated as follows and "within one year"</p>	<p>5. Revised wording in Paragraph 1, Subparagraph 3, Item (2) of this Article.</p>

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Clause after Revision	Existing Clauses	Description
<p>year" refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with these Regulations need not be counted toward the transaction amount.</p> <p>(1) The amount of any individual transaction.</p> <p>(2) The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same transaction counterparty within the preceding year.</p> <p>(3) The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of real property <u>or right-of-use assets thereof</u> within the same development project within the preceding year.</p> <p>(4) The cumulative transaction amount of acquisitions or disposals (cumulative acquisitions and disposals, respectively) of the same security within the</p>	<p>refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with these Regulations need not be counted toward the transaction amount.</p> <p>(1) The amount of any individual transaction.</p> <p>(2) The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same transaction counterparty within the preceding year.</p> <p>(3) The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of real property within the same development project within the preceding year.</p> <p>(4) The cumulative transaction amount of acquisitions or disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.</p>	

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Clause after Revision	Existing Clauses	Description
<p>preceding year.</p> <p>II. Deadlines for announcement and regulatory filing Where the Company's acquisition or disposal of assets is applicable to the reporting standards specified in the Subparagraphs of this Article, it shall publicly announce and report the relevant information within two days from the date of occurrence of the event.</p> <p>III. Public announcement and reporting procedures (I) The Company shall publicly announce and report the relevant information on the website designated by the Securities and Futures Bureau. (II) The Company shall compile monthly reports on the status of derivative transactions conducted up to the end of the preceding month by itself and any of its subsidiaries that are not <u>publicly-listed companies</u> in Taiwan. The information shall be transmitted to the information reporting website specified by the Securities and Futures Bureau before the 10th of each month using the required format. (III) When the Company at the</p>	<p>II. Deadlines for announcement and regulatory filing Where the Company's acquisition or disposal of assets is applicable to the reporting standards specified in the Subparagraphs of this Article, it shall publicly announce and report the relevant information within two days from the date of occurrence of the event.</p> <p>III. Public announcement and reporting procedures (I) The Company shall publicly announce and report the relevant information on the website designated by the Securities and Futures Bureau. (II) The Company shall compile monthly reports on the status of derivative transactions conducted up to the end of the preceding month by the Company and any of its subsidiaries that are not companies in Taiwan. The information shall be transmitted to the information reporting website specified by the Securities and Futures Bureau before the 10th of each month using the required format. (III) When the Company at the</p>	

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Clause after Revision	Existing Clauses	Description
<p>time of public announcement makes an error or omission in an item required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety within two days counting inclusively from the date of knowing of such error or omission.</p>	<p>time of public announcement makes an error or omission in an item required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety within two days counting inclusively from the date of knowing of such error or omission.</p>	

**Agenda item #4**

**Proposed by the Board of Directors**

Agenda: Approval of the amendments to the Company's "Rules Governing the Election of Directors".

Explanation:

- I. The Company simplified the shareholders' Director candidate nomination operating procedures in accordance with Article 192-1 of the Company Act. Article 3, Paragraph 1 of the Rules is thus amended.
- II. The comparison table for revised clauses is provided in the Attachment.

Resolution:

## Comparison Table of Revision of Rules

Name of Rules: Rules Governing the Election of Directors

Clause after Revision	Existing Clauses	Explanation
<p>Article 3 The Company adopts the candidate nomination system <u>for the election of Directors. It shall carefully review the qualifications of the nominees</u> and whether any of them exhibit circumstances as prescribed in Article 30 of the Company Act. <u>The process shall be completed in accordance with Article 192-1 of the Company Act.</u> Independent Directors and non-independent Directors shall be nominated separately and shareholders shall choose from the two candidate lists.</p> <p>The Company's Independent Directors and non-independent Directors shall be elected concurrently and the seats shall be calculated separately. Where special provisions in Articles 5 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies apply to the nomination of the Company's Independent Directors, such provisions shall apply. With</p>	<p>Article 3 The election of the Directors of the Company is based on a candidate nomination system <u>in accordance with Article 192-1 of the Company Act.</u> The Company <u>reviews the qualifications, academic and experience information of the candidates for Directors</u> and whether any of them exhibit circumstances as prescribed in Article 30 of the Company Act. <u>The Company may not arbitrarily add requirements for documentation of other qualifications. The results of the review shall be submitted to shareholders for their reference in selecting the suitable Directors.</u> Independent Directors and non-independent Directors shall be nominated separately and shareholders shall choose from the two candidate lists.</p> <p>The Company's Independent Directors and non-independent Directors shall be elected concurrently and the seats shall be calculated separately. Where special provisions in Articles 5 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies apply to the nomination of the Company's Independent Directors, such provisions shall apply. With</p>	<p>The Company simplified the shareholders' Director candidate nomination operating procedures in accordance with Article 192-1 of the Company Act. Paragraph 1 of this Article is thus amended.</p>

Name of Rules: Rules Governing the Election of Directors

Clause after Revision	Existing Clauses	Explanation
<p>regard to Independent Director candidates nominated pursuant to the preceding paragraph that have served as Independent Director for more than three consecutive terms, the Company shall announce the reason of continuous nomination at the time review results are published and state the aforementioned reason(s) to shareholders when elections are held at shareholders' meetings.</p> <p>The qualifications for the Independent Directors of the Company shall be pursuant to Articles 2, 3, and 4 of the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies."</p> <p>When the number of Directors falls below the number of Directors elected in accordance with the Articles of Incorporation due to the dismissal of a Director for any reason, the Company shall hold a by-election to fill the vacancy at its next shareholders meeting. However, once the vacancies on the board reach one-third of the number of seats as established in the Company's regulations, the Company shall convene an extraordinary shareholders' meeting to elect replacements within sixty days of the occurrence of the vacancies.</p> <p>When the number of Independent Directors of the Company falls</p>	<p>regard to Independent Director candidates nominated pursuant to the preceding paragraph that have served as Independent Director for more than three consecutive terms, the Company shall announce the reason of continuous nomination at the time review results are published and state the aforementioned reason(s) to shareholders when elections are held at shareholders' meetings.</p> <p>The qualifications for the Independent Directors of the Company shall be pursuant to Articles 2, 3, and 4 of the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies."</p> <p>When the number of Directors falls below the number of Directors elected in accordance with the Articles of Incorporation due to the dismissal of a Director for any reason, the Company shall hold a by-election to fill the vacancy at its next shareholders meeting. However, once the vacancies on the board reach one-third of the number of seats as established in the Company's regulations, the Company shall convene an extraordinary shareholders' meeting to elect replacements within sixty days of the occurrence of the vacancies.</p> <p>When the number of Independent Directors of the Company falls</p>	

## Comparison Table of Revision of Rules

Name of Rules: Rules Governing the Election of Directors

Clause after Revision	Existing Clauses	Explanation
<p>below that required under the proviso of Article 14-2, Paragraph 1 of the Securities and Exchange Act, the Company shall hold a by-election to fill the vacancy at its next shareholders meeting. When the Independent Directors are dismissed en masse, a special shareholders meeting shall be called within 60 days from the date of occurrence to hold a by-election to fill the vacancies.</p>	<p>below that required under the proviso of Article 14-2, Paragraph 1 of the Securities and Exchange Act, the Company shall hold a by-election to fill the vacancy at its next shareholders meeting. When the Independent Directors are dismissed en masse, a special shareholders meeting shall be called within 60 days from the date of occurrence to hold a by-election to fill the vacancies.</p>	

**Agenda item #5**

**Proposed by the Board of Directors**

Agenda: The amendment of the Company's "Procedures for Extending Loans to Others" is filed for approval.

Explanation:

- I. The Procedures are amended in accordance with the amendment of the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" promulgated by the Financial Supervisory Commission on March 7, 2019.
- II. Article 1.3, Article 1.4.3, Article 2.4.1, and Article 2.4.2 are amended in this amendment.
- III. The comparison table for revised clauses is provided in the Attachment.

Resolution:

## Comparison Table of Revision of Rules

### Name of Rules: Procedures for Extending Loans to Others

Clause after Revision	Existing Clauses	Explanation
<p>1.3 The establishment, revision, and abolishment of the Procedures must be approved by at least one half of all members of the Audit Committee and submitted to the Board of Directors for resolution. If the approval of a majority of all members of the Audit Committee is not obtained, the Procedures may be implemented if approved by more than two-thirds of all Directors, and the resolution of the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.</p> <p>Once the Procedures are passed by the Board of Directors, they shall be reported to the shareholders' meeting for approval and implementation. If a Director expresses objection and records or written statements are available, information regarding the Director's objection shall be submitted to the Audit Committee and the</p>	<p>1.3 The establishment, revision, and abolishment of the Procedures must be approved by at least one half of all members of the Audit Committee and submitted to the Board of Directors for resolution. If the approval of a majority of all members of the Audit Committee is not obtained, the Procedures may be implemented if approved by more than two-thirds of all Directors, and the resolution of the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.</p> <p><u>The opinions of Independent Directors shall be taken into full consideration in discussions in the Board of Directors meeting on the Procedures in accordance with the preceding paragraph. Their approval or objection and reasons shall be listed in the meeting minutes of the Board of Directors.</u></p> <p>Once the Procedures are passed by the Board of Directors, they shall be reported to the shareholders' meeting for approval and implementation. If a Director expresses objection and records or written statements are available, information regarding the Director's objection shall be submitted to the Audit Committee and the</p>	<p>This Article is amended in accordance with the amendment to Article 8 of the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" (hereinafter referred to as the Regulations) promulgated by the Financial Supervisory Commission. According to Article 14-5 of the Securities and Exchange Act, the duties of the Audit Committee include the establishment or amendment of the procedures for processing loans to others and other material financial transactions. Paragraph 2 of this Article is thus deleted.</p>

Name of Rules: Procedures for Extending Loans to Others

Clause after Revision	Existing Clauses	Explanation
shareholders' meeting for discussion. The same shall apply to any revision.	shareholders' meeting for discussion. The same shall apply to any revision.	
1.4.3 Date of occurrence: The date of occurrence refers to, the earliest of, the signing date, payment date, the Board of Directors' resolution date or any other dates when the transaction counterparty and the amount <u>of the loan</u> can be verified with certainty.	1.4.3 Date of occurrence: The date of occurrence refers to, the earliest of, the <u>transaction</u> contract signing date, payment date, the Board of Directors' resolution date or any other dates when the <u>transaction</u> counterparty and the <u>transaction</u> amount can be verified with certainty.	This Article is revised to include loan procedures that are not considered as transactions in accordance with Article 7, Paragraph 2 of the Regulations.
2.4.1 The Company's Finance Department shall carefully assess whether the borrower meets the requirements specified in the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies and the following items in the Procedures. The result shall be filed to the Board of Directors for approval and implementation. According to regulations, the approval of the Audit Committee must be obtained before a proposal for extending a loan to others is filed to the Board of Directors for discussion. The loan shall be approved by the Board of Directors in a resolution before implementation. If the approval of a majority of all members of the Audit Committee is not obtained, the Procedures may be implemented if approved by	2.4.1 The Company's Finance Department shall carefully assess whether the borrower meets the requirements specified in the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies and the following items in the Procedures. The result shall be filed to the Board of Directors for approval and implementation. According to regulations, the approval of the Audit Committee must be obtained before a <u>transaction</u> for extending a loan to others is filed to the Board of Directors for discussion. The loan shall be approved by the Board of Directors in a resolution before implementation. If the approval of a majority of all members of the Audit Committee is not obtained, the Procedures may be	As described in 1.4.3.

Name of Rules: Procedures for Extending Loans to Others

Clause after Revision	Existing Clauses	Explanation
<p>more than two-thirds of all Directors, and the resolution of the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.</p> <p>When the Company extends loans to others, it shall take into full consideration each Independent Director's opinions and their approval or objection and reasons shall be listed in the meeting minutes of the Board of Directors.</p>	<p>implemented if approved by more than two-thirds of all Directors, and the resolution of the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.</p> <p>When the Company extends loans to others, it shall take into full consideration each Independent Director's opinions and their approval or objection and reasons shall be listed in the meeting minutes of the Board of Directors.</p>	
<p>2.4.2 Loans between the Company and its parent or subsidiaries, or between subsidiaries of the Company shall be submitted to the Board of Directors for approval in accordance with Article 2.4.1. The Company may authorize the Chairman to determine the allocation of loans in separate installments or cycles for the same borrower within an amount determined by the Board of Directors for a period of less than one year.</p> <p>"Within an amount" specified in the preceding paragraph refers to loans other than those between foreign companies in which the Company holds, directly or indirectly, 100% of the voting shares <u>or loans provided by foreign companies in which the Company holds, directly or indirectly, 100% of the voting shares to the Company</u></p>	<p>2.4.2 Loans between the Company and its parent or subsidiaries, or between subsidiaries of the Company shall be submitted to the Board of Directors for approval in accordance with Article 2.4.1. The Company may authorize the Chairman to determine the allocation of loans in separate installments or cycles for the same borrower within an amount determined by the Board of Directors for a period of less than one year.</p> <p>"Within an amount" specified in the preceding paragraph refers to loans other than those between foreign companies in which the Company holds, directly or indirectly, 100% of the voting shares <u>  </u> for which the authorized amount shall not be restricted. The credit limit for the Company or its subsidiaries' loans to</p>	<p>The Article is amended in accordance with Article 3, Paragraph 4 of the Regulations to increase the flexibility of internal fund allocation for the Group and remove the restrictions on the 40% of the net worth of the lender and one-year loan period for loans extended by foreign companies in which the company holds, directly or indirectly, 100% of the voting shares.</p>

## Comparison Table of Revision of Rules

Name of Rules: Procedures for Extending Loans to Others

Clause after Revision	Existing Clauses	Explanation
<p>for which the authorized amount shall not be restricted. The credit limit for the Company or its subsidiaries' loans to individual companies shall not exceed 10% of the lender's net worth in its latest financial statements.</p>	<p>individual companies shall not exceed 10% of the lender's net worth in its latest financial statements.</p>	

**Agenda item #6**

**Proposed by the Board of Directors**

Agenda: The amendment of the Company's "Procedures for Making Endorsements and Guarantees" is filed for approval.

Explanation:

- I. The Procedures are amended in accordance with the amendment of the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" promulgated by the Financial Supervisory Commission on March 7, 2019.
- II. Article 7, Paragraph 1, Subparagraph 6, Article 9, Paragraph 1, Subparagraph 2, Subparagraph 5, and Article 11 are amended.
- III. The comparison table for revised clauses is provided in the Attachment.

Resolution:

## Comparison Table of Revision of Rules

### Name of Rules: Procedures for Making Endorsements and Guarantees

Clause after Revision	Existing Clauses	Description
<p>Article 7: The Company's procedures for making endorsements and guarantees are as follows:</p> <p>I. The Company and subsidiaries specified under Article 4, Paragraph 2 shall carefully evaluate the following items when making endorsements and guarantees:</p> <p>(I) The necessity and reasonableness of endorsements/guarantees;</p> <p>(II) The recipient's credit status and risk assessment.</p> <p>(III) Impact on the Company's business operations, financial condition, and shareholders' interest.</p> <p>(IV) Whether collateral must be obtained and appraisal of the value thereof.</p> <p>II. Before the Company provides an endorsement or guarantee for others, the Finance Department shall submit an evaluation report specified in the preceding subparagraph including the draft of the contract, results of risk assessments, and related information and submit them to the Audit Committee for approval</p>	<p>Article 7: The Company's procedures for making endorsements and guarantees are as follows:</p> <p>I. The Company and subsidiaries specified under Article 4, Paragraph 2 shall carefully evaluate the following items when making endorsements and guarantees:</p> <p>(I) The necessity and reasonableness of endorsements/guarantees;</p> <p>(II) The recipient's credit status and risk assessment.</p> <p>(III) Impact on the Company's business operations, financial condition, and shareholders' interest.</p> <p>(IV) Whether collateral must be obtained and appraisal of the value thereof.</p> <p>II. Before the Company provides an endorsement or guarantee for others, the Finance Department shall submit an evaluation report specified in the preceding subparagraph including the draft of the contract, results of risk assessments, and related information and submit them to the Audit Committee for approval</p>	Revised wording.

## Comparison Table of Revision of Rules

Name of Rules: Procedures for Making Endorsements and Guarantees

Clause after Revision	Existing Clauses	Description
<p>before reporting to the Board of Directors for resolution and implementation. If the approval of a majority of all members of the Audit Committee is not obtained, the Procedures may be implemented if approved by more than two-thirds of all Directors, and the resolution of the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.</p> <p>The terms "all members of the Audit Committee" and "all Directors" in the preceding paragraph shall be counted as the actual number of persons currently holding those positions.</p> <p>III. The Finance Department shall establish memorandum book for its endorsement/guarantee activities and record in detail the following information for the record: the entity for which the endorsement/guarantee is made, the amount, the date of passage by the Board of Directors, or the date of authorization by the Chairman of the Board, the date the endorsement/guarantee is</p>	<p>before reporting to the Board of Directors for resolution and implementation. If the approval of a majority of all members of the Audit Committee is not obtained, the Procedures may be implemented if approved by more than two-thirds of all Directors, and the resolution of the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.</p> <p>The terms "all members of the Audit Committee" and "all Directors" in the preceding paragraph shall be counted as the actual number of persons currently holding those positions.</p> <p>III. The Finance Department shall establish memorandum book for its endorsement/guarantee activities and record in detail the following information for the record: the entity for which the endorsement/guarantee is made, the amount, the date of passage by the Board of Directors, or the date of authorization by the Chairman of the Board, the date the endorsement/guarantee is</p>	

Name of Rules: Procedures for Making Endorsements and Guarantees

Clause after Revision	Existing Clauses	Description
<p>made, and the matters to be carefully evaluated under the preceding subparagraph.</p> <p>Internal audit personnel shall audit the Procedures and the implementation at least once every quarter and prepare written records accordingly. They shall promptly notify the Audit Committee in writing of any material violation found.</p> <p>IV. The Finance Department compiles a statement of the guarantees or canceled guarantees each month to facilitate control, follow-up, and regulatory filing. It shall evaluate the conditions of the endorsements and guarantees each quarter, disclose related information on losses due to endorsements and guarantees in the Financial Report, and provide related information to the CPA for implementation of necessary auditing procedures.</p> <p>V. Where a change in the Company causes a recipient of endorsement or guarantee to be ineligible in accordance with the regulations in the Procedures or causes the</p>	<p>made, and the matters to be carefully evaluated under the preceding subparagraph.</p> <p>Internal audit personnel shall audit the Procedures and the implementation at least once every quarter and prepare written records accordingly. They shall promptly notify the Audit Committee in writing of any material violation found.</p> <p>IV. The Finance Department compiles a statement of the guarantees or canceled guarantees each month to facilitate control, follow-up, and regulatory filing. It shall evaluate the conditions of the endorsements and guarantees each quarter, disclose related information on losses due to endorsements and guarantees in the Financial Report, and provide related information to the CPA for implementation of necessary auditing procedures.</p> <p>V. Where a change in the Company causes a recipient of endorsement or guarantee to be ineligible in accordance with the regulations in the Procedures or causes the</p>	

## Comparison Table of Revision of Rules

### Name of Rules: Procedures for Making Endorsements and Guarantees

Clause after Revision	Existing Clauses	Description
<p>amount to exceed the limit, an improvement plan shall be formulated and delivered to the Audit Committee to complete improvements based on the schedule of the plan.</p> <p>VI. Upon the <u>expiry</u> of an endorsement or guarantee, the Finance Department shall actively notify the recipient of the endorsement or guarantee to recover the guarantee bills stored in the bank or the creditor institution and cancel related contracts and bills associated with the endorsement or guarantee.</p>	<p>amount to exceed the limit, an improvement plan shall be formulated and delivered to the Audit Committee to complete improvements based on the schedule of the plan.</p> <p>VI. Upon the <u>expiry of the period</u> of an endorsement or guarantee, the Finance Department shall actively notify the recipient of the endorsement or guarantee to recover the guarantee bills stored in the bank or the creditor institution and cancel related contracts and bills associated with the endorsement or guarantee.</p>	
<p>Article 9: The Company's announcement and reporting procedures for making endorsements and guarantees are as follows:</p> <p>I. The Finance Department announce the previous month's balance of endorsements and guarantees of the Company and its subsidiaries before the 10th day of each month and enter information on the information reporting website designated by the FSC each month before the specified time.</p> <p>II. In addition to the monthly announcement of the balance of endorsement or</p>	<p>Article 9: The Company's announcement and reporting procedures for making endorsements and guarantees are as follows:</p> <p>I. The Finance Department announce the previous month's balance of endorsements and guarantees of the Company and its subsidiaries before the 10th day of each month and enter information on the information reporting website designated by the FSC each month before the specified time.</p> <p>II. In addition to the monthly announcement of the balance of endorsement or</p>	<p>1. Paragraph 1, Subparagraph 2, Item (3) of this Article is amended in accordance with Article 25, Paragraph 1, Subparagraph 3 of the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" (hereinafter referred to as the Regulations) promulgated by the Financial Supervisory Commission to clarify the definitions of long-term investments based on Article 9, Paragraph 4, Subparagraph 1 of the "Regulations Governing the Preparation of Financial Reports by Securities</p>

Name of Rules: Procedures for Making Endorsements and Guarantees

Clause after Revision	Existing Clauses	Description
<p>guarantee, the Finance Department shall report related information when the balance of endorsements and guarantees of the Company reaches one of the following thresholds within two days of the occurrence of such events and enter the information on the website designated by the FSC:</p> <p>(I) The balance of the Company and its subsidiaries' endorsements and guarantees reaches 50% or more of the Company's net worth as specified in the latest financial statements.</p> <p>(II) The balance of the Company and subsidiaries' endorsements/guarantees to a single company reaches 20% or more of the Company's net worth as specified in its latest financial statements.</p> <p>(III) The balance of the Company and its subsidiaries' endorsements and guarantees for a single</p>	<p>guarantee, the Finance Department shall report related information when the balance of endorsements and guarantees of the Company reaches one of the following thresholds within two days of the occurrence of such events and enter the information on the website designated by the FSC:</p> <p>(I) The balance of the Company and its subsidiaries' endorsements and guarantees reaches 50% or more of the Company's net worth as specified in the latest financial statements.</p> <p>(II) The balance of the Company and subsidiaries' endorsements/guarantees to a single company reaches 20% or more of the Company's net worth as specified in its latest financial statements.</p> <p>(III) The balance of the Company and its subsidiaries' endorsements and guarantees for a single</p>	<p>Issuers.</p> <p>2. Wording in Paragraph 1, Subparagraph 5 of this Article is revised as endorsements and guarantees are not the nature of transactions in accordance with Article 7, Paragraph 2 of the Regulations.</p>

Name of Rules: Procedures for Making Endorsements and Guarantees

Clause after Revision	Existing Clauses	Description
<p>company reaches NT\$10 million and the endorsements and guarantees for the Company, <u>carrying amount</u> of investments recognized under the <u>equity method</u>, and the total balance of loans reach 30% or more of the Company's net worth as specified in the latest financial statements.</p> <p>(IV) The new endorsements and guarantees of the Company and its subsidiaries reach NT\$30 million or 5% or more of the Company's net worth as specified in the latest financial statements.</p> <p>III. Where a subsidiary is not a publicly listed company, the Company shall carry out relevant information announcement and reporting specified in the FSC's regulations on behalf of the subsidiary.</p> <p>IV. "Subsidiary" and "parent company" as referred to in these Procedures shall be as determined under the</p>	<p>company reaches NT\$10 million and the endorsements and guarantees for the Company, <u>long-term</u> investments, and the total balance of loans reach 30% or more of the Company's net worth as specified in the latest financial statements.</p> <p>(IV) The new endorsements and guarantees of the Company and its subsidiaries reach NT\$30 million or 5% or more of the Company's net worth as specified in the latest financial statements.</p> <p>III. Where a subsidiary is not a publicly listed company, the Company shall carry out relevant information announcement and reporting specified in the FSC's regulations on behalf of the subsidiary.</p> <p>IV. "Subsidiary" and "parent company" as referred to in these Procedures shall be as determined under the</p>	

Name of Rules: Procedures for Making Endorsements and Guarantees

Clause after Revision	Existing Clauses	Description
<p>Regulations Governing the Preparation of Financial Reports by Securities Issuers.</p> <p>The net value specified in the Procedures refer to equities attributable to the owners of the parent company in the balance sheet in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.</p> <p>V. The date of occurrence referred to in the Procedures means the contract signature date, payment date, date of the Board of Directors' resolution, or other dates on which the recipient of the <u>endorsement or guarantee</u> and transaction amount are verified, whichever comes first.</p>	<p>Regulations Governing the Preparation of Financial Reports by Securities Issuers.</p> <p>The net value specified in the Procedures refer to equities attributable to the owners of the parent company in the balance sheet in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.</p> <p>V. The date of occurrence referred to in the Procedures mean the <u>transaction</u> contract signature date, payment date, date of the Board of Directors' resolution, or other dates on which the <u>transaction</u> counterparty and <u>transaction</u> amount are verified, whichever comes first.</p>	
<p>Article 11: The establishment or revision of the Procedures must be approved by a majority of all members of the Audit Committee and submitted to the Board of Directors for resolution. If the approval of a majority of all members of the Audit Committee is not obtained, the Procedures may be implemented if approved by more than two-thirds of all Directors, and the resolution of</p>	<p>Article 11: The establishment or revision of the Procedures must be approved by a majority of all members of the Audit Committee and submitted to the Board of Directors for resolution. If the approval of a majority of all members of the Audit Committee is not obtained, the Procedures may be implemented if approved by more than two-thirds of all Directors, and the resolution of</p>	<p>This Article is amended in accordance with Article 11 of the Regulations. According to Article 14-5 of the Securities and Exchange Act, the duties of the Audit Committee include the establishment or amendment of the procedures for providing endorsements or guarantees to others and other material business actions. Paragraph 2 of this Article is thus deleted.</p>

Name of Rules: Procedures for Making Endorsements and Guarantees

Clause after Revision	Existing Clauses	Description
<p>the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.</p> <p>Once the Procedures are passed by the Board of Directors, they shall be reported to the shareholders' meeting for approval and implementation. If a Director expresses objection and records or written statements are available, information regarding the Director's objection shall be submitted to the Audit Committee and the shareholders' meeting for discussion. The same shall apply to any revision.</p>	<p>the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.</p> <p><u>The opinions of Independent Directors shall be taken into full consideration in discussions in the Board of Directors meeting on the Procedures in accordance with the preceding paragraph. Their approval or objection and reasons shall be listed in the meeting minutes of the Board of Directors.</u></p> <p>Once the Procedures are passed by the Board of Directors, they shall be reported to the shareholders' meeting for approval and implementation. If a Director expresses objection and records or written statements are available, information regarding the Director's objection shall be submitted to the Audit Committee and the shareholders' meeting for discussion. The same shall apply to any revision.</p>	

**Agenda item #7**

**Proposed by the Board of Directors**

Agenda: The amendment of the Company's "Rules of Procedure for Shareholders' Meetings" is filed for approval.

Explanation:

- I. The amendment is implemented in accordance with amendments of the Company Act.
- II. Article 2, Paragraph 4, Paragraph 6, Paragraph 7; Article 3, Paragraph 2 to Paragraph 4; Article 8, Paragraph 1; and Article 16, Paragraph 1 are amended.
- III. The comparison table for revised clauses and the full clause before the revision are provided in the Attachment.

Resolution:

## Comparison Table of Revision of Rules

### Name of Rules: Rules of Procedure for the Shareholders' Meeting

Clause after Revision	Existing Clauses	Description
<p>Article 2 Unless otherwise specified by law, shareholders' meetings are convened by the board of directors.</p> <p>Notices for general shareholders meetings or extraordinary shareholders meetings shall include the purpose of the meeting and they shall be delivered to shareholders 30 days or 15 days in advance. If the receiving party agrees, meeting notices may also be delivered electronically. For shareholders holding less than one thousand shares, the meeting notices can be communicated by way of public announcement instead.</p> <p>The Company shall prepare an electronic file that contains the meeting notice, a proxy form, a detailed description of various agenda items to be acknowledged or discussed during the meeting, and notes on re-election or dismissal of Directors and post it onto the Market Observation Post System (MOPS) at least 30 days before a general shareholders' meeting, or 15 days before an extraordinary shareholders' meeting.</p> <p>Matters pertaining to election or discharge of Directors, alteration</p>	<p>Article 2 Unless otherwise specified by law, shareholders' meetings are convened by the board of directors.</p> <p>Notices for general shareholders meetings or extraordinary shareholders meetings shall include the purpose of the meeting and they shall be delivered to shareholders 30 days or 15 days in advance. If the receiving party agrees, meeting notices may also be delivered electronically. For shareholders holding less than one thousand shares, the meeting notices can be communicated by way of public announcement instead.</p> <p>The Company shall prepare an electronic file that contains the meeting notice, a proxy form, a detailed description of various agenda items to be acknowledged or discussed during the meeting, and notes on re-election or dismissal of Directors and post it onto the Market Observation Post System (MOPS) at least 30 days before a general shareholders' meeting, or 15 days before an extraordinary shareholders' meeting.</p> <p>The election or dismissal of Directors or amendments to the</p>	<p>Paragraph 4, Paragraph 6, and Paragraph 7 of this Article are amended in accordance with amendments to Article 172 and Article 172-1 of the Company Act.</p>

Name of Rules: Rules of Procedure for the Shareholders' Meeting

Clause after Revision	Existing Clauses	Description
<p>of the Articles of Incorporation, <a href="#">reduction of capital, application for the approval of ceasing its status as a public company, approval of competing with the company by directors, surplus profit distributed in the form of new shares, reserve distributed in the form of new shares,</a> dissolution, merger, spin-off, or any matters as set forth in Article 185, Paragraph 1 of the Company Act, Article 43-6 of the Securities and Exchange Act, and Article 56-1 and Article 60-2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers shall be itemized in the causes or subjects to be described <a href="#">and the essential contents shall be explained</a> in the notice to convene a meeting of shareholders, and shall not be brought up as special motions; <a href="#">the essential contents may be posted on the website designated by the competent authority in charge of securities affairs or the company, and such website shall be indicated in the above notice.</a></p> <p>Shareholders who own more than 1% of the company's outstanding shares are entitled to propose, in writing, agenda items for discussion in general shareholders' meetings. However, they may only propose one agenda item and additional</p>	<p>Articles of Incorporation, the dissolution, merger, or demerger of the Company, any matter under Article 185, Paragraph 1 of the Company Act, and <a href="#">Articles 26-1</a> and 43-6 of the Securities and Exchange Act or Article 56-1 and Article 60-2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers shall be itemized in the causes or subjects to be described and the essential contents shall be explained in the notice to convene a meeting of shareholders, and shall not be brought up as special motions.</p> <p>Shareholders who own more than 1% of the company's outstanding shares are entitled to propose, in writing, agenda items for discussion in general shareholders' meetings. However, they may only propose one agenda item and additional</p>	

Name of Rules: Rules of Procedure for the Shareholders' Meeting

Clause after Revision	Existing Clauses	Description
<p>proposals shall not be included in the agenda. The Board of Directors may disregard shareholders' proposals if the proposed agenda item involve any of the circumstances listed in Article 172-1, Paragraph 4 of the Company Act.</p> <p>The Company shall announce, before the book closure date, the conditions, <a href="#">the written or digital format accepted</a>, and places and time in which shareholders' proposals are accepted. The period of acceptance shall be no shorter than ten days.</p> <p>Shareholders shall limit their proposed agenda items to 300 words. Shareholders who have successfully proposed agenda items shall attend the shareholders' meeting in person or through proxy attendance and participate in the discussion.</p> <p>The Company shall notify the proposing shareholders of the outcome of their proposed agenda items before the date the meeting notice is sent. Meanwhile, agenda items that satisfy the conditions listed in this Article shall be included as part of the meeting notice. During the shareholders' meeting, the Board of Directors shall explain the reasons why</p>	<p>proposals shall not be included in the agenda. The Board of Directors may disregard shareholders' proposals if the proposed agenda item involve any of the circumstances listed in Article 172-1, Paragraph 4 of the Company Act.</p> <p>The Company shall announce, before the book closure date, the conditions, places and time in which shareholders' proposals are accepted. The period of acceptance shall be no shorter than ten days.</p> <p>Shareholders shall limit their proposed agenda items to 300 words; <del>proposals that exceed 300 words shall be excluded from the agenda</del>. Shareholders who have successfully proposed agenda items shall attend the shareholders' meeting in person or through proxy attendance and participate in the discussion.</p> <p>The Company shall notify the proposing shareholders of the outcome of their proposed agenda items before the date the meeting notice is sent. Meanwhile, agenda items that satisfy the conditions listed in this Article shall be included as part of the meeting notice. During the shareholders' meeting, the Board of Directors shall explain the reasons why</p>	

Name of Rules: Rules of Procedure for the Shareholders' Meeting

Clause after Revision	Existing Clauses	Description
certain proposed agenda items are excluded from discussion.	certain proposed agenda items are excluded from discussion.	
<p>Article 3 The Company shall formulate meeting manuals for the shareholders' meeting in accordance with the regulations of the competent authority of securities. Physical copies of the shareholders' meeting manual and supplementary information shall also be prepared at least 15 days before the meeting and made accessible to shareholders at any time. These documents must be placed within the company's premises and at the share administration agency appointed by the Company, and distributed on-site at the shareholders' meeting.</p> <p><u>At least 21 days before an annual general meeting, or 15 days before an extraordinary shareholders' meeting, the Company shall upload an electronic copy of the shareholders' meeting manual and supplementary information to MOPS.</u></p> <p><u>The Company shall prepare electronic versions of the Annual Report and Annual Financial Report and upload them to the MOPS at least 7 days before the date of the general shareholders' meeting or At least 21 days before the date of the general shareholders meeting if the Annual Report is used as</u></p>	<p>Article 3 The Company shall formulate meeting manuals for the shareholders' meeting in accordance with the regulations of the competent authority of securities. Physical copies of the shareholders' meeting manual and supplementary information shall also be prepared at least 15 days before the meeting and made accessible to shareholders at any time. These documents must be placed within the company's premises and at the share administration agency appointed by the Company, and distributed on-site at the shareholders' meeting.</p> <p><u>At least 21 days before an annual general meeting, or 15 days before an extraordinary shareholders' meeting, the Company shall upload an electronic copy of the shareholders' meeting manual and supplementary information to MOPS.</u></p>	<p>According to TWSE regulations, the Company is required to publish English versions of the Procedures Manual and supplemental information of the meetings, annual reports, and annual financial reports based on varying reporting schedules. Therefore, Paragraph 2 of this Article is amended to Paragraph 2 and Paragraph 3 and Paragraph 4 is added.</p>

## Comparison Table of Revision of Rules

Name of Rules: Rules of Procedure for the Shareholders' Meeting

Clause after Revision	Existing Clauses	Description
<p><a href="#">supplementary information for the Procedures Manual of the shareholders' meeting.</a></p> <p><a href="#">The contents of the English versions of the electronic files shall be consistent with those of the Chinese version uploaded to the MOPS.</a></p>		
<p>Article 8 Shareholders meetings Convened by the board of Directors should be chaired by the Chairman in person, attended by more than half of the Director <a href="#">and the convener of the Audit Committee</a> in person, and attended by at least one representative member of each functional committee. In addition, a record of attendance shall be made in the shareholders' meeting minutes.</p> <p>The Company may summon its lawyers, certified public accountants, and any relevant personnel to be present at the shareholders' meeting.</p>	<p>Article 8 Shareholders meetings Convened by the board of Directors should be chaired by the Chairman in person, attended by more than half of the Director in person, and attended by at least one representative member of each functional committee. In addition, a record of attendance shall be made in the shareholders' meeting minutes.</p> <p>The Company may summon its lawyers, certified public accountants, and any relevant personnel to be present at the shareholders' meeting.</p>	<p>Paragraph 1 of this Article is revised in accordance with Article 1.3 of the Corporate Governance Evaluation Indicators.</p>
<p>Article 16 The Company's shareholders shall be entitled to one vote for each share held, except for the circumstances described in Subparagraph 3 of <a href="#">Paragraph 1, Article 157</a>, Paragraph 2 of Article 179, or Article 197-1 of the Company Act where shareholders have restricted or no voting rights.</p> <p>Shares that do not carry voting rights are excluded from the calculation of outstanding shares when voting for the final resolution.</p>	<p>Article 16 The Company's shareholders shall be entitled to one vote for each share held, except for the circumstances described in Subparagraph 3 of Article 157, Paragraph 2 of Article 179, or Article 197-1 of the Company Act where shareholders have restricted or no voting rights.</p> <p>Shares that do not carry voting rights are excluded from the calculation of outstanding shares when voting for the final resolution.</p>	<p>Paragraph 1 of this Article is amended in accordance with amendments Article 157 of the Company Act.</p>

Name of Rules: Rules of Procedure for the Shareholders' Meeting

Clause after Revision	Existing Clauses	Description
<p>Except in the exercise of voting rights for electing Directors, shareholders cannot vote, or appoint proxies to vote, on any agenda items in which they have a conflict of interest that would be detrimental to the best interests of the Company. The number of shares held by shareholders who are not permitted to vote shall be excluded from the total voting rights represented in the meeting.</p> <p>With the exception of trust enterprises and certain share administration agencies approved by the competent authority, a proxy may not represent more than 3% of total voting rights in aggregate when representing two or more shareholders during the meeting. Voting rights that exceed this threshold shall be excluded from calculation. However, they shall still be included into the number of voting rights of the shareholder in attendance.</p>	<p>Except in the exercise of voting rights for electing Directors, shareholders cannot vote, or appoint proxies to vote, on any agenda items in which they have a conflict of interest that would be detrimental to the best interests of the Company. The number of shares held by shareholders who are not permitted to vote shall be excluded from the total voting rights represented in the meeting.</p> <p>With the exception of trust enterprises and certain share administration agencies approved by the competent authority, a proxy may not represent more than 3% of total voting rights in aggregate when representing two or more shareholders during the meeting. Voting rights that exceed this threshold shall be excluded from calculation. However, they shall still be included into the number of voting rights of the shareholder in attendance.</p>	

# Chung Hung Steel Corporation Rules of Procedure for Shareholders Meetings

Amended by the Board of Directors on March 22, 2016

Approved by the shareholders' meeting on June 24, 2016

Article 1 Unless otherwise stated by law or the Articles of Incorporation, the shareholders' meeting of the Company shall be organized according to these Rules.

Article 2 Unless otherwise specified by law, shareholders' meetings are convened by the board of directors.

Notices for general shareholders meetings or extraordinary shareholders meetings shall include the purpose of the meeting and they shall be delivered to shareholders 30 days or 15 days in advance. If the receiving party agrees, meeting notices may also be delivered electronically. For shareholders holding less than one thousand shares, the meeting notices can be communicated by way of public announcement instead.

The Company shall prepare an electronic file that contains the meeting notice, a proxy form, a detailed description of various agenda items to be acknowledged or discussed during the meeting, and notes on re-election or dismissal of Directors and post it onto the Market Observation Post System (MOPS) at least 30 days before a general shareholders' meeting, or 15 days before an extraordinary shareholders' meeting.

The election or dismissal of Directors or amendments to the Articles of Incorporation, the dissolution, merger, or demerger of the Company, any matter under Article 185, Paragraph 1 of the Company Act, and Articles 26-1 and 43-6 of the Securities and Exchange Act or Article 56-1 and Article 60-2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers shall be set out in the notice of the reasons for convening the shareholders meeting. None of the above matters may be raised through an extempore motion.

Shareholders who own more than 1% of the company's outstanding shares are entitled to propose, in writing, agenda items for discussion in general shareholders' meetings. However, they may only propose one agenda item and additional proposals shall not be included in the agenda. The Board of Directors may disregard shareholders' proposals if the proposed agenda item involve any of the circumstances listed in Article 172-1, Paragraph 4 of the Company Act.

The Company shall announce, before the book closure date, the conditions, places and time in which shareholders' proposals are accepted. The period of acceptance shall be no shorter than ten days.

Shareholders shall limit their proposed agenda items to 300 words; proposals that exceed 300 words shall be excluded from the agenda. Shareholders who have successfully proposed agenda items shall attend the shareholders' meeting in person or through proxy attendance and participate in the discussion.

The Company shall notify the proposing shareholders of the outcome of their proposed agenda items before the date the meeting notice is sent. Meanwhile, agenda items that satisfy the conditions listed in this Article shall be included as part of the meeting notice. During the shareholders' meeting, the Board of Directors shall explain the reasons why certain proposed agenda items are excluded from discussion.

Article 3 The Company shall formulate meeting manuals for the shareholders' meeting in accordance with the regulations of the competent authority of securities. Physical copies of the shareholders' meeting manual and supplementary information shall also be prepared at least 15 days before the meeting and made accessible to shareholders at any time. These documents must be placed within the company's premises and at the share administration agency appointed by the Company, and distributed on-site at the shareholders' meeting.

At least 21 days before an annual general meeting, or 15 days before an extraordinary shareholders' meeting, the Company shall upload an electronic copy of the shareholders' meeting manual and supplementary information to MOPS.

Article 4 Shareholders may appoint proxies to attend shareholders' meetings by completing the Company's proxy form and specifying the scope of delegated authority.

Each shareholder may issue one proxy form and delegate one proxy only. All proxy forms must arrive at the company at least five days before the shareholders' meeting. In the event that multiple proxy forms are issued, the proxy form that arrives first shall prevail. However, exception shall be granted if the shareholder issues a proper declaration to withdraw the previous proxy arrangement.

After a proxy form has been delivered to the Company, if the shareholder intends to attend the meeting in person or to exercise voting rights by correspondence or electronically, a written notice of proxy cancellation shall be submitted to the Company at least 2 business days before the meeting date. If the withdrawal is made after the prescribed period, then the voting decision exercised by the proxy shall prevail.

Article 5 Shareholders' meetings shall be held at locations that are suitable and convenient for shareholders to attend. Meetings shall not begin earlier than 9 AM or later than 3 PM.

Article 6 The Company shall specify in its shareholders meeting notices the time during which shareholder attendance registrations will be accepted, the place to register for attendance, and other matters for attention.

The time during which shareholder attendance registrations will be accepted, as stated in the preceding paragraph, shall be at least 30 minutes prior to the time the meeting commences. The place at which attendance registrations are accepted shall be clearly marked and a sufficient number of suitable personnel assigned to handle the registrations.

Shareholders and their proxies (collectively, "shareholders") shall attend shareholders meetings based on attendance cards, sign-in cards, or other certificates of attendance. With regard to the certification documents for shareholders' attendance, the Company may not arbitrarily request shareholders to present other additional certification documents. Shareholders who wish to acquire a proxy form must present proof of identity on-site for verification.

Shareholders who attend the meeting shall be given a copy of the meeting manual, annual report, attendance pass, attendance sign-in card, opinion slip, ballots and any information relevant to the meeting. Shareholders shall also be given election ballots where election of Directors is to take place.

Where the shareholder is a government agency or corporate entity, more than one representative may attend the shareholders' meetings on their behalf. Corporate entities that have been designated as proxy attendants shall only appoint one representative to attend the shareholders' meeting.

Article 7 Shareholders' meetings that are convened by the Board of Directors shall be chaired by the Chairman. If the Chairman is unable to perform such duties due to leave of absence or any reason, the Chairman may appoint one of the Directors to act on the Chairman's behalf. If the Chairman does not appoint a delegate, one shall be elected among the Directors to act on the Chairman's behalf.

When a Director serves as chair in accordance with the preceding paragraph, the Director shall be one who has held that position for six months or more and who understands the financial and business conditions of the Company. The same shall apply for a representative of a corporate director that serves as chair.

For shareholders' meetings convened by any authorized party other than the Board of Directors, the convener will act as the meeting chair. If there are two or more conveners at the same time, one shall be appointed from among them to chair the meeting.

Article 8 Shareholders meetings Convened by the board of Directors should be chaired by the Chairman in person, attended by more than half of the Director in person, and attended by at least one representative member of each functional committee. In addition, a record of attendance shall be made in the shareholders' meeting minutes.

The Company may summon its lawyers, certified public accountants, and any relevant personnel to be present at the shareholders' meeting.

Article 9 The Company shall make an uninterrupted audio and video recording of the registration procedure, the proceedings of the shareholders meeting, and the voting and vote counting procedures starting from the time it accepts shareholder attendance registrations.

The recorded materials of the preceding paragraph shall be retained for at least 1 year. However, if a shareholder makes a litigious claim against the Company according to Article 189 of the Company Act, the abovementioned documents must be retained until the end of the litigation.

Article 10 The attendance in shareholders' meetings shall be calculated based on numbers of shares. The shares in attendance shall be calculated in accordance with the number of attendance cards submitted by shareholders in attendance. Where the voting right is exercised in writing or by way of electronic transmission in accordance with Article 16-1, Paragraph 1, the number of shares that have been used to exercise voting rights in writing or in electronic format shall be used for the calculation.

Article 11 The chair shall announce the commencement of the meeting as soon as the appointed time arrives. However, if those in attendance represent less than half of the company's outstanding shares, the chair may announce to postpone the meeting up to two times, for a period totaling no more than one hour. Except for cases processed in accordance with Paragraph 2, the chair shall dismiss the meeting if shareholders in attendance represent less than half of outstanding shares after two postponements.

If the shareholders in attendance represent more than one-third but less than half of outstanding shares after two postponements, the shareholders in attendance may reach a tentative resolution according to Article 175, Paragraph 1 of the Company Act. This tentative resolution shall be communicated to every shareholder and another shareholders' meeting shall be held within one month. The establishment of resolutions that involve special resolutions in accordance with the Company Act, the regulations in the Company Act shall apply.

If during the process of the meeting the number of issued shares represented by the shareholders present are sufficient to constitute the quorum, the chairman may submit the tentative resolutions to the meeting for approval in accordance with Article 174 of the Company Act.

Article 12 If the shareholders' meeting is convened by the Board of Directors, the Board of Directors shall determine the meeting proceedings. The proceedings shall not be changed unless resolved during the shareholders' meeting.

The above rule also applies if the shareholders' meeting is convened by any authorized party other than the Board of Directors.

In either of the two arrangements described above, the chair cannot dismiss the meeting while an agenda item (including extempore motions) is still in progress. If the chair

violates the meeting policy by adjourning the meeting when he/she is not permitted to do so, other members of the board shall immediately assist the attending shareholders to elect another chair with the support of more than half of voting rights represented and continue the meeting.

The shareholders cannot designate any other person as chair and continue the meeting in the same or another place after the discussions are over and the chair adjourns the meeting in accordance with the Rules of Procedure.

**Article 13** The chair shall be objective and independent and he/she shall strictly abide by the Rules of Procedure to ensure the smooth progression of the meeting.

Shareholders in attendance are obligated to follow the Rules of Procedure, speak politely, and maintain the order of the meeting.

**Article 14** Shareholders who wish to speak during the meeting must produce an opinion slip, detailing the topics and the shareholder's account number and name. The order of shareholders' comments shall be determined by the chair.

Shareholders who submit an opinion slip without actually speaking are considered to have remained silent. If the shareholder's actual comments differ from those stated on the opinion slip, only the actual comments expressed shall be recorded.

Each shareholder shall not speak more than twice, for five minutes each, on the same agenda item unless otherwise agreed by the chair. The chair may stop shareholders from speaking they violate the rules or speak outside the agenda item under discussion.

While a shareholder is speaking, other shareholders shall not speak simultaneously or interfere in any way unless agreed by the chair and the person speaking. Any violators shall be restrained by the chair.

Where a corporate shareholder has appointed two or more representatives to attend the shareholders' meeting, only one representative may speak per agenda item.

After the shareholder has finished speaking, the chair may answer to the shareholder's queries personally or appoint any relevant personnel to do so.

**Article 15** With regard to the agenda items, amendments or special motions proposed during the meeting, the chair may announce to discontinue further discussion if the issue in question is considered to have been sufficiently discussed to proceed with the voting.

**Article 16** The Company's shareholders shall be entitled to one vote for each share held, except for the circumstances described in Subparagraph 3 of Article 157, Paragraph 2 of Article 179, or Article 197-1 of the Company Act where shareholders have restricted or no voting rights.

Shares that do not carry voting rights are excluded from the calculation of outstanding shares when voting for the final resolution.

Except in the exercise of voting rights for electing Directors, shareholders cannot vote, or appoint proxies to vote, on any agenda items in which they have a conflict of interest that would be detrimental to the best interests of the Company. The number of shares held by shareholders who are not permitted to vote shall be excluded from the total voting rights represented in the meeting.

With the exception of trust enterprises and certain share administration agencies approved by the competent authority, a proxy may not represent more than 3% of total voting rights in aggregate when representing two or more shareholders during the meeting. Voting rights that exceed this threshold shall be excluded from calculation. However, they shall still be included into the number of voting rights of the shareholder in attendance.

Article16-1 The Company shall specify in the meeting notice for the shareholders' meeting that shareholders who do not attend the meeting in person and did not issue a proxy letter to assign a proxy to attend the shareholders' meeting may exercise their voting rights in writing or electronically based on the Company's regulations. Shareholders who have voted in writing or using the electronic method are considered to have attended shareholders' meeting in person. However, they are considered to have waived their rights to participate in any special motions or amendments to the original proposals, alternative proposals, and other motions that may arise during the shareholders' meeting. Instructions to exercise written and electronic votes must be delivered to the company at least two days before the shareholders' meeting. In the event where there are duplicate submissions, the earliest submission shall be taken into record. However, exception shall be granted if the shareholder issues a proper declaration to withdraw the previous vote.

If the shareholder decides to attend the shareholders' meeting in person after submitting a written or electronic vote, a proper declaration of withdrawal must be issued in the same method as did the original vote no later than two days before the shareholders' meeting. If the withdrawal is not received in time, then the written or electronic vote shall be taken into record. If the shareholder has exercised written or electronic votes, and at the same time delegated a proxy to attend the shareholders meeting, then the voting decision exercised by the proxy shall prevail.

Article 17 Unless otherwise specified in the Company Act or the Articles Incorporation of the Company, a resolution shall be adopted by a majority of the votes represented by the shareholders present at the meeting. At the time of a vote, the chair or a person designated by the chair shall first announce the total number of voting rights represented by the attending shareholders for each proposal. The shareholder shall vote on each proposal and the results of shareholders' agreement, objection, and abstention shall be input on the Market Observation Post System.

- Article 18 In cases where there are several amendments or alternative resolutions to a certain agenda item, the chair shall determine the order in which the new and original proposals are voted on. If any resolution is passed, all other proposals shall be deemed rejected and no further voting is necessary.
- Article 19 Before the voting begins, the chair shall appoint a number of persons who are shareholders to perform the respective duties of ballot examiners and ballot counters, provided that the ballot examiners shall be shareholders of the Company.
- Vote counting for shareholders meeting proposals or elections shall be conducted in public at the place of the shareholders meeting. Immediately after vote counting has been completed, the results of the voting, including the statistical tallies of the numbers of votes, shall be announced on-site at the meeting, and a record made of the vote.
- Article 20 Where the shareholders' meeting involves re-election of Directors, the election must proceed according to the Rules Governing the Election of Directors of the Company and results shall be announced on-site immediately including the names of those elected as Directors and the numbers of votes with which they were elected.
- Article 21 Shareholders' meeting resolutions shall be compiled into detailed minutes, and signed or sealed by the chair then disseminated to each shareholder no later than 20 days after the meeting.
- The preparation and distribution of meeting minutes can be done in electronic form. Distribution of the meeting minutes as described in the preceding may be conducted by uploading them to the Market Observation Post System.
- The minutes must detail the date and venue of the meeting, the chair's name, the method of resolution, and the proceeding and results of various meeting agenda items. These minutes must be retained for as long as the company is in existence. They shall also be fully disclosed on the Company's website.
- Where an election of the Directors took place, the weighted number of shares of elected Directors shall be specified.
- Article 22 During the shareholders' meeting, the Company shall publish information regarding the number of shares acquired by solicitors and the number of shares represented by proxies using the prescribed format.
- Article 23 The company must disclose on MOPS any shareholders' meeting resolutions that constitute material information as defined by law or the rules of the Taiwan Stock Exchange Corporation.
- Article 24 Organizers of the shareholders' meeting must wear proper identification or arm badges.

The chair may direct the proctors or security personnel to help maintain order at the meeting place. While maintaining order in the meeting, all proctors or security staff must wear arm bands which identify their roles as "Proctors."

The chair may stop anyone who attempts to speak using speaker equipment not provided by the Company and use the speaker equipment he/she prepared.

The chair may instruct proctors or security staff to remove shareholders who continue to violate the meeting rules or other conduct other actions that disrupts order in the meeting despite being warned by the chair.

Article 25 The chair may put the meeting in recess at appropriate times. In the occurrence of force majeure events, the chair may suspend the meeting temporarily and resume at another time.

If the shareholders' meeting is unable to conclude all scheduled agenda items (including special motions) before the venue is due to be returned, participants may resolve to continue the meeting at an alternative location.

A resolution may be adopted at a shareholders' meeting to defer or resume the meeting within 5 days in accordance with Article 182 of the Company Act.

Article 26 These Rules shall be implemented following approval from the shareholders' meeting. The same procedure shall apply for amendments to these Rules.

# Chapter 4 Extempore motions

# Chapter 5 Rules of Procedure

## Chung Hung Steel Corporation Articles of Incorporation

Revised by the Board of Directors on December 22, 2015

Passed by the shareholders' meeting on June 24, 2016

### Chapter 1. General provisions

Article 1: The Company shall be incorporated as a company limited by shares in accordance with the Company Act, and it shall be named Chung Hung Steel Corporation.

Article 2: The business scope of the Company is as follows:

- I. Operations of animal husbandry business.
- II. Manufacturing, processing, and import/export of timber, agricultural products (excluding mushrooms and asparagus) and iron wire (under 12mm).
- III. Manufacturing, processing, wholesale, retail, and domestic sales/export of slotted angle iron, iron pipes, fish net, Tetoron fiber, plastic fiber, and iron plate.
- IV. Processing, manufacturing, domestic sales/export of steel coils, steel, steel mold, steel wire, stainless steel plate, stainless steel pipe, iron wire, galvanized iron plate and painted iron plate.
- V. Appointment of construction contractors to build public housing and commercial buildings for lease and sale and appointment of construction contractors to build general plants on industrial land for lease and sale.
- VI. Processing, manufacturing, and domestic sale/export of aluminum products and materials.
- VII. Processing, manufacturing, and domestic sale/export of steel and non-iron metal furniture.
- VIII. Processing, manufacturing, and domestic sale/export of wood and plastic furniture.
- IX. Processing, manufacturing, and domestic sale/export of silicon steel sheets.
- X. Processing, manufacturing, and domestic sale/export of sports equipment (exercise bikes, rowing machines, golf clubs, strollers, trolleys, jogging strollers, jumpers, kick scooters, surfboards, tennis rackets, and ball equipment).
- XI. Processing, manufacturing, and domestic sale/export of transportation equipment (automobile, motorcycle, and bicycle parts) and jacks.
- XII. Design, manufacturing, processing, and domestic sale/export of mechanical bodies and machinery parts.
- XIII. Processing, manufacturing, and domestic sale/export of oxidized soft and hard iron powder, magnets, magnetic materials, metallurgy powder, and ceramic materials.

- XIV. (1) F107100 Wholesale of basic chemical materials.  
(2) F207100 Retail sale of basic chemical materials.  
(3) C801010 Basic chemical manufacturing industry.
- XV. All business items that are not prohibited or restricted by law, except those that are subject to special approval.

Article 2-1: When the Company becomes the shareholder of limited liability in other companies, its total amount of investment in such companies shall not be subject to restrictions regarding certain proportions of the total paid-up capital specified in the Company Act.

Article 2-2: The Company may provide guarantees in accordance with the Procedures for Making Endorsements and Guarantees based on business requirements.

Article 3: The Company is headquartered in Kaohsiung City. Where necessary, the Company may set up branch companies or other branch institutions at other suitable locations. Such set up or revocation shall be determined by the Board of Directors.

Article 4: Unless otherwise stated in regulations of the competent authority of securities, the Company's announcements shall be made on prominent pages of a newspaper that is circulated in the area of the Company's location.

### **Chapter 2.Shares**

Article 5: The Company has an authorized capital of NT\$30 billion, totaling to 3 billion shares, which can be raised in multiple issues at NT\$10 per share. The Company may issue special shares.

Article 6: The Company's stocks shall not be printed and shall be registered, numbered, and signed or sealed by at least three Directors. The stocks shall be issued after the proper certification procedures in accordance with the law.

Stocks issued by the Company are not required to be printed. The Company, however, shall contact the centralized securities depository enterprise institution for registration of the share certificates.

Article 7: The Company shall administer all the stock-related operations in accordance with related laws and regulations of the competent authority.

Article 8: Transfer of title for the stocks is not permitted within sixty days prior to the annual meeting of shareholders; within thirty days prior to the special meeting of shareholders; or within five days prior to the cut-off date determined for the distribution of dividends, bonus or other benefits.

### **Chapter 3.Shareholder's meeting**

Article 9: The Company holds general and special shareholders' meetings, the general meeting shall be convened once a year within six months of the end of each fiscal year. The Board of Directors shall notify shareholders to convene the meeting thirty days in advance. Special meetings may be convened according to the law when necessary.

Article 10: A shareholder who cannot attend shareholders' meeting may appoint a proxy to attend on his/her behalf by executing a power of attorney printed and issued by the Company, stating clearly the scope of the authorization.

Article 11: The Chairman of the Board shall chair shareholders' meetings. Where the Chairman is absent, the Chairman shall appoint one of the Directors to act on behalf of the Chairman. For shareholders' meetings convened by any authorized party other than the Board of Directors, the convener will act as the meeting chair. If there are two or more conveners at the same time, one shall be appointed from among them to chair the meeting.

Article 12: The Company's shareholders shall be entitled to one vote for each share held, except where shareholders are restricted or prohibited from exercising voting rights by law.

Except for trust enterprises or stock agencies approved by the competent authority in charge of the securities business, when a person concurrently acts as the proxy for two or more shareholders in a shareholders' meeting, the number of voting right represented by him/her shall not exceed 3% of the total number of issued voting shares. Else, the portion of excessive voting right shall not be counted.

Article 13: Unless otherwise regulated by the Company Act, a shareholders' meeting resolution is passed when more than 50% of all outstanding shares are represented in the meeting, and voted in favor by more than 50% of all voting rights represented at the meeting.

Article 14: Shareholders' meeting resolutions shall be compiled into detailed minutes, and signed or sealed by the chair then disseminated to each shareholder no later than 20 days after the meeting.

The preparation and distribution of meeting minutes can be done in electronic form. The meeting minutes may be delivered by way of public announcement.

The sign-in cards and proxy authorization forms of shareholders in attendance shall be kept for at least one year. However, if a shareholder makes a litigious claim according to Article 189 of the Company Act, the abovementioned documents shall be retained until the end of the litigation.

#### **Chapter 4.Directors**

Article 15: The Company shall have seven to nine Directors. The election of Directors is held by nomination and the shareholders shall vote on the list of candidates. They shall serve three-year terms and they may be reelected.

Among the Directors to be elected in accordance with the preceding paragraph, the number of Independent Directors shall be no less than three and they shall not represent less than one-fifth of the Directors to be elected. With respect to other requirements on Independent Directors including professional qualifications, restrictions on shareholdings and concurrent positions held, assessment of independence, method of nomination, and other compliance matters, the Company shall observe the regulations announced by the competent authority of the securities industry. The Independent Directors and non-independent Directors shall be

nominated separately and elected concurrently. The seats shall be calculated separately.

Article 15-1 The Company shall establish an Audit Committee in accordance with Article 14-4 of the Securities and Exchange Act. The Committee shall be composed of the entire number of Independent Directors. It shall not be fewer than three persons in number, one of whom shall be the convener, and at least one of whom shall have accounting or financial expertise.

Resolutions at meetings of the Audit Committee shall be adopted with the approval of one half or more of the entire membership.

The exercise of the powers of the Audit Committee, its organization charter, and other matters for compliance shall be processed in accordance with the Securities and Exchange Act and other relevant laws or the Company's regulations.

Article 16: If the re-election cannot be completed before the expiration of the term of office, the term of office for the Directors shall be extended until the re-elected Directors assume office. However, where the competent authority requires the Company to organize a re-election, the Company shall organize the re-election immediately. Where a re-election is not organized at the time of the expiry, the Directors shall be dismissed immediately.

Article 17: The Board of Directors consists of Directors. The Board of Directors shall appoint one Chairman of the Board during a board meeting with more than two-thirds of Directors present, and with the approval of more than half of all attending Directors. The Chairman shall represent the Company externally. The Board of Directors may assign one consultant to attend meetings of the Board of Directors in a non-voting capacity. The appointment and dismissal shall be approved by the Chairman.

Article 18: Except for the first meeting of each newly elected Board of Directors which shall be called and chaired by the Director that received votes representing the largest portion of voting rights at the shareholders meeting in which the directors were elected, the Chairman shall convene meetings of the Board of Directors and serve as the chair.

The meetings of the Board of Directors shall be convened once each quarter. A meeting notice shall be delivered to each Director at least seven days in advance to provide information on the agenda, the date and venue at which the meeting is held, the proceedings and any information deemed relevant. A meeting of the Board of Directors may be called at any time in the event of an emergency.

The notice in the preceding paragraph shall be provided in print or in electronic format. Other appropriate methods may be used in the event of an emergency.

Any Director may express a waiver of the regulations in the two preceding paragraphs in writing before or after the meeting.

If the Chairman is on leave or unable to perform his duties, the Chairman shall appoint a Director to act on his behalf. If the Chairman does not appoint a Director to act on his behalf, a representative shall be elected from among the Directors.

Directors' attendance in board meetings via video conference shall be considered as attendance in person.

Article 19: Except where otherwise specified in the Company Act, the passage of a proposal at a board meeting shall require the approval of a majority of the Directors in attendance at a board meeting attended by a majority of all Directors. If a Director is unable to attend a meeting, he/she may appoint a proxy to attend the meeting by completing the Company's proxy form, specifying the scope of delegation. However, a Director may only be made proxy for a maximum of one other Director.

Article 20: Discussions in board meetings shall be compiled into detailed minutes, and signed or sealed by the chair then disseminated to each Director no later than 20 days after the meeting. The meeting minutes, Directors' attendance sheets, and proxy forms shall be kept by the Company.

Article 21: (deleted)

Article 22: The transportation allowance of Directors, remuneration of Independent Directors, and salary of the Chairman shall be determined by the Board of Directors based on prevailing rates of the industry and listed companies. The Chairman shall be applicable to related regulations regarding employee salary payment and provided with other allowances.

Article 22-1: The Company may purchase liability insurance for its Directors to cover their terms of service based on the compensation liabilities associated with their business liabilities to reduce and diversify the risk of any material damages to the Company and its shareholders caused by any error or negligence of its Directors.

Article 23: The Board of Directors shall be comprised of Directors whose functional duties are as follows:

- I. Filing proposals for capital increase or decrease;
- II. Review annual budgets and formulate financial statements at the end of each fiscal year in accordance with regulations;
- III. Clarification and amendment of material business policies;
- IV. Proposals for distribution of earnings or loss reimbursement plans;
- V. Review of important contracts;
- VI. Approval of domestic medium and long-term borrowings and foreign loans;
- VII. Approval of important charters;
- VIII. Establishment and withdrawal of branch companies or other branch institutions;
- IX. Appointment and dismissal of the President and Vice Presidents and the approval for their remuneration;
- X. Approval of employees' salary standards;
- XI. Approval of investments in other businesses;

XII. Other exclusive powers expressly provided in the Company Act, Securities and Exchange Act, related regulations, or the Articles of Incorporation.

#### **Chapter 5. Managerial officers and other employees**

Article 24: The Company shall appoint one President and several Vice Presidents. The appointment, dismissal and remuneration of the said parties shall be decided by a majority vote at a meeting of the Board of Directors attended by more than one half of the Directors.

Article 25: The appointment and dismissal shall be processed in accordance with the Company's "Duties Division Table of the Board of Directors, Chairman, and President".

Article 26: The President shall be in charge of the Company's business operations. The President's scope of duties shall include all powers except for the exclusive powers of the shareholders' meeting and the Board of Directors that are specified in the Company Act, Securities and Exchange Act, related regulations, and the Articles of Incorporation.

#### **Chapter 6. Financial Report**

Article 27: The Company's fiscal year begins on January 1 and ends on December 31. At the end of each fiscal year, the Board of Directors shall formulate the following documents and submit them to the general shareholders' meeting for ratification.

I. Business Report;

II. Financial statements;

III. Proposal of earnings distribution or loss reimbursement plans.

Article 28: If the Company has profit for the year, the Board of Directors shall resolve to allocate no less than one thousandth of the profit as remuneration for employees and no more than 1% as remuneration for Directors. The recipients of employee remuneration shall include employees of subordinate companies meeting certain criteria. A sum shall be set aside in advance to pay down any outstanding cumulative losses of the Company before employee bonus and director remuneration can be allocated according to the above percentage.

Employee bonus and director remuneration proposals shall be submitted to the Board of Directors for resolution and presented to the shareholders' meeting.

Article 28-1: In the event of surplus earnings after closing of annual accounts, due taxes shall be paid in accordance with the law, and losses incurred in previous years shall be compensated. Upon completion of the preceding actions, 10% of the remainder surplus shall be allocated as statutory reserve. However, in the event that the accumulated statutory reserve is equivalent to or exceeds the Company's total paid-in capital, such allocation may be exempted. The remainder may be set aside or reversed as special surplus reserve in accordance with laws and regulations. The Board of Directors shall draft the proposal for shareholder dividend allocation based on the remaining profit, if any, along with the accumulated undistributed earnings for

the previous year, and submit the draft to the shareholder's meeting which shall determine whether to distribute dividends or retain the earnings.

The development of the Company's industry has matured. Therefore, the distribution of the shareholder dividends specified above shall be distributed with appropriate ratios of cash dividends and stock dividends. Cash dividends shall be no lower than 50%.

#### **Chapter 7. Supplementary provisions**

- Article 29: Where an individual or his/her ancestor who has or has not established a will currently serves or had previously served as the Company's Director or employee or performs duties for Directors or employees of any other company based on the Company's invitation and becomes a party to any litigation or legal proceedings, the Company may provide compensation for all actual and necessary fees, including attorneys' expenses, for the litigation or legal procedures that involve such individuals or for any appeals made. However, such Directors or employees shall be held liable for negligence or violation of duties. The compensation and rights awarded to Directors and employees shall not preclude any other due rights and interests.
- Article 30: Matters not addressed in this Article shall be processed in accordance with the Company Act and other relevant regulations.
- Article 31: The Articles of Incorporation were established on January 24, 1983. The 1st amendment was on April 21, 1983. The 2nd amendment was on June 25, 1983. The 3rd amendment was on January 18, 1984. The 4th amendment was on May 23, 1984. The 5th amendment was on July 20, 1985. The 6th amendment was on September 20, 1985. The 7th amendment was on December 10, 1985. The 8th amendment was on February 28, 1986. The 9th amendment was on May 15, 1986. The 10th amendment was on November 3, 1987. The 11th amendment was on March 13, 1988. The 12th amendment was on March 25, 1988. The 13th amendment was on March 4, 1989. The 14th amendment was on May 20, 1989. The 15th amendment was on October 3, 1989. The 16th amendment was on November 6, 1989. The 17th amendment was on February 24, 1990. The 18th amendment was on March 23, 1990. The 19th amendment was on May 10, 1991. The 20th amendment was on May 27, 1991. The 21st amendment was on January 27, 1992. The 22nd amendment was on June 18, 1993. The 23rd amendment was on June 2, 1994. The 24th amendment was on June 4, 1995. The 25th amendment was on May 17, 1996. The 26th amendment was on June 29, 1999. The 27th amendment was on February 2, 2000. The 28th amendment was on June 20, 2000. The 29th amendment was on June 28, 2002. The 30th amendment was on May 27, 2003. The 31st amendment was on June 24, 2004. The 32nd amendment was on June 28, 2005. The 33rd amendment was on June 29, 2006. The 34th amendment was on June 26, 2007. The 35th amendment was on June 26, 2008. The 36th amendment was on June 30, 2009. The 37th amendment was on June 24, 2010. The 38th amendment was on June 10, 2011. The 39th amendment was on June 14, 2012. The 40th amendment was on June 19, 2013. The 41st amendment was on

June 23, 2014. The 42nd amendment was on June 26, 2015. The 43rd amendment was on June 24, 2016.

## Chapter 6 Additional Descriptions

### I. Directors' shareholdings

- (I) According to Article 26 of the Securities and Exchange Act and the Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies:

The minimum combined shareholding of all Directors by law is 34,453,066 shares. (It may not be lower than 2.4% of the total number of shares)

Note: The Company has issued 1,435,544,446 common shares.

- (II) The shareholdings of all Directors as recorded in the shareholder register up until the book closure date of the current shareholders' meeting:

April 27, 2019

Title	Name or Institution Name	Number of Shares Held
Director	China Steel Corporation	582,673,153 shares
Shareholdings of all directors		582,673,153 shares

The number of shares held by all Directors of the Company meet the legally required percentage.

### II. The effects of the stock dividends on the Company's business performances, earnings per share and shareholder ROI

According to the requirements specified in the Ministry of Finance's official letter No. 00371 dated February 1, 2000, disclosure of such information is not required because the Company did not distribute shares or announce its 2019 financial forecast.

-  Head Office/Cold Rolling Department: No. 317, Yuliao Road, Ciaotou Dist., Kaohsiung City
-  Hot Rolling Department: No. 576, Xinglong St., Jiaxing, Gangshan Dist., Kaohsiung City
-  Pickling and Galvanizing Department: No. 24, Yanhai 3rd Rd., Xiaogang Dist., Kaohsiung City
-  Steel Pipe Plant (Dafa Plant): No. 18, Huazhong Rd., Dafa Industrial Park, Daliao Dist., Kaohsiung City
-  Steel Pipe Plant (Lukang Plant): No. 42, Lugong Rd., Neighborhood 18, Haipu Village, Lukang Township Changhua County