

# Phison Electronics Corporation

## Handbook for 2019 Annual General Meeting of Shareholders

Meeting time: June 12, 2019

Venue: No. 1, Qunyi Road, Zhunan Township, Miaoli County  
Conference Room on the 1st floor of the Company's 1st  
factory (located in Guangyuan Science and Technology  
Park)

### Notice to Readers

*For the convenience of readers, the Handbook for the 2019 Annual General Shareholders' Meeting 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 version of the Handbook for the 2019 Annual General Shareholders' Meeting shall prevail.*

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**Phison Electronics Corp.**  
**Meeting Procedure of 2019 Annual General Meeting of  
Shareholders**

**I. Meeting Procedure**

1. Calling the Meeting to order
2. Chairman's Remarks
3. Matters to Report
4. Proposals
5. Discussions
6. Extraordinary Motions
7. Adjournment

# Phison Electronics Corp.

## Agendas of 2019 Annual General Meeting of Shareholders

### II. Meeting Agenda

Meeting time: 9 a.m., Wednesday, June 12, 2019

Venue: No. 1 Qunyi Road, Zhunan Township, Miaoli County

Conference Room on the 1st floor of the Company's 1st factory  
(located in Guangyuan Technology Park)

Meeting chairperson: Mr. Khein Seng Pua, Chairperson of the Board

#### 1. Meeting Chairperson's Remarks

#### 2. Matters to Report

Case No. 1: The Company's 2018 business report.

Case No. 2: The Company's Supervisor 's Report on the review of the 2018 Financial Report.

Case No. 3: Report on 2018 Employees' and Directors' Remuneration Distribution.

Case No. 4: Report on the actual handling situation of 2018 general shareholders' meeting's resolution on private placement of common shares.

Case No. 5: Report of the Company's Investment in the Mainland.

#### 3. Proposals

Case No. 1: The Company's 2018 business report and financial statements.

Case No. 2: The Company's 2018 surplus earning distribution.

#### 4. Discussions

Case No. 1: The Company's private placement of common shares.

Case No. 2: Amendment to part of the Articles of Association of the Company.

Case No. 3: Amendment to part of the “Procedures for Acquisition or Disposal of Assets”, “Procedures for Engaging in Derivatives Trading”, “Procedures for Lending Funds to Other Parties”, “Procedures for Endorsement and Guarantee”.

5. Extraordinary Motions

6. Adjournment

### III. Matters to Report

Case No. 1: (Proposed by the Board)

Note: The Company's 2018 business report.

Explanation: For the Company's 2018 business report, please refer to Attachment 1 on page 15 to 18 of this handbook.

Case No. 2: (Proposed by the Board)

Note: The Company's Supervisor's Report on the review of the 2018 Financial Report.

Explanation: 1. The financial report of the Company for the year of 2018, including Individual Financial Statements (including Individual Balance Sheets, Individual Statements of Comprehensive Income, Individual Statements of Changes in Equity, Individual Statement of Cash Flows) and Consolidated Financial Statements (including Consolidated Balance Sheets, Consolidated Statements of Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statements of Cash Flows) have been audited by accountants. The Business reports and Surplus Earning Distribution have been reviewed by the supervisors and filed in accordance with Article 219 of the Company Act. Please refer to Attachment 2 on page 19 of this handbook.

2. Supervisor reads the review report.

Case No. 3: (Proposed by the Board)

Note: Report on 2018 Employees' and Directors' Remuneration Distribution.

Explanation: 1. According to Article 19 of the Articles of Association of the Company, "If the Company makes profits in the year, it shall appropriate 8% to 19% for employees' compensation and no more than 1.5% for directors and supervisors' compensations."

2. In the year of 2018, the Company earned NT\$5,590,352,737 (the amount represents the pre-tax profit before deducting of employees' and directors' remuneration), and it intends to distribute NT\$550,000,000 from 2018's profits for employees' compensation (about 9.84% of the profits for the year 2018) and NT\$40,000,000 for directors and supervisors (about 0.72% of the profits for the year 2018), all in cash.

Case No. 4 (Proposed by the Board)

Note: Report on the actual handling situation of 2018 general shareholders' meeting's resolution on private placement of common shares.

Explanation: The Company resolved a private placement of common shares which do not exceed 18,000,000 shares at the 2018 general shareholders' meeting on June 8, 2018, and resolution was granted to proceed the same one or two times within one year from the date of the resolution of the general shareholders' meeting. As the date upon which such resolution expired; therefore, the board of directors decided that this private placement will no longer be conducted.

Case No. 5 (Proposed by the Board)

Note: Report of the Company's Investment in the Mainland.

Explanation: Please refer to Attachment 3 on page 20 to 21 of this handbook for information on the Company's investment in the Mainland in 2018.

## IV. Proposals

### Case No. 1 (Proposed by the Board)

Note: The Company's 2018 Business Report and Financial Statements.

Explanation: 1. The Business Report and Individual Financial Statements of the Company for the year of 2018 (including Individual Balance Sheets, Individual Statements of Comprehensive Income, Individual Statements of Changes in Equity, Individual Statement of Cash Flows) and Consolidated Financial Statements (including Consolidated Balance Sheets, Consolidated Statements of Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statements of Cash Flows) have been compiled and audited by independent auditors, Dai Xinwei and Fan Youwei, of Deloitte & Touche and Supervisors. Please refer to the above Financial Statements together with the Business Report.

2. For the 2018 Business Report, Individual Financial Statements and Consolidated Financial Statements, please refer to Attachment 1 on pages 15 to 18 and Attachment 4 on pages 22 to 42, of this handbook respectively.

Resolution:

### Case No. 2 (Proposed by the Board)

Note: The Company's 2018 surplus earning distribution.

Explanation: 1. The net profit after tax in 2018 was NT\$4,318,119,205. In accordance with the Company's Articles of Association, surplus earning distribution shall be determined. The company's 2018 surplus earning distribution is as follows:



**Phison Electronics Corporation**  
**Statement of surplus earning distribution**  
**2018**

Unit: New Taiwan Dollars (NT\$)

<b>Unappropriated retained earnings at beginning of year</b>	<b>10,621,497,305</b>
Less: Loss of the 2018 employee defined benefit plan recognized in retained earnings	1,530,731
Plus: Adjustment on initial application of IFRS 9	463,052,411
Less: Cumulative unrealized gain (loss) due to disposals the equity instruments at fair value through OCI transferred to retained earnings	172,634,334
<b>Unappropriated retained earnings upon adjustment.</b>	<b>10,910,384,651</b>
Plus: Net profit after tax of this fiscal year	4,318,119,205
Less: Allocation of 10% of the remaining balance as legal reserve	431,811,921
Less: Provision of special reserve from the balance pursuant to relevant laws and regulations	380,927,272
<b>Distributable earnings</b>	<b>14,415,764,663</b>
Distribution item:	
Cash dividends to shareholders - NT\$13 per share	2,561,961,909
<b>Unappropriated retained earnings at end of year</b>	<b>11,853,802,754</b>

Chairperson: \_\_\_\_\_ Manager: \_\_\_\_\_ Accounting Supervisor: \_\_\_\_\_

2. The cash dividends distributed to the shareholders of the Company during 2018 was NT\$2,561,961,909, NT\$13 per share. Dividends are allocated based on the shareholding ratio of shareholders listed on Shareholders' Rosters on the ex-dividend record date. The cash dividends are calculated up to NT\$1. Decimal points are rounded down and the uncounted shares in fractions of NT\$1 shall be transferred to the Company's Employee Benefits Committee. The aforesaid distribution ratio was calculated based on the Company's total outstanding shares as of March 21, 2019, 197,073,993 shares. Upon the resolution of cash dividend by general shareholders' meeting, the chairman will be authorized to set up the ex-dividend record date and related matters. If there is change in the total number of shares outstanding on the ex-dividend record date, the chairman will be authorized to recalculate the cash dividend payout

ratio based on the number of outstanding shares on the ex-dividend record date.

Resolution:

## V. Discussions

Case No. 1 (Proposed by the Board)

Note: The Company's private placement of common shares.

Explanation: 1. In order to introduce strategic investors and strengthen its long-term cooperative relationship with strategic partners so as to facilitate the company's long-term operation and business development, it is proposed to conduct a private placement to increase capital in cash by issuance of new shares (hereinafter referred to as "Private placement of common shares of this fiscal year"), in compliance with the provisions of Article 43-6 of the Securities and Exchange Act, etc. It is expected that the total amount of private placement of common shares will not exceed 18,000,000 shares at par value of NT\$10 per share and the increase in paid-in capital will not exceed NT\$180,000,000.

2. According to the provisions of Article 43-6 of the Securities and Exchange Act and the "Directions for Public Companies Conducting Private Placements of Securities", the explanations are as follows:

(1) The basis and rationality of the pricing of private placement

A. As to the pricing of the private placement of common shares, the price of per share shall not be lower than 85% of the higher price of the following two calculations before the price determination date:

(i) The simple average closing price of the common shares is calculated based on either the 1, 3, or 5 business days before the price determination date and is adjusted upon distribution of stock dividends and cash dividends, and capital reduction.

(ii) The simple average closing price of the common

shares is calculated based on 30 business days before the price determination date, and is adjusted upon distribution of stock dividends and cash dividends, and capital reduction.

- B. The actual price determination date and the actual price of private placement shall not be less than the range decided by the shareholders' meeting. The board of directors will be authorized to determine the price based on the aforesaid price, future specific persons' situation and market conditions.
  - C. The pricing method of this private placement price is based on the "Directions for Public Companies Conducting Private Placements of Securities" and considers that the company's future prospects and the timing, object, and quantity of private placement of securities transfer are strictly limited. Moreover, it is also not possible to be listed on the TPEX within three years and the liquidity is poor. Therefore, the pricing of the private placement of this fiscal year shall be reasonable, and would cause no major impact on shareholders' equity.
- (2) Methods of selecting specific persons
- A. The object of the private placement of common shares is, in accordance with Article 43-6 of the Securities Exchange Act and the Order Tai-Cai-Zheng-Yi No. 0910003455 of the Financial Supervisory Commission of the Executive Yuan issued on June 13, 2002, a specific person as strategic investor.
  - B. Offerees are intended to be strategic investors:
    - (i) Method and purpose of selecting offerees: Due to the Company's long-term business and business development needs, it will give priority to those who may directly or indirectly contribute to the future operation of the Company, and can help the Company expand its business and product market, strengthen customer relations, or enhance product development integration benefits, or can improve technology, and can identify with the Company's business philosophy of strategic investors.

(ii) Necessity: The purpose of selecting offerees is to introduce strategic investors and strengthen long-term cooperation with strategic partners. Through strategic investors, the long-term competitiveness and operational effectiveness of the company can be enhanced, which is necessary.

(iii) Expected Benefits: It is expected that through strategic investors' experience, product technology, knowledge, brand reputation, and market access, we can cooperate with investors in strategic cooperation, joint product development, market integration, or business development cooperation, which will help the Company to reduce operating costs, improve product technology, and expand its sales market to improve the company's future operating performance.

C. There are at present no offerees.

(3) Necessary reasons for private placement:

A. Reasons for not adopting public offerings: Considering factors such as capital market conditions, issuance costs, timeliness and feasibility of fundraising for private placements, and restrictions on private placement of shares that cannot be freely transferred within three years, etc. In this way, it can ensure and strengthen strategic partnerships in a closer long-term cooperation relationship. Therefore, public offering is not adopted this time, and a private placement to increase capital in cash by issuance of new share is conducted instead.

B. The quota of private placement: The total quota of this private placement of common shares shall not exceed 18,000,000 shares, and will be processed once or twice within one year from the date of the resolution of the shareholders' meeting.

C. The capital purpose and the estimated benefits of private placement of common shares processed in different tranches.

Processing times	Capital purpose	Expected results
Once in a single transaction	Seek opportunities for technical cooperation or strategic alliances with domestic and foreign industrial companies, and at the same time, enrich working capital and meet the company's long-term operational development needs	Reduce the company's operating risks, strengthen its financial structure, and improve the company's future operating performance
Twice in two transactions	Two occasions are to seek technical cooperation or strategic alliance with domestic and foreign industrial companies. At the same time, it enriches the working capital and meets the needs of the company's long-term operation and development.	Two occasions are to reduce the company's operating risk, strengthen its financial structure, and improve the company's future operating performance.

- (4) One year before the private placement of this fiscal year resolved by the board of directors, there was no major change in the operating rights, and the total amount of private placement of common shares is not expected to exceed 18,000,000 shares this time, accounting for 8.37% of the estimated total amount of paid-in capital after private placement. This time, offerees will be limited to strategic investors and will have a positive effect on the development of the company's business. It is expected that the introduction of strategic investors in private placement will not cause major changes in the operating rights.

(5) Other matters that should be stated:

A. Regarding the private placement of common shares of this fiscal year, the rights and obligations are in principle the same as the common shares issued by the Company, but according to the provisions of Article 43-8 of the Securities and Exchange Act, in addition to the objects and conditions of the assignment as prescribed by the provisions, in principle, the private placement of common shares shall not be freely transferable within three years from the date of delivery. After the full three years from the delivery date, the company plans to obtain a consent letter from the over-the-counter trading center in accordance with the relevant provisions of the Securities and Exchange Act, etc. The Company shall apply for re-issuance of the public offering of private placement of common shares and application for the transaction of the counter with the competent authority.

B. The main contents of the private placement of common shares of this fiscal year include actual number of private placement shares, actual private placement price, selection of applicants, recod date, issuance conditions, project items, capital use and progress, projected benefits, and other related issues. Etc., etc., and all other matters related to the issuance plan, intended to be brought to the shareholders' meeting to authorize the board of directors to adjust, determine and handle based on the market conditions, and if future changes such as due to amendments in laws or regulations or when required by the competent authority or based on operational assessment, or due to changes in the objective environment, the board of directors will be authorized to handle it completely.

C. In addition to the aforesaid scope of authorization, it is proposed that the Chairperson is authorized to sign, negotiate, and change all contracts and documents relating to private placement of common shares on behalf of the Company, and to handle all necessary

matters regarding to private placement of common shares for the company.

Resolution:

Case No. 2 (Proposed by the Board)

Note: Amendment to part of the Articles of Association of the Company.

Explanation: According the amended Company Act and to meet the necessity of business operation, the Company would amend the Articles of the Association. Regarding the amended articles of the Article 1、Article 7、Article 19、Article 21 and added articles of Article 5-1、Article 5-2、Article 5-3 of the Corporation, please refer to Attachment 5 on pages 43 to 48 of this handbook of amendment comparison table for the Articles of the Corporation.

Resolution:

Case No. 3 (Proposed by the Board)

Note: Amendment to part of the “Procedure of Acquisition and Disposal of Assets”、 “Procedure of Engaging in Derivatives Trading”、 “Procedures for Lending Funds to Other Parties” and “Procedures for Endorsement and Guarantee”.

Explanation: 1. According the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies”、 “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” and operation needs of the Company, the Company proposed to revise partial articles of “Procedures for Acquisition or Disposal of Assets”, “Procedures for Engaging in Derivatives Trading”, “Procedures for Lending Funds to Other Parties”, “Procedures for Endorsement and Guarantee”.

2. Please refer to Attachment 6 for comparison table on pages 49 to 109 of this handbook.

Resolution:

VI. Extraordinary Motions

VII. Attachments



# Phison Electronics Corporation

## 2018 Business Report

### 1. Business Policy and Implementation

2018 was the year when Phison Electronics Corporation continued to innovate and invest for the new growth markets such as 5G, AI, AIoT, Self-Driving Cars, AR/VR, eSPORTS and 8K video. Phison, with our leading technology, overcame the 2018 NAND Flash pricing and market fluctuation challenges. We expanded our market share and returned solid results for the year. With the concerted efforts of all groups, the total consolidated revenue for 2018 was approximately NT\$40.8 billion, the consolidated after-tax surplus earning was approximately NT\$4.3 billion, and the after-tax EPS was NT\$21.91.

In 2018, the Company's SSD products and the related products of embedded memory, such as control chips and finished products accounted for 46% of the company's total revenue, marking a growth of 11 percent compared with the previous year, and actively developed UFS control chip, which is the best choice of high-performance embedded memory devices in the next generation. The R&D team also continued to invest in key IP development and process miniaturization, providing a more complete and updated product lineup and moving to a major industry milestone.

The demand for high speed data storage applications such as Cloud Computing, Big Data, Artificial Intelligence and Gaming have pushed SSD penetration rates to a new pace never seen before. Phison has launched different NAND Flash controllers for different markets, including several PCIe Gen3x4 NVMe controllers and the World's 1st PCIe Gen4x4 NVMe SSD controller. For performance-oriented applications and the enterprise SSD market, Phison offers the 8-channel ultra-high speed, low latency PCIe Gen3x4 controller in mass production. For mobile storage, Phison is one of the few companies that carry both eMMC and UFS controllers, where power consumption and temperature are critical. The latest UFS 3.0 controller unveiled by Phison, with in-house technology such as StrongECCTM, advanced LDPC, CoProcessorTM and RAID, provides optimal power consumption and robust error correction capability while offering SSD-like performance. We also develop the PCIeNVMe BGA SSD as an alternative to high speed mobile storage. For memory cards, Phison has released the latest SD 6.0 and microSD controllers conforming to the SDA Application Performance Class 2 (A2), boosting the random performances while bumping up the capacity to 1TB. For the USB product line, it has evolved into several portable SSDs with unprecedented performance. For instance, the brand new iDUO Lightning and C-Thru USB 3.1 solutions can support end-users charging mobile devices during operation. All Phison product lines are supporting the latest 3D TLC NAND Flash from various manufacturers.

Looking forward to 2019, while the world economy stumbles into contraction and monetary policy turns to easing, there are still uncertainties in the outlook with the ongoing US-China trade talks and Brexit discussions. Nonetheless, Phison will increase the R&D investments and the number of new products. We remain focused in

NAND Flash controller related technologies, and do our best in reaching out to different markets to in order stay on the leading edge.

## 2. 2018 Business Results

### (i) Description of business results:

#### 1. Consolidated operating revenue:

The consolidated net operating revenue of the company for the year 2018 was NT\$40,788,105 thousand, which was a slight decrease of 2.57% compared with the year of 2017 of NT\$41,864,759 thousand.

#### 2. Consolidated net profit after tax:

The consolidated net profit after tax of the company for the year 2018 was NT\$4,318,119 thousand, which was a decrease of 25.05% compared with the year of 2017 of NT\$5,761,290 thousand.

(ii) Budget implementation: In the year of 2018, the Company did not disclose its financial forecasts, so it is not necessary to publicly disclose the implementation of the budget.

### (iii) Financial balance and profitability analysis:

#### 1. Consolidated operating revenue and expenditure:

Unit: Thousands of New Taiwan Dollars

Item	2018	2017	Increases (decreases)	Proportion of the changes (%)
Operating revenue	40,788,105	41,864,759	(1,076,654)	(2.57%)
Gross profit	9,131,954	11,499,622	(2,367,668)	(20.59%)
Net Operating Income	4,709,784	6,731,692	(2,021,908)	(30.04%)
Non-operating income and expenses	295,397	(13,822)	309,219	2,237.15%
Net profit after tax	4,318,119	5,761,290	(1,443,171)	(25.05%)

## 2. Financial profitability of consolidated operation

Item		2018	2017
Financial structure	Liability to asset ratio (%)	26.14	25.82
	Long-term asset to real estate, plant and equipment ratio (%)	899.99	923.11
Debt-paying ability	Current ratio (%)	324.92	321.41
	Quick ratio (%)	243.81	240.85
	Interest coverage ratio (times)	988.22	1,349.70
Operation performance	Receivables turnover ratio (times)	7.43	7.95
	Average days of receipt (days)	49.12	45.91
	Inventory turnover ratio (times)	4.29	4.89
	Average sales days (days)	85.08	74.64
	Payables turnover ratio (times)	7.49	8.09
	PP&E turnover ratio (times)	14.03	15.95
	(multiples)Total asset turnover ratio (multiples)	1.14	1.25
Profitability	Return on assets (%)	12.08	17.18
	Return on equity attributable to owners of parent company (%)	16.30	23.49
	Ratio of income to paid-in capital (%)	238.99	341.58
	Ratio of pre-tax income to paid-in capital (%)	253.97	340.88
	Net income ratio (%)	10.59	13.76
	Basic earnings per share (NTD)	21.91	29.23
Cash flow	Cash flow ratio (%)	55.34	43.20
	Cash flow adequacy ratio (%)	114.62	92.61
	Cash re-investment ratio (%)	6.73	4.18
Leverage	Degree of operating leverage (DOL)	1.09	1.05
	Degree of financial leverage (DFL)	1.00	1.00

### (iv) Overview of R&D

#### 1. Research and development costs in the most recent two years:

The combined R&D expenses in 2018 and 2017 were NT\$3,495,417 thousand and NT\$3,713,829 thousand respectively, which accounted for 8.57% and 8.87% of the consolidated operating revenue respectively. As of fiscal year 2018, the company has obtained 1,463 patent approvals from various countries.

#### 2. R & D results:

In fiscal year 2018, the following products have been successfully developed and launched, including:

- (1) Developed a lower power MIPI Gear 4 PHY as the host interface for the UFS Unipro flash memory controller chip.
- (2) The advanced process PCIe G3x4 and MIPI PHY were developed for better performance and energy efficient.
- (3) Developed the latest generation of LDPC+ DSP error correction module, which is able to more effectively support 3D Nand.

- (4) Developed USB3.1 flash disk that supports high speed random write.
  - (5) Developed flash memory management core circuit modules to simplify the firmware operation process, increase data transmission efficiency, and reduce power consumption.
  - (6) Developed the SD/microSD card with high random read/write performance which can be used to expand the built-in flash memory capacity of handheld devices.
  - (7) Develop various control chips and solutions that support 3D Nand.
3. For 2019, Phison plans to develop or upgrade the following products in order to meet the market demand and industry trends:
- (1) High speed, high capacity USB 3.2 Flash Drive solutions.
  - (2) SD 7.0 (SD Express) controllers.
  - (3) UFS 3.1 controllers supporting 1.2GB/s NAND Flash.
  - (4) High performance PCIe NVMe controllers and solutions.
  - (5) 12nm PHYs.
  - (6) Enterprise and Datacenter SSD controllers.
  - (7) New LDPC ECC engines for emerging 3D QLC NAND Flash.
  - (8) System in Package SSD solutions.
  - (9) Automotive SSD solutions.

**Phison Electronics Corp.**

Khein Seng Pua, Chairperson

Cheek Kong Aw Yong, General  
Manager

Shu Hua Chiu, Accounting Director

## **Supervisors' Review Report**

The board of directors prepared the Company's 2018 Business Report and Financial Statements (including Consolidated Financial Statements) and Surplus Earning Distribution, etc. Mr. Dai Xinwei and Mr. Fan Youwei, the independent auditors from the CPA firm of Deloitte & Touche audited the Financial Statements and have issued an audit report. Above Business Reports, Financial Statements (including Consolidated Financial Statements) and Surplus Earning Distribution were audited by Supervisor and found no discrepancy, as reported in accordance with the Article 219 of the Company Act, please check.

To

2019 Annual General Meeting of Shareholders

Phison Electronics Corp.

Supervisor: Yeong Jiunn Yang

Supervisor: Chiun Hsiou Chen

Supervisor: Hue iMing Wang

March 21, 2019

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Percentage of Ownership (%)	Investment (Loss) Income (Note 2)	Carrying Amount as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow					
Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	\$ 53,096	2	\$ 53,096	\$ -	\$ -	\$ 53,096	100.00	\$ (14,830)	\$ 8,777	\$ -
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services	576,780	2	576,780	-	-	576,780	100.00	49,190	598,892	-
Hefei Ruhan Electronic Technology Limited	Design, R&D, sale of electronics hardware and rendering of related services and investment	182,825	1	-	182,825	-	182,825	100.00	703	183,151	-
Hefei Yichao Electronics Technology Ltd.	Design, R&D, sale of electronics hardware and software and rendering of related services and investment	185,369	2	-	-	-	-	100.00	(1,003)	180,133	-
Hefei Xinpeng Technology Co., Ltd.	Design, R&D, production and sale of integrated circuits and electronics hardware and software and rendering of related services	493,570	2	-	-	-	-	36.36	(1,043)	177,857	-

Accumulated Investments in Mainland China as of December 31, 2018	Investment Amount Authorized by the Investment Commission, MOEA	Limit on Investments (Note 3)
\$ 812,701 (US\$ 25,762)	\$ 1,220,501 (US\$ 39,190)	\$ 16,147,122

(Continued)

Note 1: 1) Indirectly invested in a China-based company through a company located in a third region, Regis Investment Limited, and its subsidiaries.  
2) Indirectly invested in a China-based company through a company located in a third region, Global Flash Limited, and its subsidiaries.

Note 2: Amount was recognized based on the audited financial statements.

Note 3: The limit of investments in mainland China, which is based on Regulations Governing the Approval of Investments on Technical Corporation in Mainland China, is 60% of the Group's net asset value, which is  $\$26,911,870 \times 60\% = \$16,147,122$ .

(Concluded)

## 2018 Annual Financial Statements

### INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Phison Electronics Corp.

#### Opinion

We have audited the financial statements of Phison Electronics Corp. (the "Corporation") which comprises the balance sheets as of December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2018 and 2017, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2018 and 2017, and its financial performance and its 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 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.

#### Key Audit Matters

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



The key audit matter for the Corporation's financial statements for the year ended December 31, 2018 is stated as follows:

#### Sales Revenue Recognition

Auditing standards generally accepted in the Republic of China presumes there is a risk of fraud in the recognition of sales revenue. Management may artificially inflate sales revenue due to pressure in meeting the sales target. The Corporation's customers are numerous and diverse, and the operating revenue of the Corporation for the year ended December 31, 2018 amounted to NT\$40,804,130 thousand. Therefore, the possibility of sales from transactions with unusual customers, validity of the transactions and whether they fulfilled the criteria for revenue recognition may result in a significant impact on the financial statements. Thus, the recognition of sales revenue has been identified as a key audit matter.

Our main audit procedures performed in response to this matter, included the following:

1. We understood and tested the process of sales revenue recognition and the design and implementation of the relevant internal controls.
2. We sampled the original sales orders, shipping documents, export declarations and examined the process for the payment receipts to confirm that the sales revenue have met the conditions of revenue recognition.
3. We checked if there were any instances of simultaneous purchases from and sales to the same entity. If such situations exist, we further assessed the background of the entity and the goods purchased and sold in order to evaluate the reasonableness of the transactions and to confirm whether there were instances of repeated purchases and sales.

#### **Emphasis of Matter**

As stated in Note 33 to the accompanying financial statements, the Corporation has been under statutory investigation since August 5, 2016 for an alleged violation of the Securities and Exchange Act, and the investigation was conducted by the Taiwan Hsinchu District Prosecutors Office and was concluded on August 31, 2017. According to the press release announcement from the Taiwan Hsinchu District Prosecutors Office on September 1, 2017, under the Securities and Exchange Act and related provisions in the Criminal Code of the Republic of China, the prosecutor charged the chairman of the Corporation and others culminating in either deferred prosecution or dropping the claim for further prosecution. The Taiwan Hsinchu District Prosecutors Office ex officio sent the ruling to the Taiwan High Prosecutors Office for reconsideration. As of November 18, 2017, in regard to the partial revocation and partial dismissal charge by the Taiwan High Prosecutors Office against the chairman of the Corporation and others, the case is under re-investigation. As such, our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with statements 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 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 Hsin-Wei Tai and Yu-Wei Fan.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 21, 2019

Notice to Readers

*The accompanying financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying 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 financial statements shall prevail.*

# PHISON ELECTRONICS CORP.

## BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars)

ASSETS	2018		2017	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 12,778,312	35	\$ 12,754,576	37
Financial assets at fair value through profit or loss (FVTPL) - current (Notes 4, 7 and 27)	2,979,132	8	1,171,056	3
Financial assets at amortized cost - current (Notes 4 and 9)	30,576	-	-	-
Debt investments with no active market - current (Notes 4, 10 and 30)	-	-	20,549	-
Notes and accounts receivable				
Non-related parties (Notes 4 and 11)	4,853,397	14	5,307,499	15
Related parties (Notes 4, 11 and 28)	383,602	1	336,042	1
Other receivables (Note 11)	253,105	1	266,475	1
Inventories (Notes 4 and 12)	7,491,072	21	7,186,003	21
Prepayments	62,823	-	27,446	-
Other current assets	8,521	-	6,489	-
<b>Total current assets</b>	<b>28,840,540</b>	<b>80</b>	<b>27,076,135</b>	<b>78</b>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through profit or loss (FVTPL) - non-current (Notes 4, 7 and 27)	383,497	1	-	-
Financial assets at fair value through other comprehensive income (FVTOCI) - non-current (Notes 4, 8 and 27)	163,443	1	-	-
Available-for-sale financial assets - non-current (Notes 4 and 13)	-	-	434,763	1
Financial assets measured at cost - non-current (Notes 4 and 14)	-	-	447,416	1
Investments accounted for using the equity method (Notes 4 and 15)	3,141,430	9	3,307,982	10
Property, plant and equipment (Notes 4 and 16)	2,961,130	8	2,793,102	8
Intangible assets (Notes 4 and 17)	149,381	-	212,108	1
Deferred tax assets (Notes 4 and 23)	306,595	1	304,835	1
Guarantee deposits paid	2,570	-	1,371	-
<b>Total non-current assets</b>	<b>7,108,046</b>	<b>20</b>	<b>7,501,577</b>	<b>22</b>
<b>TOTAL</b>	<b>\$ 35,948,586</b>	<b>100</b>	<b>\$ 34,577,712</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Contract liabilities - current	\$ 34,266	-	\$ -	-
Notes and accounts payable				
Non-related parties	1,936,292	5	1,081,013	3
Related parties (Note 28)	2,861,765	8	2,565,726	8
Other payables (Note 18)	3,290,868	9	3,246,454	9
Tax payable (Notes 4 and 23)	522,579	2	1,090,947	3
Provisions (Notes 4 and 20)	-	-	292,081	1
Other current liabilities (Note 19)	297,716	1	157,746	1
<b>Total current liabilities</b>	<b>8,943,486</b>	<b>25</b>	<b>8,433,967</b>	<b>25</b>
<b>NON-CURRENT LIABILITIES</b>				
Net defined benefit liabilities - non-current (Notes 4 and 21)	92,827	-	84,897	-
Guarantee deposits received	403	-	533	-
<b>Total non-current liabilities</b>	<b>93,230</b>	<b>-</b>	<b>85,430</b>	<b>-</b>
<b>Total liabilities</b>	<b>9,036,716</b>	<b>25</b>	<b>8,519,397</b>	<b>25</b>
<b>EQUITY (Notes 22 and 25)</b>				
Share capital				
Common shares	1,970,740	5	1,970,740	6
Capital surplus	6,674,650	19	6,660,502	19
Retained earnings				
Legal reserve	3,418,903	10	2,842,806	8
Special reserve	-	-	25,965	-
Unappropriated earnings	15,228,504	42	14,521,886	42
Total retained earnings	18,647,407	52	17,390,657	50
Other equity	(380,927)	(1)	36,416	-
<b>Total equity</b>	<b>26,911,870</b>	<b>75</b>	<b>26,058,315</b>	<b>75</b>
<b>TOTAL</b>	<b>\$ 35,948,586</b>	<b>100</b>	<b>\$ 34,577,712</b>	<b>100</b>

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

# PHISON ELECTRONICS CORP.

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 28)				
Gross sales	\$ 41,027,588	101	\$ 42,068,216	101
Less: Sales returns and allowances	<u>371,291</u>	<u>1</u>	<u>432,902</u>	<u>1</u>
Net sales	40,656,297	100	41,635,314	100
Other operating revenue	<u>147,833</u>	<u>-</u>	<u>138,218</u>	<u>-</u>
Total operating revenue	40,804,130	100	41,773,532	100
OPERATING COSTS (Notes 4, 12, 24 and 28)	<u>31,652,858</u>	<u>78</u>	<u>30,324,437</u>	<u>73</u>
GROSS PROFIT	<u>9,151,272</u>	<u>22</u>	<u>11,449,095</u>	<u>27</u>
UNREALIZED GAIN ON TRANSACTIONS	<u>(19,550)</u>	<u>-</u>	<u>-</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>9,131,722</u>	<u>22</u>	<u>11,449,095</u>	<u>27</u>
OPERATING EXPENSES (Note 24)				
Marketing	525,116	1	529,936	1
General and administrative	384,276	1	476,329	1
Research and development	3,525,077	9	3,719,729	9
Reversal of expected credit loss	<u>(39,098)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>4,395,371</u>	<u>11</u>	<u>4,725,994</u>	<u>11</u>
OPERATING INCOME	<u>4,736,351</u>	<u>11</u>	<u>6,723,101</u>	<u>16</u>
NONOPERATING INCOME AND EXPENSES				
Other gains and losses (Note 24)	161,238	1	(510,793)	(1)
Share of (losses) gains of subsidiaries and associates (Notes 4 and 15)	(24,194)	-	416,073	1
Other income (Note 24)	132,028	-	89,805	-
Financial costs	<u>(5,070)</u>	<u>-</u>	<u>(4,981)</u>	<u>-</u>
Total nonoperating income and expenses	<u>264,002</u>	<u>1</u>	<u>(9,896)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	5,000,353	12	6,713,205	16
INCOME TAX EXPENSE (Notes 4 and 23)	<u>682,234</u>	<u>1</u>	<u>952,233</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>4,318,119</u>	<u>11</u>	<u>5,760,972</u>	<u>14</u>

(Continued)

# PHISON ELECTRONICS CORP.

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF INCOME TAX				
Items that will not be reclassified subsequently to profit or loss				
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	\$ (106,094)	(1)	\$ -	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method	(63,357)	-	-	-
Remeasurement of defined benefit plan	(3,701)	-	(8,288)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 23)	2,171	-	1,408	-
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive loss of subsidiaries and associates	(3,975)	-	(392)	-
Unrealized gain on available-for-sale financial assets	-	-	62,712	-
Income tax benefit relating to items that may be reclassified subsequently to profit or loss (Note 23)	3,214	-	61	-
Other comprehensive income (loss) for the year, net of income tax	<u>(171,742)</u>	<u>(1)</u>	<u>55,501</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 4,146,377</u>	<u>10</u>	<u>\$ 5,816,473</u>	<u>14</u>
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 25)				
Basic	<u>\$ 21.91</u>		<u>\$ 29.23</u>	
Diluted	<u>\$ 21.60</u>		<u>\$ 28.83</u>	

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

(Concluded)

**PHISON ELECTRONICS CORP.**

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

	Common Shares	Capital Surplus	Retained Earnings			Other Equity			Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	
BALANCE AT JANUARY 1, 2017	\$ 1,970,740	\$ 6,652,449	\$ 2,356,107	\$ 111,358	\$ 11,928,136	\$ (66,816)	\$ 40,851	\$ -	\$ 22,992,825
Appropriation of the 2016 earnings									
Legal reserve	-	-	486,699	-	(486,699)	-	-	-	-
Reversal of special reserve	-	-	-	(85,393)	85,393	-	-	-	-
Cash dividends - NT\$14 per share	-	-	-	-	(2,759,036)	-	-	-	(2,759,036)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	10,739	-	-	-	-	-	-	10,739
Actual disposal or acquisition of interests in subsidiaries	-	(2,686)	-	-	-	-	-	-	(2,686)
Net profit for the year ended December 31, 2017	-	-	-	-	5,760,972	-	-	-	5,760,972
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(6,880)	(331)	62,712	-	55,501
BALANCE AT DECEMBER 31, 2017	1,970,740	6,660,502	2,842,806	25,965	14,521,886	(67,147)	103,563	-	26,058,315
Effect of retrospective application	-	-	-	-	463,052	-	(103,563)	(316,201)	43,288
BALANCE AT JANUARY 1, 2018 AS ADJUSTED	1,970,740	6,660,502	2,842,806	25,965	14,984,938	(67,147)	-	(316,201)	26,101,603
Appropriation of the 2017 earnings									
Legal reserve	-	-	576,097	-	(576,097)	-	-	-	-
Reversal of special reserve	-	-	-	(25,965)	25,965	-	-	-	-
Cash dividends - NT\$17 per share	-	-	-	-	(3,350,258)	-	-	-	(3,350,258)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	14,148	-	-	-	-	-	-	14,148
Subsidiaries' disposal of the investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	(21,785)	-	-	21,785	-
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	(150,848)	-	-	150,848	-
Net profit for the year ended December 31, 2018	-	-	-	-	4,318,119	-	-	-	4,318,119
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	-	(1,530)	(761)	-	(169,451)	(171,742)
BALANCE AT DECEMBER 31, 2018	\$ 1,970,740	\$ 6,674,650	\$ 3,418,903	\$ -	\$ 15,228,504	\$ (67,908)	\$ -	\$ (313,019)	\$ 26,911,870

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

# PHISON ELECTRONICS CORP.

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

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 5,000,353	\$ 6,713,205
Adjustments for:		
Depreciation	208,353	156,455
Amortization	198,436	163,653
Recognition of refund liabilities	166,648	-
Write-down of inventories	92,379	19,396
Net (gain) loss on foreign currency exchange	(69,951)	205,687
Interest income	(49,565)	(38,504)
Dividend income	(41,698)	(29,947)
Expected credit loss reversed on trade receivables	(39,098)	-
Unrealized gain on transactions with subsidiaries	19,550	-
Financial costs	5,070	4,981
Gain on disposal of property, plant and equipment	(1,406)	-
Share of profit (loss) of subsidiaries and associates	24,194	(416,073)
Recognition of provisions	-	238,449
Impairment loss recognized on financial assets	-	147,890
Allowance for bad debts	-	24,522
Other non-cash items	-	1,163
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	11,605	5,529
Notes and accounts receivable	431,181	(851,863)
Other receivables	14,114	104,867
Inventories	(397,448)	(1,984,494)
Prepayments	(36,962)	38,375
Other current assets	(2,032)	740
Contract liabilities	34,266	-
Notes and accounts payable	1,165,893	(187,539)
Other payables	44,474	593,813
Provisions	-	(290,444)
Other current liabilities	(318,759)	(27,674)
Net defined benefit liabilities	4,228	3,883
Cash generated from operations	6,463,825	4,596,070
Interest paid	(5,070)	(5,385)
Income tax paid	(1,246,975)	(675,621)
Net cash generated from operating activities	<u>5,211,780</u>	<u>3,915,064</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets at fair value through profit or loss	(3,021,042)	(49,675)
Proceeds from financial assets at fair value through profit or loss	1,498,384	-
Payments for property, plant and equipment	(374,975)	(557,045)
Dividends received from associates	233,310	-
Dividends received from others	41,698	29,947

(Continued)



# PHISON ELECTRONICS CORP.

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

	2018	2017
Purchase of investments accounted for using the equity method	\$ (229,857)	\$ (289,778)
Payments for intangible assets	(135,709)	(157,998)
Purchase of financial assets at fair value through other comprehensive income	(53,712)	-
Proceeds from capital reduction of financial assets at fair value through profit or loss	69,855	-
Interest received	49,114	38,087
Proceeds from sale of financial assets at fair value through other comprehensive income	25,437	-
Purchase of financial assets at amortized cost	(10,027)	-
(Increase) decrease in refundable deposits	(1,199)	173
Proceeds from disposal of property, plant and equipment	1,585	-
Purchase of financial assets measured at cost	-	(100,889)
Proceeds from sale of financial assets measured at cost	-	6,770
Decrease in debt investments with no active market	-	1,244
	<u>(1,907,138)</u>	<u>(1,079,164)</u>
Net cash used in investing activities		
	<u>(1,907,138)</u>	<u>(1,079,164)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in guarantee deposits	(130)	(35)
Decrease in short-term borrowings	-	(580,500)
Dividends paid	<u>(3,350,258)</u>	<u>(2,759,036)</u>
Net cash used in financing activities	<u>(3,350,388)</u>	<u>(3,339,571)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES</b>	<u>69,482</u>	<u>(293,941)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	23,736	(797,612)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b>	<u>12,754,576</u>	<u>13,552,188</u>
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	<u>\$ 12,778,312</u>	<u>\$ 12,754,576</u>

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

(Concluded)

## **DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES**

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2018 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

PHISON ELECTRONICS CORP.

By

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KHEIN SENG PUA  
Chairman

March 21, 2019

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Phison Electronics Corp.

### **Opinion**

We have audited the consolidated financial statements of Phison Electronics Corp. (the "Corporation") and its subsidiaries (collectively, the "Group") which comprise the consolidated balance sheets as of December 31, 2018 and 2017, 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 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.

### **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.

The key audit matter for the Group's consolidated financial statements for the year ended December 31, 2018 is stated as follows:

#### Sales Revenue Recognition

Auditing standards generally accepted in the Republic of China presumes there is a risk of fraud in the recognition of sales revenue. Management may artificially inflate sales revenue due to pressure in meeting the sales target. The Group's customers are numerous and diverse, and the operating revenue of the Group for the year ended December 31, 2018 amounted to NT\$40,788,105 thousand. Therefore, the possibility of sales from transactions with unusual customers, validity of the transactions and whether they fulfilled the criteria for revenue recognition may result in a significant impact on the financial statements. Thus, the recognition of sales revenue has been identified as a key audit matter.

Our main audit procedures performed in response to this matter included the following:

1. We understood and tested the process of sales revenue recognition and the design and implementation of the relevant internal controls.
2. We sampled the original sales orders, shipping documents, export declarations and examined the process for the payment receipts to confirm that the sales revenue have met the conditions of revenue recognition.
3. We checked if there were any instances of simultaneous purchases from and sales to the same entity. If such situations exist, we further assessed the background of the entity and the goods purchased and sold in order to evaluate the reasonableness of the transactions and to confirm whether there were instances of repeated purchases and sales.

#### **Emphasis of Matter**

As stated in Note 35 to the accompanying consolidated financial statements, the Corporation has been under statutory investigation since August 5, 2016 for an alleged violation of the Securities and Exchange Act, and the investigation was conducted by the Taiwan Hsinchu District Prosecutors Office and was concluded on August 31, 2017. According to the press release announcement from the Taiwan Hsinchu District Prosecutors Office on September 1, 2017, under the Securities and Exchange Act and related provisions in the Criminal Code of the Republic of China, the prosecutor charged the chairman of the Corporation and others culminating in either deferred prosecution or dropping the claim for further prosecution. The Taiwan Hsinchu District Prosecutors Office ex officio sent the ruling to the Taiwan High Prosecutors Office for reconsideration. As of November 18, 2017, in regard to the partial revocation and partial dismissal charge by the Taiwan High Prosecutors Office against the chairman of the Corporation and others, the case is under re-investigation. As such, our opinion is not modified in respect of this matter.

#### **Other Matter**

We have also audited the parent company only financial statements of Phison Electronics Corp. as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion with an emphasis of matter section.

#### **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 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 of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the supervisors, 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 Hsin-Wei Tai and Yu-Wei Fan.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 21, 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 accepted and 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 auditors' report and consolidated financial statements shall prevail.*

**PHISON ELECTRONICS CORP. AND SUBSIDIARIES**

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

ASSETS	2018		2017	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 14,176,396	39	\$ 14,142,389	40
Financial assets at fair value through profit or loss (FVTPL) - current (Notes 4, 7 and 29)	3,077,540	8	1,271,217	4
Financial assets at amortized cost - current (Notes 4 and 9)	67,217	-	-	-
Debt investments with no active market - current (Notes 4, 10 and 32)	-	-	80,534	-
Notes and accounts receivable				
Non-related parties (Notes 4 and 11)	4,899,709	14	5,413,304	15
Related parties (Notes 4, 11 and 30)	344,249	1	318,151	1
Other receivables (Note 11)	273,062	1	288,599	1
Current tax assets (Notes 4 and 24)	23,448	-	9,237	-
Inventories (Notes 4 and 12)	7,576,721	21	7,192,346	21
Prepayments	63,194	-	28,720	-
Other current assets	104,271	-	65,190	-
<b>Total current assets</b>	<b>30,605,807</b>	<b>84</b>	<b>28,809,687</b>	<b>82</b>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through profit or loss (FVTPL) - non-current (Notes 4, 7 and 29)	427,789	1	-	-
Financial assets at fair value through other comprehensive income (FVTOCI) - non-current (Notes 4, 8 and 29)	450,397	1	-	-
Available-for-sale financial assets - non-current (Notes 4 and 13)	-	-	434,763	1
Financial assets measured at cost - non-current (Notes 4 and 14)	-	-	817,627	2
Investments accounted for using the equity method (Notes 4 and 16)	1,494,049	4	1,709,711	5
Property, plant and equipment (Notes 4 and 17)	2,990,231	8	2,822,881	8
Intangible assets (Notes 4 and 18)	152,550	1	218,130	1
Deferred tax assets (Notes 4 and 24)	310,563	1	310,025	1
Guarantee deposits paid	7,154	-	3,780	-
<b>Total non-current assets</b>	<b>5,832,733</b>	<b>16</b>	<b>6,316,917</b>	<b>18</b>
<b>TOTAL</b>	<b>\$ 36,438,540</b>	<b>100</b>	<b>\$ 35,126,604</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Contract liabilities - current	\$ 34,270	-	\$ -	-
Notes and accounts payable				
Non-related parties	1,949,403	5	1,086,707	3
Related parties (Note 30)	2,856,144	8	2,560,538	7
Other payables (Note 19)	3,716,898	10	3,736,777	11
Tax payable (Notes 4 and 24)	523,854	2	1,092,802	3
Provisions (Notes 4 and 21)	-	-	292,081	1
Other current liabilities (Note 20)	339,062	1	194,503	1
<b>Total current liabilities</b>	<b>9,419,631</b>	<b>26</b>	<b>8,963,408</b>	<b>26</b>
<b>NON-CURRENT LIABILITIES</b>				
Long-Term Deferred Revenue	14,068	-	19,710	-
Net defined benefit liabilities - non-current (Notes 4 and 22)	92,827	-	84,897	-
Guarantee deposits received	144	-	274	-
<b>Total non-current liabilities</b>	<b>107,039</b>	<b>-</b>	<b>104,881</b>	<b>-</b>
<b>Total liabilities</b>	<b>9,526,670</b>	<b>26</b>	<b>9,068,289</b>	<b>26</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 23)</b>				
Share capital				
Common shares	1,970,740	6	1,970,740	6
Capital surplus	6,674,650	18	6,660,502	19
Retained earnings				
Legal reserve	3,418,903	9	2,842,806	8
Special reserve	-	-	25,965	-
Unappropriated earnings	15,228,504	42	14,521,886	41
Total retained earnings	18,647,407	51	17,390,657	49
Other equity	(380,927)	(1)	36,416	-
<b>Total equity attributable to owners of the Corporation</b>	<b>26,911,870</b>	<b>74</b>	<b>26,058,315</b>	<b>74</b>
<b>Total equity</b>	<b>26,911,870</b>	<b>74</b>	<b>26,058,315</b>	<b>74</b>
<b>TOTAL</b>	<b>\$ 36,438,540</b>	<b>100</b>	<b>\$ 35,126,604</b>	<b>100</b>

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 30)				
Gross sales	\$ 40,976,395	101	\$ 42,115,942	101
Less: Sales returns and allowances	<u>361,131</u>	<u>1</u>	<u>425,229</u>	<u>1</u>
Net sales	40,615,264	100	41,690,713	100
Other operating revenue	<u>172,841</u>	<u>-</u>	<u>174,046</u>	<u>-</u>
Total operating revenue	40,788,105	100	41,864,759	100
OPERATING COSTS (Notes 4, 12, 25 and 30)	<u>31,656,151</u>	<u>78</u>	<u>30,365,137</u>	<u>73</u>
GROSS PROFIT	<u>9,131,954</u>	<u>22</u>	<u>11,499,622</u>	<u>27</u>
OPERATING EXPENSES (Note 25)				
Marketing	513,837	1	531,728	1
General and administrative	441,225	1	522,373	1
Research and development	3,495,417	9	3,713,829	9
Reversal of expected credit losses	<u>(28,309)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>4,422,170</u>	<u>11</u>	<u>4,767,930</u>	<u>11</u>
OPERATING INCOME	<u>4,709,784</u>	<u>11</u>	<u>6,731,692</u>	<u>16</u>
NONOPERATING INCOME AND EXPENSES				
Other gains and losses (Note 25)	175,624	-	(571,886)	(1)
Share of gains of associates (Note 16)	(174,654)	-	442,368	1
Other income (Note 25)	299,497	1	120,677	-
Financial costs	<u>(5,070)</u>	<u>-</u>	<u>(4,981)</u>	<u>-</u>
Total nonoperating income and expenses	<u>295,397</u>	<u>1</u>	<u>(13,822)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	5,005,181	12	6,717,870	16
INCOME TAX EXPENSE (Notes 4 and 24)	<u>687,062</u>	<u>1</u>	<u>956,580</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>4,318,119</u>	<u>11</u>	<u>5,761,290</u>	<u>14</u>
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF INCOME TAX				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plan	(3,701)	-	(8,288)	-

(Continued)



# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

	2018		2017	
	Amount	%	Amount	%
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	\$ (169,451)	(1)	\$ -	-
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss (Note 24)	2,171	-	1,408	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(3,975)	-	1,516	-
Unrealized gain on available-for-sale financial assets	-	-	62,712	-
Income tax benefit relating to items that may be reclassified subsequently to profit or loss (Note 24)	<u>3,214</u>	<u>-</u>	<u>61</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(171,742)</u>	<u>(1)</u>	<u>57,409</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>\$ 4,146,377</u>	<u>10</u>	<u>\$ 5,818,699</u>	<u>14</u>
<b>NET PROFIT ATTRIBUTED TO:</b>				
Owners of the Corporation	\$ 4,318,119	11	\$ 5,760,972	14
Non-controlling interests	<u>-</u>	<u>-</u>	<u>318</u>	<u>-</u>
	<u>\$ 4,318,119</u>	<u>11</u>	<u>\$ 5,761,290</u>	<u>14</u>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO:</b>				
Owners of the Corporation	\$ 4,146,377	10	\$ 5,816,473	14
Non-controlling interests	<u>-</u>	<u>-</u>	<u>2,226</u>	<u>-</u>
	<u>\$ 4,146,377</u>	<u>10</u>	<u>\$ 5,818,699</u>	<u>14</u>
<b>EARNINGS PER SHARE; NEW TAIWAN DOLLARS</b> (Note 26)				
Basic	<u>\$ 21.91</u>		<u>\$ 29.23</u>	
Diluted	<u>\$ 21.60</u>		<u>\$ 28.83</u>	

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

(Concluded)

**PHISON ELECTRONICS CORP. AND SUBSIDIARIES**

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

	Equity Attributable to the Corporation					Other Equity			Total	Non-controlling Interests	Total Equity
	Common Shares	Capital Surplus	Retained Earnings		Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income			
			Legal Reserve	Special Reserve							
BALANCE AT JANUARY 1, 2017	\$ 1,970,740	\$ 6,652,449	\$ 2,356,107	\$ 111,358	\$ 11,928,136	\$ (66,816)	\$ 40,851	\$ -	\$ 22,992,825	\$ 5,400	\$ 22,998,225
Appropriation of the 2016 earnings											
Legal reserve	-	-	486,699	-	(486,699)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(85,393)	85,393	-	-	-	-	-	-
Cash dividends - NT\$14 per share	-	-	-	-	(2,759,036)	-	-	-	(2,759,036)	-	(2,759,036)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	10,739	-	-	-	-	-	-	10,739	-	10,739
Non-controlling interests	-	-	-	-	-	-	-	-	-	(7,626)	(7,626)
Actual disposal or acquisition of interests in subsidiaries	-	(2,686)	-	-	-	-	-	-	(2,686)	-	(2,686)
Net profit for the year ended December 31, 2017	-	-	-	-	5,760,972	-	-	-	5,760,972	318	5,761,290
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(6,880)	(331)	62,712	-	55,501	1,908	57,409
BALANCE AT DECEMBER 31, 2017	1,970,740	6,660,502	2,842,806	25,965	14,521,886	(67,147)	103,563	-	26,058,315	-	26,058,315
Effect of retrospective application	-	-	-	-	463,052	-	(103,563)	(316,201)	43,288	-	43,288
BALANCE AT JANUARY 1, 2018 AS ADJUSTED	1,970,740	6,660,502	2,842,806	25,965	14,984,938	(67,147)	-	(316,201)	26,101,603	-	26,101,603
Appropriation of the 2017 earnings											
Legal reserve	-	-	576,097	-	(576,097)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(25,965)	25,965	-	-	-	-	-	-
Cash dividends - NT\$17 per share	-	-	-	-	(3,350,258)	-	-	-	(3,350,258)	-	(3,350,258)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	14,148	-	-	-	-	-	-	14,148	-	14,148
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	(172,633)	-	-	172,633	-	-	-
Net profit for the year ended December 31, 2018	-	-	-	-	4,318,119	-	-	-	4,318,119	-	4,318,119
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	-	(1,530)	(761)	-	(169,451)	(171,742)	-	(171,742)
BALANCE AT DECEMBER 31, 2018	<u>\$ 1,970,740</u>	<u>\$ 6,674,650</u>	<u>\$ 3,418,903</u>	<u>\$ -</u>	<u>\$ 15,228,504</u>	<u>\$ (67,908)</u>	<u>\$ -</u>	<u>\$ (313,019)</u>	<u>\$ 26,911,870</u>	<u>\$ -</u>	<u>\$ 26,911,870</u>

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 5,005,181	\$ 6,717,870
Adjustments for:		
Depreciation	223,830	169,364
Amortization	201,357	166,091
Share of loss (profit) of associates	174,654	(442,368)
Recognition of refund liabilities	166,648	-
Write-down of inventories	94,910	19,361
Net (gain) loss on foreign currency exchange	(91,066)	369,978
Interest income	(54,189)	(42,511)
Dividend income	(41,698)	(29,947)
Expected credit loss reversed on trade receivables	(28,309)	-
Gains on disposal of property, plant and equipment	(1,413)	-
Financial costs	5,070	4,981
Gain on disposal of associates	(392)	-
Recognition of provisions	-	238,449
Impairment loss recognized on financial assets	-	169,512
Allowance for bad debts	-	22,958
Gain on disposal of financial assets measured at cost	-	(7,545)
Other non-cash items	-	1,163
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	12,148	4,585
Notes and accounts receivable	501,434	(1,005,072)
Other receivables	16,046	98,188
Inventories	(479,247)	(1,989,417)
Prepayments	(36,059)	38,239
Other current assets	(39,081)	(36,968)
Contract liabilities	34,270	-
Notes and accounts payable	1,172,875	(185,891)
Other payables	(16,658)	594,250
Provisions	-	(290,444)
Unearned revenue	(5,642)	19,710
Other current liabilities	(333,586)	(44,250)
Net defined benefit liabilities	7,930	12,172
Cash generated from operations	6,489,013	4,572,458
Interest paid	(5,070)	(5,385)
Income tax paid	(1,270,759)	(694,831)
Net cash generated from operating activities	<u>5,213,184</u>	<u>3,872,242</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets at fair value through profit or loss	(3,032,790)	(47,635)
Proceeds from financial assets at fair value through profit or loss	1,501,263	-
Payments for property, plant and equipment	(370,970)	(565,320)
Dividends received from others	41,698	29,947

(Continued)

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	2018	2017
Dividends received from associates	\$ 233,310	\$ -
Acquisition of associates	(178,880)	-
Payments for intangible assets	(135,845)	(161,956)
Purchase of financial assets at fair value through other comprehensive income	(134,207)	-
Proceeds from capital reduction of financial assets at fair value through profit or loss	69,855	-
Interest received	53,967	41,876
Proceeds from sale of financial assets at fair value through other comprehensive income	25,586	-
Proceeds from sale of financial assets at amortized cost	13,317	-
(Increase) decrease in refundable deposits	(3,374)	7,545
Proceeds from disposal of property, plant and equipment	1,628	-
Net cash inflow on disposal of associates	398	-
Purchase of financial assets measured at cost	-	(281,538)
Increase in debt investments with no active market	-	(21,805)
Proceeds from sale of financial assets measured at cost	<u>-</u>	<u>14,315</u>
Net cash used in investing activities	<u>(1,915,044)</u>	<u>(984,571)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(3,350,258)	(2,759,036)
Decrease in guarantee deposits	(130)	(40)
Decrease in short-term borrowings	-	(580,500)
Decrease in non-controlling interests	<u>-</u>	<u>(10,312)</u>
Net cash used in financing activities	<u>(3,350,388)</u>	<u>(3,349,888)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>86,255</u>	<u>(353,725)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	34,007	(815,942)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		
	<u>14,142,389</u>	<u>14,958,331</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		
	<u>\$ 14,176,396</u>	<u>\$ 14,142,389</u>

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

(With Deloitte & Touche auditors' report dated March 21, 2019)  
(Concluded)

**[Comparison Table for Amendments to Articles of Association of the Company]**

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 1	The Corporation shall be incorporated, as a company limited by shares, under the Company Act of the Republic of China, and its name shall be 群聯電子股份有限公司 in the Chinese language.	Article 1	The Corporation shall be incorporated, as a company limited by shares, under the Company Act the Republic of China, and its name shall be 「群聯電子股份有限公司」 in the Chinese language, and 「Phison Electronics Corp.」 in the English language.	Amend according to the newly revised Company Act and company operating requirements.
Article 5-1	( Addition to this article )	Article 5-1	<u>The company issues employee stock warrants, the exercise price can be lower than the closing price of the company stocks as of the issuing date, which is required to obtain the consent of at least two-thirds of the voting rights represented at a shareholders meeting attended by shareholders representing a majority of the total issued shares and allowed to register multiple issues over a period of 1 year from the date of the shareholders resolution.</u>	Amend according to company operating requirements.
Article 5-2	( Addition to this article )	Article 5-2	<u>To transfer shares to employees at less than the average actual share repurchase price, a company must have obtained the consent of at least two-thirds of the voting rights present at the most recent shareholders meeting attended by shareholders representing a majority of total issued shares, and must have listed the following matters in the notice of reasons for that shareholders meeting; it may not raise the</u>	Amend according to company operating requirements.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
			<u>matter by means of an extraordinary motion:</u> <u>1. The exercise price, the valuation percentage, the bases of calculations, and the reasonableness thereof.</u> <u>2. The number of shares to be transferred, the purpose, and the reasonableness thereof.</u> <u>3. Qualification requirements for employees subscribing to shares, and the number of shares they are allowed to subscribe for.</u> <u>4. Factors affecting shareholders' equity:</u> <u>A. The expensable amount, and dilution of the company's earnings per share.</u> <u>B. Explain what financial burden will be imposed on the company by transferring shares to employees at less than the average actual share repurchase price.</u>	
Article 5-3	( Addition to this article )	Article 5-3	<u>If the company repurchased treasury share, it could be transferred to the employees of the company (or its parents or subsidiaries) who are qualified certain requirements.</u> <u>If the company issued share subscription warrant, it could be participated by employees of the company (or its parents or subsidiaries) who are qualified certain requirements.</u> <u>If the company issued restricted stock could be participated by employees of the company (or its parents or subsidiaries) who are qualified certain requirements.</u> <u>If the company issued new shares, the</u>	Amend according to the newly revised Company Act and company operating requirements.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
			<u>reservation for employee subscription could be subscribed by employees of the company (or its parents or subsidiaries) who are qualified certain requirements.</u> <u>The term "certain specific requirements" and "allocation" as used in this article, authorize the board of directors.</u>	
Article 7	The Company's stock are all registered share certificates and shall be signed or stamped by <u>three or more</u> directors, recorded, and issued after it is legally registered. For the new shares to be issued by the Company offering its shares to the public, the Company may print a consolidated share certificate representing the total number of the new shares to be issued at the same time of issue and may be exempted from printing any share certificate for the shares issued. The Corporation may be exempted from printing any stock certificate for the shares issued. However, the Corporation shall appoint a centralized securities custody enterprise/institution to make registration of such shares.	Article 7	The Company's stock are all registered share certificates and shall be signed or stamped by <u>the directors who is authorized</u> , recorded, and issued after it is legally registered. For the new shares to be issued by the Company offering its shares to the public, the Company may print a consolidated share certificate representing the total number of the new shares to be issued at the same time of issue and may be exempted from printing any share certificate for the shares issued. The Corporation may be exempted from printing any stock certificate for the shares issued. However, the Corporation shall appoint a centralized securities custody enterprise/institution to make registration of such shares.	Amend according to the newly revised Company Act and company operating requirements.
Article 19	If the company makes profits in the year, it shall appropriate 8% to 19% for employees' compensation and no more than 1.5% for directors and supervisors' compensations." but the Company shall reserve a portion of profit to make up for accumulated losses, if any.	Article 19	If the company makes profits in the year, it shall appropriate 8% to 19% for employees' compensation and no more than 1.5% for directors and supervisors' compensations." but the Company shall reserve a portion of profit to make up for accumulated losses, if any.	Amend according to the newly revised Company Act and company operating requirements

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>Employee's remuneration may be distributed in shares or cash, and the counterparty to whom shares or cash are distributed to as employee's remuneration may include the <u>employees of its subordinate companies</u> that meet certain criteria. Compensation of directors shall be paid in cash.</p> <p>The term "profit" as mentioned in the first paragraph refers to "pre-tax profits before deducting the distributed employees and directors' remuneration.</p> <p>Employee and director remuneration allocation must be approved by the board of directors in a meeting attended by more than two-thirds of all board members, where half of attending directors approve. The remuneration resolution shall be reported in the annual general meeting.</p>		<p>Employee's remuneration may be distributed in shares or cash, and the counterparty to whom shares or cash are distributed to as employee's remuneration may include the <u>parents or subsidiaries of the company</u> that meet certain criteria <u>and the certain requirements and allocation shall be decided authorize the board of directors</u>. Compensation of directors shall be paid in cash.</p> <p>The term "profit" as mentioned in the first paragraph refers to "pre-tax profits before deducting the distributed employees and directors' remuneration.</p> <p>Employee and director remuneration allocation must be approved by the board of directors in a meeting attended by more than two-thirds of all board members, where half of attending directors approve. The remuneration resolution shall be reported in the annual general meeting.</p>	



Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 21	<p>The Articles of the Company were formulated on October 24, 2000.</p> <p>The Articles of the Company were firstly amended on November 21, 2000.</p> <p>The Articles of the Company were secondly amended on September 5, 2001.</p> <p>The Articles of the Company were thirdly amended on February 15, 2002.</p> <p>The Articles of the Company were fourthly amended on April 9, 2002.</p> <p>The Articles of the Company were fifthly amended on June 25, 2002.</p> <p>The Articles of the Company were sixthly amended on March 26, 2003.</p> <p>The Articles of the Company were seventhly amended on November 12, 2003.</p> <p>The Articles of the Company were eighthly amended on June 15, 2004.</p> <p>The Articles of the Company were ninthly amended on March 17, 2005.</p> <p>The Articles of the Company were tenthly amended on June 16, 2005.</p> <p>The Articles of the Company were eleventhly amended on June 14, 2006.</p> <p>The Articles of the Company were twelfthly amended on November 1, 2006.</p> <p>The Articles of the Company were thirteenthly amended on June 13, 2007.</p> <p>The Articles of the Company were</p>	Article 21	<p>The Articles of the Company were formulated on October 24, 2000.</p> <p>The Articles of the Company were firstly amended on November 21, 2000.</p> <p>The Articles of the Company were secondly amended on September 5, 2001.</p> <p>The Articles of the Company were thirdly amended on February 15, 2002.</p> <p>The Articles of the Company were fourthly amended on April 9, 2002.</p> <p>The Articles of the Company were fifthly amended on June 25, 2002.</p> <p>The Articles of the Company were sixthly amended on March 26, 2003.</p> <p>The Articles of the Company were seventhly amended on November 12, 2003.</p> <p>The Articles of the Company were eighthly amended on June 15, 2004.</p> <p>The Articles of the Company were ninthly amended on March 17, 2005.</p> <p>The Articles of the Company were tenthly amended on June 16, 2005.</p> <p>The Articles of the Company were eleventhly amended on June 14, 2006.</p> <p>The Articles of the Company were twelfthly amended on November 1, 2006.</p> <p>The Articles of the Company were thirteenthly amended on June 13, 2007.</p> <p>The Articles of the Company were</p>	Add the number of amendments and date of amendment.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>fourteenthly amended on June 13, 2008.</p> <p>The Articles of the Company were fifteenthly amended on May 8, 2009.</p> <p>The Articles of the Company were sixteenthly amended on June 15, 2010.</p> <p>The Articles of the Company were seventeenthly amended on June 15, 2011.</p> <p>The Articles of the Company were eighteenthly amended on June 11, 2013.</p> <p>The Articles of the Company were nineteenthly amended on June 17, 2014.</p> <p>The Articles of the Company were twentiethly amended on June 2, 2015.</p> <p>The Articles of the Company were twenty-firstly amended on June 15, 2016.</p> <p>The Articles of the Company will be twenty-secondly amended on June 13, 2017.</p>		<p>fourteenthly amended on June 13, 2008.</p> <p>The Articles of the Company were fifteenthly amended on May 8, 2009.</p> <p>The Articles of the Company were sixteenthly amended on June 15, 2010.</p> <p>The Articles of the Company were seventeenthly amended on June 15, 2011.</p> <p>The Articles of the Company were eighteenthly amended on June 11, 2013.</p> <p>The Articles of the Company were nineteenthly amended on June 17, 2014.</p> <p>The Articles of the Company were twentiethly amended on June 2, 2015.</p> <p>The Articles of the Company were twenty-firstly amended on June 15, 2016.</p> <p>The Articles of the Company will be twenty-secondly amended on June 13, 2017.</p> <p><u>The Articles of the Company will be twenty-thirdly amended on June 12, 2019.</u></p>	

**[Comparison Table for Amendments to Procedures for acquisition or disposal of assets]**

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 3	<p>Scope of assets and terminology</p> <p>1. The scope of assets mentioned in the Procedures is as follows:</p> <p>(1) long-term and short-term investment: stocks, government bonds, corporate bonds, financial debenture, securities of outstanding fund, depositary receipt, call (put) warrant, beneficiary securities, and asset backed securities.</p> <p>(2) Real property (including land, houses and buildings, investment property, <u>right to use land</u>) and equipment.</p> <p>(3) Membership certificate.</p> <p>(4) Intangible asset: including patency, copyright, trade mark right, and franchise.</p> <p>(5) Financial institutes' debentures (including account receivable, foreign exchange buying discount, loan, and non-accrual debt).</p> <p>(6) Financial derivatives.</p> <p>(7) Asset acquired or disposed due to legal merger, division, acquisition, or receiving shares.</p> <p>(8) Other major assets.</p> <p>2 Definitions:</p> <p>(1) Derivatives: Forward contracts, options contracts, futures contracts, leverage contracts, <u>and</u> swap contracts, and <u>compound contracts</u> combining the above products, whose value is derived from assets,</p>	Article 3	<p>Scope of assets and terminology</p> <p>1. The scope of assets mentioned in the Procedures is as follows:</p> <p>(1) long-term and short-term investment: stocks, government bonds, corporate bonds, financial debenture, securities of outstanding fund, depositary receipt, call (put) warrant, beneficiary securities, and asset backed securities.</p> <p>(2) Real property (including land, houses and buildings, investment property) and equipment.</p> <p>(3) Membership certificate.</p> <p>(4) Intangible asset: including patency, copyright, trade mark right, and franchise.</p> <p>(5) <u>Right-of-use assets.</u></p> <p>(6) Financial institutes' debentures (including account receivable, foreign exchange buying discount, loan, and non-accrual debt).</p> <p>(7) Financial derivatives.</p> <p>(8) Asset acquired or disposed due to legal merger, division, acquisition, or receiving shares.</p> <p>(9) Other major assets.</p> <p>2 Definitions:</p> <p>(1) Derivatives: Forward contracts, options contracts, futures contracts, leverage contracts, <u>or</u> swap contracts, whose value is derived from <u>a specified</u> interest rate, <u>financial instrument price</u>, <u>commodity price</u>, foreign</p>	Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>interest rates, foreign exchange rates, indexes or other interests. 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>(2) Asset acquired or disposed due to legal merger, demerger, acquisition, or receiving shares: Assets acquired from or disposed through merger, demerger, or acquisition in accordance with Business Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institutions Merger Act, or other laws and regulations, or receiving IPO shares of other company (herein after referred to as transfer of shares) in accordance with Article 156-8 of the Company Act.</p> <p>(3) Stakeholders/subsidiary: As the Regulations the Preparation of Financial Reports by Securities Issuers may define.</p> <p>(4) Professional appraiser: Real estate property appraiser or other professionals legally permitted for practicing appraisal on real estate property and equipment.</p> <p>(5) Actual occurrence date: a contract execution date, payment date, completion date, ownership transfer date, board of directors' resolution date, or date on which a counterparty and transaction amount become definitely certain, whichever happens earlier. However, for investment that requires approval from the competent authority, an actual occurrence date shall be either the date abovementioned or the date of the said</p>		<p>exchange rate, index <u>of prices or rates, credit rating or credit index, or other variable; or hybrid contracts combining the above contracts</u>; or hybrid contracts or structured products containing embedded derivatives. 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>(2) Asset acquired or disposed due to legal merger, demerger, acquisition, or receiving shares: Assets acquired from or disposed through merger, demerger, or acquisition in accordance with Business Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institutions Merger Act, or other laws and regulations, or receiving IPO shares of other company (herein after referred to as transfer of shares) in accordance with Article 156-3 of the Company Act.</p> <p>(3) Stakeholders/subsidiary: As the Regulations the Preparation of Financial Reports by Securities Issuers may define.</p> <p>(4) Professional appraiser: Real estate property appraiser or other professionals legally permitted for practicing appraisal on real estate property and equipment.</p> <p>(5) Actual occurrence date: a contract execution date, payment date, completion date, ownership transfer date, board of directors' resolution date, or date on which a counterparty and transaction amount become definitely certain, whichever happens earlier. However,</p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>approval, whichever happens earlier.</p> <p>(6) Investment in Mainland China area: An investment made in Mainland China in compliance with the Regulations Governing Approval for Investment or Technical Cooperation in Mainland China Area stipulated by the Investment Commission, Ministry of Economic Affairs.</p> <p>3. For the valuation report obtained by the Company or the opinion of the accountants, attorneys or securities underwriters, the professional appraisers and the valuers, the accountants, attorneys or securities underwriters and the dealing party shall not be a relative.</p>		<p>for investment that requires approval from the competent authority, an actual occurrence date shall be either the date abovementioned or the date of the said approval, whichever happens earlier.</p> <p>(6) Investment in Mainland China area: An investment made in Mainland China in compliance with the Regulations Governing Approval for Investment or Technical Cooperation in Mainland China Area stipulated by the Investment Commission, Ministry of Economic Affairs.</p> <p><u>(7) Investment professional: Refers to financial holding companies, banks, insurance companies, bill finance companies, trust enterprises, securities firms operating proprietary trading or underwriting business, futures commission merchants operating proprietary trading business, securities investment trust enterprises, securities investment consulting enterprises, and fund management companies, that are lawfully incorporated and are regulated by the competent financial authorities of the jurisdiction where they are located.</u></p> <p><u>(8) Securities exchange: "Domestic securities exchange" refers to the Taiwan Stock Exchange Corporation; "foreign securities exchange" refers to any organized securities exchange market that is regulated by the competent securities authorities of the jurisdiction where it is located.</u></p> <p><u>(9) Over-the-counter venue ("OTC venue", "OTC"): "Domestic OTC venue" refers to a venue for OTC trading provided by a securities firm in accordance</u></p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
			<p><u>with the Regulations Governing Securities Trading on the Taipei Exchange; "foreign OTC venue" refers to a venue at a financial institution that is regulated by the foreign competent authority and that is permitted to conduct securities business.</u></p> <p>3. For the valuation report obtained by the Company or the opinion of the accountants, attorneys or securities underwriters, the professional appraisers and the valuers, the accountants, attorneys or securities underwriters and the dealing party shall meet the following requirements:</p> <p><u>(1) May not have previously received a final and unappealable sentence to imprisonment for 1 year or longer for a violation of the 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><u>(2) May not be a related party or de facto related party of any party to the transaction.</u></p> <p><u>(3) 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</u></p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
			<u>each other.</u>	
Article 4	<p>Evaluation Procedure: The price determination method and reference basis for acquisition and disposal of assets of the Company shall comply with the following regulations: ( First subparagraph, Omitted. )</p> <p>2. Real Property <u>or</u> Equipment: Transaction term and price for acquisition or disposal of real property shall be referred to the publicly announced current value, appraisal value, neighboring or closely value of real property and others; the acquisition or disposal of equipment should be conducted after collecting relevant price information and based on inquiry, parity, negotiation or tender. In acquiring or disposing real property, or equipment, where the transaction amount reaches 20% of the company's paid-in capital or NT\$300 million or more, the Company, unless transacting with a government agency, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of business machinery and equipment, shall obtain an appraisal report in advance from a professional appraiser before the date of the occurrence and shall further comply with the following provisions:</p>	Article 4	<p>Evaluation Procedure: The price determination method and reference basis for acquisition and disposal of assets of the Company shall comply with the following regulations: ( First subparagraph, Omitted. )</p> <p>2. Real Property, <u>Equipment, or right-of-use assets thereof</u> : Transaction term and price for acquisition or disposal of real property shall be referred to the publicly announced current value, appraisal value, neighboring or closely value of real property and others; the acquisition or disposal of equipment should be conducted after collecting relevant price information and based on inquiry, parity, negotiation or tender. In acquiring disposing real property, or equipment, <u>or right-of-use assets thereof</u> where the transaction amount reaches 20% of the company's paid-in capital or NT\$300 million or more, the Company, unless transacting with a <u>domestic</u> government agency, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of business machinery and equipment <u>or right-of-use assets thereof</u>, shall obtain an appraisal report in</p>	Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>(1) Where due to special circumstances it is necessary to give a limited price, specified price, or special price as a reference basis for the transaction price, the transaction shall be submitted for approval in advance by the board of directors, <u>and</u> the same procedure shall be followed <u>for</u> any <u>future</u> changes to the terms and conditions of the transaction.</p> <p>(2) Where the transaction amount is NT\$1 billion or more, appraisals from two or more professional appraisers shall be obtained.</p> <p>(3) Where any one of the following circumstances applies with respect to the professional appraiser's appraisal results, except in the case when the appraisal results of acquiring an asset are higher than the transaction amount, or when the appraisal results of disposing an asset 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 ARDF and render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:</p> <p>I. The discrepancy between the appraisal result and the transaction amount is 20% or more of the transaction amount.</p> <p>II. The discrepancy between the appraisal result and the</p>		<p>advance from a professional appraiser before the date of the occurrence and shall further comply with the following provisions:</p> <p>(1) Where due to special circumstances it is necessary to give a limited price, specified price, or special price as a reference basis for the transaction price, the transaction shall be submitted for approval in advance by the board of directors; the same procedure shall <u>also</u> be followed <u>whenever there is any subsequent</u> change to the terms and conditions of the transaction.</p> <p>(2) Where the transaction amount is NT\$1 billion or more, appraisals from two or more professional appraisers shall be obtained.</p> <p>(3) Where any one of the following circumstances applies with respect to the professional appraiser's appraisal results, except in the case when the appraisal results of acquiring an asset are higher than the transaction amount, or when the appraisal results of disposing an asset 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 ARDF and render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:</p> <p>I. The discrepancy between the appraisal result and the transaction amount is 20% or more of the transaction amount.</p> <p>II. The discrepancy between the appraisal result and the</p>	



Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>transaction amount is 10% or more of the transaction amount.</p> <p>(4) Where an appraisal from professional appraisers is conducted before a contract execution date, no more than three months may pass between the date of the appraisal report and the contract execution date; provided, where the publicly announced current value for the same period is used and not more than 6 months have elapsed, an opinion may still be issued by the original professional appraise.</p> <p>3. <u>Memberships or Intangible Assets:</u> Acquisition or disposal of memberships shall be conducted after collecting relevant price information and based on inquiry or parity; <u>Acquisition or disposal of intangible assets shall also be conducted after collecting relevant price information and the transaction price shall be decided based on laws related to careful evaluation and contract content.</u></p> <p>Where the Company acquires or disposes of <u>membership or intangible assets</u> and the transaction amount reaches 20% of more of paid-in capital or NT\$300 million or more, the Company, unless transacting with a government agency, shall engage a certified public accountant to render an opinion on the reasonableness of the transaction price before the date of the occurrence; the certified public accountant shall comply with the provisions of Statement of Auditing Standards No. 20 published by the ARDF.</p>		<p>transaction amount is 10% or more of the transaction amount.</p> <p>(4) Where an appraisal from professional appraisers is conducted before a contract execution date, no more than three months may pass between the date of the appraisal report and the contract execution date; provided, where the publicly announced current value for the same period is used and not more than 6 months have elapsed, an opinion may still be issued by the original professional appraise.</p> <p>3. Intangible Assets <u>or right-of-use assets thereof or memberships:</u> <u>Acquisition or disposal of intangible Assets or right-of-use assets thereof or memberships shall be conducted after collecting relevant price information and assess regulations. Shall be prudently assess regulations and contract content to determine the transaction price.</u> Acquisition or disposal of memberships shall be conducted after collecting relevant price information and based on inquiry or parity.</p> <p>Where the Company acquires or disposes intangible assets <u>or right-of-use assets thereof or memberships</u> and the transaction amount reaches 20% of more of paid-in capital or NT\$300 million or more, the Company, unless transacting with a <u>domestic</u> government agency, shall engage a certified public accountant to render an opinion on the reasonableness of the transaction price before the date of the occurrence; the certified public accountant shall</p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p><u>3.1.</u> The amount of transactions above shall be calculated in compliance with the procedures set out in paragraph 2 of Article 19, and “within the preceding year” as used herein refers to the year preceding the date of occurrence of the current transaction. Items for which an appraisal report from a professional appraiser or a certified public accountant opinion has been obtained need not be counted toward the transaction amount.</p> <p><u>4.</u> Other Major Assets Acquisition or disposal of creditor rights in financial institution, derivatives, assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law or other major assets shall be conducted after collecting relevant price information depending on trading assets targets, and the transaction price shall be decided based on laws related to careful evaluation and contract content.</p> <p><u>5.</u> Where the Company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may be substituted for the appraisal report or certified public accountant opinion.</p>		<p>comply with the provisions of Statement of Auditing Standards No. 20 published by the ARDF.</p> <p><u>4.</u> The amount of transactions above shall be calculated in compliance with the procedures set out in paragraph 2 of Article 19, and “within the preceding year” as used herein refers to the year preceding the date of occurrence of the current transaction. Items for which an appraisal report from a professional appraiser or a certified public accountant opinion has been obtained need not be counted toward the transaction amount.</p> <p><u>5.</u> Other Major Assets Acquisition or disposal of creditor rights in financial institution, derivatives, assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law or other major assets shall be conducted after collecting relevant price information depending on trading assets targets, and the transaction price shall be decided based on laws related to careful evaluation and contract content.</p> <p><u>6.</u> Where the Company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may be substituted for the appraisal report or certified public accountant opinion.</p>	
Article 5	<p>Operating Procedure 1. Authorization Limit and Level (1) For acquisition or disposal of assets by the</p>	Article 5	<p>Operating Procedure 1. Authorization Limit and Level (1) For acquisition or disposal of assets by the</p>	Amend according to the

Current Articles		Amended Articles						Amendment Explanation																																																																																																																											
Item	Content	Item	Content																																																																																																																																
	Company, the undertaker shall consolidate the information such as reason of acquisition or disposal, target object, counterpart, transfer price, payment conditions and price reference basis and submit to the Authority for approval depending on trading assets items. The regulations related to authorization limit and level of derivatives or others shall refer to the “Procedures for Engaging in Derivatives Trading” of company.		Company, the undertaker shall consolidate the information such as reason of acquisition or disposal, target object, counterpart, transfer price, payment conditions and price reference basis and submit to the Authority for approval depending on trading assets items. The regulations related to authorization limit and level of derivatives or others shall refer to the “Procedures for Engaging in Derivatives Trading” of company.						Regulations Governing the Acquisition and Disposal of Assets by Public Companies.																																																																																																																										
	<table border="1"> <thead> <tr> <th rowspan="2">Item</th> <th rowspan="2">Amount</th> <th colspan="4">Authority</th> </tr> <tr> <th>Board of Directors</th> <th>Chairman</th> <th>General Manager</th> <th>Division Chief</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Long-term securities investment (including long-term equity investment)</td> <td>Below 80 million (including)</td> <td></td> <td></td> <td>Approval</td> <td>Review</td> </tr> <tr> <td>80 million (excluding) ~ 260 million (including)</td> <td></td> <td>Approval</td> <td>Review</td> <td>Review</td> </tr> <tr> <td>Over 260 million(excluding)</td> <td>Approval</td> <td>Review</td> <td>Review</td> <td>Review</td> </tr> <tr> <td rowspan="3">Short-term securities investment</td> <td>Total amount per level below 100 million (including)</td> <td></td> <td></td> <td>Approval</td> <td>Review</td> </tr> <tr> <td>Total amount per level 100 million (excluding) ~ 300 million (including)</td> <td></td> <td>Approval</td> <td>Review</td> <td>Review</td> </tr> <tr> <td>Total amount per level over 300 million (excluding)</td> <td>Approval</td> <td>Review</td> <td>Review</td> <td>Review</td> </tr> <tr> <td rowspan="3">Real property</td> <td>Below 100000 (excluding)</td> <td></td> <td></td> <td></td> <td>Approval</td> </tr> <tr> <td>100000 (including) ~ 100 million (including)</td> <td></td> <td>Approval</td> <td>Review</td> <td>Review</td> </tr> <tr> <td>Over 100 million (excluding)</td> <td>Approval</td> <td>Review</td> <td>Review</td> <td>Review</td> </tr> <tr> <td>Equipment</td> <td>Below 100000 (excluding)</td> <td></td> <td></td> <td></td> <td>Approval</td> </tr> </tbody> </table>	Item	Amount	Authority				Board of Directors		Chairman	General Manager	Division Chief	Long-term securities investment (including long-term equity investment)	Below 80 million (including)			Approval	Review	80 million (excluding) ~ 260 million (including)		Approval	Review	Review	Over 260 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		30 million (excluding) ~ 100 million (including)		Approval	Review	Review		30 million (excluding) ~ 150 million (including)		Approval	Review	Review			
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	Memberships	Below 20 million (including)		Approval	Review	Review	Memberships	Below 20 million (including)		Approval	Review	Review			
		Over 20 million (excluding)	Approval	Review	Review	Review		Over 20 million (excluding)	Approval	Review	Review	Review			
	Intangible assets	Below 30 million (including)			Approval	Review	Intangible assets <u>(or right-of-use assets thereof)</u>	Below 30 million (including)			Approval	Review			
		30 million (excluding) ~ 100 million (including)		Approval	Review	Review		30 million (excluding) ~ 150 million (including)		Approval	Review	Review			
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	Creditor rights in financial institution	Below 100 million (including)		Approval	Review	Review	Creditor rights in financial institution	Below 100 million (including)		Approval	Review	Review			
		Over 100 million (excluding)	Approval	Review	Review	Review		Over 100 million (excluding)	Approval	Review	Review	Review			
	Assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law	Shall not be decided by resolution of the Board of Shareholders according to laws	Approval	Review	Review	Review	Assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law	Shall not be decided by resolution of the Board of Shareholders according to laws	Approval	Review	Review	Review			
		Shall be decided by resolution of the Board of Shareholders according to laws	Review	Review	Review	Review		Shall be decided by resolution of the Board of Shareholders according to laws	Review	Review	Review	Review			
	Other major assets	Below 100 million(including)		Approval	Review	Review	Other major assets	Below 150 million(including)		Approval	Review	Review			
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	(2) Pursuant to the Procedures or other laws and regulations, the acquisition or disposal of assets by the Company shall be submitted to the Board of directors							(2) Pursuant to the Procedures or other laws and regulations, the acquisition or disposal of assets by the Company shall be submitted to the Board of directors							

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	<p>for its approval. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to the Supervisors.</p> <p>After the position of independent director has been created, when the procedures for the acquisition and disposal of assets are submitted for discussion by the board of directors pursuant to the preceding paragraph, the board of directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board meeting.</p> <p>After an Audit Committee has been established, the acquisition or disposal of major assets and derivatives shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution, and shall be subject to mutatis mutandis application of the provisions of Paragraph 4 and 5, Article 22</p> <p>The resolutions of Board of Directors specified herein shall be approved by more than half of all directors with more than two-thirds of all directors being present.</p> <p>2. Execution Unit</p> <p>The acquisition or disposal of assets by the Company shall be executed by the following units:</p> <p>(1) Long-term investment in securities, memberships, intangible assets, assets acquired or disposed of in</p>		<p>for its approval. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to the Supervisors.</p> <p>After the position of independent director has been created, when the procedures for the acquisition and disposal of assets are submitted for discussion by the board of directors pursuant to the preceding paragraph, the board of directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board meeting.</p> <p>After an Audit Committee has been established, the acquisition or disposal of major assets and derivatives shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution, and shall be subject to mutatis mutandis application of the provisions of Paragraph 4 and 5, Article 22</p> <p>The resolutions of Board of Directors specified herein shall be approved by more than half of all directors with more than two-thirds of all directors being present.</p> <p>2. Execution Unit</p> <p>The acquisition or disposal of assets by the Company shall be executed by the following units:</p> <p>(1) Long-term investment in securities, memberships, intangible assets (or right-of-use assets thereof), assets</p>	

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	<p>connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law and other major assets: appraised and executed by the project team through directing of General Manager or Chairman.</p> <p>(2) Short-term investment in securities, derivatives and creditor rights in financial institution: appraised and executed by Finance Department.</p> <p>(3) Real property: undertaken by General Affair Department.</p> <p>(4) Equipment: undertaken by requisition unit with General Admin. Department.</p> <p>(5) Public announcement and declaration: the public announcement and declaration personnel engage the undertaker to consolidate relevant information of public announcement and declaration and manage wholly.</p> <p>3. Transaction Process The transaction process and operation for acquisition or disposal of assets shall comply with relevant laws and provisions related to internal control system of the Company.</p>		<p>acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law and other major assets: appraised and executed by the project team through directing of General Manager or Chairman.</p> <p>(2) Short-term investment in securities, derivatives and creditor rights in financial institution: appraised and executed by Finance Department.</p> <p>(3) Real property (<u>or right-of-use assets thereof</u>): undertaken by General Affair Department.</p> <p>(4) Equipment (<u>or right-of-use assets thereof</u>): undertaken by requisition unit with General Admin. Department.</p> <p>(5) Public announcement and declaration: the public announcement and declaration personnel engage the undertaker to consolidate relevant information of public announcement and declaration and manage wholly.</p> <p>3. Transaction Process The transaction process and operation for acquisition or disposal of assets shall comply with relevant laws and provisions related to internal control system of the Company.</p>	
Article 6	<p>Total Assets and Individual Limit The total amount of non-operating use real property or securities acquired by the Company and each subsidiary and the limit of individual securities are as follows: 1. Total amount of real property acquired by the</p>	Article 6	<p>Total Assets and Individual Limit The total amount of non-operating use real property <u>, or right-of-use assets thereof</u> or securities acquired by the Company and each subsidiary and the limit of individual securities are as follows: 1. Total amount of real property, or right-of-use assets</p>	<p>1. Discretionary text. 2. Amend according to the</p>

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	<p><u>Company for non-operating use shall not be higher than 20% of shareholders' equity. Total amount of long-term and short-term securities investment acquired by the Company shall not be higher than 100% of shareholders' equity. The amount of individual security acquired by the Company shall not be higher than 40% of shareholders' equity.</u></p> <p><u>2. Total amount of real property acquired by each subsidiary for non-operating use shall not be higher than 20% of shareholders' equity or paid-in capital. Total amount of long-term and short-term securities investment acquired the each subsidiary shall not be higher than 100% of shareholders' equity or paid-in capital (for a subsidiary which is specialized in investment, it shall not be higher than 150% of shareholders' equity or paid-in capital).The amount of individual security acquired by acquired by each subsidiary shall not be higher than 100% of shareholders' equity or paid-in capital (for a subsidiary which is specialized in investment, it shall not be higher than 150% of shareholders' equity or paid-in capital).For the shareholders' equity or paid-in capital mentioned above, the larger will prevail.</u></p> <p><u>3. The foregoing shareholders' equity refers to the equity belong to parent company owner in the most recent financial statements audited and certified or checked and approved by accountants before the Company and each subsidiary acquire assets; if the subsidiary is a nonpublic company, it refers to the</u></p>		<p><u>thereof acquired by the Company for non-operating use shall not be higher than 20% of shareholders' equity of the Company. Total amount of real property, or right-of-use assets thereof acquired by each subsidiary for non-operating use shall not be higher than 10% of shareholders' equity of the Company.</u></p> <p><u>2. Total amount of long-term and short-term securities investment acquired by the Company shall not be higher than 100% of shareholders' equity of the Company. Total amount of long-term and short-term securities investment acquired by each subsidiary shall not be higher than 60% of shareholders' equity of the Company.</u></p> <p><u>3. The amount of individual security acquired by the Company shall not be higher than 50% of shareholders' equity of the Company. The amount of individual security acquired by acquired by each subsidiary shall not be higher than 40% of shareholders' equity of the Company.</u></p>	<p>Regulations Governing the Acquisition and Disposal of Assets by Public Companies.</p> <p>3. Revised according to the actual operational needs of the company.</p>

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	<u>shareholders' equity in the most recent financial statements of the subsidiary which are audited and certified or checked and approved by accountants; for the subsidiary without the most recent financial statements audited and certified or checked and approved by accountants, it refers to the shareholders' equity in its own most recent financial statements.</u>			
Article 7	<p>Control on procedures for the acquisition or disposal of assets of subsidiaries</p> <p>1. The Company shall urge the Subsidiaries to prepare and execute the Disposal Procedure for the Acquisition or Disposal of the Assets. After this procedure adopted by the subsidiaries' Board of Directors, it shall be submitted to the Board of Directors of the Company. The same shall apply to the amendment of this procedure.</p> <p>2. Control on procedures for the acquisition or disposal of assets of subsidiaries by the Company, shall be handled in accordance with relevant laws and Internal Control System of the Company.</p> <p>3. The subsidiaries of the Company are not domestic public offering companies, thus the acquisition or disposal of assets shall be reported or announced by the Company in accordance with the provisions of Section 5.</p> <p>The foresaid subsidiaries reach <u>20 % of</u> paid-in capital or <u>10% of</u> total assets and their information required to be reported in accordance with the provisions of paragraph 1 of Article 19, it is determined by the paid-</p>	Article 7	<p>Control on procedures for the acquisition or disposal of assets of subsidiaries</p> <p>1. The Company shall urge the Subsidiaries to prepare and execute the Disposal Procedure for the Acquisition or Disposal of the Assets. After this procedure adopted by the subsidiaries' Board of Directors, it shall be submitted to the Board of Directors of the Company. The same shall apply to the amendment of this procedure.</p> <p>2. Control on procedures for the acquisition or disposal of assets of subsidiaries by the Company, shall be handled in accordance with relevant laws and Internal Control System of the Company.</p> <p>3. The subsidiaries of the Company are not domestic public offering companies, thus the acquisition or disposal of assets shall be reported or announced by the Company in accordance with the provisions of Section 5.</p> <p>The foresaid subsidiaries reach paid-in capital or total assets and their information required to be reported in accordance with the provisions of paragraph 1 of Article 19, it is determined by the paid-in capital or</p>	<p>1. Discretionary text.</p> <p>2. Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.</p>



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	in capital or total assets of the company.		total assets of the company.	
Article 8	<p>Scope</p> <p>In acquiring or disposing of assets with a Related Party not only practice in accordance with the provisions of the previous section and this section, and regulated by below-mentioned resolution procedures, evaluation of the reasonableness of the transaction terms and others, but also in the case when the transaction amount reaches 10% of more of the total assets, the company shall obtain an appraisal report in advance from a professional appraiser or engage a certified public accountant to render an opinion in accordance with the provisions of the previous Section.</p> <p>The method for calculating the preceding transaction amount shall comply with the Paragraph <u>3.1</u> of Article 4.</p> <p>Besides, determine the Related Party in accordance with the formal law and consider the substance relationship.</p>	Article 8	<p>Scope</p> <p>In acquiring or disposing of assets with a Related Party not only practice in accordance with the provisions of the previous section and this section, and regulated by below-mentioned resolution procedures, evaluation of the reasonableness of the transaction terms and others, but also in the case when the transaction amount reaches 10% of more of the total assets, the company shall obtain an appraisal report in advance from a professional appraiser or engage a certified public accountant to render an opinion in accordance with the provisions of the previous Section.</p> <p>The method for calculating the preceding transaction amount shall comply with the Paragraph <u>4</u> of Article 4.</p> <p>Besides, determine the Related Party in accordance with the formal law and consider the substance relationship.</p>	Discretionary text.
Article 9	<p>Resolution Procedure</p> <p>When the company intends to acquire or dispose of real property from a related party, or when it intends to acquire or dispose of assets other than real property from 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,</p>	Article 9	<p>Resolution Procedure</p> <p>When the company intends to acquire or dispose of real property , <u>or right-of-use assets thereof</u> from a related party, or when it intends to acquire or dispose of assets <u>or right-of-use assets thereof</u> other than real property from a related party and the transaction amount reaches 20% or more of paid-in capital, 10% or more of the</p>	Amend according to the Regulations Governing the Acquisition and Disposal

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	<p>except in trading of domestic 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 a payment until the following matters have been approved by the board of directors and recognized by the supervisors:</p> <ol style="list-style-type: none"> <li>1. The purpose, necessity and anticipated benefits of the asset acquisition or disposal.</li> <li>2. The reason for choosing the Related Party as a trading counterparty.</li> <li>3. 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 the provisions of Article 10 and 11.</li> <li>4. The date and price at which the Related Party originally acquired the real property, the original counterparty and the trading counterparty's relationship with the Company and the Related Party.</li> <li>5. Monthly cash flow forecasts for the year commencing from the month of anticipated signing of the contract and evaluation of the necessity of the transaction and reasonableness of the use of proceeds.</li> <li>6. Obtain an appraisal report in advance from a professional appraiser or engage a certified public accountant to render an opinion pursuant to the preceding paragraph.</li> </ol>		<p>company's total assets, or NT\$300 million or more, except in trading of domestic government bonds or <u>domestic</u> 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 a payment until the following matters have been approved by the board of directors and recognized by the supervisors:</p> <ol style="list-style-type: none"> <li>1. The purpose, necessity and anticipated benefits of the asset acquisition or disposal.</li> <li>2. The reason for choosing the Related Party as a trading counterparty.</li> <li>3. With respect to the acquisition of real property from a Related Party, <u>or right-of-use assets thereof</u>, information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with the provisions of Article 10 and 11.</li> <li>4. The date and price at which the Related Party originally acquired the real property, the original counterparty and the trading counterparty's relationship with the Company and the Related Party.</li> <li>5. Monthly cash flow forecasts for the year commencing from the month of anticipated signing of the contract and evaluation of the necessity of the transaction and reasonableness of the use of proceeds.</li> <li>6. Obtain an appraisal report in advance from a professional appraiser or engage a certified public accountant to render an opinion pursuant to the</li> </ol>	of Assets by Public Companies.

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	<p>7. Restrictive and other important stipulations associated with the transaction. The amount of transactions above shall be calculated in compliance with the procedures set out in paragraph 2 of Article 19, “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 and recognized by the Supervisors need not be counted toward the transaction amount.</p> <p><u>In acquiring or disposing of business machinery and equipment between the Company and its subsidiaries or between each of its subsidiaries, the Board of Directors may first authorize the Chairman to execute within a certain amount in accordance with the provisions of Subparagraph 1, Paragraph 1 of Article 5, and shall report at the most recent meeting of the Board of Directors for ratification.</u></p> <p>After the position of Independent Director has been established in accordance with the provisions of Securities Exchange Act, when the procedures are submitted for discussion by the Board of Directors</p>		<p>preceding paragraph.</p> <p>7. Restrictive and other important stipulations associated with the transaction. The amount of transactions above shall be calculated in compliance with the procedures set out in paragraph 2 of Article 19, “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 and recognized by the Supervisors need not be counted toward the transaction amount.</p> <p><u>With respect to the types of transactions listed below, when to be conducted between the company and its parent or subsidiaries, or between its subsidiaries in which it directly or indirectly holds 100 percent of the issued shares or authorized capital, the Board of Directors may first authorize the Chairman to execute within a certain amount in accordance with the provisions of Subparagraph 1, Paragraph 1 of Article 5, and shall report at the most recent meeting of the Board of Directors for ratification:</u></p> <p><u>(1) Acquisition or disposal of equipment or right-of-use assets thereof held for business use.</u></p> <p><u>(2) Acquisition or disposal of real property right-of-use assets held for business use.</u></p> <p>After the position of Independent Director has been established in accordance with the provisions of Securities Exchange Act, when the procedures are submitted for discussion by the Board of Directors</p>	

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	<p>according to Paragraph 1, the Board of Directors shall take into full consideration each Independent Director’s opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board of Directors Meeting.</p> <p>After an Audit Committee has been established in accordance with the issues which shall be recognized by Audit Committee according to Paragraph 1 shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution, and shall be subject to mutatis mutandis application of the provisions of Paragraph 4 and 5, Article 22.</p>		<p>according to Paragraph 1, the Board of Directors shall take into full consideration each Independent Director’s opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board of Directors Meeting.</p> <p>After an Audit Committee has been established in accordance with the issues which shall be recognized by Audit Committee according to Paragraph 1 shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution, and shall be subject to mutatis mutandis application of the provisions of Paragraph 4 and 5, Article 22.</p>	
Article 10	<p>Assessment procedures</p> <p>The company acquires real property from a related party shall evaluate the reasonableness of the transaction costs by the following means:</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 in accordance with the law. “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</p>	Article 10	<p>Assessment procedures</p> <p>The company acquires real property <u>or right-of-use assets thereof</u> from a related party shall evaluate the reasonableness of the transaction costs by the following means:</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 in accordance with the law. “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</p>	Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

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	<p>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 one year or more. However, this shall not apply where the financial institution is a related party of one of the trading counterparties.</p> <p>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>The company acquires real property from a related party and appraises the cost of the real property in accordance with the <u>provisions of paragraphs 1 and 2</u> of this Article shall also engage a CPA to check the appraisal and render a specific opinion.</p> <p>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 the preceding article, and the preceding three paragraphs do not apply:</p> <ol style="list-style-type: none"> <li>1. The related party acquired the real property through inheritance or as a gift.</li> <li>2. More than five 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.</li> </ol>		<p>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 one year or more. However, this shall not apply where the financial institution is a related party of one of the trading counterparties.</p> <p>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>The company acquires real property <u>or right-of-use assets thereof</u> from a related party and appraises the cost of the real property <u>or right-of-use assets thereof</u> in accordance with the <u>preceding 2</u> paragraphs of this Article shall also engage a CPA to check the appraisal and render a specific opinion.</p> <p>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 the preceding article, and the preceding three paragraphs do not apply:</p> <ol style="list-style-type: none"> <li>1. The related party acquired the real property <u>or right-of-use assets thereof</u> through inheritance or as a gift.</li> <li>2. More than five years will have elapsed <u>or right-of-use assets thereof</u> from the time the related party signed the contract to obtain the real property to the signing</li> </ol>	

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	3. The real property is acquired through signing of a joint development contract with the related party, or engaging others to build on its own land, engaging the related party to build on rented land.		<p>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 engaging others to build on its own land, engaging the related party to build 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 or subsidiaries, or by its subsidiaries in which it directly or indirectly holds 100 percent of the issued shares or authorized capital.</u></p>	
Article 11	<p>Procedures 1 in case of the assessment result uniformly lower than the transaction price</p> <p>When the results of the company’s appraisal conducted in accordance with the paragraphs 1 and 2 of the preceding Article are uniformly lower than the transaction price, the matter shall be handled in compliance with the provisions of Article 12. 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 has 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 the preceding Article, and structures according to the related party’s construction cost plus reasonable construction profit are valued in excess of</p>	Article 11	<p>Procedures 1 in case of the assessment result uniformly lower than the transaction price</p> <p>When the results of the company’s appraisal conducted in accordance with the paragraphs 1 and 2 of the preceding Article are uniformly lower than the transaction price, the matter shall be handled in compliance with the provisions of Article 12. 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 has 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 the preceding Article, and structures according to the related party’s construction cost plus reasonable construction profit are valued in excess of</p>	Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

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	<p>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 three 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) Completed 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><u>(3) Completed leasing transactions by unrelated parties for other floors of the same property from within the preceding year, where the transaction terms are similar after calculation of reasonable price discrepancies among floors in accordance with standard property leasing market practices.</u></p> <p>2. Where the company acquires real property from a related party provides evidence that the terms of the transaction are similar to the terms of transactions completed for the acquisition of neighboring real property of a similar size by unrelated parties within the preceding year.</p> <p>Completed transactions for neighboring real property in the preceding paragraph in principle refers to real property on the same or an adjacent block and within a</p>		<p>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 three 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) Completed 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 <u>or leasing</u> practices.</p> <p>2. Where the company acquires 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 transactions completed for the acquisition of neighboring real property of a similar size by unrelated parties within the preceding year.</p> <p>Completed transactions for neighboring real property in the preceding paragraph in principle refers to real</p>	

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	distance of no more than 500 meters or parcels close in publicly announced current value; transaction for similarly sized real property in principle refer to transactions completed by unrelated parties for real property with an area of no less than 50% of the property in the planned transaction; within one year refers to one year from the actual date of acquisition of the real property.		property 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; transaction for similarly sized real property in principle refer to transactions completed by unrelated parties for real property with an area of no less than 50% of the property in the planned transaction; within one year refers to one year from the actual date of acquisition of the real property <u>or obtainment of the right-of-use assets thereof.</u>	
Article 12	<p>Procedures 2 in case of the assessment result uniformly lower than the transaction price</p> <p>Where the company acquires real property from a related party and the results of appraisals conducted in accordance with the provisions of the <u>Article 10 and Article 11</u> are uniformly lower than the transaction price, the following steps shall be taken.</p> <p>1. The difference between the real property transaction price and the appraised costs shall be set aside as a special reserve in accordance with the provisions of the paragraph 1, Article 41 of the SEA and may not be distributed or used for capital increase or issuance of bonus shares. If an investor that has investment in the company and adopts the equity method for such investment and is a public company, it shall also set aside a special reserve under paragraph 1, Article 41 of the SEA in relation to its share of the above special reserve set aside by the company in proportion to its</p>	Article 12	<p>Procedures 2 in case of the assessment result uniformly lower than the transaction price</p> <p>Where the company acquires real property <u>or obtainment of the right-of-use assets thereof</u> from a related party and the results of appraisals conducted in accordance with the provisions of <u>preceding 2 Articles</u> are uniformly lower than the transaction price, the following steps shall be taken.</p> <p>1. The difference between the real property <u>or obtainment of the right-of-use assets thereof</u> transaction price and the appraised costs shall be set aside as a special reserve in accordance with the provisions of the paragraph 1, Article 41 of the SEA and may not be distributed or used for capital increase or issuance of bonus shares. If an investor that has investment in the company and adopts the equity method for such investment and is a public company, it shall also set aside a special reserve under paragraph 1, Article 41 of the SEA in relation to its share of the</p>	Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.



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	<p>shareholding.</p> <p>2. Supervisors shall comply with the provisions of Article 218 of the Company Act.</p> <p>3. The circumstances of handling under the provisions of paragraphs <u>1 and 2</u> of this Article shall be reported to General Meeting and the detailed contents of the transaction disclosed in the annual report and prospectus.</p> <p>If the company set aside a special reserve under the preceding paragraph, the company shall not utilize such special reserve until it has recognized a loss due to price decline for the assets it purchased at a premium, or they have been disposed of, or adequate compensation has been made, or the original condition has been restored, or there is other evidence confirming that it is not unreasonable to do so, and the FSC has agreed with the utilization.</p> <p>When the company obtains real property from a related party, it shall also comply with the provisions of paragraph 1 and paragraph 2 of this Article if there is other evidence indicating that the acquisition was not an arm length transaction.</p>		<p>above special reserve set aside by the company in proportion to its shareholding.</p> <p>2. Supervisors shall comply with the provisions of Article 218 of the Company Act. <u>Where an audit committee has been established in accordance with the provisions of the Act, the preceding part of this subparagraph shall apply mutatis mutandis to the independent director members of the audit committee.</u></p> <p>3. The circumstances of handling under the provisions of <u>preceding 2</u> paragraphs of this Article shall be reported to General Meeting and the detailed contents of the transaction disclosed in the annual report and prospectus.</p> <p>If the company set aside a special reserve under the preceding paragraph, the company shall not utilize such special reserve until it has recognized a loss due to price decline for the assets it purchased at a premium <u>or leased, or contract has been terminated</u>, or they have been disposed of, or adequate compensation has been made, or the original condition has been restored, or there is other evidence confirming that it is not unreasonable to do so, and the FSC has agreed with the utilization.</p> <p>When the company obtains real property <u>or obtainment of the right-of-use assets thereof</u> from a related party, it shall also comply with the provisions of paragraph 1 and paragraph 2 of this Article if there is other evidence indicating that the acquisition was not an arm length transaction.</p>	

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Article 13	<p>Resolution Procedure</p> <p>1. The Company that conducts a merger, demerger, acquisition, or transfer of shares, prior to convening the Board of Directors to resolve on the matter, shall engage a CPA, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and submit it to the Board of Directors for deliberation and passage. However, for the merger of a subsidiary which directly or indirectly holds 100% issued shares or capital sum, or the merger between subsidiaries which directly or indirectly hold 100% issued shares or capital sum, the opinion on the reasonableness issued by experts pursuant to the preceding paragraph shall be avoided.</p> <p>2. The Company participating in a merger, demerger, acquisition shall prepare a public report to shareholders detailing important contractual content and matters relevant to the merger, demerger, or acquisition prior to the shareholders meeting and include it along with the expert opinion referred to in preceding paragraph when sending shareholders notification of the shareholders meeting for reference in deciding whether to approve the merger, demerger, or acquisition. Provided, where a provision of another act exempts a company from convening a shareholders meeting to approve the merger, demerger, or acquisition, this restriction shall not apply.</p> <p>Where the shareholders meeting of any one of the</p>	Article 13	<p>Resolution Procedure</p> <p>1. The Company that conducts a merger, demerger, acquisition, or transfer of shares, prior to convening the Board of Directors to resolve on the matter, shall engage a CPA, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and submit it to the Board of Directors for deliberation and passage. However, for the merger of a subsidiary which directly or indirectly holds 100% issued shares or capital sum, or the merger between subsidiaries which directly or indirectly hold 100% issued shares or capital sum, the opinion on the reasonableness issued by experts pursuant to the preceding paragraph shall be avoided.</p> <p>2. The Company participating in a merger, demerger, acquisition shall prepare a public report to shareholders detailing important contractual content and matters relevant to the merger, demerger, or acquisition prior to the shareholders meeting and include it along with the expert opinion referred to in preceding paragraph when sending shareholders notification of the shareholders meeting for reference in deciding whether to approve the merger, demerger, or acquisition. Provided, where a provision of another act exempts a company from convening a shareholders meeting to approve the merger, demerger, or acquisition, this restriction shall not apply.</p> <p>Where the shareholders meeting of any one of the</p>	Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

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	<p>companies participating in a merger, demerger, or acquisition fails to convene or pass a resolution due to lack of a quorum, insufficient votes, or other legal restriction, or the proposal is rejected by the shareholders meeting, this Company participating in the merger, demerger or acquisition shall immediately publicly explain the reason, the follow-up measures, and the preliminary date of the next shareholders meeting.</p> <p>3. The Company participating in a merger, demerger, or acquisition shall convene a board of directors meeting and shareholders meeting on the day of the transaction to resolve matters relevant to the merger, demerger, or acquisition, unless another act provides otherwise or the FSC is notified in advance of extraordinary circumstances and grants consent.</p> <p>The Company participating in a transfer of shares shall call a board of directors meeting on the day of the transaction, unless another act provides otherwise or the authority is notified in advance of extraordinary circumstances and grants consent.</p> <p>When participating in a merger, demerger, acquisition, or transfer of shares, the Company shall prepare a full written record of the following information and retain it for five years for reference:</p> <p>(1) Basic identification data for personnel: Including the occupational titles, names, and national ID numbers (or passport numbers in the case of foreign nationals) of all persons involved in the planning or</p>		<p>companies participating in a merger, demerger, or acquisition fails to convene or pass a resolution due to lack of a quorum, insufficient votes, or other legal restriction, or the proposal is rejected by the shareholders meeting, this Company participating in the merger, demerger or acquisition shall immediately publicly explain the reason, the follow-up measures, and the preliminary date of the next shareholders meeting.</p> <p>3. The Company participating in a merger, demerger, or acquisition shall convene a board of directors meeting and shareholders meeting on the day of the transaction to resolve matters relevant to the merger, demerger, or acquisition, unless another act provides otherwise or the FSC is notified in advance of extraordinary circumstances and grants consent.</p> <p>The Company participating in a transfer of shares shall call a board of directors meeting on the day of the transaction, unless another act provides otherwise or the authority is notified in advance of extraordinary circumstances and grants consent.</p> <p>When participating in a merger, demerger, acquisition, or transfer of shares, the Company shall prepare a full written record of the following information and retain it for five years for reference:</p> <p>(1) Basic identification data for personnel: Including the occupational titles, names, and national ID numbers (or passport numbers in the case of foreign nationals) of all persons involved in the planning or</p>	

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	<p>implementation of any merger, demerger, acquisition, or transfer of another company's shares prior to disclosure of the information.</p> <p>(2) Dates of material events: Including the signing of any letter of intent or memorandum of understanding, the hiring of a financial or legal advisor, the execution of a contract, and the convening of a board of directors meeting.</p> <p>(3) Important documents and minutes: Including merger, demerger, acquisition, and share transfer plans, any letter of intent or memorandum of understanding, material contracts, and minutes of board of directors meetings.</p> <p>When participating in a merger, demerger, acquisition, or transfer of shares, the Company shall, in two days of passage of a resolution by the board of directors, report (in the prescribed format and via the Internet-based information system) the information set out in subparagraphs 1 and 2 of the preceding paragraph to the FSC for recordation.</p> <p>Where the Company participating in a merger, demerger, acquisition, or transfer of another company's shares is neither listed on an exchange nor has its shares traded on an OTC market, the Company shall sign an agreement with such company whereby the latter is required to abide by the provisions of <u>Paragraph 3 and 4</u> of this Article.</p>		<p>implementation of any merger, demerger, acquisition, or transfer of another company's shares prior to disclosure of the information.</p> <p>(2) Dates of material events: Including the signing of any letter of intent or memorandum of understanding, the hiring of a financial or legal advisor, the execution of a contract, and the convening of a board of directors meeting.</p> <p>(3) Important documents and minutes: Including merger, demerger, acquisition, and share transfer plans, any letter of intent or memorandum of understanding, material contracts, and minutes of board of directors meetings.</p> <p>When participating in a merger, demerger, acquisition, or transfer of shares, the Company shall, in two days of passage of a resolution by the board of directors, report (in the prescribed format and via the Internet-based information system) the information set out in subparagraphs 1 and 2 of the preceding paragraph to the FSC for recordation.</p> <p>Where the Company participating in a merger, demerger, acquisition, or transfer of another company's shares is neither listed on an exchange nor has its shares traded on an OTC market, the Company shall sign an agreement with such company whereby the latter is required to abide by the provisions of <u>preceding 2 paragraphs</u> of this Article.</p>	

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Article 18	Disposal of a company that is not a public one Where any of the companies participating in a merger, demerger, acquisition, or transfer of shares is not a public company, the public company(s) shall sign an agreement with the non-public company whereby the latter is required to abide by the provisions of paragraphs 3 of Article 13 and Article 14 and <u>Article 17</u> .	Article 18	Disposal of a company that is not a public one Where any of the companies participating in a merger, demerger, acquisition, or transfer of shares is not a public company, the public company(s) shall sign an agreement with the non-public company whereby the latter is required to abide by the provisions of paragraphs 3 of Article 13 and Article 14 and <u>preceding Article</u> .	Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.
Article 19	Public Announcement and Declaration Procedure In acquiring or disposing of assets, should any of the following conditions occur after the filing and public announcement of transactions, the Company needs to file and make public announcement at the website specified by FSC accordingly in two days from the Date of the Event by using the prescribed format according to the nature: 1. Acquisition or disposal real property from a Related Party, or in acquiring or disposing any other asset than the real property with a Related Party and also the transaction amount reaches 20% of paid-in capital, 10% of the total assets or NT\$300 million or more; Provided, however, this shall not apply to the trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds issued by securities investment trust enterprise.	Article 19	Public Announcement and Declaration Procedure In acquiring or disposing of assets, should any of the following conditions occur after the filing and public announcement of transactions, the Company needs to file and make public announcement at the website specified by FSC accordingly in two days from the Date of the Event by using the prescribed format according to the nature: 1. Acquisition or disposal real property <u>or right-of-use assets thereof</u> from a Related Party, or in acquiring or disposing any other asset than the real property <u>or right-of-use assets thereof</u> with a Related Party and also the transaction amount reaches 20% of paid-in capital, 10% of the total assets or NT\$300 million or more; Provided, however, this shall not apply to the trading of <u>domestic</u> government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds issued by securities investment trust enterprise.	Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

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	<p>2. Merger, demerger, acquisition, or transfer of shares.</p> <p>3. The loss of trading derivatives reaches the limit for all or individual contract set forth <u>in</u> the Procedures for Engaging in Derivatives Trading.</p> <p>4. Where the type of asset acquired or disposed is equipment for business use and the trading counterparty is not a Related Party, the transaction amount shall meet one of the following conditions:</p> <p>(1) For the public companies with paid-in capital less than NT\$10 billion, the transaction amount is NT\$ 500 million or more.</p> <p>(2) For the public companies with paid-in capital more than NT\$10 billion, the transaction amount is NT\$1 billion or more.</p> <p>5. Where land is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the amount the Company expects to invest in the transaction reaches NT\$500 million.</p> <p>6. Where an asset transaction other than any of those referred to in the preceding five subparagraphs, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20% of paid-in capital or NT\$300 million or more; provided,</p>		<p>2. Merger, demerger, acquisition, or transfer of shares.</p> <p>3. The loss of trading derivatives reaches the limit for all or individual contract set forth <u>by</u> the Procedures for Engaging in Derivatives Trading.</p> <p>4. Where the type of asset acquired or disposed is equipment for business use <u>or right-of-use assets thereof</u> and the trading counterparty is not a Related Party, the transaction amount shall meet one of the following conditions:</p> <p>(1) For the public companies with paid-in capital less than NT\$10 billion, the transaction amount is NT\$ 500 million or more.</p> <p>(2) For the public companies with paid-in capital more than NT\$10 billion, the transaction amount is NT\$1 billion or more.</p> <p>5. Where land is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and <u>furthermore the transaction counterparty is not a related party,</u> the amount the Company expects to invest in the transaction reaches NT\$500 million.</p> <p>6. Where an asset transaction other than any of those referred to in the preceding five subparagraphs, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20% of paid-in capital or NT\$300 million or more; provided,</p>	

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	<p>this shall not apply to the following circumstances:</p> <p>(1) Trading of government bonds.</p> <p>(2) Where done by professional investors—securities trading on securities exchanges or OTC markets, or subscription of ordinary corporate bonds or general bank debentures without equity characteristics that are offered and issued in the primary market, or subscription by a securities firm of securities as necessitated by its undertaking business or as an advisory recommending securities firm for an emerging stock company, in accordance with the rules of the Taipei Exchange.</p> <p>(3) Trading of bonds under repurchase/resale agreements and the purchase or redemption of domestic money market funds issued by securities investment trust enterprise.</p> <p>The amount of transactions above shall be calculated as follows:</p> <ol style="list-style-type: none"> <li>1. The amount of any individual transaction.</li> <li>2. The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year.</li> <li>3. The cumulative transaction amount of real estate acquisitions and disposals (cumulative acquisitions and disposals, respectively) within the same development</li> </ol>		<p>this shall not apply to the following circumstances:</p> <p>(1) Trading of <u>domestic</u> government bonds.</p> <p>(2) Where done by professional investors—securities trading on securities exchanges or OTC markets, or subscription of ordinary corporate bonds or general bank debentures without equity characteristics that are offered and issued in the primary market, <u>(excluding subordinated debt) that are offered and issued in the primary market, or subscription or redemption of securities investment trust funds or futures trust funds</u> or subscription by a securities firm of securities as necessitated by its undertaking business or as an advisory recommending securities firm for an emerging stock company, in accordance with the rules of the Taipei Exchange</p> <p>(3) Trading of bonds under repurchase/resale agreements and the purchase or redemption of domestic money market funds issued by securities investment trust enterprise.</p> <p>The amount of transactions above shall be calculated as follows:</p> <ol style="list-style-type: none"> <li>1. The amount of any individual transaction.</li> <li>2. The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year.</li> <li>3. The cumulative transaction amount of real estate acquisitions and disposals (cumulative acquisitions and disposals, respectively) within the same development</li> </ol>	

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	<p>project within the preceding year.</p> <p>4. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.</p> <p>“Within the preceding year” as used in the preceding paragraph refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with the Procedures need not be counted toward the transaction amount.</p> <p>The Company shall, on a monthly basis, report and make a public announcement of the financial derivative transactions engaged by it and its subsidiary which is not a domestic public company up to the end of the previous month in accordance with relevant regulations by the tenth day of each month, and enter the information at the website for declaration specified by FSC.</p> <p>When the company at the 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>The Company acquiring or disposing of assets shall keep all relevant contracts, meeting minutes, log books, appraisal reports and CPA, attorney, and securities</p>		<p>project <u>or right-of-use assets thereof</u> within the preceding year.</p> <p>4. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.</p> <p>“Within the preceding year” as used in the preceding paragraph refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with the Procedures need not be counted toward the transaction amount.</p> <p>The Company shall, on a monthly basis, report and make a public announcement of the financial derivative transactions engaged by it and its subsidiary which is not a domestic public company up to the end of the previous month in accordance with relevant regulations by the tenth day of each month, and enter the information at the website for declaration specified by FSC.</p> <p>When the company at the 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>The Company acquiring or disposing of assets shall keep all relevant contracts, meeting minutes, log books, appraisal reports and CPA, attorney, and securities</p>	



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	underwriter opinions at the company headquarters, where they shall be retained for 5 years except where another act provides otherwise.		underwriter opinions at the company headquarters, where they shall be retained for 5 years except where another act provides otherwise	
Article 20	<p>Other important matters</p> <p>The Company shall, within one of the following circumstances, within two days from the date of the occurrence of the transaction in accordance with the provisions of the preceding Article, declare the relevant information on the designated website of the FSC:</p> <ol style="list-style-type: none"> <li>1. The contract signed related to the original transaction has been changed, terminated or rescinded.</li> <li>2. The merger, demerger, acquisition, or transfer of shares has not been completed according to the contracted schedule.</li> <li>3. The contents of original public announcement have changed.</li> </ol> <p>For the 10 percent related to the total assets specified in the procedures, it is calculated based on the total amount of the assets in the most recent individual or separate financial statements prepared by the Regulations Governing the Preparation of Financial Reports by Securities Issuers.</p> <p>If the shares with no value or not valued at NT\$10 per share, the amount of the transaction amount of 20% of the paid-in capital under these procedures shall be calculated based on 10% of the equity attributable to</p>	Article 20	<p>Other important matters</p> <p>The Company shall, within one of the following circumstances, within two days from the date of the occurrence of the transaction in accordance with the provisions of the preceding Article, declare the relevant information on the designated website of the FSC:</p> <ol style="list-style-type: none"> <li>1. The contract signed related to the original transaction has been changed, terminated or rescinded.</li> <li>2. The merger, demerger, acquisition, or transfer of shares has not been completed according to the contracted schedule.</li> <li>3. The contents of original public announcement have changed.</li> </ol> <p>For the 10 percent related to the total assets specified in the procedures, it is calculated based on the total amount of the assets in the most recent individual or separate financial statements prepared by the Regulations Governing the Preparation of Financial Reports by Securities Issuers.</p> <p>If the shares with no value or not valued at NT\$10 per share, the amount of the transaction amount of 20% of the paid-in capital under these procedures shall be calculated based on 10% of the equity attributable to</p>	Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	the owners of the parent company.		the owners of the parent company; <u>for calculations under the provisions of these Regulations regarding transaction amounts relative to paid-in capital of NT\$10 billion, NT\$20 billion of equity attributable to owners of the parent shall be substituted.</u>	
Article 21	<p>Penalties</p> <p>Any director, supervisor and manager of the Company who violates the Regulations promulgated by the FSC or the provisions of this procedure and causes the Company to be subject to significant damage, shall be dismissed.</p> <p>The company's persons-in-charge breach of the Regulations or these operating procedures, shall be handled in accordance with Procedures for management on employee of the Company.</p>	Article 21	<p>Penalties</p> <p>Any director, supervisor and manager of the Company who violates the Regulations promulgated by the FSC or the provisions of this procedure and causes the Company to be subject to significant damage, shall be dismissed. <u>Where an audit committee has been established in accordance with SEA, relating to supervisors shall apply mutatis mutandis to the audit committee.</u></p> <p>The company's persons-in-charge breach of the Regulations or these operating procedures, shall be handled in accordance with Procedures for management on employee of the Company.</p>	Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.
Article 22	<p>Revision procedure</p> <p>The Company shall establish the Procedures according to <u>relevant</u> regulations and submit to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors, and the same to amendment. Where any director expresses dissent and it is contained in the minutes or a written statement, the company shall submit the dissenting opinion to the Supervisors.</p> <p>After the position of Independent Director has been established in accordance with the provisions of SEA,</p>	Article 22	<p>Revision procedure</p> <p>The Company shall establish the Procedures according to <u>the Regulations</u> and submit to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors, and the same to amendment. Where any director expresses dissent and it is contained in the minutes or a written statement, the company shall submit the dissenting opinion to the Supervisors.</p> <p>After the position of Independent Director has been established in accordance with the provisions of SEA,</p>	Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>when the Procedures are submitted for discussion by the Board of Directors according to the preceding paragraphs, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.</p> <p>After an Audit Committee has been established in accordance with the provisions of SEA, establishment or amendment of the procedure <u>for acquisition and disposal of assets</u> shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution.</p> <p>If approval of more than half of all Audit Committee members as required in the preceding paragraph is not obtained, the Procedures may implemented if approved by more than two-thirds of all directors, provided that the resolution of the Audit Committee is recorded in the minutes of the Board of Directors meeting.</p> <p>The terms "all audit committee members" in Paragraph 3 and "all directors" in the Paragraph 4 shall be calculated as the actual number of persons currently holding those positions.</p> <p>The public announcement and declaration shall be made according to relevant regulations when the Procedures are amended.</p>		<p>when the Procedures are submitted for discussion by the Board of Directors according to the preceding paragraphs, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.</p> <p>After an Audit Committee has been established in accordance with the provisions of SEA, establishment or amendment of the procedure shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution.</p> <p>If approval of more than half of all Audit Committee members as required in the preceding paragraph is not obtained, the Procedures may implemented if approved by more than two-thirds of all directors, provided that the resolution of the Audit Committee is recorded in the minutes of the Board of Directors meeting.</p> <p>The terms "all audit committee members" in Paragraph 3 and "all directors" in the <u>previous</u> Paragraph shall be calculated as the actual number of persons currently holding those positions.</p> <p>The public announcement and declaration shall be made according to relevant regulations when the Procedures are amended.</p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
<u>Article 23</u>	<p><u>After an audit committee has been established in accordance with the provisions of SEA, the provisions regarding supervisors set out in Paragraph 3 of Article 14-4 of SEA, shall apply mutatis mutandis to the audit committee.</u></p> <p><u>After an audit committee has been established in accordance with the provisions of the Act, the provisions regarding independent directors set out in Paragraph 4 of Article 14-4 of SEA shall apply mutatis mutandis to the audit committee.</u></p>		Delete.	Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.
<u>Article 24</u>	<p>Other Important Issues</p> <p>Any other matters not set forth in the Procedures or any doubts in application shall be dealt with in accordance with the applicable laws, rules, and regulations; for matters not specified by law, rules, and regulations, they shall be dealt with in accordance with relevant provisions of the Company or decided by discussion of the Board of Directors.</p>	<u>Article 23</u>	<p>Other Important Issues</p> <p>Any other matters not set forth in the Procedures or any doubts in application shall be dealt with in accordance with the applicable laws, rules, and regulations; for matters not specified by law, rules, and regulations, they shall be dealt with in accordance with relevant provisions of the Company or decided by discussion of the Board of Directors.</p>	Adjustment the Article number.

**[Comparison Table for Amendments to Procedures for Engaging in Derivatives Trading]**

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 2	<p>Trading principles and strategies</p> <p>1. Transaction Type:                      (1) Derivative products referred in the Procedures refers to forward contracts, options contracts, futures contracts, leverage contracts, <u>and</u> swap contracts, and <u>compound contracts</u> combining the above products, whose value is derived from assets, interest rates, foreign exchange rates, indexes or other interests.</p> <p>(2) 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>(3) The matters related to the bond margin transaction shall be handled in accordance with the relevant provisions of the Procedures.                      Paragraph 2 to Paragraph 5 : Omitted.</p>	Article 2	<p>Trading principles and strategies</p> <p>1. Transaction Type:                      (1) Derivative products referred in the Procedures refers to forward contracts, options contracts, futures contracts, leverage contracts, <u>or</u> swap contracts, whose value is derived from <u>a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable</u>; or hybrid contracts combining the <u>above contracts</u>; or hybrid contracts or structured products containing embedded derivatives.</p> <p>(2) 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>(3) The matters related to the bond margin transaction shall be handled in accordance with the relevant provisions of the Procedures.                      Paragraph 2 to Paragraph 5 : Omitted.</p>	Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.
Article 3	<p>Operating Procedures</p> <p>1. Authorization Amount:                      When engaging in derivative commodity transactions by the Company, the authorized amounts shall be set as follows:                      (1) Forward Foreign-exchange Trading:                      Transaction Authorization Amount (Monthly</p>	Article 3	<p>Operating Procedures</p> <p>1. Authorization Amount:                      When engaging in derivative commodity transactions by the Company, the authorized amounts shall be set as follows:                      (1) Forward Foreign-exchange Trading:                      Transaction Authorization Amount (Monthly</p>	Amend according to company operating requirements.

Current Articles		Amended Articles		Amendment Explanation																
Item	Content	Item	Content																	
	<table border="1"> <thead> <tr> <th colspan="2">Accumulated Amount)</th> </tr> <tr> <th>Contract Amount</th> <th>Delegation of Authorization</th> </tr> </thead> <tbody> <tr> <td>0-10 million (including) dollars</td> <td>Chairperson</td> </tr> <tr> <td>Above 10 million (excluding) dollars</td> <td>Board of Directors</td> </tr> </tbody> </table> <p>(2) Contract of foreign currency options: The Chairperson of the Board of Directors is solely responsible for the amount of the contract signed by the Company with the Bank, which shall not exceed the estimated net demand of foreign current or net expenses of the Company for the next six months and the accumulated effective contract amount shall not exceed US\$ 10 million limit to avoid exchange rate fluctuations.</p> <p>(3) Other related derivative products: they shall be subject to the resolution of the board of directors before transaction.</p> <p>(4) For the procedures are adopted by the resolutions at the meetings of directors, the meeting shall be presented with two-thirds of all directors, and be approved by more than half of the presented directors.</p> <p>2. Execution unit and transaction process: (1) Execution of the transaction: the trader of the financial department shall trade with the financial institutions within the authorized amount. <u>If the amount is more than that specified in the</u></p>	Accumulated Amount)		Contract Amount	Delegation of Authorization	0-10 million (including) dollars	Chairperson	Above 10 million (excluding) dollars	Board of Directors		<table border="1"> <thead> <tr> <th colspan="2">Accumulated Amount)</th> </tr> <tr> <th>Contract Amount</th> <th>Delegation of Authorization</th> </tr> </thead> <tbody> <tr> <td>0-30 million (including) dollars</td> <td>Chairperson</td> </tr> <tr> <td>Above 30 million (excluding) dollars</td> <td>Board of Directors</td> </tr> </tbody> </table> <p>(2) Contract of foreign currency options: The Chairperson of the Board of Directors is solely responsible for the amount of the contract signed by the Company with the Bank, which shall not exceed the estimated net demand of foreign current or net expenses of the Company for the next six months and the accumulated effective contract amount shall not exceed US\$ 20 million limit to avoid exchange rate fluctuations.</p> <p>(3) Other related derivative products: they shall be subject to the resolution of the board of directors before transaction.</p> <p>(4) For the procedures are adopted by the resolutions at the meetings of directors, the meeting shall be presented with two-thirds of all directors, and be approved by more than half of the presented directors.</p> <p>2. Execution unit and transaction process: (1) Execution of the transaction: the trader of the financial department shall trade with the financial institutions within the authorized amount. After the completion of each transaction, the trader</p>	Accumulated Amount)		Contract Amount	Delegation of Authorization	0-30 million (including) dollars	Chairperson	Above 30 million (excluding) dollars	Board of Directors	
Accumulated Amount)																				
Contract Amount	Delegation of Authorization																			
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Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p><u>provisions of paragraph 1 of Article 3, the trader shall obtain the written approval in advance according to the above provisions.</u> After the completion of each transaction, the trader shall immediately fill the transaction note according to the return of financial institutions, specify the content, and then be submitted to the competent authority for approval, and make statistical and submit the copy of the transaction to the accounting department.</p> <p>(2) Transaction confirmation: the accounting department of the settlement and registration should confirm the transaction based on the copy of the transaction produced by the transaction unit, and then shall make settlement and register details according to the transaction confirmed number. The financial department shall prepare the statements monthly, and then collect them and submit them to the accounting department as an accounting evaluation Basis.</p>		<p>shall immediately fill the transaction note according to the return of financial institutions, specify the content, and then be submitted to the competent authority for approval, and make statistical and submit the copy of the transaction to the accounting department.</p> <p>(2) Transaction confirmation: the accounting department of the settlement and registration should confirm the transaction based on the copy of the transaction produced by the transaction unit, and then shall make settlement and register details according to the transaction confirmed number. The financial department shall prepare the statements monthly, and then collect them and submit them to the accounting department as an accounting evaluation Basis.</p>	
Article 4	<p>Risk Management Paragraph1 to Paragraph2 : Omitted. 3. Risk measurement, monitoring and control personnel shall be assigned to a different department that the personnel in the preceding subparagraph and shall report to the Board of Directors or an executive manager or supervisor who is not responsible for trading or <u>hedging</u> position policy-making.</p>	Article 4	<p>Risk Management Paragraph1 to Paragraph2 : Omitted. 3. Risk measurement, monitoring and control personnel shall be assigned to a different department that the personnel in the preceding subparagraph and shall report to the Board of Directors or an executive manager or supervisor who is not responsible for trading or position policy-making.</p>	Discretionary text.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>4. Derivatives trading positions held shall be evaluated at least once per week. Finance Department should prepare a bi-weekly report in connection with the transactions entered into for hedging purpose for the review of the Board of Directors authorized senior manager.</p> <p>5. Other important risk management measures.</p>		<p>4. Derivatives trading positions held shall be evaluated at least once per week. Finance Department should prepare a bi-weekly report in connection with the transactions entered into for hedging purpose for the review of the Board of Directors authorized senior manager.</p> <p>5. Other important risk management measures.  <u>The authorized traders shall have relevant expertise and full knowledge of the content goods in connection with the transaction, so as to reduce the risk of engaging in derivative commodity transactions.</u></p>	
Article 5	<p><b>Internal Audit</b>  Internal audit personnel is required to evaluate the suitability of the internal control system in connection with financial derivative transactions on a regular basis, to conduct auditing on how well the related departments follow the Procedures, and to produce report with trading cycle analysis on a monthly basis. Should there be any violation found, a written report is needed to notify the Supervisor.</p>	Article 5	<p><b>Internal Audit</b>  Internal audit personnel is required to evaluate the suitability of the internal control system in connection with financial derivative transactions on a regular basis, to conduct auditing on how well the related departments follow the Procedures, and to produce report with trading cycle analysis on a monthly basis. Should there be any violation found, a written report is needed to notify the Supervisor.  <u>Where independent directors have been appointed in accordance with the provisions of the Securities and Exchange Act (hereafter SEA), for matters for which notice shall be given to the supervisors under the preceding paragraph, written notice shall also be given to the independent directors.</u></p>	Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.



Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
			<u>Where an audit committee has been established in accordance with the provisions of the SEA, the provisions of paragraph 1 relating to supervisors shall apply mutatis mutandis to the audit committee.</u>	
Article 10	<p>Assessment Procedures</p> <p>The Company shall establish the Procedures according to <u>relevant regulations</u> and submit to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors, and the same to amendment. Where any director expresses dissent and it is contained in the minutes or a written statement, the company shall submit the dissenting opinion to the Supervisors.</p> <p>After the position of Independent Director has been established, when the Procedures are submitted for discussion by the Board of Directors according to the preceding paragraphs, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.</p> <p>After Audit Committee has been established in accordance with <u>laws, the provisions regarding supervisors set out in Paragraph 3 of Article 14-4 of Securities Exchange Act (hereafter SEA), shall apply mutatis mutandis to the audit committee.</u></p>	Article 10	<p>Assessment Procedures</p> <p>The Company shall establish the Procedures according to <u>the Regulations</u> and submit to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors, and the same to amendment. Where any director expresses dissent and it is contained in the minutes or a written statement, the company shall submit the dissenting opinion to the Supervisors.</p> <p>After the position of Independent Director has been established, when the Procedures are submitted for discussion by the Board of Directors according to the preceding paragraphs, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.</p> <p>After Audit Committee has been established in accordance with <u>SEA, when the procedures are adopted or amended they shall be approved by more than half of all Audit Committee members and submitted to the board of directors for a</u></p>	Amend according to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies and discretionary text.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p><u>the provisions regarding independent directors members set out in Paragraph 4 of Article 14-4 of SEA shall apply mutatis mutandis to the audit committee and it shall perform relevant responsibilities and authorities according to Article 14-5 of SEA and provisions for supervisors of the Procedures are applicable to the Audit Committee.</u></p>		<p><u>resolution.</u>  <u>If approval of more than half of all audit committee members as required in the preceding paragraph 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.</u>  <u>The terms "all audit committee members" in paragraph 3 and "all directors" in the preceding paragraph shall be counted as the actual number of persons currently holding those positions.</u></p>	

**[ Comparison Table for Amendments to Procedures for Lending Funds to Other Parties ]**

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 1	<p>Purpose</p> <p>To be the basis for procedures for lending funds to other parties of the Company, the Procedures are formulated specially according to Paragraph 1, Article 36 of Securities Exchange Act (hereinafter referred to as “SEA”) and the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” of Financial Supervisory Commission (hereafter referred to as the “FSC”).</p>	Article 1	<p>Purpose</p> <p>To be the basis for procedures for lending funds to other parties of the Company, the Procedures are formulated specially according to Paragraph 1, Article 36 of Securities Exchange Act (hereinafter referred to as “SEA”) and the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” (hereafter referred to as the “Regulations”) of Financial Supervisory Commission (hereafter referred to as the “FSC”), and shall comply with these <u>Procedures</u>.</p>	Discretionary text.
Article 2	<p>Entities to which the Company may loan funds</p> <p>According the Article 15 of Company Act, the Company and its Subsidiaries shall not loan funds to any of its shareholders or any other person except under the following circumstances:</p> <p>1. Where an inter-company or inter-firm business transaction calls for a loan arrangement.</p> <p>2. Where an inter-company or inter-firm short-term financing facility is necessary, provided that such financing amount shall not exceed 20% of the lender's net worth.</p>	Article 2	<p>Entities to which the Company may loan funds</p> <p>According the Article 15 of Company Act, the Company and its Subsidiaries shall not loan funds to any of its shareholders or any other person except under the following circumstances:</p> <p>1. Where an inter-company or inter-firm business transaction calls for a loan arrangement.</p> <p>2. Where an inter-company or inter-firm short-term financing facility is necessary, provided that such financing amount shall not exceed 20% of the lender's net worth.</p>	Amend according to the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>The term "short-term" as used in the preceding paragraph means one year, or where the Company's operating cycle exceeds one year, one operating cycle, which one is longer.</p> <p>The term "financing amount" as used in Sub-paragraph 2, Paragraph 1 of this Article means the cumulative balance of the Company's short-term financing.</p> <p>The inter-company funding loans between the foreign companies in which the Company holds, directly or indirectly, 100% of the voting shares, for business needs, the accumulated total of loans granted shall not exceed 20% of the lending-company's net worth, each individual loan shall not exceed 10% of the lending-company's net worth, and the term of each loan extended shall not exceed one year; for, the needs of short-term financing, the accumulated total of loans granted shall not exceed 20% of the lending-company's net worth, each individual loan shall not exceed 10% of the lending-company's net worth, and the term of each loan extended shall not exceed one year. The interest rate shall not be lower than the maximum interest rate of the lending-company's short-term loan from financial institutions. The interest on loans can due bill</p>		<p>The term "short-term" as used in the preceding paragraph means one year, or where the Company's operating cycle exceeds one year, one operating cycle, which one is longer.</p> <p>The term "financing amount" as used in Sub-paragraph 2, Paragraph 1 of this Article means the cumulative balance of the Company's short-term financing.</p> <p>The inter-company funding loans between the foreign companies in which the Company holds, directly or indirectly, 100% of the voting shares, for business needs, the accumulated total of loans granted shall not exceed 20% of the lending-company's net worth, <u>between overseas companies in which the company holds, directly or indirectly, 100% of the voting shares.</u> Each individual loan shall not exceed 10% of the lending-company's net worth, and the term of each loan extended shall not exceed one year; for, the needs of short-term financing, the accumulated total of loans granted shall not exceed 20% of the lending-company's net worth, each individual loan shall not exceed 10% of the lending-company's net worth, and the term of each loan extended shall not exceed one year. The interest rate shall not be lower than the maximum interest rate of the</p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	once a month or once a settlement at maturity.		lending-company's short-term loan from financial institutions. The interest on loans can due bill once a month or once a settlement at maturity <u>The responsible person of the company who has violated the provisions of the preceding 1 Paragraph shall be liable, jointly and severally with the borrower, for the repayment of the loan at issue and for the damages, if any, to company resulted therefrom.</u>	
Article 6	Procedures for handling loans of funds 1. Application and review procedures When the borrower applies for borrowing funds from the Company, Financial Department as a contact person, shall conduct an investigation and evaluation on the application with respect to the borrower's recent business operating and financial status, shall be evaluated with and subject to the <u>"Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies"</u> announced by FSC, and then submitted, together with the result of the evaluation made as described in the Article 7, shall be review by general manager and chairman and submitted it to the Board of Directors for its approval and no delegation shall be made to any person in this regard.	Article 6	Procedures for handling loans of funds 1. Application and review procedures When the borrower applies for borrowing funds from the Company, Financial Department as a contact person, shall conduct an investigation and evaluation on the application with respect to the borrower's recent business operating and financial status, shall be evaluated with and subject to the <u>Regulations</u> announced by FSC <u>and the Procedures</u> , and then submitted, together with the result of the evaluation made as described in the Article 7, shall be review by general manager and chairman and submitted it to the Board of Directors for its approval and no delegation shall be made to any person in this regard. When fund lending to Subsidiaries is	Discretionary text.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>When fund lending to Subsidiaries is contemplated by the Company or its Subsidiary, an approval from the Board shall be obtained, and the Chairman shall be authorized to handle the matter within the Board's approved amount of fund lending to the same party and the lending is authorized in installment or revolver within one year.</p> <p>For the amount as mentioned in the preceding paragraph, in addition to the provisions of Paragraph 4 of Article 2, the amount of the credit granted by the Company to a single enterprise shall not exceed 10% of the net value of the Company's most recent financial statements.</p> <p>When fund-lending to other parties, the board of directors shall take into full consideration each independent director's opinion; independent directors' opinions specifically expressing assent or dissent and their reasons for dissent shall be included in the minutes of the board of directors' meeting.</p> <p>2. Omitted.</p> <p>3. Omitted.</p> <p>4. Acquisition of collateral and security (1) Where any collateral is needed in the loan release conditions, the borrower shall provide the collateral and the legal procedures for mortgage and/or lien must be fulfilled to</p>		<p>contemplated by the Company or its Subsidiary, an approval from the Board shall be obtained, and the Chairman shall be authorized to handle the matter within the Board's approved amount of fund lending to the same party and the lending is authorized in installment or revolver within one year.</p> <p>For the amount as mentioned in the preceding paragraph, in addition to the provisions of Paragraph 4 of Article 2, the amount of the credit granted by the Company to a single enterprise shall not exceed 10% of the net value of the Company's most recent financial statements.</p> <p>When fund-lending to other parties, the board of directors shall take into full consideration each independent director's opinion; independent directors' opinions specifically expressing assent or dissent and their reasons for dissent shall be included in the minutes of the board of directors' meeting.</p> <p>2. Omitted.</p> <p>3. Omitted.</p> <p>4. Acquisition of collateral and security (1) Where any collateral is needed in the loan release conditions, the borrower shall provide the collateral and the legal procedures for mortgage and/or lien must be fulfilled to</p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>protect the Company's interest.</p> <p>(2) All collateral, except land and securities, shall be covered by property damage insurance. For vehicles, comprehensive insurance shall be procured. The insured amount shall, in principle, be not less than the replacement cost of the collateral. The insurance policy shall be filled with the original loan approval conditions of the Company; If the insured building has not been set with the number, the <u>other</u> address should be with the lot <u>and</u> location number.</p> <p>(3) The financial department shall inform the borrower to continue to buy the insurance before the expiry of the insured period.</p> <p>5. Omitted.</p> <p>6. Omitted.</p>		<p>protect the Company's interest.</p> <p>(2) All collateral, except land and securities, shall be covered by property damage insurance. For vehicles, comprehensive insurance shall be procured. The insured amount shall, in principle, be not less than the replacement cost of the collateral. The insurance policy shall be filled with the original loan approval conditions of the Company; If the insured building has not been set with the number, the address should be with the lot <u>by</u> location number.</p> <p>(3) The financial department shall inform the borrower to continue to buy the insurance before the expiry of the insured period.</p> <p>5. Omitted.</p> <p>6. Omitted.</p>	
Article 9	<p>Procedures for controlling and managing loans of funds to others by Subsidiaries</p> <p>1. Where a Subsidiary of the Company proposes to grant a loan to a third party, the Company shall require the Subsidiary to establish procedures for granting of loans in accordance with the "<u>Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies</u>" formulated by FSC and shall conform to such procedures.</p> <p>2. When fund-lending to other parties is</p>	Article 9	<p>Procedures for controlling and managing loans of funds to others by Subsidiaries</p> <p>1. Where a Subsidiary of the Company proposes to grant a loan to a third party, the Company shall require the Subsidiary to establish procedures for granting of loans in accordance with the <u>Regulations</u> formulated by FSC and shall conform to such procedures.</p> <p>2. When fund-lending to other parties is</p>	Discretionary text.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>contemplated by the Subsidiary of the Company, the Subsidiary shall provide related information to the Company and take into account of the relevant personnel opinion before carrying out the fund-lending procedures.</p> <p>3. After the loan is granted by the subsidiary, the subsidiary shall regularly report the follow-up situation of the loan amount to the Company.</p>		<p>contemplated by the Subsidiary of the Company, the Subsidiary shall provide related information to the Company and take into account of the relevant personnel opinoin before carrying out the fund-lending procedures.</p> <p>3. After the loan is granted by the subsidiary, the subsidiary shall regularly report the follow-up situation of the loan amount to the Company.</p>	
Article 11	<p>Penalties</p> <p>If the Company managers and persons-in-charge violate the "<u>Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies</u>" formulated by FSC or the Procedures, the audit personnel or the authority director shall promptly report the violation to the general manager or the board of directors, who shall, as the case may be, give appropriate punishment to the person concerned.</p>	Article 11	<p>Penalties</p> <p>If the Company managers and persons-in-charge violate the <u>Regulations</u> formulated by FSC or the Procedures, the audit personnel or the authority director shall promptly report the violation to the general manager or the board of directors, who shall, as the case may be, give appropriate punishment to the person concerned.</p>	Discretionary text.
Article 13	<p>Miscellaneous</p> <p>1. The subsidiaries and parent companies referred in the procedures, shall be defined in accordance with the guidelines for the preparation of financial statements by the issuer of securities.</p> <p>2. The net value referred in the procedures,</p>	Article 13	<p>Miscellaneous</p> <p>1. The subsidiaries and parent companies referred in the procedures, shall be defined in accordance with the guidelines for the preparation of financial statements by the issuer of securities.</p> <p>2. The net value referred in the procedures,</p>	Amend according to the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies.



Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>shall refer to the equity in the balance sheet attributable to the owners of the parent company as stipulated in the guidelines for Regulations Governing the Preparation of Financial Reports by Securities Issuers.</p> <p>3. The announcement referred in the procedures, refers to the announcement reported to the website of the information designated by the FSC.</p> <p>4. "Date of occurrence" in these Procedures means the date of <u>contract</u> signing, date of payment, dates of boards of directors resolutions, or other date that can confirm the counterparty and monetary amount <u>of the transaction</u>, whichever date is earlier.</p> <p>5. Should a borrower no longer satisfy the criteria set forth in the "<u>Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies</u>" formulated by FSC or the Procedures or there be any excess over the lending limit due to unexpected changes of the Company, a corrective plan has to be provided to the supervisors and the proposed correction actions should be implemented within the period specified in such plan.</p>		<p>shall refer to the equity in the balance sheet attributable to the owners of the parent company as stipulated in the guidelines for Regulations Governing the Preparation of Financial Reports by Securities Issuers.</p> <p>3. The announcement referred in the procedures, refers to the announcement reported to the website of the information designated by the FSC.</p> <p>4. "Date of occurrence" in these Procedures means the date of signing, date of payment, dates of boards of directors resolutions, or other date that can confirm the counterparty <u>of making loans</u> and monetary amount, whichever date is earlier.</p> <p>5. Should a borrower no longer satisfy the criteria set forth in the <u>Regulations</u> formulated by FSC or the Procedures or there be any excess over the lending limit due to unexpected changes of the Company, a corrective plan has to be provided to the supervisors and the proposed correction actions should be implemented within the period specified in such plan.</p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 14	<p>Implementation and Amendment</p> <p>The Procedures shall be submitted to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to the Supervisors and report to the shareholders meeting for discussion, and the same to amendment.</p> <p>When the procedures are submitted to the Board of Directors, the opinion of each independent director shall be considered fully, and the <u>approvals or objects and reasons for objects</u> shall be <u>recorded</u> in the minutes of the Board Meeting.</p> <p>After Audit Committee has been established in accordance with <u>laws</u>, the provisions regarding supervisors set out in Paragraph 3 of Article 14-4 of SEA, shall apply mutatis mutandis to the audit committee, <u>the provisions regarding independent directors members set out in Paragraph 4 of Article 14-4 of SEA shall apply mutatis mutandis to the audit committee and it shall perform relevant responsibilities and authorities according to Article 14-5 of SEA and provisions for supervisors of the Procedures are applicable to the Audit Committee.</u></p>	Article 14	<p>Implementation and Amendment</p> <p>The Procedures shall be submitted to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to the Supervisors and report to the shareholders meeting for discussion, and the same to amendment.</p> <p>When the procedures are submitted to the Board of Directors, the opinion of each independent director shall be considered fully, and the <u>independent director had objects</u> shall be <u>included</u> in the minutes of the Board Meeting.</p> <p>After Audit Committee has been established in accordance with <u>SEA</u>, <u>the Procedures made and amend shall be subject to the consent of one-half or more of all audit committee members and be submitted to the board of directors for a resolution.</u></p> <p><u>In the preceding paragraph shall not apply.</u></p> <p><u>In the preceding paragraph, any matter under a subparagraph of the preceding paragraph that has not been approved with the consent of one-half or more of all audit committee members may be undertaken upon the consent of two-thirds or more of all directors.</u></p>	Amend according to the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
			<p><u>without regard to the restrictions of the preceding paragraph, and the resolution of the audit committee shall be recorded in the minutes of the directors meeting.</u></p> <p><u>Paragraph 3 as used in "All audit committee members" and "all directors" as used in the preceding paragraph, shall mean the actual number of persons currently holding those positions.</u></p> <p><u>Where independent directors have been appointed in accordance with the provisions of the SEA, for matters for which notice shall be given to the supervisors under the article 12 paragraph, written notice shall also be given to the independent directors.</u></p> <p><u>According the paragraph 5 of Article 13, for the supervisor's improvement program shall be given to the independent directors.</u></p> <p><u>After Audit Committee has been established in accordance with SEA, authorities according to article 12 and article 13 and the provisions regarding supervisors set out shall apply mutatis mutandis to the audit committee.</u></p>	

**[Comparison Table for Amendments to Procedures for Endorsements and Guarantees]**

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 1	<p>Purpose To strengthen the financial management of endorsements and guarantees and reduce the risk of operation, the Procedures are formulated specially according to Paragraph 1, Article 36 of Securities Exchange Act (hereinafter referred to as “the Act”) and the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” of Financial Supervisory Commission (hereafter referred to as the “FSC”)</p>	Article 1	<p>Purpose To strengthen the financial management of endorsements and guarantees and reduce the risk of operation, the Procedures are formulated specially according to Paragraph 1, Article 36 of Securities Exchange Act (hereinafter referred to as “the Act”) and the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” (<u>hereafter referred to as “the Regulations”</u>) of Financial Supervisory Commission (hereafter referred to as the “FSC”), <u>and shall comply with these Procedures.</u></p>	Discretionary text.
Article 6	<p>Procedures for handling endorsement/guarantee Paragraph 1 to Paragraph 2 : Omitted. 3. Acquisition of collateral and security (1). Where any collateral is needed in handling endorsement/guarantee, the Company shall handle the pledge or mortgage to protect the rights of the Company. (2). All collateral, except land and</p>	Article 6	<p>Procedures for handling endorsement/guarantee Paragraph 1 to Paragraph 2 : Omitted. 3. Acquisition of collateral and security (1). Where any collateral is needed in handling endorsement/guarantee, the Company shall handle the pledge or mortgage to protect the rights of the Company. (2). All collateral, except land and</p>	Discretionary text.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>securities, shall be covered by property damage insurance. For vehicles, comprehensive insurance shall be procured. The insured amount shall, in principle, be not less than the replacement cost of the collateral. The insurance policy shall be filled with the original endorsement and guarantee conditions of the Company; If the insured building has not been set with the number, the <u>other</u> address should be with the lot <u>and</u> location number.</p> <p>(3). The financial department shall inform the endorsement guarantor to continue to buy the insurance before the expiry of the insured period.</p> <p>Paragraph 4 : Omitted.</p>		<p>securities, shall be covered by property damage insurance. For vehicles, comprehensive insurance shall be procured. The insured amount shall, in principle, be not less than the replacement cost of the collateral. The insurance policy shall be filled with the original endorsement and guarantee conditions of the Company; If the insured building has not been set with the number, the address should be with the lot <u>by</u> location number.</p> <p>(3). The financial department shall inform the endorsement guarantor to continue to buy the insurance before the expiry of the insured period.</p> <p>Paragraph 4 : Omitted.</p>	
Article 9	<p>Hierarchy of decision-making authority and delegation thereof</p> <p>1. When the Company makes any endorsement and/or guarantee, the financial department shall carefully assess it whether be consistent with the "<u>Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies</u>" formulated by FSC and the</p>	Article 9	<p>Hierarchy of decision-making authority and delegation thereof</p> <p>1. When the Company makes any endorsement and/or guarantee, the financial department shall carefully assess it whether be consistent with the <u>Regulations</u> formulated by FSC and the provisions of the Procedures. A pre-determined limit together with the assessment result of Article 7 may be</p>	Discretionary text.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>provisions of the Procedures. A pre-determined limit together with the assessment result of Article 7 may be delegated to the Chairperson by the Board of Directors to facilitate execution according to Article 9 and such endorsement /guarantee shall be reported to the most coming Board of Directors' Meeting for ratification. The limit shall not exceed the amount that set forth in Article 5 of endorsement/guarantee provided by the Company.</p> <p>Before making any endorsement/guarantee pursuant to a subsidiary in which the Company holds, directly or indirectly, 90% or more of the voting shares shall submit the proposed endorsement/guarantee to the Company's Board of Directors for a resolution according to paragraph 2 of Article 3; provided that this restriction shall not apply to endorsements/guarantees made between companies in which the Company holds, directly or indirectly, 100% of the voting shares.</p> <p>When the Company makes</p>		<p>delegated to the Chairperson by the Board of Directors to facilitate execution according to Article 9 and such endorsement /guarantee shall be reported to the most coming Board of Directors' Meeting for ratification. The limit shall not exceed the amount that set forth in Article 5 of endorsement/guarantee provided by the Company.</p> <p>Before making any endorsement/guarantee pursuant to a subsidiary in which the Company holds, directly or indirectly, 90% or more of the voting shares shall submit the proposed endorsement/guarantee to the Company's Board of Directors for a resolution according to paragraph 2 of Article 3; provided that this restriction shall not apply to endorsements/guarantees made between companies in which the Company holds, directly or indirectly, 100% of the voting shares.</p> <p>When the Company makes endorsements and/or guarantees for the companies, it shall take into full consideration each Independent</p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	endorsements and/or guarantees for the companies, it shall take into full consideration each Independent Director's opinions; Independent Directors' opinions specifically expressing assent or dissent and their reasons for dissent shall be included in the minutes of the Board meeting. Paragraph 2 : Omitted.		Director's opinions; Independent Directors' opinions specifically expressing assent or dissent and their reasons for dissent shall be included in the minutes of the Board meeting. Paragraph 2 : Omitted.	
Article 10	Procedures for managing endorsement or guarantee by subsidiaries 1. Where the Company's Subsidiary intends to make endorsements/guarantees for others, it shall formulate its own operational procedures for endorsements/guarantees in compliance with the " <u>Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies</u> " formulated by FSC and shall comply with its procedures when making endorsements/guarantee. 2. When making endorsements/guarantees for others is contemplated by the Subsidiary of the	Article 10	Procedures for managing endorsement or guarantee by subsidiaries 1. Where the Company's Subsidiary intends to make endorsements/guarantees for others, it shall formulate its own operational procedures for endorsements/guarantees in compliance with the <u>Regulations</u> formulated by FSC and shall comply with its procedures when making endorsements/guarantee. 2. When making endorsements/guarantees for others is contemplated by the Subsidiary of the Company, the Subsidiary shall provide related information to the Company and take into account of the relevant	Discretionary text.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>Company, the Subsidiary shall provide related information to the Company and take into account of the relevant personnel before carrying out the endorsements/guarantees procedures.</p> <p>3. After the endorsements/guarantees are made by the subsidiary, the subsidiary shall regularly report the follow-up situation of the amount of endorsements/guarantees to the Company.</p>		<p>personnel before carrying out the endorsements/guarantees procedures.</p> <p>3. After the endorsements/guarantees are made by the subsidiary, the subsidiary shall regularly report the follow-up situation of the amount of endorsements/guarantees to the Company.</p>	
Article 11	<p>Information Disclosure</p> <p>1. The company shall announce and report the previous month's balances of endorsements/guarantees of the Company and its subsidiaries by the 10th day of each month.</p> <p>2. The company whose endorsements/guarantees reach one of the following levels shall announce and report such event within two days from its occurrence:</p> <p>(1) The aggregate balance of endorsements/guarantees to others by the Company and its subsidiaries reaches 50 percent or more of the company's net worth as stated in its</p>	Article 11	<p>Information Disclosure</p> <p>1. The company shall announce and report the previous month's balances of endorsements/guarantees of the Company and its subsidiaries by the 10th day of each month.</p> <p>2. The company whose endorsements/guarantees reach one of the following levels shall announce and report such event within two days from its occurrence:</p> <p>(1) The aggregate balance of endorsements/guarantees to others by the Company and its subsidiaries reaches 50 percent or more of the company's net worth as stated in its</p>	Amend according to the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies by Public Companies.



Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>latest financial statement.</p> <p>(2) The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches 20 percent or more of the Company's net worth as stated in its latest financial statement.</p> <p>(3) The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches NT\$10 million or more and the aggregate amount of all endorsements/guarantees for, <u>long-term investment in</u>, and balance of loans to, such enterprise reaches 30% or more of Company's net worth as stated in its latest financial statement.</p> <p>(4) The amount of new endorsements or guarantees made by the Company or its subsidiaries reaches NT\$30 million or more, and reaches 5 percent or more of the Company's net worth as stated in its latest financial statement.</p> <p>If there is any reporting and announcement required for the Company's subsidiary which is not a</p>		<p>latest financial statement.</p> <p>(2) The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches 20 percent or more of the Company's net worth as stated in its latest financial statement.</p> <p>(3) The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches NT\$10 million or more and the aggregate amount of all endorsements/guarantees for, <u>used equity method investment account amount</u>, and balance of loans to, such enterprise reaches 30% or more of Company's net worth as stated in its latest financial statement.</p> <p>(4) The amount of new endorsements or guarantees made by the Company or its subsidiaries reaches NT\$30 million or more, and reaches 5 percent or more of the Company's net worth as stated in its latest financial statement.</p> <p>If there is any reporting and announcement required for the Company's subsidiary which is not a</p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	Taiwan public company, the Company will follow the requirement on behalf of its subsidiary. 3. The Accounting Unit shall assess and recognize, if any, contingent losses brought about by the endorsement/guarantee, to adequately disclose information in the financial statements, and to provide external auditors with necessary information for conducting due auditing.		Taiwan public company, the Company will follow the requirement on behalf of its subsidiary. 3. The Accounting Unit shall assess and recognize, if any, contingent losses brought about by the endorsement/guarantee, to adequately disclose information in the financial statements, and to provide external auditors with necessary information for conducting due auditing.	
Article 12	Penalties If the Company managers and persons-in-charge violate the " <u>Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies</u> " formulated by FSC or the Procedures, the audit personnel or the authority director shall promptly report the violation to the general manager or the board of directors, who shall, as the case may be, give appropriate punishment to the person concerned.	Article 12	Penalties If the Company managers and persons-in-charge violate the <u>Regulations</u> formulated by FSC or the Procedures, the audit personnel or the authority director shall promptly report the violation to the general manager or the board of directors, who shall, as the case may be, give appropriate punishment to the person concerned.	Discretionary text.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 14	<p>Miscellaneous</p> <p>1. The subsidiaries and parent companies referred in the procedures, shall be defined in accordance with the guidelines for Regulations Governing the Preparation of Financial Reports by Securities Issuers.</p> <p>2. The net value referred in the procedures, shall refer to the equity in the balance sheet attributable to the owners of the parent company as stipulated in the guidelines for preparation of the financial statements of the issuer of securities.</p> <p>3. The announcement referred in the procedures, refers to the announcement reported to the website of the information designated by the FSC.</p> <p>4. "Date of occurrence" in these Procedures means the date of <u>contract signing</u>, date of payment, dates of boards of directors resolutions, or other date that can confirm the counterparty and monetary amount of the <u>transaction</u>, whichever date is earlier.</p> <p>5. Where as a result of changes of</p>	Article 14	<p>Miscellaneous</p> <p>1. The subsidiaries and parent companies referred in the procedures, shall be defined in accordance with the guidelines for Regulations Governing the Preparation of Financial Reports by Securities Issuers.</p> <p>2. The net value referred in the procedures, shall refer to the equity in the balance sheet attributable to the owners of the parent company as stipulated in the guidelines for preparation of the financial statements of the issuer of securities.</p> <p>3. The announcement referred in the procedures, refers to the announcement reported to the website of the information designated by the FSC.</p> <p>4. "Date of occurrence" in these Procedures means the date of signing, date of payment, dates of boards of directors resolutions, or other date that can confirm the counterparty of <u>endorsements/guarantees</u> and monetary amount, whichever date is earlier.</p> <p>5. Where as a result of changes of</p>	Amend according to the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies by Public Companies.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>condition the entity for which an endorsement/guarantee is made no longer meets the requirements of "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies", or the amount of endorsement/guarantee exceeds the limit, the company shall adopt rectification plans and submit the rectification plans to all the supervisors, and shall complete the rectification according to the timeframe set out in the plan.</p> <p>6. The Company shall not make endorsements or guarantees to the Subsidiary's net worth below 50% of issued capital.</p> <p>In the case of a Subsidiary with shares having no par value or a par value other than NT\$10, for the paid-in capital in the aforementioned calculation, the sum of the share capital plus paid-in capital in excess of par shall be substituted.</p>		<p>condition the entity for which an endorsement/guarantee is made no longer meets the requirements of <u>the Regulations and the procedures</u>, or the amount of endorsement/guarantee exceeds the limit, the company shall adopt rectification plans and submit the rectification plans to all the supervisors, and shall complete the rectification according to the timeframe set out in the plan.</p> <p>6. The Company shall not make endorsements or guarantees to the Subsidiary's net worth below 50% of issued capital.</p> <p>In the case of a Subsidiary with shares having no par value or a par value other than NT\$10, for the paid-in capital in the aforementioned calculation, the sum of the share capital plus paid-in capital in excess of par shall be substituted.</p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 15	<p>Implementation and amendment The Procedures shall be submitted to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to the Supervisors and report to the shareholders meeting for discussion, and the same to amendment.</p> <p>When the procedures are submitted to the Board of Directors, the opinion of each independent director shall be considered fully, and the <u>approvals or objects and reasons for objects shall be recorded</u> in the minutes of the Board Meeting.</p> <p>After Audit Committee has been established in accordance with <u>laws, the provisions regarding supervisors set out in Paragraph 3 of Article 14-4 of SEA, shall apply mutatis mutandis to the audit committee, the provisions regarding independent directors members set out in Paragraph 4 of Article 14-4 of SEA</u></p>	Article 15	<p>Implementation and amendment The Procedures shall be submitted to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to the Supervisors and report to the shareholders meeting for discussion, and the same to amendment.</p> <p>When the procedures are submitted to the Board of Directors, the opinion of each independent director shall be considered fully, and the <u>independent director had objects shall be included</u> in the minutes of the Board Meeting.</p> <p>After Audit Committee has been established in accordance with <u>SEA, the procedures shall be subject to the consent of one-half or more of all audit committee members and be submitted to the board of directors for a resolution. In the preceding paragraph shall not apply.</u></p>	Amend according to the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies by Public Companies.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	shall apply mutatis mutandis to the audit committee and it shall perform relevant responsibilities and authorities according to Article 14-5 of SEA and provisions for supervisors of the Procedures are applicable to the Audit Committee.		<p><u>In the preceding paragraph, any matter under a subparagraph of the preceding paragraph that has not been approved with the consent of one-half or more of all audit committee members may be undertaken upon the consent of two-thirds or more of all directors, without regard to the restrictions of the preceding paragraph, and the resolution of the audit committee shall be recorded in the minutes of the directors meeting.</u></p> <p><u>Paragraph 3 as used in "All audit committee members" and "all directors" as used in the preceding paragraph, shall mean the actual number of persons currently holding those positions.</u></p> <p><u>Where independent directors have been appointed in accordance with the provisions of the SEA, for matters for which notice shall be given to the supervisors under the article 13, written notice shall also be given to the independent directors. According the paragraph 5 of Article 14, for the supervisor's improvement program shall be given to the independent directors.</u></p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
			<u>After Audit Committee has been established in accordance with SEA, authorities according to article 13 and the paragraph 5 of article 14 for supervisors of the Procedures are applicable to the Audit Committee.</u>	

## VIII. Appendices

### Appendix 1

#### **Phison Electronics Corporation Rules of Procedure for Shareholders' Meeting**

Article 1: The company's shareholder's meeting shall be conducted in accordance with the Rules. The items which are not regulated in the Rules shall be processed in accordance with the relevant provisions of the Company Act and the Articles of Association of Company.

Article 2: Attending shareholders or their agents are required to wear an attendance card and to submit attendance cards in lieu of signing in. The number of shares represented by Shareholders attending the meeting shall be calculated in accordance with the number of attendance cards submitted by Shareholders and the number of shares held by shareholders who are permitted to exercise voting rights in electronic form.

Article 3: Shareholders' meeting shall convene at the Company's registered office or a place convenient to attend and suitable for meeting; the meeting shall be called no earlier than 9 a.m. and no later than 3 p.m.

Article 4: The Company may appoint its attorneys, certified public accountants, or related persons to attend the shareholders' Meeting.

Staff handling administrative affairs of the Annual General Shareholders' Meeting shall wear identification cards or arm bands.

Article 5: Entire proceedings of shareholders' meeting shall be recorded on audio or video tape and preserved for at least 1 year.

Article 6: When a majority of the shareholders present, who represent more than one-half of the total number of voting shares, the meeting chairperson shall call the meeting. If the number of shares represented by the attending shareholders has not yet constituted the quorum at the time scheduled for the general meeting, the meeting chairperson may postpone the time for the meeting. The postponements shall be limited to two times at most, and the meeting shall not be postponed for more than one hour in total. If after two postponements the number of Shares represented by the attending Shareholders has not yet constituted more than one-third (1/3) of all Shares in issue present in person or by proxy and entitled to vote, a tentative resolution may be passed in



accordance with Article of 175 of the Company Act. During the execution of a tentative resolution, if the number of Shares represented by the attending Shareholders has already constituted more than an aggregate of one-half (1/2) of all shares in issue, the meeting chairperson may put the tentative resolutions already passed to the Shareholders' resolution again in accordance with Article 174 of the Company Act Applicable Listing Rules.

Article 7: If a shareholder meeting is convened by the board of directors, the board of directors shall decide the proceedings and the meeting shall be conducted accordingly; no changes may be made except with the resolution of the shareholder meeting.

The preceding paragraph applies to circumstances where the shareholder's meeting is convened by any person, who is outside the board of directors but having the convening right.

Prior to conclusion of the preceding two agenda items (including extraordinary motions) , the meeting chairperson may not declare the meeting adjourned without a resolution.

After a meeting closed, shareholders may not elect another meeting chairperson to continue the proceeding of the meeting at the same or a new place, provided that, if the meeting chairperson declares the adjournment of the meeting in a manner in violation of rules governing the proceedings of meetings, a new meeting chairperson may be elected by a resolution to be adopted by a majority of the voting rights represented by the shareholders attending the said meeting to continue the proceeding of the meeting.

Article 7-1: Shareholders holding 1% or more of the total number of outstanding shares of the Company may submit a written proposal to the Company for discussion at a general shareholders' meeting.

Prior to the book closure date before a general shareholders' meeting is held, the Company shall publicly announce that it will receive shareholder proposals, and the location and time period for their submission; the period for submission of shareholder proposals may not be less than 10 days.

If the proposal of a shareholder is approved by the board of directors and that it is not involved in any following circumstances, it shall be listed in the notice of the meeting of the shareholders' general meeting:

1. Where the subject (the issue) of the said proposal cannot be settled or resolved by a resolution to be adopted at a meeting of shareholders.

2. Where the number of shares of held by shareholders making the said proposal is less than one percent (1%) of the total number of outstanding shares at the time when the share transfer registration is suspended in the general shareholder's meeting.
3. Where the said proposal is submitted on the day beyond the deadline fixed and announced by the Company.
4. The proposals submitted by the proposing shareholders exceed one item, or more than 300 words (including punctuation), or were not submitted in a writing format.

The Company shall, prior to preparing and delivering the shareholders' meeting notice, inform the shareholders who have raised proposals the result of the evaluation. The board of directors shall list the proposals which are not included in the agenda, on the general shareholders' meeting's handbook and explain the reasons for excluding those proposals from the agenda. These reasons are not included in the agenda or in the meeting minutes.

Article 8 When a shareholder meeting is convened by the board of directors, the Chairperson shall preside over the meeting. If the Chairperson is on leave or unable to attend the meeting, the vice chairperson shall chair the meeting. If there is no vice chairperson or the vice chairperson is also on leave or unable to attend, the Chairperson shall designate a managing director to chair the meeting. If there is no managing director, a director shall be designated. If the Chairperson fails to designate a director, directors and the managing director shall elect one person from among them to chair the meeting. When shareholders' meeting is convened by other person who is outside the board of directors but having the convening right, such person shall act as the meeting chairperson at that meeting.

Article 9: During the meeting, the meeting chairperson may declare a break according to his or her judgment.

Article 10: No discussion or vote for non-proposals. During the discussion of proposals, the meeting chairperson may announce that the discussion shall be terminated at an appropriate timing and may, if necessary, make an announcement of the suspension of discussion.

Article 11: When a shareholder attending the general meeting wishes to speak, a speech note should be filled out with summary of the speech, the shareholder's account number (or the number of attendance card), name of the shareholder

and the current shareholding. The sequence of speeches shall be determined by the meeting chairperson.

Article 12: Shareholders' speeches, each person (including natural persons and legal persons) shall be limited to five minutes. However, with the permission of the meeting chairperson, it may be extended once. In the same proposal, each person (including natural persons and legal persons) shall not speak more than twice. When the legal person is appointed to attend as proxy, it may designate only one person to represent the shareholder in the meeting. When a juristic person shareholder appoints two or more representatives to attend a shareholders' meeting, only one of the representatives so appointed may speak on the same proposal.

Article 13: After an attending shareholder has spoken, the chair may respond in person or direct relevant personnel to respond.

Article 14: When the speech of any shareholder is too long or outside the scope of the agenda item, the meeting chairperson may stop their speech. The meeting chairperson may command shareholders who disobey the meeting chairperson's correction and impede the process of the meeting to leave the meeting venue.

Article 15: As the meeting chairperson announced that the discussed proposal shall be terminated or suspended, the chairman may submit them for a vote.

Article 16: Except as otherwise provided in the Company Act and in the Company's Articles of Association, the resolution of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders. A proposal is deemed to have passed when no attending shareholders gave the dissents after being inquired by the meeting chairperson and the effect thereof is the same as a vote.

Article 17: Vote monitoring and counting personnel for the voting on a proposal shall be appointed by the meeting chairperson, provided that all monitoring personnel shall be shareholders of the Company. The results of the voting shall be announced on-site at the meeting, and the records shall be made.

Article 18: In the event amendments or substitutions are provided for in the same proposal, the meeting chairperson may decide the order of the vote including the original proposal. When any one among of them is passed, the other proposals are simultaneously rejected and no further voting shall be required. When the written proposal of a shareholder, pursuant to the Article 172-1 of

the Company Act, is included in the agenda of the general shareholders' meeting, and if the type of the proposal is similar to the one already proposed by the board of directors, these proposal submissions shall be combined and processed in accordance with the provisions of the preceding paragraph.

The order of the discussion of each proposal brought up in extraordinary motion and the order of the vote shall be decided by the meeting chairperson.

Article 19: The meeting chairperson may command inspector (or security personnel) to maintain order of meeting place. The inspector (or security officer) shall wear an arm-band with the word "inspector".

Article 20: During the meeting, in the event of an air alarm, the meeting shall be suspended and the evacuation will be conducted. One hour after the alarm is lifted, the meeting will resume.

Article 21: These Rules, and any amendments hereto, shall be implemented after adoption by shareholders meetings.

Article 22: This rule is made on March 26, 2003.

The first amendment was made on June 14, 2006.

The second amendment was made on June 13, 2017.

## Articles of Association of Phison Electronics Corporation

### Chapter I General Provisions

Article 1: The Corporation shall be incorporated, as a company limited by shares, under the Company Act of the Republic of China, and its name shall be 群聯電子股份有限公司 in the Chinese language.

Article 2: The scope of business of the Corporation shall be as follows:

- (i) CC01080 Electronic Parts and Components Manufacturing
- (ii) I301010 Software Design Services
- (iii) F218010 Retail Sale of Computer Software
- (iv) F119010 Wholesale of Electronic Materials
- (v) F219010 Retail Sale of Electronic Materials
- (vi) CE01030 Photographic and Optical Equipment Manufacturing
- (vii) CC01120 Data Storage Media Manufacturing and Duplicating
- (viii) I501010 Product Designing
- (ix) F401010 International Trade
- (x) ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

Article 2-1: The Company provides external guarantees for its business needs, and its procedures are in accordance with the Company's Procedures for Endorsement and Guarantee.

Article 2-2: The total amount of the Company investment shall not exceed 40 percent of its paid-up capital as provided in Article 13 of the Company Act.

Article 3: The Company set up its headquarters in HsinChu County. If necessary, it may set up branch offices domestically or abroad with a resolution by the board of directors.

Article 4: (Deleted).

### Chapter II Shares

Article 5: The total capital of the company is rated at NT\$2.8 billion, divided into 280 million shares, and the amount per share is NT\$10, of which no shares are issued and the board of directors is authorized to issue shares on a separate basis.

In the first total capital, NT\$160 million was reserved, and the shares were divided into 16 million shares at par value of NT\$10 per share, which is for the issuance of employees' share subscription warrants in order to exercise the subscription right. It

shall be issued separately based on the resolution of the board of directors.

Article 6: (Deleted).

Article 7 The Company's stock are all registered share certificates and shall be signed or stamped by three or more directors, recorded, and issued after it is legally registered. For the new shares to be issued by the Company offering its shares to the public, the Company may print a consolidated share certificate representing the total number of the new shares to be issued at the same time of issue and may be exempted from printing any share certificate for the shares issued. The Corporation may be exempted from printing any stock certificate for the shares issued. However, the Corporation shall appoint a centralized securities custody enterprise/institution to make registration of such shares.

Article 8: The registration of stock transfer shall be halted within 60 days prior to the convening date of a regular shareholders' meeting, or within 30 days prior to the convening date of a special shareholders' meeting, or within 5 days prior to the record date fixed by the Company for distribution of dividends, bonus or other benefits.

The period of the preceding paragraph shall be counted from the date of the meeting or the record date.

Article 8-1: The Company's shareholder services are performed according to "Regulations Governing the Administration of Shareholder Services of Public Companies" by competent authority.

### Chapter III Shareholders' Meeting

Article 9: Shareholders' meeting can be divided into regular meetings and special meetings. Regular meetings are convened once a year and usually within six months of the end of each fiscal year. The regular meeting is convened by the board of directors according to the law. Special meetings may be convened according to the law when necessary.

Article 10: If a shareholder cannot attend a Shareholders Meeting for any reason, it may designate another person to represent it by submitting a proxy that is printed by the Company, specifying the scope of authorization. Shareholders' attendance by designated representatives shall be handled in accordance with Article 177 of the Company Act as well as the "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies" promulgated by the governing authorities.

Article 11: A shareholder of the Company shall be entitled to one vote for each share held,

except in the circumstances set forth in paragraph 3, article 157 and article 179 of the Company Act.

Article 11-1: Shareholders's Meeting shall be convened by the board of directors and chaired by the Chairperson of the Board. When the Chairperson of the Board is on leave, the Chairperson shall appoint one of the directors to act as meeting chairperson, or, if there are no appointment, one of the directors shall be selected from among themselves to act as meeting chairperson. If a shareholders' meeting is convened by a rightful person outside the board of directors, the person convening the meeting shall chair the meeting. When there are two or more conveners, a meeting chairperson shall be elected between them.

Article 12: Unless otherwise stated in the Company Act, any resolution made by the Shareholders Meeting shall be made during a Shareholders Meeting attended by more than half of all shares and passed by the majority of voting rights in attendance.

Article 12-1: The Company shall inform each Director and Supervisor seven days prior to a Board meeting, and in case of emergency, the Company may call the board of directors to a meeting at any time. The Company's board of directors was convened in writing, e-mail, or fax method.

#### Chapter IV: Directors and Supervisors

Article 13: The Company appoints seven to eleven directors and three supervisors under candidates nomination system. The term of directors and supervisor shall be three years. Directors and supervisors are elected from the list of candidates and may be eligible for re-election.

The total sum of all registered shares certificates held by all directors and supervisors shall not be less than that as regulated in "Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies" from the regulatory authority.

Article 13-1: In the aforementioned quota of directors of the Company, the number of independent directors shall be at least two and not less than one-fifth, which are elected from the list of candidates of independent directors in the shareholders' meeting under the candidate nomination system.

In accordance with the relevant regulations of the competent authority, the professional qualifications, shareholding, prohibition on positions held at other companies, nomination and selection process and other matters of the

Company's Independent Directors, are processed under relevant legal regulations.

Article 13-2: The Company's board of directors decides whether to set up an audit committee. If the audit committee is set up upon resolution, this Articles of Association regarding the supervisor shall not be applied during the term of the audit committee.

The composition, the scope of duties and power, rules of procedure, and other compliance matters of the audit committee of the company shall be in accordance with the relevant regulations of the competent authority.

Article 14: The board of directors is formed by the directors. The Chairperson, who is to represent the Company externally, is elected by a majority voting of the directors present at a meeting of its board of directors attended by two-thirds or more of the directors of the Company.

Article 15: In case the Chairperson of the board of directors is on leave or absent or cannot exercise his power and authority for any cause, his representative shall be selected according to Article 208 of the Company Act. The board of directors shall be convened by the Chairperson of the board of directors. The conduct of the board of directors shall be conducted in accordance with the "Rules of Procedure for Meetings of Board of Directors" of the company.

Directors should attend the board of directors in person. If the board of directors takes the video conference, the director's participation in the video conference is regarded as personal in person. In case a director cannot attend a Board meeting in person, he/she may appoint another Director to attend in his/her behalf, he/she shall, in each time, issue a written proxy and state therein the scope of authority with reference to the subjects to be discussed at the meeting. A director may accept the appointment to act as the proxy referred to in the preceding Paragraph of one other Director only.

Article 16: Compensations for the Chairperson, directors and supervisors of the Company shall be determined by the board of directors according the involvement and contribution of each director, with reference to the industry standards.

The Company shall purchase liability insurance for its Directors and Supervisors for carrying out the scope of their responsibilities during the terms of office for said Directors and Supervisors.

#### Chapter V Manager

Article 17 This Company may have managers and their appointment, dismissal and



remuneration shall be conducted in accordance with Article 29 of the Company Act.

## Chapter VI Accounting

Article 18: At the close of each fiscal year of the Company, the board of directors shall prepare, 1) business report, 2) financial statement and 3) the surplus earning distribution or loss off-setting proposal, etc., and shall forward the same to supervisors for their auditing not later than the 30th day prior to the meeting date of a general meeting of shareholders and subsequently submit them to the meeting of shareholders for its ratification.

Article 19: If the company makes profits in the year, it shall appropriate 8% to 19% for employees' compensation and no more than 1.5% for directors and supervisors' compensations." but the Company shall reserve a portion of profit to make up for accumulated losses, if any.

Employee's remuneration may be distributed in shares or cash, and the counterparty to whom shares or cash are distributed to as employee's remuneration may include the employees of its subordinate companies that meet certain criteria. Compensation of directors shall be paid in cash.

The term "profit" as mentioned in the first paragraph refers to "pre-tax profits before deducting the distributed employees and directors' remuneration.

Employee and director remuneration allocation must be approved by the board of directors in a meeting attended by more than two-thirds of all board members, where half of attending directors approve. The remuneration resolution shall be reported in the annual general meeting.

Article 19-1: If the company's annual final accounts have net profit after tax for this period, the accumulated losses should be made up first, 10% of which is appropriated as legal reserve; however, the occasion when the legal reserve has reached the total paid-in capital of the company is excluded. And according to law or the competent authority to appropriate or reverse special reserves. The remaining surplus, together with unappropriated retained earnings would be reversed appropriately by the board of directors based on actual operating conditions, and then a proposal for surplus distribution will be formulated and subsequently be submitted to the meeting of shareholders for its ratification.

The company's dividend distribution policy shall consider the company's current and future investment environment, capital demands, domestic and foreign competition situations and capital budgets, in order to safeguard the

shareholders' interests, balance dividend and cater the long-term financial plan. On an annual basis, the Board of Directors will formulate a distribution plan, and report it to the shareholders' meeting. The dividend distribution of the shareholders of the Company can be distributed in cash or shares, in which the proportion of shareholders' cash dividend distribution is not less than 10% of the total dividends of the shareholders.

#### Chapter VII Supplementary Provisions

Article 20: Any matters not prescribed in the Articles, if any, shall be conducted in accordance with the provisions of the Company Act.

Article 21: The Articles were established on October 24, 2000.

The first amendment was made on November 21, 2000.

The second amendment was made on September 5, 2001.

The third amendment was made on February 15, 2002.

The fourth amendment was made on April 9, 2002.

The fifth amendment was made on June 25, 2002.

The sixth amendment was made on March 26, 2003.

The seventh amendment was made on November 12, 2003.

The eighth amendment was made on June 15, 2004.

The ninth amendment was made on March 17, 2005.

The tenth amendment was made on June 16, 2005.

The eleventh amendment was made on June 14, 2006.

The twelfth amendment was made on November 1, 2006.

The thirteenth amendment was made on June 13, 2007.

The fourteenth amendment was made on June 13, 2008.

The fifteenth amendment was made on May 8, 2009.

The sixteenth amendment was made on June 15, 2010.

The seventeenth amendment was made on June 15, 2011.

The eighteenth amendment was made on June 11, 2013.

The nineteenth amendment was made on June 17, 2014.

The twentieth amendment was made on June 2, 2015.

The twenty-first amendment was made on June 15, 2016.

The twenty-second amendment was made on June 13, 2017.

**Phison Electronics Corporation**  
**Procedures for acquisition or disposal of assets**  
**(Before Amendment)**

**Section I General**

Article 1 Purpose and basis

To strengthen the company's assets management and implement the information disclosure, pursuant to the provisions of Article 36 of the Securities Exchange Act (hereinafter referred to as the "SEA") and "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" (hereinafter referred to as the "Regulations"), these Procedures are established (hereinafter referred to as the "Procedures").

Article 2 Applicable scope

Matters related to the acquisition or disposal of assets for the Company and its subsidiaries shall be carried out according to Regulations and the provisions of the Procedures, unless otherwise provided by other laws and regulations.

Article 3 Scope of assets and terminology

1. The scope of assets mentioned in the Procedures is as follows:

- (1) Long-term and short-term investment: stocks, government bonds, corporate bonds, financial debenture, securities of outstanding fund, depositary receipt, call (put) warrant, beneficiary securities, and asset backed securities.
- (2) Real property (including land, houses and buildings, investment property, right to use land) and equipment.
- (3) Membership certificate.
- (4) Intangible asset: including patency, copyright, trade mark right, and franchise.
- (5) Financial institutes' debentures (including account receivable, foreign exchange buying discount, loan, and non-accrual debt).
- (6) Financial derivatives.
- (7) Asset acquired or disposed due to legal merger, division, acquisition, or receiving shares.
- (8) Other major assets.

2 Definitions:

- (1) Derivatives: Forward contracts, options contracts, futures contracts, leverage contracts, and swap contracts, and compound contracts combining the above products, whose value is derived from assets, interest rates, foreign exchange rates, indexes or other interests. The term "forward contracts" does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or

- long-term purchase (sales) agreements.
- (2) Asset acquired or disposed due to legal merger, demerger, acquisition, or receiving shares: Assets acquired from or disposed through merger, demerger, or acquisition in accordance with Business Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institutions Merger Act, or other laws and regulations, or receiving IPO shares of other company (herein after referred to as transfer of shares) in accordance with Article 156-8 of the Company Act.
  - (3) Stakeholders/subsidiary: As the Regulations Governing the Preparation of Financial Reports by Securities Issuers may define.
  - (4) Professional appraiser: Real estate property appraiser or other professionals legally permitted for practicing appraisal on real estate property and equipment.
  - (5) Actual occurrence date: a contract execution date, payment date, completion date, ownership transfer date, board of directors' resolution date, or date on which a counterparty and transaction amount become definitely certain, whichever happens earlier. However, for investment that requires approval from the competent authority, an actual occurrence date shall be either the date abovementioned or the date of the said approval, whichever happens earlier.
  - (6) Investment in Mainland China area: An investment made in Mainland China in compliance with the Regulations Governing Approval for Investment or Technical Cooperation in Mainland China Area stipulated by the Investment Commission, Ministry of Economic Affairs.
3. For the valuation report obtained by the Company or the opinion of the accountants, attorneys or securities underwriters, the professional appraisers and the valuers, the accountants, attorneys or securities underwriters and the dealing party shall not be a relative.

## **Section II Acquisition or Disposal of Assets**

### **Article 4 Evaluation Procedure:**

The price determination method and reference basis for acquisition and disposal of assets of the Company shall comply with the following regulations:

#### **1. Securities**

For acquisition and disposal of securities, the most recent financial statements audited and certified or checked and approved by accountants from the Company before the day of the event shall be taken as the reference for evaluating the transaction price, and the transaction price shall be determined as follows:

- (1) For acquisition and disposal of securities bought or sold at the centralized trading market or at the Over-the-counter venue, determine according to the transaction price at that time.
- (2) For acquisition and disposal of securities not bought or sold at the centralized trading market or at the Over-the-counter venue, decide with consideration of net value per

share, profit-making ability, future expanding potential and others and according to the transaction price at that time, or decide by referring to the current market interest rate, coupon rate, debtor's credit and others.

Where the transaction amount reaches 20% of more of paid-in capital or NT\$300 million or more, the Company shall engage a certified public accountant to render an opinion on the reasonableness of the transaction price before the date of the occurrence; If the certified public accountant needs to adopt a professional report, the certified public accountant shall comply with the provisions of Statement of Auditing Standards No. 20 published by the Accounting Research and Development Foundation (hereafter referred to as the "ARDF"). This requirement does not apply, however, to publicly quoted prices of securities that have an active market, or where otherwise provided by regulations of the Financial Supervisory Commission (hereafter referred to as the "FSC").

## 2. Real Property or Equipment:

Transaction term and price for acquisition or disposal of real property shall be referred to the publicly announced current value, appraisal value, neighboring or closely value of real property and others; the acquisition or disposal of equipment should be conducted after collecting relevant price information and based on inquiry, parity, negotiation or tender.

In acquiring or disposing real property, or equipment, where the transaction amount reaches 20% of the company's paid-in capital or NT\$300 million or more, the Company, unless transacting with a government agency, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of business machinery and equipment, shall obtain an appraisal report in advance from a professional appraiser before the date of the occurrence and shall further comply with the following provisions:

- (1) Where due to special circumstances it is necessary to give a limited price, specified price, or special price as a reference basis for the transaction price, the transaction shall be submitted for approval in advance by the board of directors, and the same procedure shall be followed for any future changes to the terms and conditions of the transaction.
- (2) Where the transaction amount is NT\$1 billion or more, appraisals from two or more professional appraisers shall be obtained.
- (3) Where any one of the following circumstances applies with respect to the professional appraiser's appraisal results, except in the case when the appraisal results of acquiring an asset are higher than the transaction amount, or when the appraisal results of disposing an asset 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 ARDF and render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:
  - I. The discrepancy between the appraisal result and the transaction amount is 20% or more of the transaction amount.
  - II. The discrepancy between the appraisal result and the transaction amount is 10% or more of the transaction amount.

(4) Where an appraisal from professional appraisers is conducted before a contract execution date, no more than three months may pass between the date of the appraisal report and the contract execution date; provided, where the publicly announced current value for the same period is used and not more than 6 months have elapsed, an opinion may still be issued by the original professional appraiser.

### 3. Memberships or Intangible Assets:

Acquisition or disposal of memberships shall be conducted after collecting relevant price information and based on inquiry or parity; Acquisition or disposal of intangible assets shall also be conducted after collecting relevant price information and the transaction price shall be decided based on laws related to careful evaluation and contract content.

Where the Company acquires or disposes of membership or intangible assets and the transaction amount reaches 20% of more of paid-in capital or NT\$300 million or more, the Company, unless transacting with a government agency, shall engage a certified public accountant to render an opinion on the reasonableness of the transaction price before the date of the occurrence; the certified public accountant shall comply with the provisions of Statement of Auditing Standards No. 20 published by the ARDF.

3.1. The amount of transactions above shall be calculated in compliance with the procedures set out in paragraph 2 of Article 19, and “within the preceding year” as used herein refers to the year preceding the date of occurrence of the current transaction. Items for which an appraisal report from a professional appraiser or a certified public accountant opinion has been obtained need not be counted toward the transaction amount.

### 4. Other Major Assets

Acquisition or disposal of creditor rights in financial institution, derivatives, assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law or other major assets shall be conducted after collecting relevant price information depending on trading assets targets, and the transaction price shall be decided based on laws related to careful evaluation and contract content.

5. Where the Company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may be substituted for the appraisal report or certified public accountant opinion.

## Article 5 Operating Procedure

### 1. Authorization Limit and Level

(1) For acquisition or disposal of assets by the Company, the undertaker shall consolidate the information such as reason of acquisition or disposal, target object, counterpart, transfer price, payment conditions and price reference basis and submit to the Authority for approval depending on trading assets items. The regulations related to authorization limit and level of derivatives or others shall refer to the “Procedures for Engaging in Derivatives Trading” of company.

Item	Amount	Authority			
		Board of Directors	Chairman	General Manager	Division Chief
Long-term securities investment (including long-term equity investment)	Below 80 million (including)			Approval	Review
	80 million (excluding) ~ 260 million (including)		Approval	Review	Review
	Over 260 million(excluding)	Approval	Review	Review	Review
Short-term securities investment	Total amount per level below 100 million (including)			Approval	Review
	Total amount per level 100 million (excluding) ~ 300 million (including)		Approval	Review	Review
	Total amount per level over 300 million (excluding)	Approval	Review	Review	Review
Real property	Below 100000 (excluding)				Approval
	100000 (including) ~ 100 million (including)		Approval	Review	Review
	Over 100 million (excluding)	Approval	Review	Review	Review
Equipment	Below 100000 (excluding)				Approval
	100000 (including) ~ 30 million (including)			Approval	Review
	30 million (excluding) ~ 100 million (including)		Approval	Review	Review
	Over 100 million (excluding)	Approval	Review	Review	Review
Memberships	Below 20 million (including)		Approval	Review	Review
	Over 20 million (excluding)	Approval	Review	Review	Review
Intangible assets	Below 30 million (including)			Approval	Review
	30 million (excluding) ~ 100 million (including)		Approval	Review	Review
	Over 100 million (excluding)	Approval	Review	Review	Review
Creditor rights in financial institution	Below 100 million (including)		Approval	Review	Review
	Over 100 million (excluding)	Approval	Review	Review	Review
Assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law	Shall not be decided by resolution of the Board of Shareholders according to laws	Approval	Review	Review	Review
	Shall be decided by resolution of the Board of Shareholders according to laws	Review	Review	Review	Review
Other major assets	Below 100 million(including)		Approval	Review	Review
	Over 100 million (excluding)	Approval	Review	Review	Review

(2) Pursuant to the Procedures or other laws and regulations, the acquisition or disposal of assets by the Company shall be submitted to the Board of directors for its approval. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to the Supervisors.

After the position of independent director has been created, when the procedures for the acquisition and disposal of assets are submitted for discussion by the board of directors pursuant to the preceding paragraph, the board of directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board meeting.

After an Audit Committee has been established, the acquisition or disposal of major assets and derivatives shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution, and shall be subject to mutatis mutandis application of the provisions of Paragraph 4 and 5, Article 22.

The resolutions of Board of Directors specified herein shall be approved by more than half of all directors with more than two-thirds of all directors being present.

## 2. Execution Unit

The acquisition or disposal of assets by the Company shall be executed by the following units:

- (1) Long-term investment in securities, memberships, intangible assets, assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law and other major assets: appraised and executed by the project team through directing of General Manager or Chairman.
- (2) Short-term investment in securities, derivatives and creditor rights in financial institution: appraised and executed by Finance Department.
- (3) Real property: undertaken by General Affair Department.
- (4) Equipment: undertaken by requisition unit with General Admin. Department.
- (5) Public announcement and declaration: the public announcement and declaration personnel engage the undertaker to consolidate relevant information of public announcement and declaration and manage wholly.

## 3. Transaction Process

The transaction process and operation for acquisition or disposal of assets shall comply with relevant laws and provisions related to internal control system of the Company.

## Article 6 Total Assets and Individual Limit

The total amount of non-operating use real property or securities acquired by the Company and each subsidiary and the limit of individual securities are as follows:

1. Total amount of real property acquired by the Company for non-operating use shall not be higher than 20% of shareholders' equity. Total amount of long-term and short-term securities investment acquired by the Company shall not be higher than 100% of shareholders' equity. The amount of individual security acquired by the Company shall not be higher than 40% of shareholders' equity.
2. Total amount of real property acquired by each subsidiary for non-operating use shall not be higher than 20% of shareholders' equity or paid-in capital. Total amount of long-term and short-term securities investment acquired the each subsidiary shall not be higher than 100% of shareholders' equity or paid-in capital (for a subsidiary which is specialized in investment, it shall not be higher than 150% of shareholders' equity or paid-in capital).The amount of individual security acquired by acquired by each subsidiary shall not be higher than 100% of shareholders' equity or paid-in capital (for a subsidiary which is specialized in investment, it shall not be higher than 150% of shareholders' equity or paid-in capital).For the shareholders' equity or paid-in capital mentioned above, the larger



will prevail.

3. The foregoing shareholders' equity refers to the equity belong to parent company owner in the most recent financial statements audited and certified or checked and approved by accountants before the Company and each subsidiary acquire assets; if the subsidiary is a nonpublic company, it refers to the shareholders' equity in the most recent financial statements of the subsidiary which are audited and certified or checked and approved by accountants; for the subsidiary without the most recent financial statements audited and certified or checked and approved by accountants, it refers to the shareholders' equity in its own most recent financial statements.

**Article 7 Control on procedures for the acquisition or disposal of assets of subsidiaries**

1. The Company shall urge the Subsidiaries to prepare and execute the Disposal Procedure for the Acquisition or Disposal of the Assets. After this procedure adopted by the subsidiaries' Board of Directors, it shall be submitted to the Board of Directors of the Company. The same shall apply to the amendment of this procedure.
2. Control on procedures for the acquisition or disposal of assets of subsidiaries by the Company, shall be handled in accordance with relevant laws and Internal Control System of the Company.
3. The subsidiaries of the Company are not domestic public offering companies, thus the acquisition or disposal of assets shall be reported or announced by the Company in accordance with the provisions of Procedures for acquisition or disposal of assets Section 5.

The foresaid subsidiaries reach 20 % of paid-in capital or 10% of total assets and their information required to be reported in accordance with the provisions of paragraph 1 of Article 19, it is determined by the paid-in capital or total assets of the company.

**Section III Procedures for Related Party Transactions**

**Article 8 Scope**

In acquiring or disposing of assets with a Related Party not only practice in accordance with the provisions of the previous section and this section, and regulated by below-mentioned resolution procedures, evaluation of the reasonableness of the transaction terms and others, but also in the case when the transaction amount reaches 10% of more of the total assets, the company shall obtain an appraisal report in advance from a professional appraiser or engage a certified public accountant to render an opinion in accordance with the provisions of the previous Section.

The method for calculating the preceding transaction amount shall comply with the Paragraph 3.1 of Article 4.

Besides, determine the Related Party in accordance with the formal law and consider the substance relationship.

**Article 9 Resolution Procedure**

When the company intends to acquire or dispose of real property from a related party, or

when it intends to acquire or dispose of assets other than real property from 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 domestic 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 a payment until the following matters have been approved by the board of directors and recognized by the supervisors:

1. The purpose, necessity and anticipated benefits of the asset acquisition or disposal.
2. The reason for choosing the Related Party as a trading counterparty.
3. 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 the provisions of Article 10 and 11.
4. The date and price at which the Related Party originally acquired the real property, the original counterparty and the trading counterparty's relationship with the Company and the Related Party.
5. Monthly cash flow forecasts for the year commencing from the month of anticipated signing of the contract and evaluation of the necessity of the transaction and reasonableness of the use of proceeds.
6. Obtain an appraisal report in advance from a professional appraiser or engage a certified public accountant to render an opinion pursuant to the preceding paragraph.
7. Restrictive and other important stipulations associated with the transaction.

The amount of transactions above shall be calculated in compliance with the procedures set out in paragraph 2 of Article 19, "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 and recognized by the Supervisors need not be counted toward the transaction amount.

In acquiring or disposing of business machinery and equipment between the Company and its subsidiaries or between each of its subsidiaries, the Board of Directors may first authorize the Chairman to execute within a certain amount in accordance with the provisions of Subparagraph 1, Paragraph 1 of Article 5, and shall report at the most recent meeting of the Board of Directors for ratification.

After the position of Independent Director has been established in accordance with the provisions of SEA, when the procedures are submitted for discussion by the Board of Directors according to Paragraph 1, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board of Directors Meeting.

After an Audit Committee has been established in accordance with the issues which shall be recognized by Audit Committee according to Paragraph 1 shall be approved by more than

half of all Audit Committee members and submitted to the Board of Directors for a resolution, and shall be subject to mutatis mutandis application of the provisions of Paragraph 4 and 5, Article 22.

Article 10 Assessment procedures

The company acquires real property from a related party shall evaluate the reasonableness of the transaction costs by the following means:

1. Based upon the related party's transaction price plus necessary interest on funding and the costs to be duly borne by the buyer in accordance with the law. "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.
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 one year or more. However, this shall not apply where the financial institution is a related party of one of the trading counterparties.

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.

The company acquires real property from a related party and appraises the cost of the real property in accordance with the provisions of paragraphs 1 and 2 of this Procedures shall also engage a CPA to check the appraisal and render a specific opinion.

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 the preceding article, and the preceding three paragraphs do not apply:

1. The related party acquired the real property through inheritance or as a gift.
2. More than five 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.
3. The real property is acquired through signing of a joint development contract with the related party, or engaging others to build on its own land, engaging the related party to build on rented land.

Article 11 Procedures 1 in case of the assessment result uniformly lower than the transaction price

When the results of the company's appraisal conducted in accordance with the paragraphs 1 and 2 of the preceding Article are uniformly lower than the transaction price, the matter shall be handled in compliance with the provisions of Article 12. 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 has been obtained, this restriction shall not apply:

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:

- (1) Where undeveloped land is appraised in accordance with the means in the preceding Article, and structures according to the related party's construction cost plus 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 three 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.
  - (2) Completed 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.
  - (3) Completed leasing transactions by unrelated parties for other floors of the same property from within the preceding year, where the transaction terms are similar after calculation of reasonable price discrepancies among floors in accordance with standard property leasing market practices.
2. Where the company acquires real property from a related party provides evidence that the terms of the transaction are similar to the terms of transactions completed for the acquisition of neighboring real property of a similar size by unrelated parties within the preceding year.

Completed transactions for neighboring real property in the preceding paragraph in principle refers to real property 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; transaction for similarly sized real property in principle refer to transactions completed by unrelated parties for real property with an area of no less than 50% of the property in the planned transaction; within one year refers to one year from the actual date of acquisition of the real property.

Article 12 Procedures 2 in case of the assessment result uniformly lower than the transaction price

Where the company acquires real property from a related party and the results of appraisals conducted in accordance with the provisions of the Article 10 and Article 11 are uniformly lower than the transaction price, the following steps shall be taken.

1. The difference between the real property transaction price and the appraised costs shall be set aside as a special reserve in accordance with the provisions of the paragraph 1, Article 41 of the SEA and may not be distributed or used for capital increase or issuance of bonus shares. If an investor that has investment in the company and adopts the equity method for such investment and is a public company, it shall also set aside a special reserve under paragraph 1, Article 41 of the SEA in relation to its share of the above special reserve set aside by the company in proportion to its shareholding.
2. Supervisors shall comply with the provisions of Article 218 of the Company Act.
3. The circumstances of handling under the provisions of paragraphs 1 and 2 of this Article

shall be reported to General Meeting and the detailed contents of the transaction disclosed in the annual report and prospectus.

If the company set aside a special reserve under the preceding paragraph, the company shall not utilize such special reserve until it has recognized a loss due to price decline for the assets it purchased at a premium, or they have been disposed of, or adequate compensation has been made, or the original condition has been restored, or there is other evidence confirming that it is not unreasonable to do so, and the FSC has agreed with the utilization.

When the company obtains real property from a related party, it shall also comply with the provisions of paragraph 1 and paragraph 2 of this Article if there is other evidence indicating that the acquisition was not an arm length transaction.

## **Section IV Procedures for Conduct a Merger, Demerger, Acquisition or Transfer of Shares**

### **Article 13 Resolution Procedure**

1. The Company that conducts a merger, demerger, acquisition, or transfer of shares, prior to convening the Board of Directors to resolve on the matter, shall engage a CPA, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and submit it to the Board of Directors for deliberation and passage. However, for the merger of a subsidiary which directly or indirectly holds 100% issued shares or capital sum, or the merger between subsidiaries which directly or indirectly hold 100% issued shares or capital sum, the opinion on the reasonableness issued by experts pursuant to the preceding paragraph shall be avoided.
2. The Company participating in a merger, demerger, acquisition shall prepare a public report to shareholders detailing important contractual content and matters relevant to the merger, demerger, or acquisition prior to the shareholders meeting and include it along with the expert opinion referred to in preceding paragraph when sending shareholders notification of the shareholders meeting for reference in deciding whether to approve the merger, demerger, or acquisition. Provided, where a provision of another act exempts a company from convening a shareholders meeting to approve the merger, demerger, or acquisition, this restriction shall not apply.

Where the shareholders meeting of any one of the companies participating in a merger, demerger, or acquisition fails to convene or pass a resolution due to lack of a quorum, insufficient votes, or other legal restriction, or the proposal is rejected by the shareholders meeting, this Company participating in the merger, demerger or acquisition shall immediately publicly explain the reason, the follow-up measures, and the preliminary date of the next shareholders meeting.

3. The Company participating in a merger, demerger, or acquisition shall convene a board of directors meeting and shareholders meeting on the day of the transaction to resolve

matters relevant to the merger, demerger, or acquisition, unless another act provides otherwise or the FSC is notified in advance of extraordinary circumstances and grants consent.

The Company participating in a transfer of shares shall call a board of directors meeting on the day of the transaction, unless another act provides otherwise or the FSC is notified in advance of extraordinary circumstances and grants consent.

When participating in a merger, demerger, acquisition, or transfer of shares, the Company shall prepare a full written record of the following information and retain it for five years for reference:

- (1) Basic identification data for personnel: Including the occupational titles, names, and national ID numbers (or passport numbers in the case of foreign nationals) of all persons involved in the planning or implementation of any merger, demerger, acquisition, or transfer of another company's shares prior to disclosure of the information.
- (2) Dates of material events: Including the signing of any letter of intent or memorandum of understanding, the hiring of a financial or legal advisor, the execution of a contract, and the convening of a board of directors meeting.
- (3) Important documents and minutes: Including merger, demerger, acquisition, and share transfer plans, any letter of intent or memorandum of understanding, material contracts, and minutes of board of directors meetings.

When participating in a merger, demerger, acquisition, or transfer of shares, the Company shall, in two days of passage of a resolution by the board of directors, report (in the prescribed format and via the Internet-based information system) the information set out in subparagraphs 1 and 2 of the preceding paragraph to the FSC for recordation.

Where the Company participating in a merger, demerger, acquisition, or transfer of another company's shares is neither listed on an exchange nor has its shares traded on an OTC market, the Company shall sign an agreement with such company whereby the latter is required to abide by the provisions of Paragraph 3 and 4 of this Article.

#### Article 14 Non-disclosure commitment

Every person participating in or privy to the plan for merger, demerger, acquisition, or transfer of shares shall issue a written undertaking of confidentiality and may not disclose the content of the plan prior to public disclosure of the information and may not trade, in their own name or under the name of another person, in any share or other equity security of any company related to the plan for merger, demerger, acquisition, or transfer of shares.

#### Article 15 Alter principles of the share exchange ratio or acquisition price

The companies participating in a merger, demerger, acquisition, or transfer of shares may not arbitrarily alter the share exchange ratio or acquisition price unless under the below-listed circumstances, and shall stipulate the circumstances permitting alteration in the contract for the merger, demerger, acquisition, or transfer of shares:

1. Conduct cash capital increase, issuance of convertible corporate bonds, or the issuance of

- bonus shares, issuance of corporate bonds with warrants, preferred shares with warrants, stock warrants, or other equity based securities.
2. An action, such as a disposal of major assets that affects the company's financial operations.
  3. An event, such as a major disaster or major change in technology, that affects shareholder equity or share price.
  4. An adjustment where any of the companies participating in the merger, demerger, acquisition, or transfer of shares from another company, buys back treasury share.
  5. An increase or decrease in the number of entities or companies participating in the merger, demerger, acquisition, or transfer of shares.
  6. Other terms/ conditions that the contract stipulates may be altered and that have been publicly disclosed.

Article 16 Contents of a contract

The contract for participation by the company in a merger, demerger, acquisition, or transfer of shares shall record the rights and obligations of the companies participating in the merger, demerger, acquisition, or transfer of shares, and shall also record the following:

1. Handling of breach of contract.
2. Principles for the handling of equity-type securities previously issued or treasury share previously bought back by any company that is extinguished in a merger or that is demerged.
3. The amount of treasury share participating companies are permitted under law to buy back after the record date of calculation of the share exchange ratio, and the principles for handling thereof.
4. The manner of handling changes in the number of participating entities or companies.
5. Preliminary progress schedule for plan execution, and anticipated completion date.
6. Scheduled date for convening the legally mandated General Meeting if the plan exceeds the deadline without completion, and relevant procedures.

Article 17 Changes of companies participated in

After public disclosure of the information, if any company participating in the merger, demerger, acquisition, or share transfer intends further to carry out a merger, demerger, acquisition, or share transfer with another company, all of the participating companies shall carry out anew the procedures or legal actions that had originally been completed toward the merger, demerger, acquisition, or share transfer; except that where the number of participating companies is decreased and a participating company's General Shareholders' Meeting has adopted a resolution authorizing the board of directors to alter the limits of authority, such participating company may be exempted from calling another General Shareholders' Meeting to resolve on the matter anew.

Article 18 Disposal of a company that is not a public one

Where any of the companies participating in a merger, demerger, acquisition, or transfer of shares is not a public company, the company shall sign an agreement with the non-public company whereby the latter is required to abide by the provisions of paragraphs 3 of Article 13 and Article 14 and Article 17.

## **Section V Procedures for the Information Disclosure**

### **Article 19 Public Announcement and Declaration Procedure**

In acquiring or disposing of assets, should any of the following conditions occur after the filing and public announcement of transactions, the Company needs to file and make public announcement at the website specified by FSC accordingly in two days from the Date of the Event by using the prescribed format according to the nature:

1. Acquisition or disposal real property from a Related Party, or in acquiring or disposing any other asset than the real property with a Related Party and also the transaction amount reaches 20% of paid-in capital, 10% of the total assets or NT\$300 million or more; Provided, however, this shall not apply to the trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds issued by securities investment trust enterprise.
2. Merger, demerger, acquisition, or transfer of shares.
3. The loss of trading derivatives reaches the limit for all or individual contract set forth in the Procedures for Engaging in Derivatives Trading.
4. Where the type of asset acquired or disposed is equipment for business use and the trading counterparty is not a Related Party, the transaction amount shall meet one of the following conditions:
  - (1) For the public companies with paid-in capital less than NT\$10 billion, the transaction amount is NT\$ 500 million or more.
  - (2) For the public companies with paid-in capital more than NT\$10 billion, the transaction amount is NT\$1 billion or more.
5. Where land is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the amount the Company expects to invest in the transaction reaches NT\$500 million.
6. Where an asset transaction other than any of those referred to in the preceding five subparagraphs, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20% of paid-in capital or NT\$300 million or more; provided, this shall not apply to the following circumstances:



- (1) Trading of government bonds.
- (2) Where done by professional investors—securities trading on securities exchanges or OTC markets, or subscription of ordinary corporate bonds or general bank debentures without equity characteristics that are offered and issued in the primary market, or subscription by a securities firm of securities as necessitated by its undertaking business or as an advisory recommending securities firm for an emerging stock company, in accordance with the rules of the Taipei Exchange.
- (3) Trading of bonds under repurchase/resale agreements and the purchase or redemption of domestic money market funds issued by securities investment trust enterprise.

The amount of transactions above shall be calculated as follows:

1. The amount of any individual transaction.
2. The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year.
3. The cumulative transaction amount of real estate acquisitions and disposals (cumulative acquisitions and disposals, respectively) within the same development project within the preceding year.
4. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.

“Within the preceding year” as used in the preceding paragraph refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with the Procedures need not be counted toward the transaction amount.

The Company shall, on a monthly basis, report and make a public announcement of the financial derivative transactions engaged by it and its subsidiary which is not a domestic public company up to the end of the previous month in accordance with relevant regulations by the tenth day of each month, and enter the information at the website for declaration specified by FSC.

When the company at the 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.

The Company acquiring or disposing of assets shall keep all relevant contracts, meeting minutes, log books, appraisal reports and CPA, attorney, and securities underwriter opinions at the company headquarters, where they shall be retained for 5 years except where another act provides otherwise.

The Company shall, within one of the following circumstances, within two days from the date of the occurrence of the transaction in accordance with the provisions of the preceding Article, declare the relevant information on the designated website of the FSC:

1. The contract signed related to the original transaction has been changed, terminated or rescinded.
2. The merger, demerger, acquisition, or transfer of shares has not been completed according to the contracted schedule.
3. The contents of original public announcement have changed.

For the 10 percent related to the total assets specified in the procedures, it is calculated based on the total amount of the assets in the most recent individual or separate financial statements prepared by the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

If the shares with no value or not valued at NT\$10 per share, the amount of the transaction amount of 20% of the paid-in capital under these procedures shall be calculated based on 10% of the equity attributable to the owners of the parent company.

## **Section VI Supplementary Provisions**

### **Article 21 Penalties**

Any director, supervisor and manager of the Company who violates the Regulations promulgated by the FSC or the provisions of this procedure and causes the Company to be subject to significant damage, shall be dismissed.

The company's persons-in-charge breach of the Regulations or these operating procedures, shall be handled in accordance with Procedures for management on employee of the Company.

### **Article 22 Revision procedure**

The Company shall establish the Procedures according to relevant regulations and submit to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors, and the same to amendment. Where any director expresses dissent and it is contained in the minutes or a written statement, the company shall submit the dissenting opinion to the Supervisors.

After the position of Independent Director has been established in accordance with the provisions of SEA, when the Procedures are submitted for discussion by the Board of Directors according to the preceding paragraphs, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.

After an Audit Committee has been established in accordance with the provisions of SEA, establishment or amendment of the procedure for acquisition and disposal of assets shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution.

If approval of more than half of all Audit Committee members as required in the preceding paragraph is not obtained, the Procedures may be implemented if approved by more than two-thirds of all directors, provided that the resolution of the Audit Committee is recorded in the minutes of the Board of Directors meeting.

The terms "all audit committee members" in Paragraph 3 and "all directors" in the Paragraph 4 shall be calculated as the actual number of persons currently holding those positions.

The public announcement and declaration shall be made according to relevant regulations while the Procedures are amended.

Article 23 After an audit committee has been established in accordance with the provisions of SEA, the provisions regarding supervisors set out in Paragraph 3 of Article 14-4 of SEA, shall apply *mutatis mutandis* to the audit committee.

After an audit committee has been established in accordance with the provisions of the Act, the provisions regarding independent directors set out in Paragraph 4 of Article 14-4 of SEA shall apply *mutatis mutandis* to the audit committee.

Article 24 Other Important Issues

Any other matters not set forth in the Procedures or any doubts in application shall be dealt with in accordance with the applicable laws, rules, and regulations; for matters not specified by law, rules, and regulations, they shall be dealt with in accordance with relevant provisions of the Company or decided by discussion of the Board of Directors.

**Phison Electronics Corporation**  
**Procedures for Engaging in Derivatives Trading**  
**(Before Amendment)**

Article 1 Purpose

To protect the investment, implement the information disclosure, and strengthen the risk management system for derivatives trading established by the Company, the Procedures (hereinafter referred to as the "Procedures") are formulated according to the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" (hereinafter referred to as the "Regulations") issued by the Financial Supervisory Commission R.O.C. (Taiwan) (hereinafter referred to as the "FSC").

Article 2 Trading principles and strategies:

1. Transaction Type:

- (1) Derivative products referred in the Procedures refers to forward contracts, options contracts, futures contracts, leverage contracts, and swap contracts, and compound contracts combining the above products, whose value is derived from assets, interest rates, foreign exchange rates, indexes or other interests.
- (2) The term "forward contracts" does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) agreements.
- (3) The matters related to the bond margin transaction shall be handled in accordance with the relevant provisions of the Procedures.

2. Operation & Hedging Strategy:

The main strategy of the Company is to select derivatives trading that could avoid operation risk to the maximum as to minimize losses. The Company should only select banks which have business relation to avoid credit risk.

3. Authorization / Delegation:

Financial Department: is responsible for the foreign exchange management system, such as collecting foreign exchange market information, judging trends and risks, be familiar with financial products and operating skills. The financial department shall accept the instructions by the Financial Officer, take the license to manage the foreign exchange parts, and avoid risks according to the company policy.

Accounting Department: is responsible for confirmation of the transaction, settlement and registration details.

#### 4. Performance Evaluation:

When engaging in derivative products trading, the operation details shall be recorded on the transaction schedule per day to grasp the profit and loss situation; the exchange gains and losses shall be settled per month, quarter and year.

#### 5. Transaction Contract Dollar Amount And Loss Control

(1) The financial department should grasp the overall position of the Company in order to avoid the risk of transactions; the total amount of long-term foreign exchange operation of the contract shall not exceed the actual demand for foreign currency.

(2) The contractual loss of derivative products shall not exceed the limit of 15% of the amount of the transaction contract, and the total contract loss shall not exceed 10% of the contract value. If there is a significant adverse effect on the exchange rate, the Company should convene relevant personnel at any time to discuss it at the meeting.

### Article 3 Operating Procedures

#### 1. Authorization Amount:

When engaging in derivative commodity transactions by the Company, the authorized amounts shall be set as follows:

##### (1) Forward Foreign-exchange Trading:

Transaction Authorization Amount (Monthly Accumulated Amount)

<u>Contract Amount</u>	<u>Delegation of Authorization</u>
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0-10 million (including) dollars	Chairperson
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Above 10 million (excluding) dollars	Board of Directors
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##### (2) Contract of foreign currency options:

The Chairperson of the Board of Directors is solely responsible for the amount of the contract signed by the Company with the Bank, which shall not exceed the estimated net demand of foreign current or net expenses of the Company for the next six months and the accumulated effective contract amount shall not exceed US\$ 10 million limit to avoid exchange rate fluctuations.

(3) Other related derivative products: they shall be subject to the resolution of the board of directors before transaction.

(4) For the procedures are adopted by the resolutions at the meetings of directors, the meeting shall be presented with two-thirds of all directors, and be approved by more than half of the presented directors.

#### 2. Execution unit and transaction process:

(1) Execution of the transaction: the trader of the financial department shall trade with

the financial institutions within the authorized amount. If the amount is more than that specified in the provisions of paragraph 1 of Article 3, the trader shall obtain the written approval in advance according to the above provisions. After the completion of each transaction, the trader shall immediately fill the transaction note according to the return of financial institutions, specify the content, and then be submitted to the competent authority for approval, and make statistical and submit the copy of the transaction to the accounting department.

- (2) Transaction confirmation: the accounting department of the settlement and registration should confirm the transaction based on the copy of the transaction produced by the transaction unit, and then shall make settlement and register details according to the transaction confirmed number. The financial department shall prepare the statements monthly, and then collect them and submit them to the accounting department as an accounting evaluation Basis.

#### Article 4 Risk Management

##### 1. Scope of risk management:

- (1) Credit Risk Control: Credit risk is controlled by restricting the counterparties that the Company deals with to those who either have banking relationship with the Company. After the transaction, the person for registering should register the Credit Control Table and check the balance of accounts with the bank on a regular basis.
- (2) Market Price Risk Control: the person for registering shall check whether the total amount of the transaction is in compliance with the prescribed limits. The accounting department should conduct a market price evaluation at any time and pay attention to the possible impact on the profit and loss by the future market price fluctuations on the holdings.
- (3) Liquidity Risk Control: Liquidity risk should be controlled by restricting counterparties to those who have adequate facility, sufficient information, and sizable trading capacity and

capability to enter into transactions in any markets around the world.

(4) Cash Flow Risk Control: The derivative product transaction is based on physical transactions to ensure settlement obligations. The traders should also pay attention to the company's cash flow at all times to ensure that there is sufficient cash to be paid at the time of settlement.

(5) Operating Risk Control: Delegation systems and operating procedures set forth herein are employed to control operating risk.

(6) Legal Risk Control: Any legal documents in respect of financial derivative transactions shall be in general contract of the market, and any special contract shall be reviewed by the legal counsel.

2. The respective functions of trading, confirmation and settlement should be performed by different personnel.
3. Risk measurement, monitoring and control personnel shall be assigned to a different department than the personnel in the preceding subparagraph and shall report to the Board of Directors or an executive manager or supervisor who is not responsible for trading or hedging position policy-making.
4. Derivatives trading positions held shall be evaluated at least once per week. Finance Department should prepare a bi-weekly report in connection with the transactions entered into for hedging purpose for the review of the Board of Directors authorized senior manager.
5. Other important risk management measures.

#### Article 5 Internal Audit

Internal audit personnel is required to evaluate the suitability of the internal control system in connection with financial derivative transactions on a regular basis, to conduct auditing on how well the related departments follow the Procedures, and to produce report with trading cycle analysis on a monthly basis. Should there be any violation found, a written report is needed to notify the Supervisor.

#### Article 6 Regular Evaluation Methods and Correction of Abnormal Situation

When engaging in derivative product transactions by the Company, and the board of directors shall implement the supervision and control in accordance with the following principles:

1. The designated chairperson shall always pay attention to the supervision and control of risk of derivative product transaction.
2. The Board of Directors is itself responsible for evaluating the performance of derivative

product transaction on a regular basis to oversee how well it fit in the Company's overall business and operating strategies and to review if the associated risks thereof have exceeded the Company's risk to lérance.

The Chairperson authorized by the Board of Directors shall manage the transactions of derivative products in accordance with the following principles:

1. The Chairperson should also be responsible for regularly reviewing the level of adequacy of the current risk control process and its degree of consistency with the regulations and procedures set forth herein.
2. The Chairperson should also be in the course of supervising trading and profit-loss circumstances. Once having identified unusual performances and results, the Chairperson needs to report to the Board of Directors immediately and undertakes any actions deemed necessary to correct the situation. After the company has independent directors, an independent director shall be present at the meeting and express an opinion.

When engaging in derivative product transactions by authorized person by the Company according to the provisions of the Procedures, shall report at the most recent meeting of the Board of Directors for ratification.

#### article 7 Information Disclosure

1. When losses from derivatives trading reaches the limits on aggregate losses or losses on individual contracts set out in the Procedures adopted by the company, the Company shall within two days from the date of the occurrence of the transaction, declare the relevant information on the designated website of the FSC.
2. The Company should, on a monthly basis, report and make a public announcement of the financial derivative transactions engaged by it and its subsidiary which is not a Taiwan public company on the designated website of the FSC up to the end of the previous month in accordance with relevant regulations by the tenth day of each month.

#### Article 8 Establishment of a Reference Book

In accordance with the relevant regulations, a reference book shall be established and maintained to record the financial derivative transactions in which details of the types and amounts of derivatives trading engaged in, board of directors approval dates, and the matters required to be carefully evaluated under paragraph 4 of Article 4, subparagraph 2 of paragraph 1 and subparagraph 1 of paragraph 2 of Article 6, shall be recorded in detail in the reference book.

#### Article 9 Penalties

Any director, supervisor and manager of the Company who violates the regulations promulgated by the FSC or the provisions of the Procedures and causes the Company to be subject to significant damage, shall be dismissed.



The company's persons-in-charge breach of these operating procedures, shall be handled in accordance with Procedures for Management on Employee of the Company.

#### Article 10 Assessment Procedures

The Company shall establish the Procedures according to relevant regulations and submit to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors, and the same to amendment. Where any director expresses dissent and it is contained in the minutes or a written statement, the company shall submit the dissenting opinion to the Supervisors.

After the position of Independent Director has been established, when the Procedures are submitted for discussion by the Board of Directors according to the preceding paragraphs, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.

After Audit Committee has been established in accordance with laws, the provisions regarding supervisors set out in Paragraph 3 of Article 14-4 of Securities Exchange Act (hereafter SEA), shall apply mutatis mutandis to the audit committee, the provisions regarding independent directors members set out in Paragraph 4 of Article 14-4 of SEA shall apply mutatis mutandis to the audit committee and it shall perform relevant responsibilities and authorities according to Article 14-5 of SEA and provisions for supervisors of the Procedures are applicable to the Audit Committee.

#### Article 11 Other Important Matters

In case of matters that are not specified in the procedures or the suitability is in doubt, they shall be handled in accordance with the relevant laws and regulations, for things that are not stipulated in the laws and regulations, they should be carried out according to the relevant provisions of the Company or decided by the board of directors by resolutions.

**Phison Electronics Corporation**  
**Procedures for Lending Funds to Other Parties**  
**(Before Amendment)**

Article 1 Purpose

To be the basis for procedures for lending funds to other parties of the Company, the Procedures are formulated specially according to Paragraph 1, Article 36 of Securities Exchange Act (hereinafter referred to as “SEA”) and the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” of Financial Supervisory Commission (hereafter referred to as the “FSC”).

Article 2 Entities to which the Company may loan funds

According the Article 15 of Company Act, the Company shall not loan funds to any of its shareholders or any other person except under the following circumstances:

1. Where an inter-company or inter-firm business transaction calls for a loan arrangement.
2. Where an inter-company or inter-firm short-term financing facility is necessary, provided that such financing amount shall not exceed 20% of the lender's net worth.

The term "short-term" as used in the preceding paragraph means one year, or where the Company's operating cycle exceeds one year, one operating cycle, which one is longer.

The term "financing amount" as used in Sub-paragraph 2, Paragraph 1 of this Article means the cumulative balance of the Company's short-term financing.

The inter-company funding loans between the foreign companies in which the Company holds, directly or indirectly, 100% of the voting shares, for business needs, the accumulated total of loans granted shall not exceed 20% of the lending-company's net worth, each individual loan shall not exceed 10% of the lending-company's net worth, and the term of each loan extended shall not exceed one year; for, the needs of short-term financing, the accumulated total of loans granted shall not exceed 20% of the lending-company's net worth, each individual loan shall not exceed 10% of the lending-company's net worth, and the term of each loan extended shall not exceed one year. The interest rate shall not be lower than the maximum interest rate of the lending-company's short-term loan from financial institutions. The interest on loans can due bill once a month or once a settlement at maturity.

Article 3 Evaluation standards for loaning funds to others

Where funds are lent to others, in addition to paragraph 2 of Article 4 that should be followed, it shall be evaluated in accordance with the following standards:

1. Lending funds to a company or business due to its business relationship with the Company, the evaluation is that whether the lending amount is equivalent to the business amount between them.
2. Loan may be granted due to short-term financing shall be only for procurement of materials or turnover of operations.

Article 4 Accumulated total of loans granted and amount of an individual loan granted by the Company

1. The accumulated total of loans granted shall not exceed 40% of the net worth of the Company; provided, however where funds are lent to a company or business with short-term financing need, the accumulated total of such loans shall not exceed 20% of the net worth of the Company. The companies (or sole proprietorship or partnership) that dealing business with the Company be approved borrowing, the accumulated total of the loans granted shall not exceed 20% of the Company's net worth.
2. The amount of an individual loan granted by the Company to a company or business with business relationship with the Company shall not exceed the business transaction amount in past 12 months between the parties. "Business transaction amount" refers to the amount of purchase or sale between the parties, whichever is higher. Each individual loan shall not exceed 10% of the net worth of the Company.
3. Where funds are lent to a company or business with short-term financial need, each individual loan shall not exceed 10% of the net worth of the Company.

Article 5 Duration of loans and calculation of interest

1. The term of each loan extended by the Company and its Subsidiaries shall not exceed one year.
2. The interest rate shall be not less than the Company's highest funding costs. The interest shall be payable monthly; under special circumstances, the Company may adjust the interest rate with the approval of the Board of Directors.

Article 6 Procedures for handling loans of funds

1. Application and review procedures

When the borrower applies for borrowing funds from the Company, Financial Department as a contact person, shall conduct an investigation and evaluation on the application with respect to the borrower's recent business operating and financial status, shall be evaluated with and subject to the Regulations Governing Lending of Funds and Making of Endorsements/Guarantees by Public Company announced by FSC and the Procedures, and then submitted, together with the result of the evaluation made as described in the Article 7, shall be review by general manager and chairman and submitted it to the Board

of Directors for its approval and no delegation shall be made to any person in this regard.

When fund lending to Subsidiaries is contemplated by the Company or its Subsidiary, an approval from the Board shall be obtained, and the Chairman shall be authorized to handle the matter within the Board's approved amount of fund lending to the same party and the lending is authorized in installment or revolver within one year.

For the amount as mentioned in the preceding paragraph, in addition to the provisions of Paragraph 4 of Article 2, the amount of the credit granted by the Company to a single enterprise shall not exceed 10% of the net value of the Company's most recent financial statements.

When fund-lending to other parties, the board of directors shall take into full consideration each independent director's opinion; independent directors' opinions specifically expressing assent or dissent and their reasons for dissent shall be included in the minutes of the board of directors' meeting.

## 2. Lending Notice

After the approval of the loan case, the financial department shall promptly inform the borrower by letter or by telephone, to describe the loan conditions of the Company in detail, including the amount, term, interest rate, collateral and guarantor, etc., to let the borrower sign a confirmation the time limit, and to carry out the guarantee (pledge) mortgage and the cross collateral procedures of the guarantor, according to which the funds will then be released.

## 3. Sign Confirmation

For lending cases, the financial department shall draw up the contract terms, which shall then be audited by the competent department, and sent to the legal staff or legal counsel for review after approval, and then apply for the signing process.

The contents of the contract should be consistent with the approved terms of the loan. After the borrower and the joint guarantor sign on the contract, the financial department shall complete the cross collateral procedures.

## 4. Acquisition of collateral and security

- (1) Where any collateral is needed in the loan release conditions, the borrower shall provide the collateral and the legal procedures for mortgage and/or lien must be fulfilled to protect the Company's interest.
- (2) All collateral, except land and securities, shall be covered by property damage insurance. For vehicles, comprehensive insurance shall be procured. The insured amount shall, in principle, be not less than the replacement cost of the collateral. The insurance policy shall be filled with the original loan approval conditions of the Company; If the insured building has not been set with the number, the other address should be with the lot and location number.

(3) The financial department shall inform the borrower to continue to buy the insurance before the expiry of the insured period.

5. Grant

After the loan case is approved and the contract is signed by the borrower and the promissory note is sent for deposit (or installment repayment), and after the collateral (pledge) charge set registration is completed, and all the procedures are checked without errors, the funds can be released.

6. Documentation and custody

The Company shall set up a memorandum book for reviewing for the loan procedures. The object and amount concerned with the funds lending, the approval date by the board of directors, the release date of funds, as well as the matters that should be carefully evaluated according to the provisions of the paragraph 1 of Article 1 shall be recorded in detail for review.

Article 7 Detailed review procedures

When the Company lends the funds, the following review procedures shall be carried out:

1. Evaluation of the necessity and rationality of funds lending to other parties

When the borrower applies for borrowing funds from the Company, the financial department shall first get know of its purpose for funds and assess the necessity and rationality of funds lending to other parties.

2. Credit and risk assessment of the lending parties

(1) For first time lending, the borrower shall submit the company's data such as the approval letter of the change registration and the change registration form, the profit business registration certificate and the copy of the ID card of the person in charge, as well as the necessary financial data to the Company to apply for the financing amount in writing.

After accepting of the application by the Company, the financial department shall investigate and evaluate the business, financial status, solvency and credit, profitability and borrowing purposes of the loan, and prepare reports.

(2) If it is a continuing borrower, in principle, the credit shall be done once a year. If it is a major case, depending on the actual needs, the investigation of credit shall be done once every six months.

(3) If the borrower is in good financial condition and the annual financial statements have been entrusted to the accountant to complete the financing visa, it shall continually use the survey report for more than 1 year and less than 2 years, and shall refer to the visa report loan and lending case audited by the accountant.

3. Acquisition of collateral and the appraisal value of collateral

When lending the funds to other parties by the Company, in addition to the

subsidiaries, the Company shall obtain the guaranteed promissory notes of the same amount and, if necessary, apply for the mortgage of personal property or real estate property and shall, in advance, carry out the assessment of the personal property or real estate property value of the proposed mortgage.

For the above creditor rights security, if the debtor takes the individual or company with considerable resources and credit in lieu of the provision of collateral as the guarantee, the board of directors shall carry out it by taking into account of the credit report by the financial department; for the debtor takes a company as the guarantee, attention shall be paid to that whether there is any guarantee terms in the Articles of Association of the Company.

4. Assessment on the impact towards the Company's operating risk, financial position and shareholders' equity

(1) After the investigation and evaluation of credit information, if the assessment result for the borrower credit is not good, the funds shouldn't be lent to the borrower, the financial department shall reply the borrower the reason why not grant the funds after approval as soon as possible.

(2) For the case with good investigation result of credit and with legitimate purpose, the financial department shall fill in the letter of credit and review the report, assess the reason, the use, the purpose, the amount, the benefit, the value of the collateral, the credit and the operation condition, and assess the impact on the Company's operating risk, financial position and shareholders' equity. After the formulation of the interest rate and the deadline, it shall be submitted to the general manager and the chairman for approval, and then submitted to the board of directors for handling by resolutions.

Article 8 Subsequent measures for control and management of loans, Procedures for handling delinquent creditor's rights

1. Once drawdown on a loan has been made, the financial, business and relevant credit conditions of the borrower and the guarantor shall be regularly monitored. Where collateral is provided, changes in its values shall be noted, and any material change thereto shall be immediately reported to the general manager and be dealt with according to the relevant instruction. At two months before the expiry of the loan allocated, the borrower should be notified to pay off the principal and interest or carry out the extension procedures.
2. When the borrower is making a repayment upon or prior to maturity, the interest shall first be calculated and repaid together with the principal, before the cancellation and return of the relevant evidence of claim to the borrow or the cancellation of the mortgage registration.
3. The borrower shall pay the principal and interest when the loan is due. If the borrower is failure to pay the loan in due and needs to postpone the payment, it

is necessary to make a request in advance and report to the board of directors for approval. The extension of each loan shall not be more than three months and shall only be subject to an extension and the period for the total amount of the loan (including the extension period) shall not exceed one year. The Company may make punishment and recourse against the offender as to the collateral or guarantor according to the law.

Article 9 Procedures for controlling and managing loans of funds to others by Subsidiaries

1. Where a Subsidiary of the Company proposes to grant a loan to a third party, the Company shall require the Subsidiary to establish procedures for granting of loans in accordance with the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies formulated by FSC and shall conform to such procedures.
2. When fund-lending to other parties is contemplated by the Subsidiary of the Company, the Subsidiary shall provide related information to the Company and take into account of the relevant personnel opinion before carrying out the fund-lending procedures.
3. After the loan is granted by the subsidiary, the subsidiary shall regularly report the follow-up situation of the loan amount to the Company.

Section 10 Information Disclosure

1. The company shall announce and report the previous month's loan balances of the Company and its subsidiaries by the 10th day of each month.
2. The company whose loans of funds reach one of the following levels shall announce and report such event within two days from its occurrence:
  - (1) The aggregate balance of loans to others by the company and its subsidiaries reaches 20 percent or more of the company's net worth as stated in its latest financial statement.
  - (2) The balance of loans by the company and its subsidiaries to a single enterprise reaches 10 percent or more of the company's net worth as stated in its latest financial statement.
  - (3) The amount of new loans of funds by the company or its subsidiaries reaches NT\$10 million or more, and reaches 2 percent or more of the company's net worth as stated in its latest financial statement.

If there is any reporting and announcement required for the Company's subsidiary which is not a Taiwan public company, the Company will follow the requirement on behalf of its subsidiary.

3. The Company shall make sufficient provision based on the condition of its lending profile, adequately disclose information in the financial statements, and provide external auditors with necessary information for conducting due auditing.

Article 11 Penalties

If the Company managers and persons-in-charge violate the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” formulated by FSC or the Procedures, the audit personnel or the authority director shall promptly report the violation to the general manager or the board of directors, who shall, as the case may be, give appropriate punishment to the person concerned.

Article 12 Audit

Internal auditors shall perform auditing on the Procedures and the implementation of the Procedures every quarter and produce written auditing reports. Should there be any violation found, a written report is needed to notify each supervisor.

Article 13 Miscellaneous

1. The subsidiaries and parent companies referred in the procedures, shall be defined in accordance with the guidelines for the preparation of financial statements by the issuer of securities.
2. The net value referred in the procedures, shall refer to the equity in the balance sheet attributable to the owners of the parent company as stipulated in the guidelines for Regulations Governing the Preparation of Financial Reports by Securities Issuers.
3. The announcement referred in the procedures, refers to the announcement reported to the website of the information designated by the FSC.
4. “Date of occurrence” in these Procedures means the date of contract signing, date of payment, dates of boards of directors resolutions, or other date that can confirm the counterparty and monetary amount of the transaction, whichever date is earlier.
5. Should a borrower no longer satisfy the criteria set forth in the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” by FSC or the Procedures or there be any excess over the lending limit due to unexpected changes of the Company, a corrective plan has to be provided to the supervisors and the proposed correction actions should be implemented within the period specified in such plan.

Article 14 Implementation and Amendment

The Procedures shall be submitted to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to the Supervisors and report to the shareholders meeting for discussion, and the same to amendment.

When the procedures are submitted to the Board of Directors, the opinion of each independent director shall be considered fully, and the approvals or objects and reasons for objects shall be recorded in the minutes of the Board Meeting.



After Audit Committee has been established in accordance with laws, the provisions regarding supervisors set out in Paragraph 3 of Article 14-4 of SEA, shall apply mutatis mutandis to the audit committee, the provisions regarding independent directors members set out in Paragraph 4 of Article 14-4 of SEA shall apply mutatis mutandis to the audit committee and it shall perform relevant responsibilities and authorities according to Article 14-5 of SEA and provisions for supervisors of the Procedures are applicable to the Audit Committee.

Article 15 Other important matters

In case of matters that are not specified in the procedures or the suitability is in doubt, they shall be handled in accordance with the relevant laws and regulations, for things that are not stipulated in the laws and regulations, they should be carried out according to the relevant provisions of the Company or decided by the board of directors by resolutions.

**Phison Electronics Corporation**  
**Procedures for Endorsement and Guarantee**  
**(Before Amendment)**

Article 1 Purpose

To strengthen the financial management of endorsements and guarantees and reduce the risk of operation, the Procedures are formulated specially according to Paragraph 1, Article 36 of Securities Exchange Act (hereinafter referred to as “the SEA”) and the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” of Financial Supervisory Commission (hereafter referred to as the “FSC”).

Article 2 Scope

1. The scope of endorsements/guarantees used herein is as follow:

(1) Financing endorsements/guarantees, including:

i . Bill discount financing.

ii . Endorsement or guarantee made to meet the financing needs of another company.

iii .Issuance of a separate negotiable instrument to a non-financial enterprise as security to meet the financing needs of the company itself.

(2) Endorsements/guarantees of custom duties due from the Company or other companies.

(3) Other endorsements/guarantees that are not classified as prior two types.

2. The lien or mortgage provided by the Company against its assets and properties for guaranteeing another company’s loan, shall be carried out in accordance with the Procedures.

Article 3 Entities for which the Company may make endorsement or guarantees

1. The Company may make endorsements/guarantees for the following companies:

(1) A company with which the Company does business.

(2) A company in which the Company directly and indirectly holds more than 50% of the voting shares.

(3) A company that directly and indirectly holds more than 50% of the voting shares in the Company.

2. Companies in which the Company holds, directly or indirectly, 90%, or more of the voting shares may make endorsements/guarantees for each other, and the amount of endorsements or guarantees may not exceed 10% of the net worth of the Company; provided that this restriction shall not apply to endorsements/guarantees made between companies in which the Company

holds, directly or indirectly, 100% of the voting shares.

3. Where a public company fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project, or where all capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages, or where companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other, such endorsements/guarantees may be made free of the restriction of the preceding two paragraphs. Capital contribution referred to in the preceding paragraph shall mean capital contribution directly by the public company, or through a company in which the public company holds 100% of the voting shares.
4. "Capital contribution" referred to in the paragraph sentence shall mean capital contributed directly by the Company, or through a company in which the Company holds 100% of the voting shares.

#### Article 4 Evaluation criteria for endorsements/guarantees

Where an endorsement/guarantee is made due to needs arising from business dealings, in addition to Article 5 that should be followed, evaluation standards shall be specified for determining whether the amount of an endorsement/guarantee is commensurate the total amount of trading between the two companies.

#### Article 5 The ceilings on amount of endorsement/guarantee

The amount of endorsement/guarantee provided by the Company is subject to the following limits:

1. The aggregate amount of endorsements/guarantees provided by the Company shall not exceed 40% of the net worth of the most recent financial statements certified or reviewed by the accountant certified public of the Company.
2. The amount of endorsements/guarantees provided by the Company for any single entity shall not exceed 20% of the net worth of the most recent financial statements certified or reviewed by the accountant certified public of the Company.
3. The endorsement or guarantee amount should not exceed past 12 months of total amount of transactions from the company with which the Company does business (The amount of business transactions refers to the amount of purchase or sales between the two parties, whichever is higher) and shall not exceed 20% of the net worth of the most recent financial statements certified or reviewed by the accountant certified public of the Company.

The amount of endorsement/guarantee provided by the Company and its subsidiaries is subject to the following limits:

1. The aggregate amount of endorsements/guarantees provided by the Company shall not exceed 40% of the net worth of the most recent financial statements certified or reviewed by the accountant certified public of the Company.
2. The amount of endorsements/guarantees provided by the Company for any single entity shall not exceed 20% of the net worth of the most recent financial statements certified or reviewed by the accountant certified public of the Company.
3. The endorsement or guarantee amount should not exceed past 12 months of total amount of transactions from the company with which the Company does business (The amount of business transactions refers to the amount of purchase or sales between the two parties, whichever is higher) and shall not exceed 20% of the net worth of the most recent financial statements certified or reviewed by the accountant certified public of the Company.

#### Article 6 Procedures for handling endorsement/guarantee

##### 1. Application and review procedures

- (1). If the other companies apply to the Company to provide endorsement and /or guarantee, the financial department shall initially contact to and know the purpose and the amount of endorsement and/or guarantee apply for, collect the attached relevant documents; and shall conduct details examination in accordance with Article 7 with a credit review reports submitted to the Chairperson of the board of directors for approval and proceeding in accordance with Article 9. The approved endorsement and /or guarantee shall be reported to the most recent board of directors' meeting for a complement ratification.
- (2). If the Company provide endorsement and /or guarantee for business and operation needs, the financial department shall collect the relevant documents and conduct details examination in accordance with Article 7 with a credit review reports submitted to the Chairperson of the board of directors for approval and proceeding in accordance with Article 9. The approved endorsement and /or guarantee shall be reported to the most recent board of directors' meeting for a complement ratification.

##### 2. Notice of endorsement/guarantee

After approval of endorsement/guarantee, the financial department shall inform the guaranteed company by letter or by telephone, and ask the company who needs to obtain collateral by assessment to carry out the (pledge) mortgage procedures within the time limit, only after then can the relevant documents such as the endorsement/guarantee contract or the guarantee bill submit to the

chop custody person or issue notes.

### 3. Acquisition of collateral and security

- (1). Where any collateral is needed in handling endorsement/guarantee, the Company shall handle the pledge or mortgage to protect the rights of the Company.
- (2). All collateral, except land and securities, shall be covered by property damage insurance. For vehicles, comprehensive insurance shall be procured. The insured amount shall, in principle, be not less than the replacement cost of the collateral. The insurance policy shall be filled with the original endorsement and guarantee conditions of the Company; If the insured building has not been set with the number, the other address should be with the lot and location number.
- (3). The financial department shall inform the endorsement guarantor to continue to buy the insurance before the expiry of the insured period.

### 4. Documentation and custody

The Company shall establish and maintain a 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 of authorization by the Chairperson of the board, the date the endorsement/guarantee is made, and the matters to be carefully evaluated under paragraph 1 of Article 9.

## Article 7 Detailed review procedures

When the Company deals with endorsement/guarantee, the following review procedures shall be followed:

### 1. The necessity and rationality of endorsement and guarantee

When the third company applies for endorsement and guarantee from the Company or the Company needs for endorsement and guarantee due to its own business or operating requirements, the financial department shall first get know of its purpose and assess the necessity and rationality of the endorsement and guarantee.

### 2. Credit and risk assessment on endorsement/guarantee

- (1) For first time endorsement/guarantee, the endorsement company shall submit the company's data such as the approval letter of the change registration and the change registration form, the profit business registration certificate and the copy of the ID card of the person in charge, as well as the necessary financial data to the Company to apply for the endorsement/guarantee in writing.

After accepting the application by the Company, the financial department shall investigate, evaluate and issue reports as to the purpose of the business,

financial status and endorsement/guarantee purpose of the guaranteed object by.

(2) If it is a continuing endorsement/guarantee, in principle, the credit shall be done once a year. If it is a major case, depending on the actual needs, the investigation of credit shall be done once every six months.

3. Acquisition of collateral and the appraisal value of collateral

The Company shall request the guaranteed entity to provide the promissory notes and the mortgage of personal property or real estate property as guarantee and shall, in advance, carry out the assessment of the personal property or real estate property value of the proposed mortgage.

For the above creditor rights security, if the debtor takes the individual or company with considerable resources and credit in lieu of the provision of collateral as the guarantee, the board of directors shall carry out it by taking into account of the credit report by the financial department.

4. Assessment on the impact towards the Company's operating risk, financial position and shareholders' equity

(1) After the investigation and evaluation of credit information, if the assessment result of credit for the guaranteed entity is not good, for whom the Company do not intend to make endorsement/guarantee, the financial department shall reply the guaranteed entity the refuse reason after approval as soon as possible.

(2) For the case with good investigation result of credit and with legitimate purpose, the financial department shall fill in the letter of credit and review the report, assess the reason, the use, the purpose, the amount, the benefit, the value of the collateral, the credit and the operation condition, and assess the impact on the Company's operating risk, financial position and shareholders' equity, and deal with the case after submitting these reports to the chairman for approval according to Article 9, and then to the board of directors for confirmation.

(3) If the Company provide endorsement and /or guarantee for business and operation needs, the financial department shall submit a review report to assess the impact on the Company's operating risk, financial position and shareholders' equity to the Chairperson of the board of directors for approval and proceeding in accordance with Article 9. The approved endorsement and /or guarantee shall be reported to the most recent board of directors' meeting for a complement ratification.

Article 8 The usage and custody of a chop

The Company shall maintain a chop as the dedicated chop for endorsements /guarantees. The chop shall be kept in the custody of a designated person approved

by the Board of Directors and may be used to seal or issue negotiable instruments only in prescribed procedures.

In the case of endorsement/guarantee for a foreign company, the letter of guarantee issued by the company shall be signed by the person who is authorized by the board of directors.

Article 9 Hierarchy of decision-making authority and delegation thereof

1. When the Company makes any endorsement and/or guarantee, the financial department shall carefully assess it whether be consistent with the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" formulated by FSC and the provisions of the Procedures. A pre-determined limit together with the assessment result of Article 7 may be delegated to the Chairperson by the Board of Directors to facilitate execution according to Article 9 and such endorsement /guarantee shall be reported to the most coming Board of Directors' Meeting for ratification. The limit shall not exceed the amount that set forth in Article 5 of endorsement/ guarantee provided by the Company.

Before making any endorsement/guarantee pursuant to a subsidiary in which the Company holds, directly or indirectly, 90% or more of the voting shares shall submit the proposed endorsement/guarantee to the Company's Board of Directors for a resolution according to paragraph 2 of Article 3; provided that this restriction shall not apply to endorsements/guarantees made between companies in which the Company holds, directly or indirectly, 100% of the voting shares.

When the Company makes endorsements and/or guarantees for the companies, it shall take into full consideration each Independent Director's opinions; Independent Directors' opinions specifically expressing assent or dissent and their reasons for dissent shall be included in the minutes of the Board meeting.

2. In case the above limits have to be exceeded to accommodate business needs, a resolution of the Board of Directors should be obtained and over half of all the directors should jointly endorse the potential loss that may be brought about by the excess of limits. The Board of Directors should also revise the Procedures and has it ratified at the Shareholders' Meeting. If the revised Procedures are not ratified at the Shareholders' Meeting, the Board of Directors should furnish a plan containing a timetable to withdraw the excess portion.

When it makes endorsements / guarantees for others, it shall take into full consideration the opinions of each independent director; independent directors' opinions specifically expressing assent or dissent and the reasons for dissent shall be included in the minutes of the Board of Directors' meeting.

Article 10 Procedures for managing endorsement or guarantee by subsidiaries

1. Where the Company's Subsidiary intends to make endorsements/guarantees for others, it shall formulate its own operational procedures for endorsements/guarantees in compliance with the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" formulated by FSC and shall comply with its procedures when making endorsements/guarantee.
2. When making endorsements/guarantees for others is contemplated by the Subsidiary of the Company, the Subsidiary shall provide related information to the Company and take into account of the relevant personnel before carrying out the endorsements/guarantees procedures.
3. After the endorsements/guarantees are made by the subsidiary, the subsidiary shall regularly report the follow-up situation of the amount of endorsements/guarantees to the Company.

Section 11 Information Disclosure

1. The company shall announce and report the previous month's balances of endorsements/guarantees of the Company and its subsidiaries by the 10th day of each month.
2. The company whose endorsements/guarantees reach one of the following levels shall announce and report such event within two days from its occurrence:
  - (1) The aggregate balance of endorsements/guarantees to others by the Company and its subsidiaries reaches 50 percent or more of the company's net worth as stated in its latest financial statement.
  - (2) The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches 20 percent or more of the Company's net worth as stated in its latest financial statement.
  - (3) The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches NT\$10 million or more and the aggregate amount of all endorsements/guarantees for, long-term investment in, and balance of loans to, such enterprise reaches 30% or more of Company's net worth as stated in its latest financial statement.
  - (4) The amount of new endorsements or guarantees made by the Company or its subsidiaries reaches NT\$30 million or more, and reaches 5 percent or more of the Company's net worth as stated in its latest financial statement.If there is any reporting and announcement required for the Company's subsidiary which is not a Taiwan public company, the Company will follow the requirement on behalf of its subsidiary.
3. The Accounting Unit shall assess and recognize, if any, contingent losses



brought about by the endorsement/guarantee, to adequately disclose information in the financial statements, and to provide external auditors with necessary information for conducting due auditing.

#### Article 12 Penalties

If the Company managers and persons-in-charge violate the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" formulated by FSC or the Procedures, the audit personnel or the authority director shall promptly report the violation to the general manager or the board of directors, who shall, as the case may be, give appropriate punishment to the person concerned.

#### Article 13 Audit

Internal auditors shall perform auditing on the Procedures and the implementation of the Procedures every quarter and produce written auditing reports. Should there be any violation found, a written report is needed to notify each supervisor.

#### Article 14 Miscellaneous

1. The subsidiaries and parent companies referred in the procedures, shall be defined in accordance with the guidelines for Regulations Governing the Preparation of Financial Reports by Securities Issuers.
2. The net value referred in the procedures, shall refer to the equity in the balance sheet attributable to the owners of the parent company as stipulated in the guidelines for preparation of the financial statements of the issuer of securities.
3. The announcement referred in the procedures, refers to the announcement reported to the website of the information designated by the FSC.
4. "Date of occurrence" in the Procedures means the date of contract signing, date of payment, dates of boards of directors resolutions, or other date that can confirm the counterparty and monetary amount of the transaction, whichever date is earlier.
5. Where as a result of changes of condition the entity for which an endorsement/guarantee is made no longer meets the requirements of "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies", or the amount of endorsement/guarantee exceeds the limit, the company shall adopt rectification plans and submit the rectification plans to all the supervisors, and shall complete the rectification according to the timeframe set out in the plan.
6. The Company shall not make endorsements or guarantees to the Subsidiary's net worth below 50% of issued capital.

In the case of a Subsidiary with shares having no par value or a par value other than NT\$10, for the paid-in capital in the aforementioned calculation, the sum of the share capital plus paid-in capital in excess of par shall be substituted.

Article 15 Implementation and amendment

The Procedures shall be submitted to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to the Supervisors and report to the shareholders meeting for discussion, and the same to amendment.

When the procedures are submitted to the Board of Directors, the opinion of each independent director shall be considered fully, and the approvals or objects and reasons for objects shall be recorded in the minutes of the Board Meeting.

After Audit Committee has been established in accordance with laws, the provisions regarding supervisors set out in Paragraph 3 of Article 14-4 of SEA, shall apply mutatis mutandis to the audit committee, the provisions regarding independent directors members set out in Paragraph 4 of Article 14-4 of SEA shall apply mutatis mutandis to the audit committee and it shall perform relevant responsibilities and authorities according to Article 14-5 of SEA and provisions for supervisors of the Procedures are applicable to the Audit Committee.

Article 16 Other important matters

In case of matters that are not specified in the procedures or the suitability is in doubt, they shall be handled in accordance with the relevant laws and regulations, for things that are not stipulated in the laws and regulations, they should be carried out according to the relevant provisions of the Company or decided by the board of directors by resolutions.

**Phison Electronics Corporation**  
**Current Shareholding of Directors and Supervisors**

- The statutory shareholding of directors and supervisors of the Company are as follows:  
Types and total number of shares issued by the Company: 197,073,993 common shares.  
Statutory minimum number of shares held by all directors is 11,824,439 shares.  
Statutory minimum number of shares held by all supervisors is 1,182,443 shares.
- As of April 14, 2019, the book closure date of the general shareholders' meeting, the number of shares held by all directors and supervisors:

Record date: April 14, 2019

Position	Name	Current shareholding	Representative
Chairperson	Khein Seng Pua	4,557,972 shares	
Director	Toshiba Memory Corp.	19,821,112 shares	Hiroto Nakai
Director	Cheek Kong Aw Yong	3,355,745 shares	
Director	Tzung Horng Kuang	1,408,736 shares	
Director	Chih Jen Hsu	1,080,185 shares	
Independent Director	Shu Fen Wang	0 share	
Independent Director	Chen Wei Wang	0 share	
Number of shares actually held by all directors		30,223,750 shares	
Shareholding ratio of total issued shares (%)		15.34	
Supervisor	Yeong Jiunn Yang	4,549,114 shares	
Supervisor	Huei Ming Wang	171,750 shares	
Supervisor	Chiun Hsiou Chen	0 share	
Number of shares actually held by all supervisors		4,720,864 shares	
Shareholding ratio of total issued shares (%)		2.40	

## Appendix 5

### The effect of dividend distributions for the current fiscal year on the Company's operating performance, earnings per share, and return on equity

Unit: In Thousands of New Taiwan Dollars  
(Excluding earnings per share and cash dividend of New Taiwan Dollars)

Item	Year	2019 (Estimated)
Paid-in capital at beginning of year		1,970,740
Current year	Cash dividends per share [Note 1]	NT\$13
Distribution of shares and cash	Share distribution per share when capitalizing capital reserve	-
Changes in Operating Performance	Operating profit	[Note 2]
	Operating profit increase (decrease) ratio over the same period last year	
	Net income after tax	
	Post-tax net profit increase (decrease) ratio over the same period last year	
	Earnings Per Share	
	Earnings per share increase (decrease) ratio over the same period last year	
	average annual return on investment (annual average PE ratio)	
Pro forma earnings per share and P/E ratio	If capital increases by retained earnings, cash dividend distribution will be replaced instead.	Pro forma earnings per share
	If capital reserves is not used for capital increase	Pro forma average annual return on investment
	If capital reserves is not used for capital increase	Pro forma earnings per share
	If capital reserves is not used for capital increase	Pro forma average annual return on investment
	If capital reserves is not used for capital increase and capital increase by retained earnings, cash dividend distribution will be replaced instead.	Pro forma earnings per share
	If capital reserves is not used for capital increase and capital increase by retained earnings, cash dividend distribution will be replaced instead.	Pro forma average annual return on investment

[Note 1] If there is change in the Company's number of outstanding shares on the ex-dividend record date, the Chairman is authorized to recalculate the cash dividend payout ratio.

[Note 2] The Company did not disclose financial forecasts for the year 2019, so it is not necessary to disclose the estimated operating performance, earnings per share, and Pro Forma information for the year 2019.

## Additional information

Proposal raised by shareholders in this general shareholders' meeting:

Explanation:

1. According to Article 172-1 of the Company Act, a shareholder who holds more than 1 percent of the total number of issued shares may raise a proposal in writing, provided that one shareholder is limited to one proposal. Each proposal shall not be longer than 300 Chinese characters. Otherwise, the proposal will be rejected.
2. The Company set the period from April 3 to April 15, 2019 for acceptance of shareholder proposals and this information has been announced publicly at MOPS based on the regulations.
3. The Company did not receive any proposal from shareholders.