

STOCK SYMBOL : 1340



2019 ANNUAL GENERAL MEETING HANDBOOK

Date and time: 9 am, Monday, June 10, 2019

Location: No. 1, Sec. 3, Zhongxiao E. Rd., Taipei City (GIS Taipei Tech Convention Center)

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Victory New Materials Limited Company
Meeting Agenda for 2019 Annual Shareholders' Meeting

Time: June 10, 2019 (Monday) 9 a.m.

Location: No. 1, Sec. 3, Zhongxiao E. Rd., Daan Dist., Taipei City (GIS TAIPEI TECH Convention Center)

I. Call the meeting to order

II. Chairperson remarks

III. Reports

1. 2018 Business Report
2. 2018 Audit Committee's Review Report
3. 2018 Report for Distribution of the Remuneration for Directors and Employees
4. Amendment to Rules of Procedure for Board of Directors Meetings
5. Proposals from the Shareholders

IV. Recognitions

1. Adoption of 2018 Business Report and Financial Statement.
2. Adoption of 2018 Distribution of Profit

V. Discussions

1. Amendment to Articles of Incorporation
2. Issuance of New Share through Capitalization of Earnings
3. Amendment to "Procedures for Governing the Acquisition and Disposal of Assets"
4. Amendment to "Procedures for Governing Loaning of Funds to Others"
5. Amendment to "Procedures for Making of Endorsements/Guarantees"
6. Amendment to "Rules of Procedure for Shareholders Meetings"

VI. Elections

1. Re-election of Directors

VII. Other Proposals

1. Proposal of Release the Prohibition on Directors from Participation in Competitive Business

VIII. Motions

IX. Adjournment

Reports

Case 1 (proposed by board of directors)

Cause: 2018 Business Report.

Explanations: Please refer to p. 7 (Attachment 1) in the handbook for 2018 Business Report.

Case 2 (proposed by board of directors)

Cause: 2018 Audit Committee's Review Report

Explanations: Please refer to page 9 of the handbook (Attachment 2) for Audit Committee's Review Report of 2018 Financial Statements.

Case 3 (proposed by board of directors)

Cause: 2018 Report for Distribution of the Remuneration for Directors and Employees

Explanations: The company proposed not to distribute the remuneration for directors and employees in 2018.

Case 4 (proposed by board of directors)

Cause: Amendment to Rules of Procedure for Board of Directors Meetings

Explanations: Please refer to page 43 of the handbook (Attachment 10) for the comparison table of "Rules of Procedure for Board of Directors Meetings" before and after revision.

Case 5 (proposed by a shareholder)

Proposals from the Shareholders

Case 1 of the Proposals from the Shareholders

Shareholder who Proposed: Chu Chen, Yi-Hui

Date of the Proposal: April 15, 2019

Content of the Proposal: Hope that the company ratified the execution of Treasury Stocks in order to enhance the value of the company.

Reviewed Date of the Board of Directors: April 29, 2019

Reason for not been listed into the proposals: According to Article 28-2 of Securities and Exchange Act, the action of repurchasing treasury stocks belongs to the duties of board of directors. There is no need to propose and discuss in the shareholders' meeting.

Recognitions

Case 1 (proposed by board of directors)

Cause: Adoption of 2018 Business Report and Financial Statement.

Explanations: 2018 Financial Report of the company has been prepared and audit by entrusting the accountants, Cho, Ming-Hsin and Wu, Ke-Chang, from Deloitte & Touche, who will prepare the Audit Report. The company also prepared the business report. Please refer to page 7 to 18 of the handbook (Attachment 1 to Attachment 3) for 2018 Business Report, Accountant's Audit Report and Financial Statements.

Case 2 (proposed by board of directors)

Cause: Adoption of Distribution of 2018 Profits.

Explanations: 1. Please refer to page 19 of the handbook (Attachment 4) for 2018 Distribution of Profits.

2. 2018 Net income is NT\$ 134,698,718. According to the provisions in the Articles of Incorporation, 10% legal surplus reserve NT\$ 13,469,872 shall be appropriated first. The distributable profit of the year, NT\$ 121,228,846 plus the cumulative unallocated profit from previous years, NT\$ 2,197,889,408 with special reserve NT\$ 135,252,280 being appropriated. In total, the distributable profit is NT\$ 2,183,865,974. According to the provisions in Articles of Incorporation, the proposal for the distribution is as follows:

Cash bonus for shareholders, NT\$ 0.2 per share and in total of NT\$ 27,804,155.

Stock dividend for shareholders, NT\$ 1 per share and in total of NT\$ 139,020,780.

3. Upon the approval of the Annual Meeting of Shareholders, it is proposed that the Board of Directors be authorized to resolve the ex-dividend date, ex-rights date, and other relevant issues for the distribution of profits in accordance with relevant regulations.
4. In the event that, the proposed profit distribution is affected by the change in stock capital, it is proposed that the Board of Directors be authorized to adjust the cash and stock to be distributed to each share based on the number of actual shares outstanding on the record date for distribution.

Discussions

Case 1 (proposed by board of directors)

Cause: Amendment to Articles of Incorporation. Please proceed to discuss.

Explanations: The company proposed to revise parts of the articles in Articles of Incorporation. Comparison table of the articles before and after the revision is attached as p. 20-24 (Attachment 5).

Case 2 (proposed by board of directors)

Cause: Adoption of the proposal for a new share issue through capitalization of earnings.

Explanations: 1. To comply with the business development of the company, the company proposed to allocate shareholders' bonus NT\$ 139,020,780 from the unallocated profits to issue new stocks, in total of 13,902,078 common shares, with denomination of NT\$ 10 on each share.

2. Capital increase is based on the shareholders and shareholdings recorded on the shareholders list at record date. For every 1000 shares, 100 shares are distributed along with it. For the share not enough to make as 1 share, the shareholder can register for making 1 share by combining themselves within 5 days after book closure date. If the combination is not done or it is still not enough to make as 1 share, then cash will be paid based on the denomination (rounded to yuan). The chairman has been given the authorization to purchase their shares from specific person according to the denomination.

3. The shareholder rights and obligations of the new shares are the same as those of existing shares.

4. In the event that, the proposed profit distribution is affected by the change in stock capital, it is proposed that the Board of Directors be authorized to adjust the cash and stock to be distributed to each share based on the number of actual shares outstanding on the record date for distribution.

5. After the approval of the 2019 Annual Meeting of Shareholders and the competent authority, it is proposed that the Board of Directors be authorized to determine the record date for the distribution and other relevant matters, which will be announced additionally when the time comes.

6. If the matters determined by the case required modification due to the influence of subjective and objective factors or the approval from competent authority, it is proposed that the Board of Directors be authorized to handle them.

Case 3 (proposed by board of directors)

Cause: Amendment to "Procedures for Governing the Acquisition and Disposal of Assets (including Procedures for Financial Derivatives Transactions)". Please proceed to discuss.

Explanations: To comply with the amendment of relevant regulations, the company proposed to revise "Procedures for Governing the Acquisition and Disposal of Assets (including Procedures for Financial Derivatives Transactions)". Comparison table of the articles before and after the revision is attached as p. 25-37 (Attachment 6) in the handbook.

Case 4 (proposed by board of directors)

Cause: Amendment to "Procedures for Governing Loaning of Funds to Others". Please proceed to discuss.

Explanations: To comply with letter Jin-Guan-Zheng-Shen-Zi No. 1080304826 for the amendment of "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" and the operational requirements of the company, the company proposed to revise "Procedures for Governing Loaning of Funds to Others". Comparison table of the articles before and after the revision is attached as p. 38-39 (Attachment 7) in the handbook.

Case 5 (proposed by board of directors)

Cause: Amendment to "Procedures for Making of Endorsements/Guarantees". Please proceed to discuss.

Explanations: To comply with letter Jin-Guan-Zheng-Shen-Zi No. 1080304826 for the amendment of "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" and the operational requirements of the company, the company proposed to revise "Procedures for Making of Endorsements/Guarantees". Comparison table of the articles before and after the revision is attached as p. 40 (Attachment 8) in the handbook.

Case 6 (proposed by board of directors)

Cause: Amendment to "Rules of Procedure for Shareholders Meetings". Please proceed to discuss.

Explanations: To comply with the requirements from the Stock Exchange and the regulations, the company proposed to revise “Rules of Procedure for Shareholders Meetings”. Comparison table of the articles before and after the revision is attached as p. 41-42 (Attachment 9) in the handbook.

Elections

Case 1 (proposed by board of directors)

Cause: Re-election of 4th Board of Directors and Independent Directors. Please proceed to elect.

Explanations: 1. To comply with business demands, the company proposed to re-elect 4 directors and 3 independent directors.

2. New directors will take office after the annual shareholders meeting is finished. Their term of office will be three years from June 10, 2019 to June 9, 2022. They shall be eligible for re-election.

3. The company adopts candidate nomination system for the election of directors. The list of candidates for directors and independent directors has been ratified by board of directors. Relevant information is stated here as follows:

Title of the Candidates	Name of the Candidates	Education	Experience	Shareholdings
Director	Chuang, Kuo-Ching	Complete the President Class of Modern Enterprise Capital Operation in School of Management, Xiamen University	Director of Jinjiang Zhonghe elementary school Vice President of Jinjiang Qingyang Chambers of Commerce Managing director of Jinjiang Shoe-making Association Managing director of Jinjiang Qingyang Overseas Community Association	0
Director	Chuang, Hui-Huang	Complete President Class in Xiamen University	Vice General Manager of Jinjiang Chandra Co. Ltd	0
Director	Chen, Tu-Yen	Master's degree in Accounting in Australia Macquarie University Registered Accountant of Australia CPA, Registered Financial analyst of CFA and Passed the test for Financial Risk Manager FRM	Chief Financial Officer of Jinjiang Chandra Co. Ltd	0
Director	Hsu, Jui-Hsia	Graduated from Department of Accounting in Ming Chuan University	Assisting Manager of Deloitte & Touche CPAs Firm	0
Independent Director	Wang, Liang-En	Graduated from Department of Chemical Engineering in Fuzhou University	Head of Department of Chemical Engineering in Fuzhou University (Dean) Head of Environmental Science and Engineering Technology Development Center in Fuzhou University Managing Director of Chinese Environmental	0

			<p>Science Academy</p> <p>Vice President of Eco-Friendly Industry Association in Fujian</p> <p>Managing Director for general affairs of Fujian Environmental Science Academy</p> <p>Vice President for general affairs of Old Professors Association of Fujian University and Old Technology Worker Association</p> <p>Managing Director for general affairs of Chinese Plastic Process Industry Association</p>	
Independent Director	Lin, Chen-Hsiang	<p>Bachelor's degree from Department of Accounting in Feng Chia University</p> <p>Master's degree from Accounting group in Department of Accounting and Information Technology in Chung Cheng University</p>	<p>Financial and Accounting Manager in QST International Corp.</p> <p>Assisting Manager in Ernst & Young CPAs</p>	0
Independent Director	Lin, Shih-Hsun	<p>Master of Law in National Chung Cheng University</p> <p>Graduated from Department of Law in National Chung Hsing University</p>	<p>Pass the Attorney of higher examination in ROC</p> <p>Pass Legal Affairs Section of the higher examination for public servants</p> <p>Proxy for ROC Patent</p> <p>Adjunct lecturer of Law credits program in Culture University</p> <p>Jianyuan Assisting Manager for legal affairs in Electronic Toll Collection Ltd. Company</p> <p>Senior Lawyer in Jianye Law Firm</p>	0

4. Please proceed to elect.

Other Proposals

Case 1 (proposed by board of directors)
Cause: Proposal of Release the Prohibition on Directors from Participation in Competitive Business.
Please proceed to discuss.

Explanations: 1. According to Article 209, paragraph 1 of the Company Act, a director who does anything for himself or on behalf of another person that is within the scope of the company's business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval.

2. When the directors of the company performing actions of making investments in other companies which have the same or similar business scope as the company, this shall be submitted and ratified by the shareholders meeting. When the aforementioned matters occurred on the new directors of the company, the company ratified to release the prohibition on directors from participation in competitive business. The lists are as follows:

Proposal for items of releasing the prohibition from participation in competitive business		
Identity of the Candidates	Name	Current positions in other companies
Chairman	Chuang, Kuo-Ching	Executive Director of Jinjiang Chandra Shoes Industry Co. Ltd Director and General Manager of Super Light Shoe Soles Company Limited Director of Chandra Shoes Industry Co. Ltd Director of Chang Xing Investment Limited (BVI) and Director of Cheng Yue Investment Limited (BVI)
Director	Chuang, Hui-Huang	Vice General Manager of Jinjiang Chandra Co. Ltd Supervisor of Jinjiang Chandra Shoes Industry Co. Ltd Director of Bai Cheng Investment Limited(BVI) Director of Victory New Materials Limited Company

3. Please proceed to discuss.

Motions

Adjournment

【Annex 1】

Victory New Materials Limited Company
Reports to Shareholders

一、 Operating performance of 2018

1. The operating performance of the company has been rising gradually each year since the establishment of the company. The company has 13 single phase dual color injection molding machines (one for development), 5 single phase single-color injection molding machines, 10 two-shot molding machines, 3 pelletizers, 9 production lines for rubber sole and 6 production lines for lamination by the end of 2018. Consolidated operating revenue is NT\$2072 million, net income is NT\$135 million, and earning per share is NT\$0.97 in 2018. Comparing to 2017, there is a 39% decrease, 84% decrease and 84% decrease, respectively.

In 2018, due to China–United States trade war, the market competition was fierce and revenues decreased by nearly 40% compared with 2017. In addition, well-known sports brands in Mainland China have been greatly reduced in price due to market influence. Foreign trade customers have been affected by China–United States trade war and the order price has been lowered. As a result, the overall profit margin of the company's products has fallen sharply, net income of 2018 has decreased by 80% comparing to 2017.

2. The sales of sole and EVO particles in the last two years:

Product (Unit: pairs)	2017	2018
Rubber soles	8,614	354,829
Traditional single color soles	20,850,355	14,938,717
One phase dual color dual density injection soles	9,491,578	6,192,941
EVO particles (Unit: Thousand grams)	5,920,000	3,700,000

3. The sales amount and operating revenue percentage of sole and EVO particles in the last two years:

Product (Unit: NT\$ 1,000)	2017	%	2018	%
Rubber soles	282	0.01%	11,755	0.57%
Traditional single color soles	1,827,378	53.65%	1,233,056	59.51%
One phase dual color dual density injection soles	951,582	27.93%	487,975	23.55%
EVO colloidal particles	627,263	18.41%	339,203	16.37%
Total	3,302,412	100.00%	2,071,989	100.00%

4. Business performance analysis-accounting audit

Item	Year	2017	2018	Differences	
				Amount	%
Operating revenue		3,406,504	2,071,989	(1,334,515)	(39.18%)
Operating cost		2,235,052	1,722,629	(512,423)	(22.93%)
Gross profit		1,171,452	349,360	(822,092)	(70.18%)
Operating expense		195,516	222,202	26,686	13.65%
Operating profit		975,936	127,158	(848,778)	(86.97%)
Nonoperating Revenue		43,746	51,283	7,537	17.23%
Nonoperating revenue		(17,909)	(5,633)	12,276	(68.55%)
Pre-tax income		1,001,773	172,808	(828,965)	(82.75%)
Income tax expense		166,606	38,109	(128,497)	(77.13%)
Consolidated net profit		835,167	134,699	(700,468)	(83.87%)

The operating revenue has sharply decreased 39% in 2018 to NT\$2072 million comparing to 2017 with NT\$3407 million, due to China–United States trade war, the market competition was fierce, and customer orders decline. The gross profit has decreased 70% in 2018 to NT\$349 million comparing to 2017 with NT\$1171 million, mainly attributed to the well-known sports brands such as the mainland region, which were greatly affected by the market, and the price of foreign trade customers was also affected by China–United States trade war. The overall profit margin of the company's products fell sharply. Its gross profit has decreased from 34.4% in 2017 to 16.9% in 2018. The operating expense has increased about 13.7% in 2018 to NT\$222 million comparing to 2017 with NT\$196 million. This is mainly due to larger investment on the development of application in the sole made by graphene. Hence, the pre-tax income has decreased 83% to NT\$173 million in 2018 comparing to 2017 with NT\$1002 million. The net profit belongs to the shareholders of the parent company has decreased 84% to NT\$135 million comparing to 2017 with NT\$835 million.

二、 Operation plan for 2019

The company has made a prediction that the market of sports shoes will continue to experience turmoil in the face of China–United States trade war in 2019. The company has taken holds in stabilizing traditional single-color sole and promote one phase dual color dual density products furthermore. Our company will enhance the cooperation with international brands while continuing to build strong cooperation with well-known domestic sports brands to achieve the spreading of company products in top domestic and foreign sports brand. The future business directions are as follows:

1. Strengthen research and development and undergo material upgrade to enhance quality of products and expand market differentiation.
2. Refine dual color dual density production process continuously to enhance production efficiency and reduce production cost.
3. Arrange building magnetic hob manufacture center and expanding production capacity to strengthen leading position in the market.
4. Our company will continue to cooperate will international factories closely to strongly promote compostable eco-friendly materials and advance the testing and the adoption schedule of the material.

三、 The effect from external competitive environment, regulation environment and overall business environment

The scale of sports shoe sole market in China is very large, and its growth potential develops fast. However, the entry barriers for shoes industry is relatively low. There are relatively more business corporations of all kinds in shoes industry currently. So, the competition among them are more severe. In recent years, our company has been focused on the development of materials and the innovation of production process to boost competitiveness. As a result, new type of materials such as EVO series material, rubber plastic foam material and compostable EVA material with different functions has been developed. Also, we have developed one phase dual color dual density injection soles ourselves, which reduce man power required by the production of traditional sole greatly and become the leader of the field. The sales of the company have grown significantly in recent years through product differentiation to avoid homogeneity competition. Soles and colloidal particles produced by our company have all been used by well-known domestic factories in China. They require high-level technology, and their adding values are high. With continuous development, innovation and process refining, they have high competitiveness in product development and production. The products have been adopted by major international factories in succession over the past few years. The company will continue to get hold of the market growth opportunity to increase the spreading of current brands, open up new international brands to create larger values for the shareholders.

【Annex 2】

Deloitte

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Audit Report for Internal Control System

Attached in the following is about the matter that our accountants have made audit on Victory New Materials Ltd. Company and its subsidiaries to assess its internal control system related to external financial report and the protection of assets safety where the statement regarding effective design and operation is made on Jan. 1, 2017. Maintaining effective internal control system and assessing its effectiveness are the responsibilities of the company's management. The responsibility of our accountants is to represent opinions for the effectiveness of the company's internal control system and the internal control system statement as listed company based on the audit results.

Our accountant has planned and performed the audit work in accordance with "Regulations Governing Establishment of Internal Control Systems by Public Companies" and general recognized audit guidelines to reasonably believe whether the aforementioned internal control system of the company has maintained effectiveness on all important matters. The audit work includes understanding the internal control system of the company, assessing the company's management, assessing the effectiveness of whole internal control system, testing and assessing the effectiveness of the design and operation of internal control system and other audit procedures our accountant deemed necessary. Our accountants believe that the audit work can provide reasonable basis for the represented opinions.

Any internal control system has its own congenital limitations. Hence, the aforementioned internal control system of Victory New Materials Ltd. Company and its subsidiaries could still not capable of preventing and detecting the errors or frauds of occurred operations. In addition, the level of compliance to the internal control system may reduce due to the changes in future environment. Thus, the effectiveness of the internal control system in this period does not represent that effectiveness in the future.

The effectiveness on all major matters can be maintained by the design and operation of internal control system of Victory New Materials Ltd. Company and its subsidiaries related to their external financial reports and protection of assets safety from Jan. 1, 2017 to Dec. 31, 2017 according to the opinions of our accountants and in accordance with the judgement from the judgement items for the effectiveness of internal control system in "Regulations Governing Establishment of Internal Control Systems by Public Companies". Hence, it is appropriate on major important matters for the statement to be made by Victory New Materials Ltd. Company and its subsidiaries on Mar. 22, 2018 expressing that they have been assessed for the effectiveness of the design and operation of internal control system related to external financial reports and protection of assets safety.

Deloitte & Touche

Accountant Yeh, Shu-Chuan

Accountant Wu, Ke-Chang

Mar. 22, 2018

【Annex 3】

Victory New Materials Limited Company and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Victory New Materials Limited Company

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission 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 Matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. This matter was 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 this matter.

Cash and Cash Equivalents

Description of the key audit matter is as follows:

As of December 31, 2018, the Group's cash and cash equivalents, and time deposits with original maturities of more than three months (recognized as financial assets at amortized cost - current) amounted to NT\$4,731,498 thousand, which represented 70% of the Group's total assets and was significant. Refer to Notes 4, 6 and 7 to the accompanying consolidated financial statements for the related accounting policies and detailed disclosures.

There are inherent risks associated with cash and cash equivalents as well as time deposits with original maturities of more than three months. Therefore, cash and cash equivalents, and time deposits with original maturities of more than three months were identified as a key audit matter for the year of 2018.

Our main audit procedures performed in respect of the above key audit matter included obtaining a complete understanding of the controls over cash and cash equivalents, and time deposits with original maturities of more than three months and performing tests thereon. We also selected samples of bank receipts and withdrawals from the ledger to verify the legitimacy of bank receipts and examined the appropriateness of voucher's approval. In addition, we obtained details of the Group's bank deposits and verified their balances to the corresponding bank statements. We issued bank confirmations to all correspondent banks and verified the reconciliation of bank deposit balances with responses of bank confirmations. Besides that, we confirmed that the disclosures were properly made in the consolidated financial statements for any restricted bank deposits stated.

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 IFRS, IAS, IFRIC, and 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 a matter that was of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and is therefore the key audit matter. We describe this matter 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 Ming-Hsing Cho and Ker-Chang Wu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 22, 2019

Notice to Readers

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

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

VICTORY NEW MATERIALS LIMITED COMPANY AND SUBSIDIARIES

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

	2018		2017	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	\$ 3,221,091	48	\$ 3,056,733	44
Financial assets at amortized cost - current (Notes 7 and 8)	1,510,407	22	-	-
Debt investments with no active market - current (Note 9)	-	-	1,533,557	22
Trade receivables (Notes 10 and 21)	426,332	7	1,110,925	16
Other receivables (Note 10)	16,935	-	22,171	-
Inventories (Note 11)	14,885	-	32,589	1
Prepayment for leases (Note 13)	13,258	-	8,626	-
Prepayments (Note 16)	10,291	-	10,821	-
Non-current assets held for sale (Note 21)	5,143	-	-	-
Total current assets	5,218,342	77	5,775,422	83
NON-CURRENT ASSETS				
Property, plant, and equipment (Note 14)	914,812	13	676,021	9
Deferred tax assets (Note 23)	2,506	-	-	-
Refundable deposits (Notes 15 and 16)	43,080	1	47,166	1
Long-term prepayments for leases (Note 15)	609,451	9	499,263	7
Total non-current assets	1,569,849	23	1,222,450	17
TOTAL	\$ 6,788,191	100	\$ 6,997,872	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade payables (Note 17)	\$ 97,330	2	\$ 200,456	3
Other payables (Note 18)	128,056	2	148,750	2
Current tax liabilities (Note 23)	7,642	-	49,707	1
Total current liabilities	233,028	4	398,913	6
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Note 23)	5,235	-	10,563	-
Total liabilities	238,263	4	409,476	6
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital	1,390,208	21	1,263,825	18
Capital surplus	2,540,814	37	2,540,814	36
Retained earnings	3,072,309	45	3,101,908	44
Other equity	(453,403)	(7)	(318,151)	(4)
Total equity attributable to owners of the Company	6,549,928	96	6,588,396	94
Total equity	6,549,928	96	6,588,396	94
TOTAL	\$ 6,788,191	100	\$ 6,997,872	100

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

VICTORY NEW MATERIALS LIMITED COMPANY 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 (Note 21)	\$ 2,071,989	100	\$ 3,406,504	100
OPERATING COSTS (Notes 11 and 22)	<u>1,722,629</u>	<u>83</u>	<u>2,235,052</u>	<u>65</u>
GROSS PROFIT	<u>349,360</u>	<u>17</u>	<u>1,171,452</u>	<u>35</u>
OPERATING EXPENSES (Notes 22 and 28)				
Selling and marketing expenses	23,309	1	29,417	1
General and administration expenses	54,533	3	50,535	2
Research and development expenses	<u>144,360</u>	<u>7</u>	<u>115,564</u>	<u>3</u>
Total operating expenses	<u>222,202</u>	<u>11</u>	<u>195,516</u>	<u>6</u>
PROFIT FROM OPERATIONS	<u>127,158</u>	<u>6</u>	<u>975,936</u>	<u>29</u>
NON-OPERATING INCOME AND EXPENSES (Note 22)				
Other income	51,283	3	43,746	1
Other gains and losses	<u>(5,633)</u>	<u>-</u>	<u>(17,909)</u>	<u>-</u>
Total non-operating income and expenses	<u>45,650</u>	<u>3</u>	<u>25,837</u>	<u>1</u>
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS	172,808	9	1,001,773	30
INCOME TAX EXPENSE (Note 23)	<u>38,109</u>	<u>2</u>	<u>166,606</u>	<u>5</u>
NET PROFIT FOR THE YEAR	<u>134,699</u>	<u>7</u>	<u>835,167</u>	<u>25</u>
OTHER COMPREHENSIVE LOSS				
Items that will not be reclassified subsequently to profit or loss:				
Exchange differences arising on translation to the presentation currency	<u>(135,252)</u>	<u>(7)</u>	<u>(60,517)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ (553)</u>	<u>-</u>	<u>\$ 774,650</u>	<u>23</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	<u>\$ 134,699</u>	<u>6</u>	<u>\$ 835,167</u>	<u>25</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	<u>\$ (553)</u>	<u>-</u>	<u>\$ 774,650</u>	<u>23</u>

(Continued)

VICTORY NEW MATERIALS LIMITED COMPANY 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	%
EARNINGS PER SHARE (Note 24)				
Basic	\$ <u>0.97</u>		\$ <u>6.01</u>	

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

(Concluded)

VICTORY NEW MATERIALS LIMITED COMPANY 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 Owners of the Company					Other Equity	
			Retained Earnings (Note 20)			Exchange Differences on Translating the Financial Statements of Foreign Operations	Total Equity
	Share Capital (Note 20)	Capital Surplus (Note 20)	Legal Reserve	Special Reserve	Unappropriated Earnings		
BALANCE, JANUARY 1, 2017	\$ 1,148,932	\$ 2,540,814	\$ 249,845	\$ -	\$ 2,269,661	\$ (257,634)	\$ 5,951,618
Appropriation of 2016 earnings							
Legal reserve	-	-	88,209	-	(88,209)	-	-
Special reserve	-	-	-	257,634	(257,634)	-	-
Cash dividends distributed by the Company	-	-	-	-	(137,872)	-	(137,872)
Share dividends distributed by the Company	<u>114,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(114,893)</u>	<u>-</u>	<u>-</u>
	<u>114,893</u>	<u>-</u>	<u>88,209</u>	<u>257,634</u>	<u>(598,608)</u>	<u>-</u>	<u>(137,872)</u>
Net profit for the year ended December 31, 2017	-	-	-	-	835,167	-	835,167
Other comprehensive loss for the year ended December 31, 2017, net of income tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(60,517)</u>	<u>(60,517)</u>
Total comprehensive income (loss) for the year ended December 31, 2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>835,167</u>	<u>(60,517)</u>	<u>774,650</u>
BALANCE, DECEMBER 31, 2017	1,263,825	2,540,814	338,054	257,634	2,506,220	(318,151)	6,588,396
Appropriation of 2017 earnings							
Legal reserve	-	-	83,517	-	(83,517)	-	-
Special reserve	-	-	-	60,517	(60,517)	-	-
Cash dividends distributed by the Company	-	-	-	-	(37,915)	-	(37,915)
Share dividends distributed by the Company	<u>126,383</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(126,383)</u>	<u>-</u>	<u>-</u>
	<u>126,383</u>	<u>-</u>	<u>83,517</u>	<u>60,517</u>	<u>(308,332)</u>	<u>-</u>	<u>(37,915)</u>
Net profit for the year ended December 31, 2018	-	-	-	-	134,699	-	134,699
Other comprehensive loss for the year ended December 31, 2018, net of income tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(135,252)</u>	<u>(135,252)</u>
Total comprehensive income (loss) for the year ended December 31, 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>134,699</u>	<u>(135,252)</u>	<u>(553)</u>
BALANCE, DECEMBER 31, 2018	<u>\$ 1,390,208</u>	<u>\$ 2,540,814</u>	<u>\$ 421,571</u>	<u>\$ 318,151</u>	<u>\$ 2,332,587</u>	<u>\$ (453,403)</u>	<u>\$ 6,549,928</u>

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

VICTORY NEW MATERIALS LIMITED COMPANY AND SUBSIDIARIES

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 172,808	\$ 1,001,773
Adjustments for:		
Depreciation expenses	23,332	23,518
Amortization expenses	9,987	5,793
Interest income	(51,283)	(43,746)
Loss on disposal of property, plant, and equipment	-	248
Loss on disposal of non-current assets held for sale	17,038	2,581
Changes in operating assets and liabilities		
Trade receivables	674,987	(82,898)
Other receivables	7,113	(7,121)
Inventories	17,376	(13,598)
Prepayments	316	308,047
Trade payables	(100,991)	(51,925)
Other payables	(35,115)	39,113
Cash generated from operations	735,568	1,181,785
Interest received	49,561	41,736
Income tax paid	(87,739)	(152,553)
Net cash generated from operating activities	<u>697,390</u>	<u>1,070,968</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at amortized cost	(2,901,824)	-
Proceeds from sale of financial assets at amortized cost	2,901,824	-
Purchase of debt investments with no active market	-	(2,863,277)
Proceeds from sale of debt investments with no active market	-	2,695,200
Proceeds from disposal of non-current assets held for sale	-	8,361
Payments for property, plant, and equipment	(288,802)	(270,215)
Increase in refundable deposits	-	(2,135)
Decrease in refundable deposits	-	23
Increase in prepayments for lease	(136,030)	(172,956)
Net cash used in investing activities	<u>(424,832)</u>	<u>(604,999)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to owners of the Company	(35,987)	(130,863)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(72,213)</u>	<u>(22,324)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	164,358	312,782
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>3,056,733</u>	<u>2,743,951</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 3,221,091</u>	<u>\$ 3,056,733</u>

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

VICTORY NEW MATERIALS LIMITED COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Victory New Materials Limited Company (the “Company”) was incorporated in the British Cayman Islands in June 2012. The Company was established after an organizational restructuring for listing on the Taiwan Stock Exchange (TWSE).

The Company’s shares have been listed on the TWSE since January 14, 2014.

The functional currency of the Company is the Renminbi (“RMB”). For greater comparability and consistency of financial reporting, the consolidated financial statements are presented in the New Taiwan dollar (“NTD”) since the Company’s shares are listed on the Taiwan Stock Exchange.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 22, 2019.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRSC (IFRIC), and Interpretations of SIC (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the FSC

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Group’s accounting policies:

1) IFRS 9 “Financial Instruments” and related amendments

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amounts under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Group's financial assets and financial liabilities as of January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 3,056,733	\$ 3,056,733	a)
Time deposits with original maturities of more than three months	Loans and receivables	Amortized cost	1,533,557	1,533,557	
Trade receivables and other receivables	Loans and receivables	Amortized cost	1,133,096	1,133,096	b)
Refundable deposits	Loans and receivables	Amortized cost	47,166	47,166	

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
<u>Amortized cost</u>							
Add: Reclassification from loans and receivables (IAS 39)	\$ -	\$5,770,552	\$ -	\$ 5,770,552	\$ -	\$ -	
	<u>\$ -</u>	<u>\$ 5,770,552</u>	<u>\$ -</u>	<u>\$ 5,770,552</u>	<u>\$ -</u>	<u>\$ -</u>	

- a) Debt investments previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.
- b) Trade receivables and other receivables that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers and supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output).

The first-time adoption of the abovementioned revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the Financial Supervisory Commission would not have significant impact on the Group's assets, liabilities, equity, comprehensive income, and cash flows.

- b. Amendments to the IFRSs endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

- IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Group will elect to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts, including property interest qualified as investment properties, are recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights of land located in China are recognized as prepayments for leases. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

The Group expects to apply the following practical expedients:

- * The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayments for leases	\$ 13,258	\$ (13,258)	\$ -
Prepayments	10,291	(6,976)	3,315
Long-term prepayments for leases	609,451	(609,451)	-
Right-of-use assets	<u>-</u>	<u>716,887</u>	<u>716,887</u>
	<u>\$ 633,000</u>	<u>\$ 87,202</u>	<u>\$ 720,202</u>
Lease liabilities - current	\$ -	\$ 20,771	\$ 20,771
Lease liabilities - non-current	<u>-</u>	<u>66,431</u>	<u>66,431</u>
	<u>\$ -</u>	<u>\$ 87,202</u>	<u>\$ 87,202</u>

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group assessed that the application of other standards and interpretations would not have an impact on the Group's financial position and financial performance.

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the financial instruments which are measured at fair value.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

Refer to Note 13, Tables 5 and 6 for the detailed information of subsidiaries (including the percentages of ownership and main businesses).

e. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the group entities (including subsidiaries in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the NTD, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income. The exchange differences accumulated in equity, which resulted from the translation of the assets and liabilities of the group entities into the presentation currency, are not subsequently reclassified to profit or loss.

f. Inventories

Inventories consist of raw materials, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

g. Property, plant, and equipment

Property, plant, and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss.

Property, plant, and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant, and equipment when completed and ready for their intended use.

Depreciation on property, plant, and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

On derecognition of an item of property, plant, and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

h. Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell or value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

i. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

j. Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement categories

2018

Financial asset is classified as financial assets at amortized cost.

Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables at amortized cost, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- i. Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii. Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Cash equivalents include time deposits with original maturities within three months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2017

Financial asset is classified as loans and receivables.

Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, debt investments with no active market) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within three months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables).

The Group always recognizes lifetime Expected Credit Loss (ECL) for trade receivables, lease receivables and contract assets. For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of such financial assets, that the estimated future cash flows of the investment have been affected.

Financial assets at amortized cost, such as trade receivables, are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience with collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For a financial asset at amortized cost, the amount of the impairment loss recognized is the difference between such an asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset's original effective interest rate.

For a financial asset at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment (at the date on which the impairment is reversed) does not exceed what the amortized cost would have been had the impairment not been recognized.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivables and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Before 2018, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2) Equity instruments

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

3) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method:

b) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

k. Revenue recognition

2018

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

For contracts where the period between the date on which the Group transfers a promised good or service to a customer and the date on which the customer pays for that good or service is one year or less, the Group does not adjust the promised amount of consideration for the effects of a significant financing component.

Revenue from the sale of goods comes from sale of various soles and related shoe materials. Sales is recognized as revenue when the goods are delivered to the customer's specific location and signed because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Sales revenue and trade receivables are recognized concurrently.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowances for sales returns and liabilities for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Revenue from the sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Group;
and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of the materials' ownership.

2) Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis with reference to the principal outstanding and at the applicable effective interest rate.

l. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

m. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

n. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current tax and deferred taxes for the year

Current tax and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current tax and deferred taxes are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimations, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Cash on hand	\$ 864	\$ 1,109
Checking accounts and demand deposits	215,043	499,224
Cash equivalent		
Time deposits	<u>3,005,184</u>	<u>2,556,400</u>
	<u>\$ 3,221,091</u>	<u>\$ 3,056,733</u>

7. FINANCIAL ASSETS AT AMORTIZED COST - CURRENT - 2018

	December 31, 2018
Time deposits with original maturities of more than three months	<u>\$ 1,510,407</u>

The interest rates for time deposits with original maturities of more than three months were ranging from 1.95000% to 3.01188% as at the end of the reporting period. The time deposits were classified as debt investments with no active market under IAS 39. Refer to Note 3 and Note 9 for information relating to their reclassification and comparative information for 2017.

8. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS - 2018

Investments in debt instruments were classified as at amortized cost.

December 31, 2018

	At Amortized Cost
Gross carrying amount	\$ 1,510,407
Less: Allowance for impairment loss	<u>-</u>
Amortized cost	<u>\$ 1,510,407</u>

The credit risk of financial instruments such as bank deposits is measured and monitored by the finance department. The Company selects the trading partners and the performance parties are banks with good credit ratings.

9. DEBT INVESTMENTS WITH NO ACTIVE MARKET - 2017

	December 31, 2017
Time deposits with original maturities of more than three months	<u>\$ 1,533,557</u>

As of December 31, 2017, the market interest rates of the time deposits with original maturities of more than three months were ranging from 1.95%-2.10%.

10. TRADE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31</u>	
	2018	2017
<u>Trade receivables</u>		
At amortized cost		
Gross carrying amount	<u>\$ 426,332</u>	<u>\$ 1,110,925</u>
<u>Other receivables</u>		
Interest receivable	\$ 16,432	\$ 15,050
Others	<u>503</u>	<u>7,121</u>
	<u>\$ 16,935</u>	<u>\$ 22,171</u>

In 2018

The average credit period for sales of goods was 90 to 120 days. The Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Group's provision matrix.

December 31, 2018

	Not Past Due	Less than 60 Days	Total
Expected credit loss rate	0%	0%	
Gross carrying amount	\$ 426,332	\$ -	\$ 426,332
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ 426,332</u>	<u>\$ -</u>	<u>\$ 426,332</u>

In 2017

The Group applied the same credit policy in 2018 and 2017. The Group considers any change in the credit quality of the trade receivables from the original credit date to the balance sheet date. The Group recognized an allowance for impairment loss based on the estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

For some trade receivables balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss because there was no significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

The aging of receivables was as follows:

	December 31, 2017
Up to 60 days	\$ 672,608
61-90 days	334,555
91-120 days	103,713
121-180 days	<u>49</u>
	<u>\$ 1,110,925</u>

The above aging schedule was based on the number of past due days from the invoice date.

The aging of receivables that were past due but not impaired was as follows:

	December 31, 2017
Up to 60 days	\$ <u>49</u>

The above aging schedule was based on the past due days from end of credit term.

The movements of the allowance for doubtful trade receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	\$ 17,052	\$ -	\$ 17,052
Less: Amounts written off during the year as uncollectible	16,510	-	16,510
Foreign exchange translation gains and losses	<u>(542)</u>	<u>-</u>	<u>(542)</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

11. INVENTORIES

	December 31	
	2018	2017
Raw materials	\$ 9,618	\$ 22,770
Work-in-process	2,735	9,120
Finished goods	<u>2,532</u>	<u>699</u>
	<u>\$ 14,885</u>	<u>\$ 32,589</u>

The costs of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 were \$1,722,629 thousand and \$2,235,052 thousand, respectively.

12. NON-CURRENT ASSETS HELD FOR SALE

	Equipment
<u>Carrying amount of non-current assets held for sale</u>	
Cost	\$ 34,859
Accumulated depreciation	(13,007)
Impairment losses	(17,038)
Effect of foreign currency exchange differences	<u>329</u>
Balance at December 31, 2018	<u>\$ 5,143</u>

The equipment disposal of subsidiary Jinjang Chengchang Shoes Industry Co., Ltd. was reclassified to non-current assets held for sale in the fourth quarter of 2018, and its net fair value was the recoverable amount. The recoverable amount was less than the book value, so the impairment losses were recognized in the amount of \$17,038 thousand.

13. SUBSIDIARIES

Investor	Investee	Nature of Activities	Percentage of Ownership (%)	
			December 31	
			2018	2017
Victory New Materials Limited Company	Super Light Shoe Soles Co., Ltd. (Super Light)	Holding company	100.00	100.00
	Century Victory New Materials Co., Ltd. (Century Victory)	Manufactures and sells various soles and related shoe materials	100.00	100.00
Super Light Co., Ltd.	Chengchang Shoes Industry Co., Ltd. (Hong Kong Chengchang)	Holding company	100.00	100.00
Hong Kong Chengchang Co., Ltd.	Jinjang Chengchang Shoes Industry Co., Ltd. (Jinjang Chengchang)	Manufactures and sells various soles and related shoe materials	100.00	100.00

14. PROPERTY, PLANT, AND EQUIPMENT

	Machinery and Equipment	Transportation Equipment	Office Equipment	Leasehold Improvement	Property under Construction	Total
<u>Cost</u>						
Balance at January 1, 2017	\$ 237,135	\$ 20,508	\$ 5,113	\$ 762	\$ 236,091	\$ 499,609
Additions	5,819	-	-	-	264,396	270,215
Disposals	(784)	-	-	(741)	-	(1,525)
Effect of foreign currency exchange differences	(2,557)	(231)	(58)	(21)	744	(2,123)
Balance at December 31, 2017	<u>\$ 239,613</u>	<u>\$ 20,277</u>	<u>\$ 5,055</u>	<u>\$ -</u>	<u>\$ 501,231</u>	<u>\$ 766,176</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2017	\$ 53,690	\$ 10,390	\$ 3,619	\$ 701	\$ -	\$ 68,400
Disposals	20,538	2,692	229	59	-	23,518
Depreciation expenses	(536)	-	-	(741)	-	(1,277)
Effect of foreign currency exchange differences	(347)	(82)	(38)	(19)	-	(486)
Balance at December 31, 2017	<u>\$ 73,345</u>	<u>\$ 13,000</u>	<u>\$ 3,810</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,155</u>
Carrying amounts at December 31, 2017	<u>\$ 166,268</u>	<u>\$ 7,277</u>	<u>\$ 1,245</u>	<u>\$ -</u>	<u>\$ 501,231</u>	<u>\$ 676,021</u>
<u>Cost</u>						
Balance at January 1, 2018	\$ 239,613	\$ 20,277	\$ 5,055	\$ -	\$ 501,231	\$ 766,176
Additions	57,531	-	-	-	245,617	303,148
Disposals	-	-	-	-	-	-
Reclassified as non-current assets held for sale	(34,859)	-	-	-	-	(34,859)
Effect of foreign currency exchange differences	(5,992)	(413)	(103)	-	(14,951)	(21,459)
Balance at December 31, 2018	<u>\$ 256,293</u>	<u>\$ 19,864</u>	<u>\$ 4,952</u>	<u>\$ -</u>	<u>\$ 731,897</u>	<u>\$ 1,013,006</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2018	\$ 73,345	\$ 13,000	\$ 3,810	\$ -	\$ -	\$ 90,155
Disposals	20,665	2,456	211	-	-	23,332
Depreciation expenses	-	-	-	-	-	-
Reclassified as non-current assets held for sale	(13,007)	-	-	-	-	(13,007)
Effect of foreign currency exchange differences	(1,892)	(312)	(82)	-	-	(2,286)
Balance at December 31, 2018	<u>\$ 79,111</u>	<u>\$ 15,144</u>	<u>\$ 3,939</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,194</u>
Carrying amounts at December 31, 2018	<u>\$ 177,182</u>	<u>\$ 4,720</u>	<u>\$ 1,013</u>	<u>\$ -</u>	<u>\$ 731,897</u>	<u>\$ 914,812</u>

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Machinery and equipment	5-10 years
Transportation equipment	5-12 years
Office equipment	3-10 years
Leasehold improvement	3 years

The building of subsidiary Jinjiang Chengchang Co., Ltd. located in Qingyang Lianyu Industrial Zone, Jinjiang City, Fujian Province, China was going to be reconstructed as a commercial office building. As of December 31, 2018, the total contract price of the signed project was RMB190,959 thousand. The amount that has been paid is RMB176,403 thousand.

15. PREPAYMENTS FOR LEASES

	December 31	
	2018	2017
Current	\$ 13,258	\$ 8,626
Non-current	<u>609,451</u>	<u>499,263</u>
	<u>\$ 622,709</u>	<u>\$ 507,889</u>

For the purpose of acquiring 29,452 square meters of land in Yaoqiong Village, Cizao Town, Jinjiang City by the subsidiary Century Victory Company, the subsidiary Jinjiang Chengchang Company paid pension security expenses on behalf of the subsidiary Century Victory Company which was affected by the compensation of land requisition amounted to RMB1,560 thousand in 2014 and paid the guarantee deposit to Jinjiang City Municipal Land Resource Bureau for applying the land acquisition at RMB1,325 thousand in 2016. On January 15, 2016, the subsidiary Century Victory Company acquired the land by bidding procedure at RMB10,460 thousand. Since the land was owned by 18 individuals, including Tsung-Yi Chen, the subsidiary Jinjiang Chengchang Company paid reimbursements for transferring collective use rights to the subsidiary Century Victory Company on its behalf at RMB31,714 thousand on February 4, 2016. On September 25 and October 9, 2017, the subsidiary Century Victory Company signed the contract and related addendums with Jinjiang City Municipal Land Resource Bureau for assigning the right to use the state-owned construction land. The area of the land was adjusted to 22,363.1 square meters, and the transfer fee was adjusted to RMB7,942 thousand. After the subsidiary Century Victory Company paid the remaining balance of RMB6,617 thousand to Jinjiang City Municipal Land Resource Bureau in November 2017, the subsidiary Century Victory Company obtained the certificate of the right to use the land for 50 years on December 26, 2017.

For the purpose of acquiring 29,625 square meters of land in Xiaomei village, Neikeng town and Yaoqiong village, Cizao town in Jinjiang City, the subsidiary Jinjiang Chengchang Company paid the guarantee deposit to Jinjiang City Municipal Land Resource Bureau for applying the land acquisition at RMB1,441 thousand and pension security expenses to individuals who were affected by the land requisition at RMB1,441 thousand in 2015. On February 5, 2016, the subsidiary Jinjiang Chengchang Company acquired the land by bidding procedure at RMB10,400 thousand. Since the land was owned by 22 individuals, including Tsung-Yi Chen, the subsidiary Jinjiang Chengchang Company paid reimbursements for transferring collective use rights at RMB29,298 thousand on February 4, 2016. The subsidiary Jinjiang Chengchang Company signed the contract with Jinjiang City Municipal Land Resource Bureau for assigning the right to use the state-owned construction land on February 4, 2017. After paying the remaining balance of RMB7,518 thousand to Jinjiang City Municipal Land Resource Bureau in March 2017, the subsidiary Jinjiang Chengchang Company obtained the certificate of the right to use the land for 50 years on May 10, 2017.

Since the subsidiary Jinjiang Chengchang Company proposed to bid for 4,911 square meters of land on Qingyang Street, Lianyu Community, which was owned by Shu-Yuan Zhuang, the subsidiary Jinjiang Chengchang Company paid the reimbursement for transferring use rights at RMB23,574 thousand on January 20, 2017 (accounted in long-term prepayment) and paid the guarantee deposit for applying the land acquisition and pension security expenses to individual who was affected by the land requisition to Jinjiang Finance Bureau for a total of RMB213 thousand (accounted in refundable deposits). The subsidiary Jinjiang Chengchang Company acquired 2,235 square meters of land by bidding procedure on January 5, 2018, and signed the contract with Jinjiang City Municipal Land Resource Bureau for assigning the right to use the state-owned construction land and paid the remaining balance of RMB2,219 thousand on May 27, 2018. After that, the subsidiary Jinjiang Chengchang Company obtained the certificate of the right to use the land for 50 years on June 1, 2018. The subsidiary Jinjiang Chengchang Company acquired the remaining 2,499 square meters of land by bidding procedure on July 6, 2018, and signed the contract with Jinjiang City Municipal Land Resource Bureau for assigning the right to use the state-owned construction land and paid the remaining balance of RMB2,478 thousand on August 26, 2018. After that, the subsidiary Jinjiang Chengchang Company obtained the certificate of the right to use the land for 50 years on September 1, 2018.

Since the subsidiary Jinjiang Chengchang Company proposed to bid for 4,444 square meters of land on Qingyang Street, Lianyu Community, which was owned by Shu-Fang Zhuang, the subsidiary Jinjiang Chengchang Company paid the reimbursement for transferring use rights at RMB21,331 thousand on January 18, 2018 (accounted in long-term prepayment) and paid the guarantee deposit for applying the land acquisition and pension security expenses to individual who was affected by the land requisition to Jinjiang Finance Bureau for a total of RMB373 thousand (accounted in refundable deposits). The subsidiary Jinjiang Chengchang Company acquired 3,543 square meters of land by bidding procedure on November 9, 2018, and signed the contract with Jinjiang City Municipal Land Resource Bureau for assigning the right to use the state-owned construction land and paid the remaining balance of RMB3,307 thousand on November 19, 2018. After that, the subsidiary Jinjiang Chengchang Company obtained the certificate of the right to use the land for 50 years on December 17, 2018.

16. OTHER ASSETS

	December 31	
	2018	2017
<u>Current</u>		
Prepayments	<u>\$ 10,291</u>	<u>\$ 10,821</u>
<u>Non-current</u>		
Refundable deposits	<u>\$ 43,080</u>	<u>\$ 47,166</u>

17. TRADE PAYABLES

	December 31	
	2018	2017
Trade payables	<u>\$ 97,330</u>	<u>\$ 200,456</u>

18. OTHER LIABILITIES

	December 31	
	2018	2017
Other payables		
Payables for dividends	\$ 40,106	\$ 38,178
Payables for salaries or bonuses	32,609	36,704
Payables for purchases of equipment	14,069	-
Payables for insurance	13,757	14,008
Payables for business tax	1,744	26,081
Others	<u>25,771</u>	<u>33,779</u>
	<u>\$ 128,056</u>	<u>\$ 148,750</u>

19. RETIREMENT BENEFIT PLANS

The employees of the Group's subsidiary in China are members of a state-managed retirement benefit plan operated by the government of China. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. The Company and certain subsidiaries have no employee retirement plan.

The Company recognized retirement expenses in the consolidated statements of comprehensive income for the years ended December 31, 2018 and 2017 of \$18,417 thousand and \$18,073 thousand, respectively.

20. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2018	2017
Number of shares authorized (in thousands)	<u>200,000</u>	<u>200,000</u>
Shares authorized	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>139,021</u>	<u>126,383</u>
Shares issued	<u>\$ 1,390,208</u>	<u>\$ 1,263,825</u>

Fully paid ordinary shares, which have a par value of NT\$10, carry one vote per share and a right receive to dividends.

The reconciliation of the outstanding shares of the Company is as follows:

	Number of Shares (In Thousands)	Amount	Additional Paid-In Capital
Balance at January 1, 2017	114,893	\$ 1,148,932	\$ 2,532,902
Share dividends	<u>11,490</u>	<u>114,893</u>	<u>-</u>
Balance at December 31, 2017	<u>126,383</u>	<u>\$ 1,263,825</u>	<u>\$ 2,532,902</u>
Balance at January 1, 2018	126,383	\$ 1,263,825	\$ 2,532,902
Share dividends	<u>12,638</u>	<u>126,383</u>	<u>-</u>
Balance at December 31, 2018	<u>139,021</u>	<u>\$ 1,390,208</u>	<u>\$ 2,532,902</u>

b. Capital surplus

	December 31	
	2018	2017
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital		
Issuance of ordinary shares	\$ 2,532,902	\$ 2,532,902
The difference between consolidation received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	<u>7,912</u>	<u>7,912</u>
	<u>\$ 2,540,814</u>	<u>\$ 2,540,814</u>

Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

c. Retained earnings and dividend policy

In accordance with the policy on dividend distribution of the Company's Articles of Incorporation (the "Articles"). Unless otherwise provided in the Applicable Listing Rules, the Company made a profit in a fiscal year shall be allocated in the following order and proposed by the board of directors to the shareholders in the general meeting for approval:

- 1) To make provision for the applicable amount of income tax pursuant to applicable tax laws and regulations;
- 2) To set off cumulative losses of previous years (if any);
- 3) To set aside ten percent (10%) as legal reserve pursuant to the applicable listing rules unless the accumulated amount of such legal reserve equals to the total paid-in capital of the Company;
- 4) To set aside an amount as special reserve pursuant to the applicable listing rules and requirements of the Commission; and

- 5) With respect to the earnings available for distribution (i.e. the net profit after the deduction of the items (1) to (4) above plus any undistributed retained earnings), the board of directors may present a proposal to distribute earnings by way of dividends to the shareholders at the annual general meeting for approval pursuant to the applicable listing rules. Dividends may be distributed in the form of cash and/or shares; shares may be distributed in lieu of the cash amount of any dividend, and the amount of dividends shall be at least ten percent (10%) of the net profit after the deduction of the items (a) to (d) above. Cash dividends shall comprise a minimum of ten percent (10%) of the total dividends allocated to shareholders.

For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 22(e).

The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2017 and 2016 approved in the shareholders' meetings on June 12, 2018 and June 26, 2017, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For the Year Ended December 31		For the Year Ended December 31	
	2017	2016	2017	2016
Legal reserve	\$ 83,517	\$ 88,209		
Special reserve	60,517	257,634		
Cash dividends	37,915	137,872	\$ 0.3	\$ 1.2
Share dividends	126,383	114,893	1.0	1.0

21. REVENUE

	For the Year Ended December 31	
	2018	2017
Revenue from contracts with customers		
Revenue from sale of goods	\$ 2,071,989	\$ 3,406,504

a. Contract balances

	December 31	
	2018	2017
Trade receivables (Note 10)	\$ 426,332	\$ 1,110,925

b. Disaggregation of revenue

	December 31	
	2018	2017
<u>Primary geographical market</u>		
Mainland China	<u>\$ 2,071,989</u>	<u>\$ 3,406,504</u>
<u>Major goods</u>		
Single color	\$ 1,233,056	\$ 1,820,909
One injection with dual colors	487,975	951,581
EVO plastic particles	339,203	627,263
RB soles	11,755	282
Others	<u>-</u>	<u>6,469</u>
	<u>\$ 2,071,989</u>	<u>\$ 3,406,504</u>
<u>Timing of revenue recognition</u>		
Satisfied at a point in time	<u>\$ 2,071,989</u>	<u>\$ 3,406,504</u>

22. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

	For the Year Ended December 31	
	2018	2017
Interest income	<u>\$ 51,283</u>	<u>\$ 43,746</u>

b. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Impairment loss	\$ (17,038)	\$ -
Net foreign exchange gain (loss)	8,932	(19,102)
Loss on disposal of non-current assets held for sale	-	(2,581)
Loss on disposal of property, plant, and equipment	-	(248)
Others	<u>2,473</u>	<u>4,022</u>
	<u>\$ (5,633)</u>	<u>\$ (17,909)</u>

c. Depreciation and amortization

	For the Year Ended December 31	
	2018	2017
Property, plant, and equipment	\$ 23,332	\$ 23,518
Prepayments for leases	<u>9,987</u>	<u>5,793</u>
	<u>\$ 33,319</u>	<u>\$ 29,311</u>
An analysis of depreciation by function		
Operating costs	\$ 19,003	\$ 18,898
Operating expenses	<u>4,329</u>	<u>4,620</u>
	<u>\$ 23,332</u>	<u>\$ 23,518</u>
An analysis of amortization by function		
Operating expenses	<u>\$ 9,987</u>	<u>\$ 5,793</u>

d. Employee benefits expense

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 290,209	\$ 298,903
Post-employment benefits		
Defined contribution plans	18,417	18,073
Other employee benefits	<u>19,651</u>	<u>17,137</u>
	<u>\$ 328,277</u>	<u>\$ 334,113</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 283,903	\$ 285,762
Operating expenses	<u>44,374</u>	<u>48,351</u>
	<u>\$ 328,277</u>	<u>\$ 334,113</u>

e. Employee's compensation and remuneration to directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at the rates of no less than 3% and no higher than 1%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. For the years ended December 31, 2018 and 2017, the Company did not estimate the bonus to employees and the remuneration to directors and supervisors.

If there is a change in the proposed amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

23. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current period	\$ 45,879	\$ 158,729
Adjustments for of prior periods	<u>-</u>	<u>(233)</u>
	45,879	158,496
Deferred tax		
In respect of the current period	<u>(7,770)</u>	<u>8,110</u>
Income tax expense recognized in profit	<u>\$ 38,109</u>	<u>\$ 166,606</u>

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2018	2017
Profit before tax	<u>\$ 172,808</u>	<u>\$ 1,001,773</u>
Income tax expense calculated at statutory rate	\$ 28,636	\$ 156,469
Nondeductible expense calculated at the statutory rates	9,473	10,370
Adjustments for prior year's tax	<u>-</u>	<u>(233)</u>
Income tax expense recognized in profit	<u>\$ 38,109</u>	<u>\$ 166,606</u>

The applicable tax rate used by subsidiaries in China is 25%. In addition, Jinjiang Chengchang Company obtained the Hi-tech enterprise authenticated certification of the People's Republic of China in 2018 and 2017, so its applicable tax rate was reduced to 15%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

b. Current tax liabilities

	For the Year Ended December 31	
	2018	2017
Current tax liabilities		
Income tax payable	<u>\$ 7,642</u>	<u>\$ 49,707</u>

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Exchange Difference	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Property, plant and equipment	\$ <u>-</u>	\$ <u>2,556</u>	\$ <u>(50)</u>	\$ <u>2,506</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Deferred disposal gains	\$ 6,608	\$ (6,601)	\$ (7)	\$ -
Unrealized foreign exchange gains	<u>3,955</u>	<u>1,387</u>	<u>(107)</u>	<u>5,235</u>
	\$ <u>10,563</u>	\$ <u>(5,214)</u>	\$ <u>(114)</u>	\$ <u>5,235</u>

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Exchange Difference	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Non-current assets held for sale	\$ 4,265	\$ (4,163)	\$ (102)	\$ -
Property, plant and equipment	<u>43</u>	<u>(42)</u>	<u>(1)</u>	<u>-</u>
	\$ <u>4,308</u>	\$ <u>(4,205)</u>	\$ <u>(103)</u>	\$ <u>-</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Deferred disposal gains	\$ 6,683	\$ -	\$ (75)	\$ 6,608
Unrealized foreign exchange gains	<u>-</u>	<u>3,905</u>	<u>50</u>	<u>3,955</u>
	\$ <u>6,683</u>	\$ <u>3,905</u>	\$ <u>(25)</u>	\$ <u>10,563</u>

d. Income tax assessments

The income tax returns have been filed according to the terms of different national governments.

24. EARNINGS PER SHARE

	For the Year Ended December 31	
	2018	2017
Basic earnings per share	<u>\$ 0.97</u>	<u>\$ 6.01</u>

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of bonus shares on September 1, 2018. The basic and diluted earnings per share adjusted retrospectively for the year ended December 31, 2017 were as follows:

Unit: NT\$ Per Share

	Before Retrospective Adjustment	After Retrospective Adjustment
Basic earnings per share	<u>\$ 6.61</u>	<u>\$ 6.01</u>

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

Net Profit for the Period

	For the Year Ended December 31	
	2018	2017
Earnings used in the computation of basic and diluted earnings per share	<u>\$ 134,699</u>	<u>\$ 835,167</u>

Ordinary Shares Outstanding

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares used in the computation of basic earnings per share	<u>139,021</u>	<u>139,021</u>

25. OPERATING LEASE ARRANGEMENTS

The Group as Lessee

Operating leases relate to leases of plant with lease terms of three years. The Group does not have a bargain purchase option to acquire the leased plant at the expiration of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	December 31	
	2018	2017
Not later than 1 year	\$ 31,483	\$ 6,240
Later than 1 year and not later than 5 years	<u>69,763</u>	<u>1,560</u>
	<u>\$ 101,246</u>	<u>\$ 7,800</u>

26. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged in recent years.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves, retained earnings and other equity, and non-controlling interests).

The Group is not subject to any externally imposed capital requirements.

Key management personnel of the Group review the capital structure on a quarterly basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and/or the amount of new debt issued or existing debt redeemed.

27. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments not measured at fair value

Management believes that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

b. Categories of financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
Loans and receivables		
Cash and cash equivalents	\$ -	\$ 3,056,733
Debt investments with no active market - current	-	1,533,557
Trade receivables	-	1,110,925
Other receivables	-	22,171
Refundable deposits	-	47,166
Financial assets at amortized cost		
Cash and cash equivalents	3,221,091	-
Financial assets at amortized cost - current	1,510,407	-
Trade receivables	426,332	-
Other receivables	16,935	-
Refundable deposits	43,080	-
<u>Financial liabilities</u>		
Financial liabilities at amortized cost		
Trade payables	97,330	200,456
Other payables	128,056	148,750

c. Financial risk management objectives and policies

The Group's major financial instruments included cash, equity and debt investments, and borrowings. The Group's corporate treasury function provides services to the Group, coordinates access to domestic and international financial markets, and assesses the financial risks associated with the operations of the Group by actual demand and risk analysis. These risks include market risk (mainly interest rate risk), credit risk, and liquidity risk.

The Group did not enter into or trade financial instruments, including derivative financial instruments for speculative purposes.

The Corporate treasury function reports to the Group's risk management committee, and the internal auditors also review the implementation of the policies constantly.

1) Market risk

The Group's activities expose the Group primarily to the financial risk of changes in interest rates (see (a) below). The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings.

There had been no change in the Group's exposure to market risks or the manner in which these risks were measured and managed.

Interest rate risk

The Group was exposed to the fair value of interest rate risk and cash flow interest rate risk from short-term borrowings and long-term borrowings at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings.

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2018	2017
Fair value interest rate risk		
Financial assets	\$ 4,515,591	\$ 4,089,957
Financial liabilities	-	-
Cash flow interest rate risk		
Financial assets	215,043	499,224
Financial liabilities	-	-

Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. The rate of a 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's per-tax profit for the years ended December 31, 2018 and 2017 would have decreased/increased by \$2,150 thousand and \$4,992 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate financial assets.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation and financial guarantees provided by the Group could arise from:

- a) The carrying amount of the respective recognized financial assets as stated in the balance sheets; and
- b) The amount of contingent liabilities in relation to financial guarantee issued by the Group.

The Group adopted a policy of dealing only with creditworthy counterparties, which were mostly reputable department stores and shopping malls; the Group's exposure and the operating performance of its counterparties are continuously monitored. From historical experience, the Group considers that the possibility of facing a credit-related risk is low.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate cash, reserves and using variety of equity and liability instruments, and continuously monitoring forecast and actual cash flows as well as matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk rate tables for non-derivative financial liabilities

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

To the extent that interest flows are floating rate, the undiscounted amount was derived from the interest rate curve at the end of the reporting period

December 31, 2018

	On Demand or Less than 1 Year	1 to 5 Years
<u>Non-derivative financial liabilities</u>		
Non-interest bearing	\$ 225,386	\$ -

December 31, 2017

	On Demand or Less than 1 Year	1 to 5 Years
<u>Non-derivative financial liabilities</u>		
Non-interest bearing	<u>\$ 349,206</u>	<u>\$ -</u>

28. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

Compensation of Key Management Personnel

	<u>For the Year Ended December 31</u>	
	2018	2017
Short-term benefits	<u>\$ 10,625</u>	<u>\$ 10,907</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

29. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant commitments and contingencies of the Group as of December 31, 2018 were as follows:

A contract for construction project signed but not yet paid by subsidiary Jinjiang Chengchang Co., Ltd. was RMB15,603 thousand.

Subsidiary Jinjiang Chengchang Company signed an agreement with Huaqiao University in October 2016. Huaqiao University was commissioned to conduct researches and developments of plastic materials from October 16, 2016 to October 15, 2020. Jinjiang Chengchang Company should pay the joint research fee amounting to RMB3,000 thousand in total. According to the payment schedule, Jinjiang Chengchang Company should pay RMB500 thousand in the first year plus an annual increase rate of 10% from the second to the fifth year. In addition, Jinjiang Chengchang Company should provide funds for purchasing specific equipment and instruments in accordance with the contract. As of December 31, 2018, the accumulated joint research fee was RMB1,650 thousand.

Subsidiary Jinjiang Chengchang Company signed a contract with the scientific research team for developing new plastic foam materials. Jinjiang Chengchang Company agreed to pay regular professional service fees and the scientific research team should report situations and results of the research and development regularly. The professional service fee was RMB13,000 thousand and the related cost of research materials was RMB7,939 thousand, which were included in the research and development expenses.

30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Groups' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 6,297	6.8632 (USD:RMB)	\$ 193,277
HKD	16	0.8768 (HKD:RMB)	64

Financial liabilities

Monetary items			
NTD	40,106	0.2236 (NTD:RMB)	40,106

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 7,742	6.5342 (USD:RMB)	\$ 230,943
HKD	21	0.8340 (HKD:RMB)	79

Financial liabilities

Monetary items			
NTD	38,178	0.2191 (NTD:RMB)	38,178

The Group is mainly exposed to the USD and the NTD. The following information was aggregated by the functional currencies of the group entities, and the exchange rates between respective functional currencies and the presentation currency were disclosed. The significant realized and unrealized foreign exchange gains (losses) were as follows:

Foreign Currencies	<u>For the Year Ended December 31, 2018</u>		<u>For the Year Ended December 31, 2017</u>	
	Exchange Rate	Net Foreign Exchange Gains (Losses)	Exchange Rate	Net Foreign Exchange Gains (Losses)
RMB	4.560 (RMB:NTD)	<u>\$ 8,932</u>	4.507 (RMB:NTD)	<u>\$ (19,102)</u>

31. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others. (Table 1)
- 2) Endorsements/guarantees provided. (None)
- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint ventures). (None)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (None)
- 5) Acquisitions of individual real estate at costs of at least NT \$300 million or 20% of the paid-in capital. (Table 2)
- 6) Disposals of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (None)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 3)
- 9) Trading in derivative instruments. (None)
- 10) Intercompany relationships and significant intercompany transactions. (Table 4)
- 11) Information on investees. (Table 5)

b. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 6)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (None)
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - c) The amount of property transactions and the amount of the resultant gains or losses.
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.

- e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
- f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

32. SEGMENT INFORMATION

Jinjiang Chengchang Company and Century Victory Company are franchised investment holding business companies. The business activities of Jinjiang Chengchang Company and Century Victory Company include the research and development, manufacturing and trading of soles and shoe materials, which are the main source of profits for the Company. The measurement basis of departmental information provided to chief operating decision maker for review is the same as information reported in the financial statements. Therefore, the information of the operations department to be reported in the years of 2018 and 2017 can be referred to the consolidated financial statements for the years ended 2018 and 2017.

VICTORY NEW MATERIALS LIMITED COMPANY AND SUBSIDIARIES

**FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2018**
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period (Note 3)	Ending Balance	Actual Borrowing Amount	Interest Rate	Nature of Financing (Note 1)	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 2)	Aggregate Financing Limit (Note 2)	Note
													Item	Value			
0	Victory New Materials Limited Company	Hong Kong Cheng Chang Limited Company	Other receivables from related parties	Yes	\$ 178,880 (RMB 40,000 thousand)	\$ 134,160 (RMB 30,000 thousand)	\$ 134,160 (RMB 30,000 thousand)	-	b	\$ -	Capital movement of operating need	\$ -	-	-	\$ 654,993	\$ 2,619,971	
1	Hong Kong Cheng Chang Limited Company	Jinjiang Chengchang Limited Company	Other receivables from related parties	Yes	178,880 (RMB 40,000 thousand)	134,160 (RMB 30,000 thousand)	134,160 (RMB 30,000 thousand)	-	b	-	Capital movement of operating need	-	-	-	6,191,425	6,191,425	
2	Jinjiang Chengchang Limited Company	Century Victory Limited Company	Other receivables from related parties	Yes	357,760 (RMB 80,000 thousand)	357,760 (RMB 80,000 thousand)	141,825 (RMB 31,714 thousand)	-	b	-	Capital movement of operating need	-	-	-	6,186,000	6,186,000	

Note 1: Nature of financing was as follows:

- a. Business relationship.
- b. Necessity of short-term financing.

Note 2: Aggregate financing limits should not exceed 40% of the Company's net worth. The limit of short-term financing for each counterparty should not exceed 40% of Shanghai Les Enphants Children Articles Co., Ltd.'s net worth as shown in the latest audited or reviewed financial statements.

Note 3: The highest balance for the period was calculated at the year-end exchange rate.

Note 4: Transactions between the Company and its subsidiaries were excluded from the consolidated financial statements.

VICTORY NEW MATERIALS LIMITED COMPANY AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
Jinjiang Chengchang Limited Company	Property under construction	2016.03.11	\$ 482,641 (RMB 107,925 thousand) (Note 1)	Had paid RMB105,527 thousand	Fujian Minnan Construction Engineering Co., Ltd.	-	-	-	-	\$ -	Inquiry, parity and bargaining	Build commercial office building	Note 2

Note 1: The amount was calculated based on the exchange rate of RMB4.472 at the end of the reporting period.

Note 2: Jinjiang Chengchang Company and Fujian Minnan Construction Engineering Co., Ltd. respectively signed the contracts of building no. 1 and building no. 2 (with a total contract price of RMB58,655 thousand) on March 11, 2016, and the contract of building no. 3 (with a total contract price of RMB49,270 thousand) on January 24, 2017.

VICTORY NEW MATERIALS LIMITED COMPANY AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Relationship	Financial Statement Account and Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
The Company	Hong Kong Cheng Chang Limited Company	Subsidiary	\$ 134,160 (RMB30,000 thousand)	-	\$ -	-	\$ -	-
Hong Kong Cheng Chang Limited Company	Jinjiang Chengchang Limited Company	Subsidiary	134,160 (RMB30,000 thousand)	-	-	-	-	-
Jinjiang Chengchang Limited Company	Century Victory Limited Company	The same parent company	141,825 (RMB31,714 thousand)	-	-	-	-	-

Note: Transactions between the Company and its subsidiaries were excluded from the consolidated financial statements.

VICTORY NEW MATERIALS LIMITED COMPANY AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS

FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

No.	Investee Company	Counterparty	Relationship (Note 1)	Transaction Details		
				Financial Statement Accounts	Amount	% to Total Sales or Assets
1	The Company	Hong Kong Cheng Chang Limited Company	a	Other receivables	\$ 134,160 (RMB30,000 thousand)	2
2	Hong Kong Cheng Chang Limited Company	Jinjang Chengchang Limited Company	b	Other receivables	134,160 (RMB30,000 thousand)	2
3	Jinjang Chengchang Limited Company	Century Victory Limited Company	b	Other receivables	141,825 (RMB31,714 thousand)	2

Note 1: Nature of relationship is as follows:

- a. From the parent company to its subsidiary
- b. From a subsidiary to its parent company

Note 2: Transactions between the Company and its subsidiaries were excluded from the consolidated financial statements.

VICTORY NEW MATERIALS LIMITED COMPANY AND SUBSIDIARIES

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount (Note 1)		As of December 31, 2018			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2018	December 31, 2017	Number of Shares	%	Carrying Amount			
The Company	Super Light Limited Company	Nevada, U.S.A.	Investment	\$ 1,985,452 (RMB443,974 thousand)	\$ 2,026,741 (RMB443,974 thousand)	100	100	\$ 6,191,425	\$ 138,812	\$ 138,812	
Super Light Limited Company	Hong Kong Ching Chang Limited Company	Hong Kong	Investment	1,070,159 (RMB239,302 thousand)	1,092,414 (RMB239,302 thousand)	-	100	6,191,425	138,812	138,812	

Note 1: The amounts were calculated based on the exchange rates at the end of the reporting period.

Note 2: Net income of investees, investments accounted for using the equity method of investor and net assets of investee company between the investor and investee company have been eliminated on consolidation.

Note 3: Refer to Table 6 for information relating to investees in mainland China.

VICTORY NEW MATERIALS LIMITED COMPANY AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital (Note 1)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2018 (Note 2)	Accumulated Repatriation of Investment Income as of December 31, 2018	Note
					Outward	Inward							
Jinjiang Chengchang Limited Company	Manufactures and sells various soles and related shoe materials	\$ 532,966 (HK\$ 135,926 thousand)	Hong Kong Cheng Chang Limited Company has 100% shareholding	\$ -	\$ -	\$ -	\$ -	\$ 138,545	100	\$ 138,545	\$ 6,186,000	\$ -	
Century Victory Limited Company	Manufactures and sells various soles and related shoe materials	245,720 (US\$ 8,000 thousand)	Victory New Materials Limited Company has 100% shareholding	-	-	-	-	8,002	100	8,002	217,098	-	

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018	Investment Amount Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
Not Applicable	Not Applicable	Not Applicable

Note 1: The amount was calculated based on exchange rates at the end of the reporting period.

Note 2: The amount is according to the financial statements which have been audited by the Company's auditors.

Note 3: Net income of investees, investments accounted for using the equity method of investor and net assets of investee between the investor company and investee company have been eliminated on consolidation.

【Annex 4】**Victory New Materials Limited Company
2018 Earnings distribution**

Unit: NT\$

Item	Amt	Note
2018 Net profit after tax	134,698,718	
Less : Provision of statutory surplus reserve (10%)	13,469,872	
2018 Undistributed Surplus Earnings	121,228,846	
Previous years Undistributed Surplus Earnings	2,197,889,408	
Less : Special surplus reserve	135,252,280	
Total Undistributed Surplus Earnings	2,183,865,974	
Shareholder bonus -Cash	27,804,155	0.2/per share
Shareholder bonus - Stock dividend	139,020,780	1/per stock

【APPENDIX 1】

**THE COMPANIES LAW (2016REVISION)
OF THE CAYMAN ISLANDS
COMPANY LIMITED BY SHARES**

SEVENTHAMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION

OF

Victory New Materials Limited Company

勝悅新材料有限公司

- Incorporated on the June 14, 2012

(as adopted by a Special Resolution dated June 12, 2018)

THE COMPANIES LAW (2016 REVISION)
OF THE CAYMAN ISLANDS
COMPANY LIMITED BY SHARES

SEVENTH AMENDED AND RESTATED MEMORANDUM OF ASSOCIATION
OF

Victory New Materials Limited Company

勝悅新材料有限公司

(as adopted by a Special Resolution dated June 12, 2018)

- 1 The name of the Company is Victory New Materials Limited Company 勝悅新材料有限公司.
- 2 The registered office of the Company shall be at the offices c/o International Corporation Services Ltd. of P.O. Box 472, Harbour Place, 2nd Floor, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands, or at such other place as the Directors may from time to time decide.
- 3 The objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law (2013 Revision) or as the same may be revised from time to time, or any other law of the Cayman Islands.
- 4 The liability of each Member is limited to the amount from time to time unpaid on such Member's shares.
- 5 The authorised capital of the Company is New Taiwan Dollars 2,000,000,000 divided into 200,000,000 shares of New Taiwan Dollars 10.00 each provided always that subject to the provisions of the Companies Law (2013 Revision) as amended and the Articles of Association, the Company shall have power to redeem or purchase any or all of such shares and to issue all or any part of its capital with priority or subject to any conditions or restrictions whatsoever and every issue of shares whether stated to be Ordinary, Preference or otherwise shall be subject to the powers on the part of the Company hereinbefore provided.
- 6 The Company has power to register by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.
- 7 Capitalised terms that are not defined in this Memorandum of Association bear the same meaning as those given in the Articles of Association of the Company.

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**THE COMPANIES LAW (2016Revision)
OF THE CAYMAN ISLANDS
COMPANY LIMITED BY SHARES**

**SEVENTH AMENDED AND RESTATED ARTICLES OF ASSOCIATION
OF**

Victory New Materials Limited Company

勝悅新材料有限公司 (as adopted by a Special Resolution dated June 12, 2018)

1 Interpretation

1.1 In the Articles Table A in the First Schedule to the Statute does not apply and, unless there is something in the subject or context inconsistent therewith:

"Applicable Public Company Rules"	means the R.O.C. laws, rules and regulations stipulating public reporting companies or companies listed on any R.O.C. stock exchange or securities market, including, without limitation, the relevant provisions of the Company Law, Securities and Exchange Law, the Enterprise Mergers and Acquisitions Law, the rules and regulations promulgated by the Ministry of Economic Affairs, the rules and regulations promulgated by the Financial Supervisory Commission (" FSC "), the rules and regulations promulgated by the Taiwan Stock Exchange (" TWSE ") and the Acts Governing Relations Between Peoples of the Taiwan Area and the Mainland Area and its relevant regulations.
"Annual Net Income"	means the audited annual net profit of the Company in respect of the applicable year.
"Articles"	means these articles of association of the Company.
"Company"	means the above named company.
"Directors"	means the directors for the time being of the Company (which, for clarification, includes any and all Independent Director(s)).
"Electronic Record"	has the same meaning as in the Electronic Transactions Law.
"Electronic Transactions Law"	means the Electronic Transactions Law (2003 Revision) of the Cayman Islands.
"Independent Directors"	means the Directors who are elected by the Members at a general meeting and designated as "Independent Directors" for the purpose of Applicable Public Company Rules which are in force from time to time.
"Market Observation Post System"	means the internet information reporting system designated by the FSC.
"Member"	has the same meaning as in the Statute.
"Memorandum"	means the memorandum of association of the Company.
"Merger"	means a transaction whereby (i) all of the companies participating in such transaction are dissolved, and a new company is incorporated to generally assume all rights and obligations of the dissolved companies or (ii) all but one company participating in such transaction are dissolved, and the surviving company generally assumes all rights and obligations of the dissolved companies, and in each case the consideration for the transaction being the shares of the surviving or newly incorporated company or any other company, cash or other assets.
"Short-form Merger"	means (i) a Merger in which one of the merging companies holds issued shares that together represent at least 90% of the voting

	power of the outstanding shares of the other merging company or (ii) that subsidiaries of the same parent company holding 90% or more of the issued and outstanding shares of such respective subsidiaries merge with one another.
"Ordinary Resolution"	means a resolution passed by a simple majority of votes cast by the Members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting.
"Private Placement"	means obtaining subscriptions for, or the sale of, Shares, options, warrants, rights of holders of debt or equity securities which enable those holders to subscribe further securities (including Shares), or other securities of the Company, either by the Company itself or a person authorized by the Company, primarily from or to specific investors or approved by the Company or such authorized person, but excluding any employee incentive programme or subscription agreement, warrant, option or issuance of Shares under Articles 11.1 to 11.4 of these Articles.
"Register of Members"	means the register maintained in accordance with the Statute and includes (except where otherwise stated) any duplicate Register of Members.
"Registered Office"	means the registered office for the time being of the Company.
"R.O.C."	means the Republic of China.
"Seal"	means the common seal of the Company and includes every duplicate seal.
"Share" and "Shares"	means a share or shares in the Company and includes a fraction of a share.
"Share Certificate" and "Share Certificates"	means a certificate or certificates representing a Share or Shares.
"Simple Majority"	means more than one-half.
"Share Exchange"	means a company transferring all its issued shares to another company in exchange for shares, cash or other assets in that company as the consideration for shareholders of the transferring company.
"Short-form Share Exchange"	means a parent company effects a Share Exchange with its subsidiary whose 90% or more of the total number of the issued and outstanding shares is held by the parent company.
"Solicitor"	means any Member, a trust enterprise or a securities agent mandated by Member(s) who solicits an instrument of proxy from any other Member to appoint him/it as a proxy to attend and vote at a general meeting instead of the appointing Member pursuant to the Applicable Public Company Rules.
"Special Resolution"	means a resolution passed by a majority of not less than two-thirds of votes cast by such Members as, being entitled so to do, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as special resolution has been duly given.
"Spin-off"	refers to an act wherein a transferor company transfers all of its independently operated business or any single independently operated business to an existing or a newly incorporated company as consideration for that existing transferee company or newly incorporated transferee company to give shares, cash or other assets to the transferor company or to shareholders of the transferor company.
"Short-form Spin-off"	means a parent company effects a Spin-off with its subsidiary whose 90% or more of the total number of the issued and outstanding shares is held by the parent company and that the parent company is the transferee company assuming the

	business of the subsidiary, and such subsidiary acquires the total amount of consideration for the business transferred.
"Statute"	means the Companies Law (2016Revision) of the Cayman Islands, as amended, and every statutory modification or re-enactment thereof for the time being in force.
"Subsidiary" and "Subsidiaries"	means (i) a subordinate company in which the total number of voting shares or total share equity held by the Company represents more than one half of the total number of issued voting shares or the total share equity of such subordinate company; or (ii) a company in which the total number of shares or total share equity of that company held by the Company, its subordinate companies and its controlled companies, directly or indirectly, represents more than one half of the total number of issued voting shares or the total share equity of such company.
"Supermajority Resolution"	means (i) a resolution adopted by a majority vote of the Members present and entitled to vote on such resolution at a general meeting attended in person or by proxy by Members who represent two-thirds or more of the total outstanding Shares of the Company or, (ii) if the total number of Shares represented by the Members present at the general meeting is less than two-thirds of the total outstanding Shares of the Company, a resolution adopted at such general meeting by the Members who represent two-thirds or more of the Shares present and entitled to vote on such resolution.
"TDCC"	means the Taiwan Depository & Clearing Corporation.
"Treasury Shares"	means a Share held in the name of the Company as a treasury share in accordance with the Statute and the Applicable Public Company Rules.
"Non TWSE-Listed or TPEX-Listed Company"	refers to a company whose shares are neither listed on the TWSE or the Taipei Exchange.

1.2 In the Articles:

- (a) words importing the singular number include the plural number and vice versa;
- (b) words importing the masculine gender include the feminine gender;
- (c) words importing persons include corporations;
- (d) "written" and "in writing" include all modes of representing or reproducing words in visible form, including in the form of an Electronic Record;
- (e) references to provisions of any law or regulation shall be construed as references to those provisions as amended, modified, re-enacted or replaced from time to time;
- (f) any phrase introduced by the terms "including", "include", "in particular" or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms;
- (g) headings are inserted for reference only and shall be ignored in construing the Articles; and
- (h) Section 8 of the Electronic Transactions Law shall not apply.
- (i) Applicable Public Company Rules shall not apply until the Company has become a public company pursuant to Applicable Public Company Rules.

2 Commencement of Business

- 2.1 After incorporation, the Company may operate its business at the time the board of Directors deems fit.
- 2.2 The Directors may pay, out of the capital or any other monies of the Company, all expenses incurred in or about the formation and establishment of the Company, including the expenses of registration.

3 Issue of Shares

- 3.1 Subject to the provisions, if any, in the Statute, the Memorandum, the Articles and Applicable Public Company Laws (and to any direction that may be given by the Company in general meeting) and without prejudice to any rights attached to any existing Shares, the board of Directors may allot, issue, grant options over or otherwise dispose of Shares with or without preferred, deferred or other rights or restrictions, whether in regard to Dividend, voting, return of capital or otherwise and to such persons, at such times and on such other terms as they think proper, and the Company shall have power to redeem, purchase, spin-off or consolidate any or all of such Shares and to issue all or any part of its capital whether priority or special privilege or subject to any postponement of rights or to any conditions or restrictions whatsoever and so that unless the conditions of issue shall otherwise expressly provide, every issue of Shares whether stated to be Ordinary, Preference or otherwise, shall be subject to the powers on the part of the Company hereinbefore provided.
- 3.2 The Company shall not issue Shares to bearer.
- 3.3 The Company shall not issue any unpaid Shares or partly paid-up Shares.

4 Register of Members

- 4.1 The board of Directors shall keep, or cause to be kept, the Register of Members at such place as the board of Directors may from time to time determine and, in the absence of any such determination, the Register of Members shall be kept at the Registered Office.
- 4.2 If the board of Directors consider it necessary or appropriate, the Company may establish and maintain a branch register or registers of members at such location or locations within or outside the Cayman Islands as the board of Directors think fit. The principal register and the branch register(s) shall together be treated as the Register of Members for the purposes of the Articles.
- 4.3 For so long as any Shares are listed on the TWSE, title to such listed Shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the TWSE that are or shall be applicable to such listed Shares and the Register of Members maintained by the Company in respect of such listed Shares may be kept by recording the particulars required by section 40 of the Statute in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the TWSE that are or shall be applicable to such listed Shares.

5 Closing Register of Members or Fixing Record Date

- 5.1 For the purpose of determining Members entitled to notice of, or to vote at any meeting of Members or any adjournment thereof, or Members entitled to receive payment of any Dividend, or in order to make a determination of Members for any other purpose, the board of Directors shall determine the period that the Register of Members shall be closed for transfers and after the Company has acquired public company status, such period shall not be less than the minimum period of time prescribed by the Applicable Public Company Rules.
- 5.2 Subject to Article 5.1 hereof, in lieu of, or apart from, closing the Register of Members, the board of Directors may fix in advance or arrears a date as the record date for any such determination of Members entitled to notice of, or to vote at any meeting of the Members or any adjournment thereof, or for the purpose of determining the Members entitled to receive payment of any Dividend or in order to make a determination of Members for any other purpose. In the event the board of Directors designates a record date in accordance with this Article 5.2, the board of Directors shall make a public announcement of such record date via the Market Observation Post System in accordance with the Applicable Public Company Rules.
- 5.3 The rules and procedures governing the implementation of book closed periods of the Register of Members, including notices to Members in regard to book closed periods of the Register of Members, shall be in accordance with policies adopted by the board of Directors from time to time, which policies shall be in accordance with the Statute, the Memorandum, the Articles and the Applicable Public Company Rules.

6 Share Certificates

- 6.1 Subject to the provisions of the Statute, the Memorandum and Articles and the Applicable Public Company Rules, the Company shall issue Shares without printing Share Certificates for the Shares issued, and shall be delivered by book-entry transfer, and in accordance with the Applicable Public Company Rules, the issuance, transfer or cancellation of the Shares shall be handled in accordance with the relevant rules of the central securities depository. A Member shall only be entitled to a Share Certificate if the board of Directors resolves that Share Certificates shall be issued. Share Certificates, if any, shall be in such form as the board of Directors may determine. Share Certificates shall be signed by one or more Directors authorised by the board of Directors. The board of Directors may authorise Share Certificates to be issued with the authorised signature(s) affixed by mechanical process. All Share Certificates shall be consecutively numbered or otherwise identified and shall

specify the Shares to which they relate. All Share Certificates surrendered to the Company for transfer shall be cancelled and subject to the Articles. No new Share Certificate shall be issued until the former Share Certificate representing a like number of relevant Shares shall have been surrendered and cancelled.

- 6.2 In the event that the board of Directors resolve that Share Certificates shall be issued pursuant to Article 6.1 hereof, the Company shall deliver the Share Certificates to the subscribers within thirty days from the date such Share Certificates may be issued pursuant to the Statute, the Memorandum, the Articles and the Applicable Public Company Rules, and shall make a public announcement prior to the delivery of such Share Certificates pursuant to the Applicable Public Company Rules.
- 6.3 No Shares may be registered in the name of more than one Member.
- 6.4 If a Share Certificate is defaced, worn out, lost or destroyed, it may be renewed on such terms (if any) as to evidence and indemnity and on the payment of such expenses reasonably incurred by the Company in investigating evidence, as the board of Directors may prescribe, and (in the case of defacement or wearing out) upon delivery of the old Share Certificate.

7 Preferred Shares

- 7.1 The Company may issue Shares with rights which are preferential to those of ordinary Shares issued by the Company ("**Preferred Shares**") with the approval of a majority of the Directors present at a meeting attended by two-thirds or more of the total number of the Directors and with the approval of a Special Resolution.
- 7.2 Prior to the issuance of any Preferred Shares approved pursuant to Article 7.1 hereof, the Articles shall be amended to set forth the rights and obligations of the Preferred Shares, including but not limited to the following terms, and provided that such rights and obligations of the Preferred Shares shall not contradict the mandatory provisions of Applicable Public Company Rules regarding the rights and obligations of such Preferred Shares, and the same shall apply to any variation of rights of Preferred Shares:
- (a) Order, fixed amount or fixed ratio of allocation of Dividends and bonus on Preferred Shares;
 - (b) Order, fixed amount or fixed ratio of allocation of surplus assets of the Company;
 - (c) Order of or restriction on the voting right(s) (including declaring no voting rights whatsoever) of preferred Members;
 - (d) Other matters concerning rights and obligations incidental to Preferred Shares; and
 - (e) The method by which the Company is authorized or compelled to redeem the Preferred Shares, or relevant regulations that redemption rights shall not apply.

8 Issuance of New Shares

- 8.1 The issue of new Shares of the Company shall be approved by a majority of the Directors present at a meeting attended by two-thirds or more of the total number of the Directors. The issue of new Shares shall at all times be subject to the sufficiency of the authorized capital of the Company.
- 8.2 Unless otherwise resolved by the Members in general meeting by Ordinary Resolution, where the Company increases its capital by issuing new Shares for cash, the Company shall, after reserving Shares for Public Offering (defined below) and Shares for Employees' Subscription (defined below) in accordance with Article 8.3, make a public announcement and notify each Member that he/she/it is entitled to exercise a pre-emptive right to purchase his/her/its pro rata portion of any new Shares issued in the capital increase in cash. A waiver of such pre-emptive right may be approved at the same general meeting where the subject issuance of new Shares is approved by the Members. The Company shall state in such announcement and notices to the Members that if any Member fails to purchase his/her/its pro rata portion of the newly-issued Shares within the prescribed period, such Member shall be deemed to forfeit his/her/its pre-emptive right to purchase the newly-issued Shares. Subject to Article 6.3, in the event that Shares held by a Member are insufficient for such Member to exercise the pre-emptive right to purchase one newly-issued Share, Shares held by several Members may be calculated together for joint purchase of newly-issued Shares or for purchase of newly-issued Shares in the name of a single Member pursuant to the Applicable Public Company Rules. If the total number of the new Shares to be issued has not been fully subscribed by the Members within the prescribed period, the Company may offer any un-subscribed new Shares to be issued to the public in Taiwan or to specific person or persons according to the Applicable Public Company Rules.
- 8.3 Where the Company increases its capital in cash by issuing new Shares in Taiwan, the Company shall allocate 10% of the total amount of the new Shares to be issued, for offering in Taiwan to the public unless it is not necessary or appropriate, as determined by the board of Directors according to the Applicable Public Company Rules and/or the instruction of the FSC or TWSE, for the Company to conduct the aforementioned public offering. Provided however, if a percentage higher than the

aforementioned 10% is resolved by a general meeting to be offered, the percentage determined by such resolution shall prevail ("**Shares for Public Offering**"). The Company may reserve 10% to 15% of the total amount of the new Shares to be issued for the subscription by the employees of the Company and its Subsidiaries ("**Shares for Employees' Subscription**"). The Company may restrain the shares subscribed by the aforementioned employees from being transferred or assigned to others within a specific period of time which shall in no case be longer than two years.

- 8.4 Members' rights to subscribe for newly-issued Shares may be transferred independently from the Shares from which such rights are derived. The rules and procedures governing the transfer of rights to subscribe for newly-issued Shares shall be in accordance with policies established by the Company from time to time, which policies shall be in accordance with the Statute, the Memorandum, the Articles and the Applicable Public Company Rules.
- 8.5 The pre-emptive right of Members provided under Article 8.2 shall not apply in the event that new Shares are issued due to the following reasons or for the following purposes: (a) in connection with a Merger with another company, or the Spin-off of the Company, or pursuant to any reorganization of the Company; (b) in connection with meeting the Company's obligations under Share subscription warrants and/or options, including those referenced in Article 11.1 to Article 11.4; (c) in connection with meeting the Company's obligations under convertible bonds or corporate bonds vested with rights to acquire Shares; (d) in connection with meeting the Company's obligations under Preferred Shares vested with rights to acquire Shares; (e) in connection with a Private Placement; (f) in connection with the issue of Restricted Shares in accordance with Article 8.7; or (g) other matters in accordance with the Applicable Public Company Rules.
- 8.6 The periods of notice and other rules and procedures for notifying Members and implementing the exercise of the Members' pre-emptive rights shall be in accordance with policies established by the board of Directors from time to time, which policies shall be in accordance with the Statute, the Memorandum, the Articles and the Applicable Public Company Rules.
- 8.7 Subject to the provisions of the Statute and the Applicable Public Company Rules, the Company may, with the approval of a Supermajority Resolution in a general meeting, issue new Shares with restricted rights to the employees of the Company and its Subsidiaries ("**Restricted Shares**") and the provision of Article 8.2 shall not apply to any such issue of Restricted Shares. The terms of issue of Restricted Shares, including, but not limited to the number, issue price and other relevant conditions shall comply with the Applicable Public Company Rules.
- 8.8 Subject to the provisions of the Statute and the Applicable Public Company Rules, the Company may, by resolutions of the Members passed at a general meeting attended by Members who represent a majority of the outstanding Shares and approved by the Members who represent two-thirds or more of the Shares present and entitled to vote on such resolution, conduct Private Placements, and shall comply with the Applicable Public Company Rules to determine, *inter alia*, the purchaser(s), the types of securities, the determination of the offer price, and the restrictions on transfer of securities of such Private Placement.

9 **Transfer of Shares**

- 9.1 Subject to the Statute and the Applicable Public Company Rules, Shares issued by the Company maybe freely transferable.
- 9.2 Subject to these Articles and the Applicable Public Company Rules, any Member may transfer all or any of his Shares by an instrument of transfer.
- 9.3 The Board may approve to effect transfers of Shares which are not issued physically through relevant systems(including systems of TDCC) without executing share transfer documents. With respect to non-physically issued shares, the Company shall notify holders of these shares to provide (or have a third party designated by such holders to provide) instruction(s) necessary for transfers of shares through relevant systems according to the requirement, equipment and demand of those systems, provided however, that such instructions shall not violate these Articles, Statute and the Applicable Public Companies Rules.

10 **Redemption and Repurchase of Shares**

- 10.1 Subject to the provisions of the Statute, the Memorandum, and the Articles, the Company may purchase its own Shares in the manner and terms to be resolved by the board of Directors from time to time. Notwithstanding the foregoing, for so long as any Shares are listed on the TWSE, the Company may purchase its own shares on such terms as are approved by resolutions of the Directors passed at a meeting of the board of Directors attended by more than two-thirds of members of the board and approved by a majority of the Directors present at such meeting, provided that any such repurchase shall be in accordance with the Applicable Public Company Rules. In the event that the Company proposes to purchase any Shares listed on the TWSE pursuant to this Article, the approval of the board of Directors and the implementation thereof shall be reported to the Members at the next general meeting in accordance with the Applicable Public Company Rules. Such reporting obligation shall apply even if the Company does not implement the repurchase proposal for any reason.

- 10.2 Subject to the provisions of Cayman Islands law, the Statute, the Memorandum, and the Articles, the Company may issue Shares that are to be redeemed or are liable to be redeemed at the option of the Member or the Company. The redemption of such Shares shall be effected in such manner as the Company may, by Special Resolution, determine before the issue of the Shares. The Company may make a payment in respect of the redemption of its own Shares in any manner (including out of capital). After the Company has acquired public company status, the foregoing matter shall be made in accordance with the Applicable Public Company Rules as applied to the Company.
- 10.3 The board of Directors may, upon the purchase or redemption of any Share under Article 10.1 to Article 10.7, determine that such Share shall be held as Treasury Share ("**Repurchased Treasury Shares**"). For Treasury Shares, no dividends shall be distributed or paid, nor shall any distribution of the Company's assets be made (whether in cash or by other means) (including any assets distribution to the Members when the Company is winding up).
- 10.4 Subject to the provisions of the Statute, the Memorandum and the Articles, the board of Directors may determine to cancel a Treasury Share or transfer a Treasury Share to the employees on such terms as they think proper (including, without limitation, for nil consideration). After the Company has acquired public company status, the foregoing matter shall be made in accordance with the Applicable Public Company Rules as applied to the Company.
- 10.5 If the Company repurchases any Shares traded on the TWSE and proposes to transfer the Repurchased Treasury Shares to any employees of the Company or its Subsidiaries at the price below the average repurchase price paid by the Company for Repurchased Treasury Shares (the "**Average Purchase Price**") the Company shall require the approval of a resolution of the Members passed at a general meeting attended by Members who represent a majority of the outstanding Shares and approved by the Members who represent two-thirds or more of the Shares present and entitled to vote on such resolution, and shall specify such motion in the meeting notice of that general meeting in accordance with the Applicable Public Company Rules which shall not be brought up as an ad hoc motion:
- (a) The transfer price, discount rate, calculation basis and reasonability;
 - (b) Number of shares transferred, purpose and reasonability;
 - (c) Qualification of employees' subscription and number of shares employees may subscribe; and
 - (d) Matters affecting equity of the Members:
 - (i) Amounts that may become expenditures, and the dilution of EPS of the Company;
 - (ii) Explain the financial burden caused to the Company by transfer of shares to employees at a price lower than the Average Purchase Price.
- 10.6 The aggregate number of Treasury Shares to be transferred to employees pursuant to Article 10.4 and the aggregate number of Treasury Shares transferred to any individual employee shall be subject to the Applicable Public Company Rules as applied to the Company and shall not exceed a stipulated percent of the Company's total issued, allotted and outstanding Shares as at the date of transfer of any Treasury Shares to the employee. The Company may impose restrictions on the transfer of such Shares by the employee for a period of no more than two years.
- 10.7 Notwithstanding anything to the contrary contained in Article 10.1 to 10.6, and subject to the Statute, the Memorandum and Articles and the Applicable Public Company Rules, the Company may, with the approval of an Ordinary Resolution, compulsorily redeem or repurchase Shares, provided that such Shares shall be cancelled upon redemption or repurchase and such redemption or repurchase will be effected pro rata based on the percentage of shareholdings of the Members. Payments in respect of any such redemption or repurchase, if any, may be made either in cash or by distribution of specific assets of the Company, as specified in the Ordinary Resolution approving the redemption or repurchase, provided that (a) the relevant Shares will be cancelled upon such redemption or repurchase and will not be held by the Company as Treasury Shares, and (b) where assets other than cash are distributed to the Members, the type of assets, the value of the assets and the corresponding amount of such substitutive distribution shall be (i) assessed by an R.O.C. certified public account before being submitted to the Members for approval and (ii) agreed to by the Member who will receive such assets. After the Company has acquired public company status, the foregoing matter shall be made in accordance with the Applicable Public Company Rules as applied to the Company.

11 Employee Incentive Programme

- 11.1 Notwithstanding the provision of Article 8.7 Restricted Shares, the Company may, upon approval by a majority of the Directors at a meeting attended by two-thirds or more of the total number of the Directors, adopt incentive programmes and may issue Shares or options, warrants or other similar instruments, to employees of the Company and its Subsidiaries. The rules and procedures governing such incentive programme(s) shall be in accordance with policies established by the board of Directors from time to time in accordance with the Statute, the Memorandum and the Articles. After the

Company has acquired public company status, the foregoing matter shall be made in accordance with the Applicable Public Company Rules as applied to the Company.

- 11.2 Options, warrants or other similar instruments issued in accordance with Article 11.1 above are not transferable save by inheritance.
- 11.3 The Company may enter into relevant agreements with employees of the Company and the employees of its Subsidiaries in relation to the incentive programme approved pursuant to Article 11.1 above, whereby employees may subscribe, within a specific period of time, a specific number of the Shares. The terms and conditions of such agreements shall be no less restrictive on the relevant employee than the terms specified in the applicable incentive programme.
- 11.4 Directors of the Company and its Subsidiaries shall not be eligible for the employee incentive programmes under Article 8.7 or Article 11.1, provided that directors who are also employees of the Company or its Subsidiaries may participate in an employee incentive programme in their capacity as an employee (and not as a director of the Company or its Subsidiaries).

12 Variation of Rights of Shares

- 12.1 If at any time the share capital of the Company is divided into different classes of Shares, the rights attached to any class, unless otherwise provided by the terms of issue of the Shares of that class, may, whether or not the Company is being wound up, be varied with the sanction of a Special Resolution passed at a general meeting of the holders of the Shares of that class. Notwithstanding the foregoing, if any modification or alteration in the Articles is prejudicial to the preferential rights of any class of Shares, such modification or alteration shall be adopted by a Special Resolution and shall also be adopted by a Special Resolution passed at a separate meeting of Members of that class of Shares.
- 12.2 The relevant provisions of the Articles relating to general meetings shall apply to every class meeting of the holders of the same class of the Shares.
- 12.3 The rights conferred upon the holders of the Shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the Shares of that class, be deemed to be varied by the creation or issue of further Shares ranking *pari passu* therewith.

13 Transmission of Shares

- 13.1 If a Member dies, the survivor or survivors where he was a joint holder, or his legal personal representatives where he was a sole holder, shall be the only persons recognised by the Company as having any title to his interest. The estate of a deceased Member is not thereby released from any liability in respect of any Share which had been jointly held by him.
- 13.2 Any person becoming entitled to a Share in consequence of the death or bankruptcy or liquidation or dissolution of a Member (or in any way other than by transfer) shall give written notice to the Company and, upon such evidence being produced as may from time to time be required by the board of Directors, may elect, by a notice in writing sent by him, either to become the holder of such Share or to have some person nominated by him become the holder of such Share.

14 Amendments of Memorandum and Articles of Association and Alteration of Capital

- 14.1 Subject to the provisions of the Statute, the Applicable Public Company Rules and the Articles, the Company may by Special Resolution:
- (a) change its name;
 - (b) alter or add to these Articles;
 - (c) alter or add to the Memorandum with respect to any objects, powers or other matters specified therein;
 - (d) reduce its share capital and any capital redemption reserve fund; and
 - (e) increase its authorised share capital or cancel any Shares that at the date of the passing of the resolution have not been taken or agreed to be taken by any person, provided that in the event of any change to its authorised share capital, the Company shall also procure the amendment of its Memorandum by the Members at a general meeting to reflect such change.
- 14.2 Subject to the provisions of the Statute, the Applicable Public Company Rules and the Articles, and unless otherwise provided under Article 14.6, the Company shall by a Supermajority Resolution:
- (a) sell, transfer or lease of whole business of the Company or other matters which has a material effect on the Members' rights and interests;
 - (b) discharge or remove any Director;

- (c) approve any action by any Director(s) who is engaging in business for him/herself or on behalf of another person that is within the scope of the Company's business;
 - (d) effect any capitalization of distributable Dividends and/or bonuses and/or any other amount prescribed under Article 35 hereof;
 - (e) effect any Merger(other than a Short-form Merger) or Spin-off(other than a Short-form Spin-off), provided that any Merger which falls within the definition of "merger and/or consolidation" under the Statute shall also be subject to the requirements of the Statute;
 - (f) enter into, amend, or terminate any agreement for lease of the Company's whole business, or for entrusted business, or for frequent joint operation with others;
 - (g) transfer its business or assets, in whole or in any essential part, provided that, the foregoing does not apply where such transfer is pursuant to the dissolution of the Company; and
 - (h) acquire or assume the whole business or assets of another person, which has material effect on the Company's operation.
- 14.3 Subject to the provisions of the Statute, the Articles, and the Applicable Public Company Rules, with regard to the dissolution procedures of the Company, the Company shall pass
- (a) a Supermajority Resolution, if the Company resolves that it be wound up voluntarily because it is unable to pay its debts as they fall due; or
 - (b) a Special Resolution, if the Company resolves that it be wound up voluntarily for reasons other than the reason stated in Article 14.3(a) above.
- 14.4 When the Company returns share capital according to the Statute, and the Articles, the share capital shall be returned in proportion to the shareholdings of the Members.
- 14.5 Subject to the provisions of the Statute and the Articles, if the Company intends to return share capital by assets other than cash, the asset to be returned and the amount to be deducted shall be approved by general meetings and consented by the Member who will receive such asset. Provided that the asset to be returned and the amount to be deducted shall be audited by the certified R.O.C. public accountant before they are submitted by the board of Directors for general meetings' resolution. After the Company has acquired public company status, the foregoing matter shall be made in accordance with the Applicable Public Company Rules as applied to the Company.
- 14.6 Subject to the provisions of the Statute and the Applicable Public Company Rules, the Company shall not, without passing a resolution adopted by not less than two-thirds of votes cast by such Members representing the total number of issued Shares at a general meeting:
- (a) enter into a Merger, in which the Company is not the surviving company and is proposed to be struck-off and thereby dissolved, which results in a delisting of the Shares on the TWSE, and the surviving or newly incorporated company is a Non TWSE-Listed or TPEX-Listed Company;
 - (b) make a general transfer of all the business and assets of the Company, which results in a delisting of the Shares on the TWSE, and the assigned company is a Non TWSE-Listed or TPEX-Listed Company;
 - (c) be acquired by another company as its wholly-owned subsidiary by means of a Share Exchange, which results in a delisting of the Shares on the TWSE, and the acquirer is a Non TWSE-Listed or TPEX-Listed Company; or
 - (d) carry out a Spin-off, which results in a delisting of the Shares on the TWSE, and the surviving or newly incorporated spun-off company is a Non TWSE-Listed or TPEX-Listed Company.
- 15 Registered Office**
- Subject to the provisions of the Statute, the Company may by resolution of the board of Directors change the location of its Registered Office.
- 16 General Meetings**
- 16.1 All general meetings other than annual general meetings are extraordinary general meetings.
- 16.2 The Company shall hold a general meeting as its annual general meeting within six months following the end of each fiscal year, and shall specify the meeting as such in the notices calling it. At these meetings, the report of the Directors (if any) shall be presented.
- 16.3 The Company shall hold an annual general meeting every year.

- 16.4 The general meetings shall be held at such time and place as the Directors shall appoint provided that unless otherwise provided by the Statute or this Article 16.4, the general meetings shall be held in Taiwan in the event the Company has acquired public company status. For general meetings to be held outside Taiwan, after the Company has acquired public company status, the Company shall apply with the TWSE to obtain its approval within two days after the board of Directors resolves to call a general meeting or within two days after the shareholder(s) obtain(s) the approval from competent authorities to convene the same. In addition, where a general meeting is to be held outside Taiwan, the Company shall engage a professional securities agent in Taiwan to handle the administration of such general meeting (including but not limited to the handling of the voting of proxies submitted by Members).
- 16.5 The board of Directors may call general meetings, and they shall on a Member's requisition forthwith proceed to convene an extraordinary general meeting of the Company.
- 16.6 Member(s) who are entitled to submit a Member's requisition as provided in the preceding Article 16.5 are Member(s) of the Company holding at the date of deposit of the requisition not less than 3% of the total number of the outstanding Shares at the time of requisition and whose Shares shall have been held by such Member(s) for at least one year.
- 16.7 The requisition must state in writing the matters to be discussed at the extraordinary general meeting and the reason therefor and must be signed by the requisitionists and deposited at the Registered Office, and may consist of several documents in like form each signed by one or more requisitionists.
- 16.8 If the board of Directors do not within fifteen days from the date of the deposit of the requisition dispatch the notice of an extraordinary general meeting, the requisitionists may themselves convene an extraordinary general meeting in accordance with the Applicable Public Company Rules.

17 Notice of General Meetings

- 17.1 Before the Company has acquired public company status, at least two days' notice to each Member shall be given of any annual general meeting or extraordinary general meeting, or in the event the Company has acquired public company status, at least thirty days' notice to each Member shall be given of any annual general meeting, and at least fifteen days' notice to each Member shall be given of any extraordinary general meeting. Every notice shall be exclusive of the day on which it is given or deemed to be given and of the day for which it is given and shall specify the place, the day and the hour of the meeting and the general nature of the business and shall be given in the manner hereinafter mentioned, or be given via electronic means if agreed thereon by the Members, or be given in such other manner as may be prescribed by the Company, provided that a general meeting of the Company shall, whether or not the notice specified in this regulation has been given and whether or not the provisions of the Articles regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed by all the Members (or their proxies) entitled to attend such general meeting.
- 17.2 Before the Company has acquired public company status, the accidental omission to give notice of a general meeting to, or the non-receipt of a notice of a general meeting by, any Member entitled to receive notice shall not invalidate the proceedings of that general meeting.
- 17.3 After the Company has acquired public company status, the Company shall, at least thirty days prior to any annual general meeting or at least fifteen days prior to any extraordinary general meeting (as the case may be), make public announcement of the notice of such general meeting, instrument of proxy, the businesses and their explanatory materials of any sanction, discussion, election or removal of Directors and transform such information into electronic format and transmitted the same to the Market Observation Post System in accordance with the Applicable Public Company Rules. If the voting power in any general meeting will be exercised by way of a written ballot, the written ballot and the aforementioned information of such general meeting shall together be delivered to each Member. The Directors shall prepare a meeting handbook of relevant general meeting and supplemental materials in accordance with the Applicable Public Company Rules at least twenty-one days prior to any general meeting (or at least fifteen days prior to any extraordinary general meeting), send to or make it available for the Members and transmitted the same to the Market Observation Post System.
- 17.4 The Company shall prepare a meeting handbook of the relevant general meeting and supplemental materials available for inspection by the Members, which will be placed at the office of the Company and the Company's securities agent, distributed at the meeting venue, and transmitted to the Market Observation Post System within the period required by the Applicable Public Company Rules.
- 17.5 Matters pertaining to (a) election or discharge of Directors, (b) alteration of the Articles, and (c) (i) dissolution, Merger (other than a Short-form Merger), Share Exchange (other than a Short-form Share Exchange), or Spin-off (other than a Short-form Spin-off), (ii) entering into, amending, or terminating any contract for lease of the Company's business in whole, or the delegation of management of the Company's business to others or the regular joint operation of the Company with others, (iii) transfer of the whole or any material part of the business or assets of the Company, (iv) acceptance of the transfer of the whole business or assets of another person, which has a material effect on the business operation of the Company, and (d) ratification of an action by Director(s) who engage(s) in business for

him/herself or on behalf of another person that is within the scope of the Company's business, (e) distribution of the whole or a part of the surplus profit of the Company in the form of new Shares, capitalization of statutory reserve and any other amount in accordance with Article 35, and (f) the Private Placement of any equity-type securities issued by the Company, shall be indicated in the notice of general meeting, with a summary of the material content to be discussed, and shall not be brought up as an ad hoc motion.

- 17.6 The board of Directors shall keep the Articles, minutes of general meetings, financial statements, the Register of Members, and the counterfoil of any corporate bonds issued by the Company at the office of the Company's registrar (if applicable) and the Company's securities agent located in Taiwan. The Members may request, from time to time, by submitting document(s) evidencing his/her interests involved and indicating the designated scope of the inspection, access to inspect, review or make copies of the foregoing documents.
- 17.7 The Company shall make all statements and records prepared by the board of Directors and the report prepared by the audit committee, if any, available at the office of its registrar (if applicable) and its securities agent located in Taiwan in accordance with the Statute and the Applicable Public Company Rules. Members may inspect and review the foregoing documents from time to time and may be accompanied by their lawyers or certified public accountants for the purpose of such an inspection and review.

18 Proceedings at General Meetings

- 18.1 No business shall be transacted at any general meeting unless a quorum is present. Unless otherwise provided in the Statute, the Articles and the Applicable Public Company Rules, Members present in person or by proxy, representing more than one-half of the total outstanding Shares, shall constitute a quorum for any general meeting.
- 18.2 The board of Directors shall submit business reports, financial statements and proposals for distribution of profits or covering of losses prepared by it for the purposes of annual general meetings of the Company for ratification or approval by the Members as required by the Applicable Public Company Rules. After ratification or approval by the Members as required by the Statute, the Articles and the Applicable Public Company Rules, the board of Directors shall distribute or make publicly available on the Market Observation Post System the copies of the ratified financial statements and the Company's resolutions on the allocation and distribution of profits or covering of loss, to each Member.
- 18.3 Subject to the Statute, the Articles, and Applicable Public Company Rules, if a quorum is not present at the time appointed for the general meeting, the chairman may postpone the general meeting to a later time, provided, however, that the maximum number of times a general meeting may be postponed shall be no more than two and the total time postponed shall not exceed one hour. If the general meeting has been postponed for two times, but at the postponed general meeting a quorum is still not present, the chairman shall declare the general meeting is dissolved, and if it is still necessary to convene a general meeting, it shall be reconvened as a new general meeting in accordance with the Articles.
- 18.4 If a general meeting is called by the board of Directors, the chairman of the board of Directors shall preside as the chair of such general meeting. In the event that the chairman is on a leave of absence, or is unable to exercise his powers and authorities, the vice chairman of the board of Directors shall act in lieu of the chairman. If there is no vice chairman of the board of Directors, or if the vice chairman of the board of Directors is also on leave of absence, or cannot exercise his powers and authorities, the chairman shall designate a Director to chair such general meeting. If the chairman does not designate a proxy or if such chairman's proxy cannot exercise his powers and authorities, the Directors who are present at the general meeting shall elect one from among themselves to act as the chair at such general meeting in lieu of the chairman. If a general meeting is called by any person(s) other than the board of Directors, the person(s) who has called the meeting shall preside as the chair of such general meeting; and if there is more than one person who has called a general meeting, such persons shall elect one from among themselves to act as the chair of such general meeting.
- 18.5 A resolution put to the vote of the meeting shall be decided on a poll. In computing the required majority when a poll is demanded regard should be had to the number of votes to which each Member is entitled by the Articles.
- 18.6 In the case of an equality of votes, the chairman shall not be entitled to a second or casting vote.
- 18.7 Nothing in the Articles shall prevent any Member from issuing proceedings in a court of competent jurisdiction for an appropriate remedy in connection with the improper convening of any general meeting or the improper passage of any resolution. The Taipei District Court, R.O.C., shall be the court of the first instance for adjudicating any disputes arising out of the foregoing.
- 18.8 Unless otherwise expressly required by the Statute, the Articles or the Applicable Public Company Rules, any matter which has been presented for resolution, approval, confirmation or adoption by the Members at any general meeting may be passed by an Ordinary Resolution.

- 18.9 Subject to the Applicable Public Company Rules, Member(s) holding 1% or more of the total number of issued, allotted, outstanding Shares immediately prior to the relevant book closed period may propose to the Company a proposal for discussion at an annual general meeting in writing to the extent and in accordance with the rules and procedures of general meetings proposed by the Directors and approved by an Ordinary Resolution. Proposals shall not be included in the agenda where (a) the proposing Member(s) holds less than 1% of the total number of outstanding Shares, (b) where the matter of such proposal may not be resolved by a general meeting, (c) the proposing Member has proposed more than one proposal, (d) such proposal contains more than 300 words, or (e) such proposal is submitted on a day beyond the deadline announced by the Company for accepting the Member's proposals.
- 18.10 Unless the Company has acquired public company status in accordance with the Applicable Public Company Rules, a resolution (including a Special Resolution) in writing (in one or more counterparts) signed by all Members for the time being entitled to receive notice of and to attend and vote at general meetings (or, being corporations, signed by their duly authorised representatives) shall be as valid and effective as if the resolution had been passed at a general meeting of the Company duly convened and held.

19 Votes of Members

- 19.1 Subject to any rights or restrictions attached to any Shares, every Member who is present in person or by proxy shall have one vote for every Share of which he is the holder.
- 19.2 No person shall be entitled to vote at any general meeting or at any separate meeting of the holders of a class of Shares unless he is registered as a Member on the record date for such meeting nor unless all calls or other monies then payable by him in respect of Shares have been paid.
- 19.3 Any objection raised to the qualification of any voter by a Member having voting rights shall be referred to the chairman who shall decide in accordance with the applicable laws.
- 19.4 Votes may be cast either personally or by proxy. A Member may appoint only one proxy under one instrument to attend and vote at a meeting.
- 19.5 A Member holding more than one Share is required to cast the votes in respect of his Shares in the same way on any resolution; provided that a Member who holds Shares for the benefit of others may, to the extent permissible by the provisions of the Statute, cast the votes of the Shares in different ways in accordance with the Applicable Public Company Rules.
- 19.6 When convening a general meeting, the Company shall permit the Members to vote by way of an electronic transmission as one of the methods of exercising voting power as well as voting by way of a written ballot. If a general meeting is to be held outside of R.O.C., the methods by which Members are permitted to exercise their voting power shall include voting by way of a written ballot or voting by way of an electronic transmission. Where these methods of exercising voting power are to be available at a general meeting, they shall be described in the general meeting notice given to the Members in respect of the relevant general meeting, and the Member voting by written ballot or electronic transmission shall submit such vote to the Company two days prior to the date of the relevant general meeting. In case that there are duplicate submissions, the first received by the Company shall prevail. A Member exercising voting power by way of a written ballot or by way of an electronic transmission shall be deemed to have appointed the chairman of the general meeting as his proxy to exercise his or her voting right at such general meeting in accordance with the instructions stipulated in the written or electronic document; provided, however, that such appointment shall be deemed not to constitute the appointment of a proxy for the purposes of the Applicable Public Company Rules. The chairman, acting as proxy of a Member, shall not exercise the voting right of such Member in any way not stipulated in the written or electronic document, nor exercise any voting right in respect of any resolution revised at the meeting or any impromptu proposal at the meeting. A Member voting in such manner shall be deemed to have waived notice of, and the right to vote in regard to, any ad hoc resolution or amendment to the original agenda items to be resolved at the said general meeting. Should the chairman not observe the instructions of a Member in exercising such Member's voting right in respect of any resolution, the Shares held by such Member shall not be included in the calculation of votes in respect of such resolution but shall nevertheless be included in the calculation of quorum for the meeting.
- 19.7 A Member who has submitted a vote by written ballot or electronic transmission pursuant to Article 19.6 may, at least two days prior to the date of the relevant general meeting, revoke such vote in the same manner previously used in submitting the vote and such revocation shall constitute a revocation of the proxy deemed to be given to the chairman of the general meeting pursuant to Article 19.6. If a Member who has submitted a written ballot or electronic transmission pursuant to Article 19.6 does not submit such a revocation before the prescribed time, the proxy deemed to be given to the chairman of the general meeting pursuant to Article 19.6 shall not be revoked and the chairman of the general meeting shall exercise the voting right of such Member in accordance with that proxy.
- 19.8 If, subsequent to submitting a written ballot or electronic transmission pursuant to Article 19.6, a Member submits a proxy appointing a person of the general meeting as his proxy to attend the

relevant general meeting on his behalf, then the subsequent appointment of that person as his proxy shall be deemed to be a revocation of such Member's deemed appointment of the chairman of the general meeting as his proxy pursuant to Article 19.6.

20 Proxies

- 20.1 An instrument of proxy shall be in writing, and be personally signed or sealed under the hand of the appointor, or, if the appointor is a corporation under the hand of an officer or attorney duly authorised for that purpose. A proxy need not be a Member of the Company.
- 20.2 In addition to any restrictions provided by the Statute, the Articles and the Applicable Public Company Rules, obtaining an instrument of proxy for attendance of general meetings shall be subject to the following conditions:
- (a) the instrument of proxy shall not be obtained in exchange for money or any other interest, provided that this provision shall not apply to souvenirs for a general meeting distributed on behalf of the Company or reasonable fees paid by the Solicitor to any person mandated to handle proxy solicitation matters;
 - (b) the instrument of proxy shall not be obtained in the name of others; and
 - (c) an instrument of proxy obtained through solicitation shall not be used as a non-solicited instrument of proxy for attendance of a general meeting.
- 20.3 Except for the securities agent, a person shall not act as the proxy for more than thirty Members. Any person acting as proxy for three or more Members shall submit to the Company or its securities agent (a) a statement of declaration declaring that the instruments of proxy are not obtained for the purpose of soliciting on behalf of himself/herself or others; (b) a schedule showing details of such instruments of proxy; and (c) the signed or sealed instruments of proxy, in each case, five days prior to the date of the general meeting.
- 20.4 The Company may mandate a securities agent to act as the proxy for the Members for any general meeting provided that no resolution in respect of the election of Directors is proposed to be voted upon at such meeting. Matters authorized under the mandate shall be stated in the instructions of the instruments of proxy for the general meeting concerned. A securities agent acting as the proxy shall not accept general authorisation from any Member, and shall, within five days after each general meeting of the Company, prepare a compilation report of general meeting attendance by proxy comprising the details of proxy attendance at the general meeting, the status of exercise of voting rights under the instrument of proxy, a copy of the contract, and other matters as required by the R.O.C. securities competent authorities, and maintain the compilation report available at the offices of the securities agent.
- 20.5 Except for a Member appointing the chairman of a general meeting as his proxy through written ballot or electronic transmission in the exercise of voting power pursuant to Article 19.6, or for trust enterprises organized under the law of the R.O.C. or a securities agent approved pursuant to the Applicable Public Company Rules, in the event a person acts as the proxy for two or more Members, the sum of Shares entitled to be voted as represented by such proxy shall be no more than 3% of the total outstanding voting Shares immediately prior to the relevant book closed period; any vote in respect of the portion in excess of such 3% threshold shall not be counted. For the avoidance of doubt, the number of the Shares to be represented by a securities agent mandated by the Company in accordance with Article 20.4 shall not be subject to the limit of 3% of the total number of the outstanding voting Shares set forth herein.
- 20.6 The Shares represented by a person acting as the non-solicited proxy for three or more Members shall not be more than four times of the number of Shares held by such person and shall not exceed 3% of the total number of the outstanding Shares.
- 20.7 In the event that a Member exercises his/her/its voting power by means of a written ballot or by means of electronic transmission and has also authorized a proxy to attend a general meeting, then the voting power exercised by the proxy at the general meeting shall prevail. In the event that any Member who has authorised a proxy to attend a general meeting later intends to attend the general meeting in person or to exercise his voting power by way of a written ballot or electronic transmission, he shall, at least two days prior to such general meeting, serve the Company with a separate notice revoking his previous appointment of proxy. Votes by way of proxy shall remain valid if the relevant Member fails to revoke his appointment of such proxy before the prescribed time.
- 20.8 Each Member is only entitled to execute one instrument of proxy to appoint one proxy. The instrument of proxy shall be deposited at the Registered Office or at such other place as is specified for that purpose in the notice convening the general meeting, or in any instrument of proxy sent out by the Company not less than five days before the time for holding the general meeting or adjourned general meeting at which the person named in the instrument proposes to vote. In case that there are duplicate instruments of proxy received from the same Member by the Company, the first instrument of proxy

received by the Company shall prevail, unless an explicit written statement is made by the relevant Member to revoke the previous instrument of proxy in the later-received instrument of proxy.

- 20.9 The instrument of proxy shall be in the form approved by the Company and be expressed to be for a particular general meeting only. The form of proxy shall include at least the following information: (a) instructions on how to complete such proxy, (b) the matters to be voted upon pursuant to such proxy, and (c) basic identification information relating to the relevant Member, proxy and the Solicitor (if any). The form of proxy shall be provided to the Members together with the relevant notice for the relevant general meeting, and such notice and proxy materials shall be distributed to all Members on the same day.
- 20.10 At a general meeting, each instrument of proxy for such meeting shall be tallied and verified by the Company's securities agent or any other mandated securities agent prior to the time for holding the general meeting. The following matters should be verified:
- (a) whether the instrument of proxy is printed under the authority of the Company;
 - (b) whether the instrument of proxy is signed or sealed by the appointing Member; and
 - (c) whether the Solicitor or proxy (as the case may be) is named in the instrument of proxy and whether the name is correct.
- 20.11 The material contents required to be stated in the instruments of proxy, the meeting handbook or other supplemental materials of such general meeting, the written documents and advertisement of the Solicitor for proxy solicitation, the schedule of the instruments of proxy, the proxy form and other documents printed and published under the authority of the Company shall not contain any false statement or omission.
- 20.12 Votes given in accordance with the terms of an instrument of proxy shall be valid unless notice in writing was received by the Company at the Registered Office or at such other place as is specified for that purpose in the notice convening the general meeting, or in any instrument of proxy sent out by the Company at least two days prior to the commencement of the general meeting, or adjourned general meeting at which it is sought to use the proxy. The notice must set out expressly the reason for the revocation of the proxy, whether due to the incapacity or the lack in authority of the principal at the time issuing the proxy or otherwise.
- 20.13 A Member who has appointed a proxy shall be entitled to make a request to the Company or its securities agent for examining the way in which his instrument of proxy has been used, within seven days after the relevant general meeting.
- 20.14 If a general meeting is to be held outside of the R.O.C. after the Company has acquired public company status, the Company shall engage a professional securities agent within the R.O.C. to handle the voting by the Members.

21 Proxy Solicitation

Subject to the provisions of the Statute and the Articles, matters regarding the solicitation of proxies shall be handled in accordance with the Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies of the R.O.C.

22 Dissenting Member's Appraisal Right

- 22.1 In the event any of the following resolutions is adopted at a general meeting, any Member who has notified the Company in writing of his objection to such a resolution prior to such meeting and has raised again his/her objection at such meeting, may request the Company to buy back all of his/her Shares at the then prevailing fair price:
- (a) The Company enters into, amends, or terminates any agreement for lease of the Company's business in whole, or the delegation of management of the Company's business to other or the regular joint operation of the Company with others;
 - (b) The Company transfers the whole or a material part of its business or assets, provided that, the foregoing does not apply where such transfer is pursuant to the dissolution of the Company; or
 - (c) The Company accepts the transfer of the whole business or assets of another person, which has a material impact on the Company's business operations.
- 22.2 In the event any part of the Company's business is Spun Off (other than a Short-form Spin-off) or involved in any Merger (other than a Short-form Merger) with any other company, the Member, who has expressed his objection therefor, in writing or verbally with a record before or during the general meeting and forfeited his voting right provided, may request the Company to buy back all of his/her Shares at the then prevailing fair price. In the event of a Short-form Merger, a Short-form Spin-off, where at least 90% of the voting power of the outstanding shares of the Company are held by the

other company, participating in the such Merger or Spin-off, the Company shall deliver a notice to each Member immediately after the resolution of board of directors approving such Short-form Merger or Short-form Spin-off and such notice shall state that any Member who expressed his/her/its objection against the Short-form Merger or Short-form Spin-off within the specified period may submit a written objection requesting the Company to buy back all of his/her/its Shares at the then prevailing fair value of such Shares.

- 22.3 The request prescribed in the preceding two Articles shall be delivered to the Company in writing, stating therein the types and numbers of Shares requested to be repurchased, within twenty days after the date of the relevant resolution. In the event the requesting Member and the Company have reached an agreement in regard to the purchase price of the Shares held by such Member (the “**appraisal price**”), the Company shall pay such price within ninety days after the date on which the resolution was adopted. In the event the Company and the requesting Member fail to reach the agreement with respect to the appraisal price within sixty days after the resolution date, the Member may, within thirty days after such sixty-day period, file a petition to any competent court of the R.O.C. for a ruling on the appraisal price, and such ruling by such R.O.C. court shall be binding and conclusive as between the Company and requested Member solely with respect to the appraisal price.

- 22.4 The payment of appraisal price and the delivery of Share Certificate shall comply with the Applicable Public Company Rules.

23 Corporate Members

A Member, who is a corporation, organization or non-natural person entity, may in accordance with its constitutional documents, or in the absence of relevant provision in its constitutional documents by resolution of its board of directors or other governing body, authorise a person as it thinks fit to act as its representative at any meeting of the Company or of any class of Members, and the person so authorised shall be entitled to exercise the same powers on behalf of such corporate Member which he represents as the corporation could exercise if it were an individual Member.

24 Shares that May Not be Voted

- 24.1 Shares in the Company that are held by such Company (including held through such Company's Subsidiaries) shall not vote, directly or indirectly, at any general meeting and shall not be counted in determining the total number of outstanding Shares at any given time.
- 24.2 A Member who has a personal interest in any matter discussed at a general meeting, which interest may be in conflict with those of the Company, shall abstain from voting such Member's Shares in regard to such matter but such Shares shall be counted in for calculating the number of Shares of the Members present at such general meeting for the purposes of determining the quorum. The aforementioned Member shall also not vote on behalf of any other Member.
- 24.3 If a Director creates or has created security over any Shares held by such Director, such Director shall notify the Company of such security. If at any time the number of the pledged Shares held by a Director exceeds half of the Shares held by such Director at the time of his appointment, then the voting rights attached to the Shares held by such Director at such time shall be reduced, such that the Shares over which security has been created which are in excess of half of the Shares held by such Director at the date of his appointment shall not carry voting rights and shall not be counted in the number of votes casted by the Member at a general meeting.

25 Directors

- 25.1 There shall be a board of Directors consisting of no less than five (5) persons and no more than nine (9) persons, including Independent Directors, each of whom shall be appointed to a term of office of three (3) years and is eligible for re-election. The Company may from time to time by resolution of the board of Directors increase or reduce the number of Directors subject to the above number limitation provided that the requirements by relevant laws and regulations (including but not limited to any listing requirements) are met. In the event of any vacancy in the board of Directors or an increase in the number of Directors of the Company, the new Director elected in the general meeting shall fill the vacancy for the residual term of office.
- 25.2 Unless otherwise approved by competent authorities, not more than half of the total number of Directors can have a spousal relationship or familial relationship within the second degree of kinship with any other Directors.
- 25.3 In the event that the Company convenes a general meeting for the election of Directors and any of the Directors elected does not meet the requirements provided in Article 25.2 hereof, the non-qualifying Director(s) who was elected with the fewest number of votes shall be deemed not to have been elected, to the extent necessary to meet the requirements provided in Article 25.2 hereof. Any person who has already served as Director but is in violation of the aforementioned requirements shall be removed from the position of Director automatically.

- 25.4 Unless otherwise permitted under the Applicable Public Company Rules, there shall be at least three (3) Independent Directors. To the extent required by the Applicable Public Company Rules, at least one of the Independent Directors shall be domiciled in the R.O.C. and at least one of the Independent Directors shall have accounting or financial expertise.
- 25.5 Independent Directors shall have professional knowledge and shall maintain independence in discharging their directorial duties, and shall not have any direct or indirect interests in the Company. The professional qualifications, restrictions on shareholdings and concurrent positions, and assessment of independence with respect to Independent Directors shall be governed by the Applicable Public Company Rules.
- 25.6 Any Member(s) holding 3% or more of the Company's issued Shares for at least one year may in writing request the Independent Directors of the Audit Committee to bring action against the Directors on behalf of the Company in a court of competent jurisdiction as the court of first instance. If the Independent Directors fail to bring such action within thirty days after the request by the Member, such Member may bring the action in a court of competent jurisdiction as the court of first instance in the name of the Company.

26 Powers of Directors

- 26.1 Subject to the provisions of the Statute, the Articles, the Applicable Public Company Rules and to any directions given by Ordinary Resolution, Special Resolution or Supermajority Resolution, the business of the Company shall be managed by the board of Directors who may exercise all the powers of the Company. No alteration of the Articles and no such direction shall invalidate any prior act of the board of Directors which would have been valid if that alteration had not been made or that direction had not been given. A duly convened meeting of the board of Directors at which a quorum is present may exercise all powers exercisable by the board of Directors.
- 26.2 All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments and all receipts for monies paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be in such manner as the board of Directors shall determine by resolution.
- 26.3 The board of Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.
- 26.4 The Company may purchase liability insurance for Directors and the board of Directors shall determine the terms of such insurance by resolution, taking into account the standards of the industry in the R.O.C. and overseas.
- 26.5 The Directors shall faithfully carry out their duties with care, and may be held liable for the damages suffered by the Company for any violation of such duty. The Company may by Ordinary Resolution of any general meeting demand the Directors to disgorge any profit realised from such violation and regard the profits realised as the profits of the Company as if such violation was made for the benefit of the Company. The Directors shall indemnify the Company for any losses or damages incurred by the Company if such loss or damage is incurred as a result of a Director's breach of laws or regulations in the course of performing his duties. The Directors and the Company shall jointly and severally indemnify the third party for any losses or damages incurred by such third party if such loss or damage is incurred as a result of a Director's breach of laws or regulations in the course of performing his duties. The aforementioned duties of the Directors shall also apply to the managers of the Company.

27 Appointment and Removal of Directors

- 27.1 The Company may by a majority or, if less than a majority, the most number of votes, at any general meeting elect a Director, which vote shall be calculated in accordance with Article 27.2 below. The Company may by Supermajority Resolution remove any Director. Members present in person or by proxy, representing more than one-half of the total outstanding Shares shall constitute a quorum for any general meeting to elect Director(s).
- 27.2 After the Company has acquired public company status, Directors shall be elected pursuant to a cumulative voting mechanism pursuant to a poll vote, the procedures for which has been approved and adopted by the board of Directors and also by an Ordinary Resolution, where the number of votes exercisable by any Member shall be the same as the product of the number of Shares held by such Member and the number of Directors to be elected ("**Special Ballot Votes**"), and the total number of Special Ballot Votes casted by any Member may be consolidated for election of one Director candidate or may be split for election amongst multiple Director candidates, as specified by the Member pursuant to the poll vote ballot. There shall not be votes which are limited to class, party or sector, and any Member shall have the freedom to specify whether to consolidate all of its votes on one or any number of candidate(s) without restriction. A candidate to whom the ballots cast represent a prevailing number of votes shall be deemed a Director elect, and where more than one Director is being elected, the top candidates to whom the votes cast represent a prevailing number of votes relative to the other candidates shall be deemed directors elect. The rule and procedures for such cumulative voting

mechanism shall be in accordance with policies proposed by the board of Directors and approved by an Ordinary Resolution from time to time, which policies shall be in accordance with the Memorandum, the Articles and the Applicable Public Company Rules.

- 27.3 The Directors shall adopt a candidate nomination mechanism which is in compliance with Applicable Public Company Rules. The rules and procedures for such candidate nomination shall be in accordance with policies proposed by the board of Directors and approved by an Ordinary Resolution from time to time, which policies shall be in accordance with the Statute, the Memorandum, the Articles and the Applicable Public Company Rules. Such candidate nomination mechanism in compliance with Applicable Public Company Rules shall also be used for an election of any Directors in the event the Company has acquired public company status in accordance with Applicable Public Company Rules.
- 27.4 If a Member is judicial person, the authorised representative of such Member may be elected as Director. If such Member has more than one authorised representative, each of the authorised representatives of such Member may be elected as Directors respectively.
- 27.5 Notwithstanding anything to the contrary in Article 27.1 to 27.4, unless the Company has acquired public company status in accordance with Applicable Public Company Rules, the Company may by Ordinary Resolution appoint any person to be a Director or may by Ordinary Resolution remove any Director.

28 Vacation of Office of Director

- 28.1 Notwithstanding anything in the Articles to the contrary, the Company may from time to time by Ordinary Resolution remove all Directors from office before the expiration of their term of office and may elect new Directors in accordance with Article 27.1. and unless the resolution approving such removal and election provides otherwise, all the Directors shall be deemed to have been removed upon the passing of such resolution to elect new Directors prior to the expiration of such Director's applicable term of office.
- 28.2 In the event of any of the following events having occurred in relation to any Director, such Director shall be vacated automatically:
- (a) he gives notice in writing to the Company to resign the office of Director;
 - (b) he dies, becomes bankrupt or makes any arrangement or composition with his creditors generally;
 - (c) an order is made by any competent court or official on the grounds that he is or will be suffering from mental disorder or is otherwise incapable of managing his affairs, or his/her legal capacity is restricted according to the applicable laws;
 - (d) he commits a felony and is subsequently adjudicated guilty by a final judgment, and the time elapsed since he has served the full term of the sentence is less than five years;
 - (e) he commits any criminal offence of fraud, breach of trust or misappropriation and is subsequently punished with imprisonment for a term of more than one year, and the time elapsed since he has served the full term of such sentence is less than two years;
 - (f) he is adjudicated guilty by a final judgment for misappropriating Company or public funds during the time of his service, and the time elapsed after he has served the full term of such sentence is less than two years;
 - (g) he is dishonoured for use of credit instruments, and the term of such sanction has not expired yet;
 - (h) the Members resolve by a Supermajority Resolution that he should be removed as a Director; or
 - (i) during the term of office as a Director, he/she/it has transferred more than one half of the company's shares being held by him/her/it at the time he/she is elected; or
 - (j) Subject to the provisions of the Statute, and the Articles or the Applicable Public Company Rules, in the event that he has, in the course of performing his duties, committed any act resulting in material damage to the Company or in serious violation of applicable laws and/or regulations or the Memorandum and the Articles, but has not been removed by the Company pursuant to a Supermajority Resolution vote, then any Member(s) holding 3% or more of the total number of outstanding Shares shall have the right, within thirty days after that general meeting, to petition any competent court for the removal of such Director, at the Company's expense and such Director shall be removed upon the final judgement by such court. For clarification, if a relevant court has competent jurisdiction to adjudicate all of the

foregoing matters in a single or a series of proceedings, then, for the purpose of this paragraph (i), final judgement shall be given by such competent court.

In the event that the foregoing events described in any of clauses (b), (c), (d), (e), (f) and (g) has occurred in relation to a Director elect, such Director elect shall be disqualified from being elected as a Director.

If any director after having been elected and before his/her/its inauguration of the office of Director, has transferred more than one half of the total number of shares of the company he/she/it holds at the time of his/her/its election as such; or had transferred more than one half of the total number of shares he/she/it held within the share transfer prohibition period fixed prior to the convention of a shareholders' meeting, then his/her/its election as a Director shall become invalid.

29 Proceedings of Directors

- 29.1 The quorum for the transaction of the business of the board of Directors may be fixed by the board of Directors and unless so fixed shall be over one half of the total number of Directors elected. If the number of Directors is less than five (5) persons due to the vacation of Director(s) for any reason, the Company shall hold an election of Director(s) to fill the vacancies at the next following general meeting. When the number of vacancies in the board of Directors of the Company is equal to one third of the total number of Directors elected, the board of Directors shall hold, within sixty days, a general meeting of Members to elect succeeding Directors to fill the vacancies.
- 29.2 Unless otherwise provided by the Statute, the Articles, or the Applicable Public Company Rules, if the number of Independent Directors is less than three due to the vacation of Independent Directors for any reason, the Company shall hold an election of Independent Directors to fill the vacancies at the next following general meeting. Unless otherwise permitted by the Applicable Public Company Rules, if all of the Independent Directors are vacated, the board of Directors shall hold, within sixty days, a general meeting to elect succeeding Independent Directors to fill the vacancies.
- 29.3 Subject to the Statute, the Articles, and the Applicable Public Company Rules, the Directors may regulate their proceedings as they think fit. Any motions shall be decided by a majority of votes. In the case of an equality of votes, the chairman shall not have a second or casting vote.
- 29.4 A person may participate in a meeting of the board of Directors or committee of Directors by video conference. Participation by a person in a meeting in this manner is treated as presence in person at that meeting. The time and place for a meeting of the Directors or committee of Directors shall be at the office of the Company and during business hours or at a place and time convenient to the Directors and suitable for holding such meeting.
- 29.5 A Director may, or other officer of the Company authorized by a Director shall, call a meeting of the board of Directors by at least one day's notice in writing or in the event the Company becomes a public reporting company in accordance with the Applicable Public Company Rules, unless otherwise permitted by the Applicable Public Company Rules, the chairman of the boards shall call a meeting of the board of Directors by at least seven days' notice in writing (which may be a notice delivered by facsimile transmission or electronic mail) to every Director which notice shall set forth the general nature of the business to be considered. In the event of an urgent situation, a meeting of the board of Directors may be held at any time after notice has been given in accordance with the Applicable Public Company Rules.
- 29.6 The continuing Directors may act notwithstanding any vacancy in other Directors' office, but if and so long as the number of continuing Directors is below the minimum number of Directors fixed by or pursuant to the Articles, the continuing Directors or Director may act only for the purpose of summoning a general meeting of the Company, but for no other purpose.
- 29.7 The board of Directors shall, by a resolution, establish rules governing the procedure of meeting(s) of the board of Directors and report such rules to a meeting of Members, and such rules shall be in accordance with the Articles and the Applicable Public Company Rules.
- 29.8 Subject to the Statute, all acts done by any meeting of the board of Directors or of a committee of Directors shall, notwithstanding that it be afterwards discovered that there was some defect in the election of any Director, or that they or any of them were disqualified, the effectiveness of the acts shall be determined in accordance with the applicable laws.
- 29.9 A Director may be represented at any meetings of the board of Directors by a proxy appointed the other director in writing by him. The proxy shall count towards the quorum and the vote of the proxy shall for all purposes be deemed to be that of the appointing Director.

30 Directors' Interests

- 30.1 A Director (except for Independent Director) may hold any other office or place of profit under the Company in conjunction with his office of Director for such period and on such terms as to

remuneration and otherwise as the remuneration committee shall present its recommendations to the board of Directors for discussion and approval.

- 30.2 The Directors may be paid remuneration only in cash. The amount of such remuneration shall be recommended by the remuneration committee and determined by the board of Directors, and take into account the extent and value of the services provided for the management of the Company and the standards of the industry in the R.O.C. and overseas. The Directors shall also be entitled to be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the board of Directors or committees of Directors, or general meetings of the Company, or separate meetings of the holders of any class of Shares or debentures of the Company, or otherwise in connection with the business of the Company, or to receive salaries in respect of their service as Directors as may be recommended by the compensation committee and determined by the board of Directors, or a combination partly of one such method and partly another, provided that any such determination shall be in accordance with the Applicable Public Company Rules.
- 30.3 Unless prohibited by the Statute, the Articles or by the Applicable Public Company Rules, a Director may act on behalf of the Company to the extent authorized by the Company. Such Director or his firm shall be entitled to such remuneration for professional services as if he were not a Director.
- 30.4 A Director who engages in conduct either for himself or on behalf of another person within the scope of the Company's business, shall disclose to Members, at a general meeting prior to such conduct, a summary of the major elements of such interest and obtain the ratification of the Members at such general meeting by a Supermajority Resolution vote. In case a Director engages in business conduct for himself or on behalf of another person in violation of this provision, the Members may, by an Ordinary Resolution, require the disgorgement of any and all earnings derived from such act, except when at least one year has lapsed since the realization of such associated earnings.
- 30.5 A Director who has a personal interest in the matter under discussion at a meeting of the Directors shall disclose the material information of such director's interest at the meeting. If the interest of such director conflicts with or impairs the interest of the Company, such Director shall not be entitled to vote nor exercise voting rights on behalf of another Director; the voting right of such Director who cannot vote or exercise any voting right as prescribed above shall not be counted in the number of votes of Directors present at the board meeting. Where proposals are under consideration concerning a proposed merger and acquisition by the Company, a Director who has a personal interest in the proposed transaction shall disclose at the meeting of the board of Directors and the general meeting, the nature of such director's personal interest and the reason(s) for the approval or objection to the proposed resolution.

31 Minutes

The Directors shall cause minutes to be made in books kept for the purpose of all appointments of officers made by the Directors, all proceedings at meetings of the Company or the holders of any class of Shares and of the Directors, and of committees of Directors including the names of the Directors present at each meeting.

32 Delegation of Directors' Powers

- 32.1 Subject to the Applicable Public Company Rules, the Directors may delegate any of their powers to any committee consisting of one or more Directors. They may also delegate to any managing director or any Director holding any other executive office such of their powers as they consider desirable to be exercised by him provided that the appointment of a managing director shall be revoked forthwith if he ceases to be a Director. Any such delegation may be made subject to any conditions the Directors may impose and either collaterally with or to the exclusion of their own powers and may be revoked or altered. Unless otherwise provided by the Statute or the Applicable Public Company Rules, the proceedings of a committee of Directors shall be governed by the Articles regulating the proceedings of Directors, so far as they are capable of applying.
- 32.2 The Directors may establish any committees or appoint any person to be a manager or agent for managing the affairs of the Company and may appoint any person to be a member of such committees. Any such appointment may be made subject to any conditions the Directors may impose and either collaterally with or to the exclusion of their own powers and may be revoked or altered. Subject to any such conditions, the proceedings of any such committee shall be governed by the Articles regulating the proceedings of Directors, so far as they are capable of applying.
- 32.3 The Directors may by power of attorney or otherwise appoint any person to be the agent of the Company on such conditions as the Directors may determine, provided that the delegation is not to the exclusion of their own powers and may be revoked by the Directors at any time.
- 32.4 The Directors may by power of attorney or otherwise appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or authorised signatory of the Company for such purpose and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under the Articles) and for such period and subject to such conditions as they may think fit, and any such powers of attorney or other appointment

may contain such provisions for the protection and convenience of persons dealing with any such attorneys or authorised signatories as the Directors may think fit and may also authorise any such attorney or authorised signatory to delegate all or any of the powers, authorities and discretions vested in him.

- 32.5 The Directors shall appoint a chairman and may appoint such other officers as they consider necessary on such terms, at such remuneration and to perform such duties, and subject to such provisions as to disqualification and removal as the Directors may think fit. Unless otherwise specified in the terms of his appointment an officer may be removed by resolution of the Directors.
- 32.6 Notwithstanding anything to the contrary contained in Article 32.1 to Article 32.9, unless otherwise permitted by the Applicable Public Company Rules, the Directors shall establish an audit committee comprised of all of the Independent Directors, one of whom shall be the chairman, and at least one of whom shall have accounting or financial expertise. A resolution of the audit committee shall be passed by one-half or more of all members of such committee. The rules and procedures of the audit committee shall be in accordance with policies proposed by the members of the audit committee and passed by the Directors from time to time, which shall be in accordance with the Statute, the Memorandum, the Articles and the Applicable Public Company Rules and the instruction of the FSC or TWSE, if any. The Directors shall, by a resolution, adopt a charter for the audit committee in accordance with these Articles and the Applicable Public Company Rules.
- 32.7 Any of the following matters of the Company shall require the consent of one-half or more of all audit committee members and be submitted to the board of Directors for resolution:
- (a) Adoption or amendment of an internal control system of the Company;
 - (b) Assessment of the effectiveness of the internal control system;
 - (c) Adoption or amendment of handling procedures for significant financial or operational actions, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, or endorsements or guarantees on behalf of others;
 - (d) A matter where a Director has a personal interest;
 - (e) A material asset or derivatives transaction;
 - (f) A material monetary loan, endorsement, or provision of guarantee;
 - (g) The offering, issuance, or Private Placement of any equity-type securities;
 - (h) The hiring or dismissal of an attesting certified public accountant, or the compensation given thereto;
 - (i) The appointment or removal of a financial, accounting, or internal auditing officer;
 - (j) Annual and semi-annual financial reports;
 - (k) Any other matters so determined by the Company from time to time or required by any competent authority overseeing the Company; and
 - (l) Any other matters in accordance with the Applicable Public Companies Rules.

Except for item (j) above, any matter under subparagraphs (a) through (k) of the preceding paragraph that has not been approved with the consent of one-half or more of the audit committee members may be undertaken only upon the approval 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.

- 32.8 The Directors shall establish a remuneration committee in accordance with the Applicable Public Company Rules. The number of members of the remuneration committee, professional qualifications, restrictions on shareholdings and position that a member of the remuneration committee may concurrently hold, and assessment of independence with respect to the members of the remuneration committee shall comply with the Applicable Public Company Rules. The remuneration committee shall comprise of no less than three members, one of which shall be appointed as chairman of the remuneration committee. The rules and procedures for convening any meeting of the remuneration committee shall comply with policies proposed by the members of the remuneration committee and approved by the Directors from time to time, provided that the rules and procedures approved by the Directors shall be in accordance with the Statute, the Memorandum, the Articles and the Applicable Public Company Rules and any directions of the FSC or TWSE. The Directors shall, by a resolution, adopt a charter for the remuneration committee in accordance with these Articles and the Applicable Public Company Rules.

- 32.9 The remuneration referred in the preceding Article shall include the compensation, salary, stock options and other incentive payment to the Directors and managers of the Company. Unless otherwise specified by the Applicable Public Company Rules, the managers of the Company for the purposes of this Article 32.9 shall mean executive officers as defined by the rules and procedures governing the remuneration committee.

33 Seal

- 33.1 The Company may, if the Directors so determine, have a Seal. The Seal shall only be used by the authority of the Directors or of a committee of the Directors authorised by the Directors. The use of Seal shall be in accordance with the use of Seal policy adopted by the Directors from time to time.
- 33.2 The Company may have for use in any place or places outside the Cayman Islands a duplicate Seal or Seals, each of which shall be a facsimile of the common Seal of the Company and kept under the custody of a person appointed by the Directors, and if the Directors so determine, with the addition on its face of the name of every place where it is to be used.
- 33.3 A person authorized by the Directors may affix the Seal over his signature alone to any document of the Company required to be authenticated by him under seal or to be filed with the Registrar of Companies in the Cayman Islands or elsewhere wheresoever.

34 Dividends, Distributions and Reserve

- 34.1 The Company shall set aside no more than 3% of its annual profits as bonus to employees of the Company and set aside no more than 1% of its annual profits as bonus to Directors, provided however that the Company shall first offset its losses in previous years that have not been previously offset. The distribution of bonus to employees may be made by way of cash or Shares, which may be distributed under an incentive programme approved pursuant to Article 11.1 above. The employees under Article 34.1 may include certain employees of the Subsidiaries who meet the conditions prescribed by the Company. The distribution of bonus to employees shall be approved by a majority of the Directors present at a meeting attended by two-thirds or more of the total number of the Directors and shall be reported to the Members at the general meeting. A Director who also serves as an executive officer of the Company and/or its Subsidiaries may receive a bonus in his capacity as a Director and a bonus in his capacity as an employee.
- 34.2 As the Company is in the growing stage, the dividend distribution may take the form of a cash dividend and/or stock dividends and shall take into consideration the Company's capital expenditures, future expansion plans, and financial structure and funds requirement for sustainable development needs etc. Unless otherwise required by the Statute and the Applicable Public Company Rules, the Directors shall prepare a proposal for distribution of profits in accordance with the procedures and sequence set out below and submit such proposal for the Members' approval by an Ordinary Resolution at any general meeting should there be profits upon a final annual accounting of the Company for a fiscal year:
- (a) the proposal shall begin with the Company's Annual Net Income after tax;
 - (b) offset its losses, if any, that have not been previously offset;
 - (c) set aside a statutory capital reserve of 10% in accordance with the Applicable Public Company Rules except where the statutory surplus reserve has already reached the Company's paid-in capital;
 - (d) set aside a special capital reserve in accordance with the Applicable Public Company Rules or as requested by the authorities in charge; and
 - (e) after deducting the aforementioned amounts listed in subsection (a) to (d) from the profits of the current year, the distributable profits shall include the accumulated profits not distributed previously. A proposal for distribution of profits shall be submitted by the Directors for the Members' approval at a general meeting pursuant to the Applicable Public Company Rules prior to distribution. Distribution of Dividends may be made by way of cash dividends and/or stock dividends and the total amount of Dividends shall not be lower than 10% of the profits of the then current year after deducting the aforementioned amounts listed in subsection (a) to (d), and the percentage of cash dividends to be distributed shall not be less than 10% of the total amount of Dividends.
- 34.3 Subject to the Statute and this Article, and the Applicable Public Company Rules, the Directors may declare Dividends and distributions on Shares in issue and authorise payment of the Dividends or distributions out of the funds of the Company lawfully available therefor. No Dividend or distribution shall be paid except out of the realised or unrealised profits of the Company, or out of the share premium account or as otherwise permitted by the Statute.
- 34.4 Except as otherwise provided by the rights attached to Shares, all Dividends shall be declared and paid in proportion to the number of Shares that a Member holds. If any Share is issued on terms

providing that it shall rank for Dividend as from a particular date that Share shall rank for Dividend accordingly.

- 34.5 Subject to the Statute, the Articles and the Applicable Public Company Rules, the Directors may deduct from any Dividend or distribution payable to any Member all sums of money (if any) then payable by him to the Company on any account.
- 34.6 Subject to the Statute, the Articles and the Applicable Public Company Rules, the Directors may, after obtaining an Ordinary Resolution, declare that any distribution other than a Dividend be paid wholly or partly by the distribution of specific assets and in particular of shares, debentures, or securities of any other company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the basis of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees as may seem expedient to the Directors.
- 34.7 Any Dividend, distribution, interest or other monies payable in cash in respect of Shares may be paid by wire transfer to the holder or by cheque or warrant sent through the post directed to the registered address of the holder. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent.
- 34.8 No Dividend or distribution shall bear interest against the Company.
- 34.9 Subject to the Statute, the Articles and the Applicable Public Company Rules, any Dividend which cannot be paid to a Member and/or which remains unclaimed after six months from the date of declaration of such Dividend may, in the discretion of the Directors, be paid into a separate account in the Company's name, provided that the Company shall not be constituted as a trustee in respect of that account and the Dividend shall remain as a debt due to the Member. Any Dividend which remains unclaimed after a period of six years from the date of declaration of such Dividend shall be forfeited and shall revert to the Company.

35 Capitalisation

Subject to Article 14.2(d), the Directors may capitalise any sum standing to the credit of any of the Company's reserve accounts (including share premium account and capital redemption reserve fund) or any sum standing to the credit of profit and loss account or otherwise available for distribution and to appropriate such sum to Members in the proportions in which such sum would have been divisible amongst them had the same been a distribution of profits by way of Dividend and to apply such sum on their behalf in paying up in full unissued Shares for allotment and distribution credited as fully paid-up to and amongst them in the proportion aforesaid. In such event the Directors shall do all acts and things required to give effect to such capitalisation, with full power to the Directors to make such provisions as they think fit such that Shares shall not become distributable in fractions (including provisions whereby the benefit of fractional entitlements accrue to the Company rather than to the Members concerned). The Directors may authorise any person to enter on behalf of all of the Members interested into an agreement with the Company providing for such capitalisation and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

36 Tender Offer

After the receipt of the copy of a tender offer application form, prospectus and relevant documents by the Company or its litigation or non-litigation agent appointed, the board of the Directors shall proceed with the process of the tender offer subject to the Applicable Public Company Rules.

37 Books of Account

- 37.1 The Directors shall cause proper books of account to be kept with respect to all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place, all sales and purchases of goods by the Company and the assets and liabilities of the Company. Proper books shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.
- 37.2 The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Members not being Directors and no Member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by Statute or authorised by the Directors or by the Company in general meeting.
- 37.3 The Directors may from time to time cause to be prepared and to be laid before the Company in general meeting profit and loss accounts, balance sheets, group accounts (if any) and such other reports and accounts as may be required by the Statute, the Articles and the Applicable Public Company Rules.

- 37.4 Subject to applicable law, after the Company becomes a public reporting company, minutes and written records of all meetings of Directors, any committees of Directors, and any general meeting shall be made in the Chinese language with an English translation. In the event of any inconsistency between the Chinese language version and the relevant English translation, the Chinese language version shall prevail, except in the case where a resolution is required to be filed with the Registrar of Companies of Cayman Islands, in which case the English language version shall prevail.
- 37.5 Subject to the Statute, the instruments of proxy, documents, forms/statements and information in electronic media prepared in accordance with the Articles and relevant rules and regulations shall be kept for at least one year. However, if a Member institutes a lawsuit with respect to such instruments of proxy, documents, forms/statements and/or information mentioned herein, they shall be kept until the conclusion of the litigation if longer than one year.

38 Notices

- 38.1 Notices shall be in writing and may be given by the Company to any Member either personally or by sending it by courier, post, cable, telex, or e-mail to him or to his address as shown in the Register of Members (or where the notice is given by e-mail by sending it to the e-mail address provided by such Member). Any notice, if posted from one country to another, is to be sent by airmail.
- 38.2 Where a notice is sent by courier, service of the notice shall be deemed to be effected by delivery of the notice to a courier company, and shall be deemed to have been received on the third day (not including Saturdays or Sundays or public holidays) following the day on which the notice was delivered to the courier. Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, pre paying and posting a letter containing the notice, and shall be deemed to have been received on the fifth day (not including Saturdays or Sundays or public holidays) following the day on which the notice was posted. Where a notice is sent by cable, or telex, service of the notice shall be deemed to be effected by properly addressing and sending such notice and shall be deemed to have been received on the same day that it was transmitted. Where a notice is given by e-mail service shall be deemed to be effected by transmitting the e-mail to the e-mail address provided by the intended recipient and shall be deemed to have been received on the same day that it was sent, and it shall not be necessary for the receipt of the e-mail to be acknowledged by the recipient.
- 38.3 A notice may be given by the Company to the person or persons which the Company has been advised are entitled to a Share or Shares in consequence of the death or bankruptcy of a Member in the same manner as other notices which are required to be given under the Articles and shall be addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description at the address supplied for that purpose by the persons claiming to be so entitled, or at the option of the Company by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.
- 38.4 Notice of every general meeting shall be given in any manner hereinbefore authorised to every person shown as a Member in the Register of Members on the record date for such meeting and every person upon whom the ownership of a Share devolves by reason of his being a legal personal representative or a trustee in bankruptcy of a Member of record where the Member of record but for his death or bankruptcy would be entitled to receive notice of the meeting, and no other person shall be entitled to receive notices of general meetings.

39 Winding Up

- 39.1 If the Company shall be wound up, and the assets available for distribution amongst the Members shall be insufficient to repay the whole of the share capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the Members in proportion to the number of the Shares held by them. If in a winding up the assets available for distribution amongst the Members shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst the Members in proportion to the number of the Shares held by them at the commencement of the winding up subject to a deduction from those Shares in respect of which there are monies due, of all monies payable to the Company. This Article is without prejudice to the rights of the holders of Shares issued upon special terms and conditions.
- 39.2 If the Company shall be wound up, the liquidator may, with the sanction of a Special Resolution of the Company and any other sanction required by the Statute and in compliance with the Applicable Public Company Rules, divide amongst the Members in proportion to the number of Shares they hold the whole or any part of the assets of the Company in kind (whether they shall consist of property of the same kind or not) and may for that purpose value any assets and determine how the division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the Members as the liquidator, with the like sanction, shall think fit, but so that no Member shall be compelled to accept any asset upon which there is a liability.

40 Financial Year

Unless the Directors otherwise prescribe, the financial year of the Company shall end on 31st December in each year and, following the year of incorporation, shall begin on 1st January in each year.

41 Transfer by way of Continuation

If the Company is exempted as defined in the Statute, it shall, subject to the provisions of the Statute and with the approval of a Special Resolution, have the power to register by way of continuation as a body corporate under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

42 Litigation and Non-Litigation Agent in the R.O.C.

Subject to the provisions of the Statute, the Company shall, by a resolution of the Directors, appoint or remove a natural person domiciled or resident in the territory of the R.O.C. to be its litigation and non-litigation agent in the R.O.C., pursuant to the Applicable Public Company Rules, and under which the litigation and non-litigation agent shall be the responsible person of the Company in the R.O.C. The Company shall report such appointment and any change thereof to the competent authorities in the R.O.C. pursuant to the Applicable Public Company Rules.

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【APPENDIX 4】

Directors holding shares

董事及持股超過 10%股東及其持股比例：（shareholders' meeting date：2019/6/10）					
<u>Position</u>	<u>Name</u>	<u>%</u>	<u>Position</u>	<u>Name</u>	<u>%</u>
Board of Director	Chuang, Kuo-Ching	0.00%	Independent Director	Lin, Chen-Hsiang	0.00%
Director	Chuang, Hui-Huang	0.00%	Independent Director	Lin, Shih-Hsun	0.00%
Director	CHEN TUYAN	0.00%	Independent Director	Wang, Liang-En	0.00%
Director	Hsu, Jui-Hsia	0.00%			

【APPENDIX 5】

Shareholder proposal related information

Shareholders' proposal for holding more than one percent of the total number of issued shares of the company

1. According to one of the provisions of Article 172 of the Company Law, a shareholder holding more than one percent of the total number of issued shares of the company can submit a proposal to the company in writing for the current 2019 shareholders' meeting. The proposal time is from April 8, 2019 to April 18, 2019.
2. The shareholder's proposal for the 2019 shareholders' meeting to hold more than one percent of the total issued shares of the company: Yes.