

# Zhen Ding Technology Holding Limited

## 2018

## Annual Report

**Annual Report Website: Market Observation Post System**

**(<http://mops.twse.com.tw>)**

**Company Website: <http://www.zdtco.com>**

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THIS IS A TRANSLATION OF THE 2018 ANNUAL REPORT (THE “ANNUAL REPORT”) OF ZHEN DING TECHNOLOGY HOLDING LIMITED (THE “COMPANY”). THIS TRANSLATION IS INTENDED FOR REFERENCE ONLY AND NOTHING ELSE, THE COMPANY HEREBY DISCLAIMS ANY AND ALL LIABILITIES WHATSOEVER FOR THE TRANSLATION. THE CHINESE TEXT OF THE ANNUAL REPORT SHALL GOVERN ANY AND ALL MATTERS RELATED TO THE INTERPRETATION OF THE SUBJECT MATTER STATED HEREIN.

# ZHEN DING TECHNOLOGY HOLDING LIMITED

## Addresses and telephone numbers of the head office, main areas of operation, subsidiary companies, and branch companies.

### Head Office:

Zhen Ding Technology Holding Limited

Address: P.O. Box 31119, Grand Pavilion Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands

Telephone: (886)3-383-5678

### Subsidiary companies:

(1) Coppertone Enterprises Limited

Address: Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands

Telephone: (886)3-383-5678

(2) FAT Holdings Limited

Address: P.O. Box 31119, Grand Pavilion Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands

Telephone: (886)3-383-5678

(3) Mayco Industrial Limited

Address: Suite 1222, 12/F., Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong

Telephone: (886)3-383-5678

(4) Monterey Park Finance Limited

Address: Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands

Telephone: (886)3-383-5678

(5) Pacific Fair International Limited

Address: Suite 1222, 12/F., Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong

Telephone: (886)3-383-5678

(6) Garuda International Limited

Address: Unit B,26/F., C.K.K. Commercial Centre, 289 Hennessy Road, WanChai, Hong Kong

Telephone: (886)3-383-5678

(7) Henley International Limited

Address: Flat/RM705-6, 7/F, China Insurance Group Building, 141 Des Voeux Road, Central, Hong Kong.

Telephone: (886)3-383-5678

(8) Avary Holding (Shenzhen) Co., Ltd.

Address: AVARY Park, Songluo Road, Yanchuan Community, Yanluo Street, Bao'an District, Shenzhen, Guangdong Province, China

Telephone: (86)755-3381-0388

(9) Fubo Industry (Shenzhen) Co., Ltd.

Address: AVARY Park, Songluo Road, Yanchuan Community, Yanluo Street, Bao'an District, Shenzhen, Guangdong Province, China

Telephone: (86)755-3381-0388

(10) Yunding Technology (Shenzhen) Co., Ltd.

Address: AVARY Park, Songluo Road, Yanchuan Community, Yanluo Street, Bao'an District, Shenzhen, Guangdong Province, China

Telephone: (86)755-3381-0388

(11) Kuisheng Technology (Shenzhen) Co., Ltd.

Address: AVARY Park, Songluo Road, Yanchuan Community, Yanluo Street, Bao'an District, Shenzhen, Guangdong Province, China

Telephone: (86)755-3381-0388

(12) Hongqunsheng Precision Electronics (Yingkou) Co., Ltd.

Address: No.196, XinHai Street, Coastal Industrial Base, Yingkou, Liaoning Province, China

Telephone: (86)417-3286-688

(13) Hongqisheng Precision Electronics (Qinhuangdao) Co., Ltd.

Address: No.18, Tengfei Road, Qinhuangdao Economic and Technological Development Zone, Hebei Province, China (within the Comprehensive Bonded Zone)

Telephone: (86)335-5308-888

(14) Honghengsheng Electronical Technology (Huai'an) Co., Ltd.

Address: No.168, Fushikang Road, Huai'an Economic and Technological Development Zone, Jiangsu Province, China

Telephone: (86)517-8351-6888

(15) Yuding Precision Electronics (Huaian) Co., Ltd.

Address: No. 18, Pengding Road, Huai'an Economic and Technological Development Zone, Jiangsu Province, China

Telephone: (86)517-8351-6888

(16) Qingding Precision Electronics (Huaian) Co., Ltd.

Address: No. 8, Pengding Road, Huai'an Economic and Technological Development Zone, Jiangsu Province, China

Telephone: (86)517-8351-6888

(17) Zhen Ding Technology Co., Ltd.

Address: No.6, Lane 28, Sanho Road, Sanshi Village, Dayuan District, Taoyuan City, Taiwan, R.O.C.

Telephone: (886)3-383-5678

(18) Qiding Technology Qinhuangdao Co., Ltd.

Address: No.18, Tengfei Road, Qinhuangdao Economic and Technological Development Zone, Hebei Province, China

Telephone: (86)335-7138-888

(19) Garuda Technology Co., Ltd.

Address: Building 4, No.156, Zhongshan Road Section 1, Banqiao District, Xinbei, Taiwan, R.O.C.

Telephone: (886)2-2957-7088

(20) Huai'an Jiawei Industrial Development Co., Ltd.

Address: Room A306, Building 2, No. 111, Yingbin Avenue, Huai'an Economic and Technological Development Zone, Jiangsu Province, China

Telephone: (86) 517-8351-6888

## List of the Board of Directors

Title	Name	Nationality	Experience (Education)
Chairman	Chang-Fang Shen	Republic of China	General Manager, Unicap Electronics Industrial Corp. General Manager, Promisedland Resort Executive Vice President, Pacific Securities Vice President of Underwriting, Asia Securities Section Chief, Export-Import Bank of the Republic of China Department of Business Administration, Chinese Culture University
Director	Foxconn (Far East) Limited Representative: Che-Hung Yu	Republic of China	Director, Avary Holding (Shenzhen) Co., Ltd. Director, ShunSin Technology Holdings Limited Master in Law, American University, United States
Director	Wide Choice Investments Limited. Representative: Te-Wang Hsiao	Republic of China	Deputy Manager, Foxconn Technology Group Special Assistant, Unicap Electronics Industrial Corp. Master's degree, Cornell University, United States
Director	Chiu-Fong Huang	Republic of China	Chairman, Usun Technology Co., Ltd. Chairman, Usun Materials Science Co., Ltd. Taipei City University of Science and Technology
Independent Director	John-See Lee	Republic of China	President, Industrial Technology Research Institute Chairman, Development Center for Biotechnology PhD in Chemical Engineering, Illinois Institute of Technology
Independent Director	Chih-Chen Chou	Republic of China	CPA and Managing Partner of Taipei Office, WeTec International CPAs Chairman, Taiwan Provincial Accountant Association PhD in Accounting, Shanghai University of Finance and Economics
Independent Director	Tung-Sheng Hsu	Republic of China	Partner, Pamir Law Group (Taiwan Taipei) Partner, Direction International Law Offices (Taiwan Taipei) Bachelor of Law, National Chengchi University

**Designated Domestic Agent**

Name: Chang-Fang Shen

Title: Chairman

Tel: (03) 383-5678

Email: zdt-ir@zdtco.com

**Spokesperson**

Name: Tun Ling

Title: Senior Manager

Tel: (03) 383-5678

Email: zdt-ir@zdtco.com

**Deputy Spokesperson**

Name: Jin-Ten Chang

Title: Senior Deputy Manager

Tel: (03) 383-5678

Email: zdt-ir@zdtco.com

**Stock Transfer Handling Agency**

Name: Stock Affairs Department, Grand Fortune Securities Co., Ltd.

Address: 6F, No. 6, Section 1, Zhongxiao West Road, Zhongzheng District, Taipei City, 10041

Tel: (02) 2371-1658

URL: [www.gfortune.com.tw](http://www.gfortune.com.tw)

**CPAs Auditing the Financial Statements in Recent Fiscal Year**

Name: Sheng-Chung Hsu, CPA and Yung-Chien Hsu, CPA

Name of Firm: PwC Taiwan

Address: 27F, No. 333, Section 1, Keelung Road Xinyi District, Taipei City 11012

Tel: (02) 2729-6666

URL: <http://www.pwc.tw>

**Name of the stock exchange for traded overseas securities and method of inquiry:**

Trading place for listing and trading of overseas securities and method of inquiry:

Singapore Exchange URL: <http://www.sgx.com>

Taipei Exchange URL: <http://www.tpex.org.tw>

**Corporate Website**

URL: <http://www.zdtco.com>

# Zhen Ding Technology Holding Limited

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## **Chapter 1 Letter to Shareholders**

### **Zhen Ding Technology Holding Limited**

#### **Letter to Shareholders**

The impact of the trade war between China and the United States has caused political and economic uncertainty globally over the past year of 2018. Despite the disturbance of global economy, we have achieved great results through the collaboration with leading customer worldwide. With rigorous production management and comprehensive technology services, we reached historical record highs in both revenue and profitability.

In addition, our overseas subsidiary company, Avary Holding, was officially listed on the Shenzhen Stock Exchange on September 18, 2018. This new milestone will enable us to obtain financial resources for the Company's future strategic development, as well as to attract more top talents, making the Company more competitive.

The Company's 2018 business overview and 2019 future outlook are as follows:

#### **I. 2018 Business Overview**

##### **(I) Financial Results**

The Company's consolidated revenue for 2018 was NT\$117.91 billion, an increase of 8% compared to NT\$109.24 billion in 2017. Net income was NT\$11.54 billion (net income attributable to the parent company was NT\$8.45 billion), an increase of 70% from NT\$6.77 billion in 2017 (net income attributable to the parent company was NT\$5.17 billion). The consolidated earnings per share (EPS) was NT\$14.34 (consolidated EPS attributable to the parent company was NT\$10.50).

##### **(II) Technology Development**

We are devoted to drive excellence in product quality and technology innovation. Our annual investment in technology research and development accounts for 5% of total revenue. The Company continues to demonstrate its world's leading innovation among international peers with accumulated applications of 1,851 patents that received in Taiwan, China, the United States, Japan and etc. As of today, we have a total of 787 valid licenses.

In terms of products, we have full-fledged capabilities in design, R&D, manufacturing, and sales. Our one-stop service can provide a board product portfolio, including Flex Printed Circuit (FPC), Rigid Printed Circuit Board (RPCB), High Density Interconnector (HDI), Substrate-like PCB (SLP), Chip on Film (COF), Rigid Flex Hybrid Board, and IC Substrate (ICS).

The Company's R&D is to focus on new technologies, new products, new manufacturing processes, new material, and new equipments, which can drive more business opportunities for product applications for AI, 5G, automotive electronics, and biomedical segments.

In addition to our won research and development, the Company also partner with multiple well-known academic institutions in both China and Taiwan to apply theoretic knowledge into hands-on experience. At the same time, we also set up a dedicated team to engage in the execution of R&D and technology

investment with the strategic goals of self-developed technology and material, thereby strengthening the Company's leading position in the industry.

### (III) Environmental protection energy conservation

Protecting our environment is an international trend. In recent years, the demand for environmental protection in China has continued to increase. Not only have the various environmental protection standards and regulations introduced become stricter, but law enforcement has also been strengthened. With the set-up of environmental protection inspection teams in China, multiple companies in the industry have been fined, shut down or rectified.

The Company has always focused on its corporate development goals of establishing a new environmentally friendly PCB production base. With 202 auditing have been conducted by government and customers over the course of last year, the Company not only meets the requirements but also receives 59 honors for Green Demonstration and Energy Saving presented by the government and customers. The Company has continuously reinforced environmental protection and emissions reduction based on standards that are higher than our peers since the establishment. We have therefore been recognized by the government and customers through our outstanding performance in such a difficult environment.

## II. 2019 Outlook

Despite uncertainties in the external environment in 2019, the Company shall uphold the business strategy of "stable growth, structural adjustments, innovation promotion, and risk control" to actively transform and implement the IT-based management system. We seek to accelerate the development of the Industrial Internet and continue to enhance the establishment of our corporate culture. We shall increase the quality and knowledge of our employees and recruit more talents into our team to expand the Company's business scope and improve the Company's inner qualities. In addition, we shall leverage external momentum to achieve continuous growth.

2019 shall be an extraordinary year and a year of important transformation for the Company. Crises present opportunities. With the solid foundation built by our employees throughout the years, the Company shall grasp opportunities and achieve success again. We shall jointly maximize the interest of the Company and shareholders, fulfill our corporate social responsibilities, and give back to society.

Chairman: Chang-Fang Shen

## **Chapter 2 Company Overview**

### **I. Date of Incorporation: June 5, 2006**

### **II. Company and Group Profile:**

#### **(I) Company Profile**

Zhen Ding Technology Holding Limited was established on June 5, 2006. Its main investment in manufacturing companies includes Avary Holding (Shenzhen) Co., Ltd., which is officially listed on the Shenzhen Stock Exchange on September 18, 2018 (stock symbol: 002938.SZ) and Qiding Technology Qinhuangdao Co., Ltd. Avary Holding mainly produces PCB products and Qiding Technology Qinhuangdao Co., Ltd. mainly produces semiconductor-related products. Products are widely used in computing, consumer electronics, communication, networking, automotive, and medical sectors.

Under the leadership of Chairman Chang-Fang Shen, Zhen Ding Holding Group has a management team with extensive experience. The Company cooperates with world's leading customers and uses advanced technologies to establish a comprehensive manufacturing base with high efficiency and low cost. The aim is to develop an efficient, reasonable, automated, and unmanned modern manufacturing process. According to Prismark Printed Circuit's latest report in February 2019, the Company is ranked as the largest PCB manufacturing company in the world.

While pursuing innovation, the pollution prevention and resources recycling are the Company's social responsibilities and the foundation of sustainable development. Therefore, our investee companies and subsidiary companies have taken on the responsibility of establishing new production sites that meet environmental protection standards and implement pollution prevention and wastewater treatment standards that are superior to government regulations.

All current investees and subsidiary companies have passed clean production reviews and they continue to implement greenhouse gas inventory and other carbon emissions reduction management to promote ideals of green environmental protection and establish a green corporate culture. Environmental protection is the most important responsibility and mission of the Company.

All employees of the Company and subsidiaries shall maintain a positive and aggressive attitude and focus on their production and operations to create a comprehensive industry platform and develop related industry. The ultimate goal is continuously promote the Company's leading position in the industry and maximize profits of the Company.

(II) Group structure: please refer to the annual report the Annual Report for more information.

(III) Risk items: please refer to the annual report the Annual Report for more information.

### III. Company history

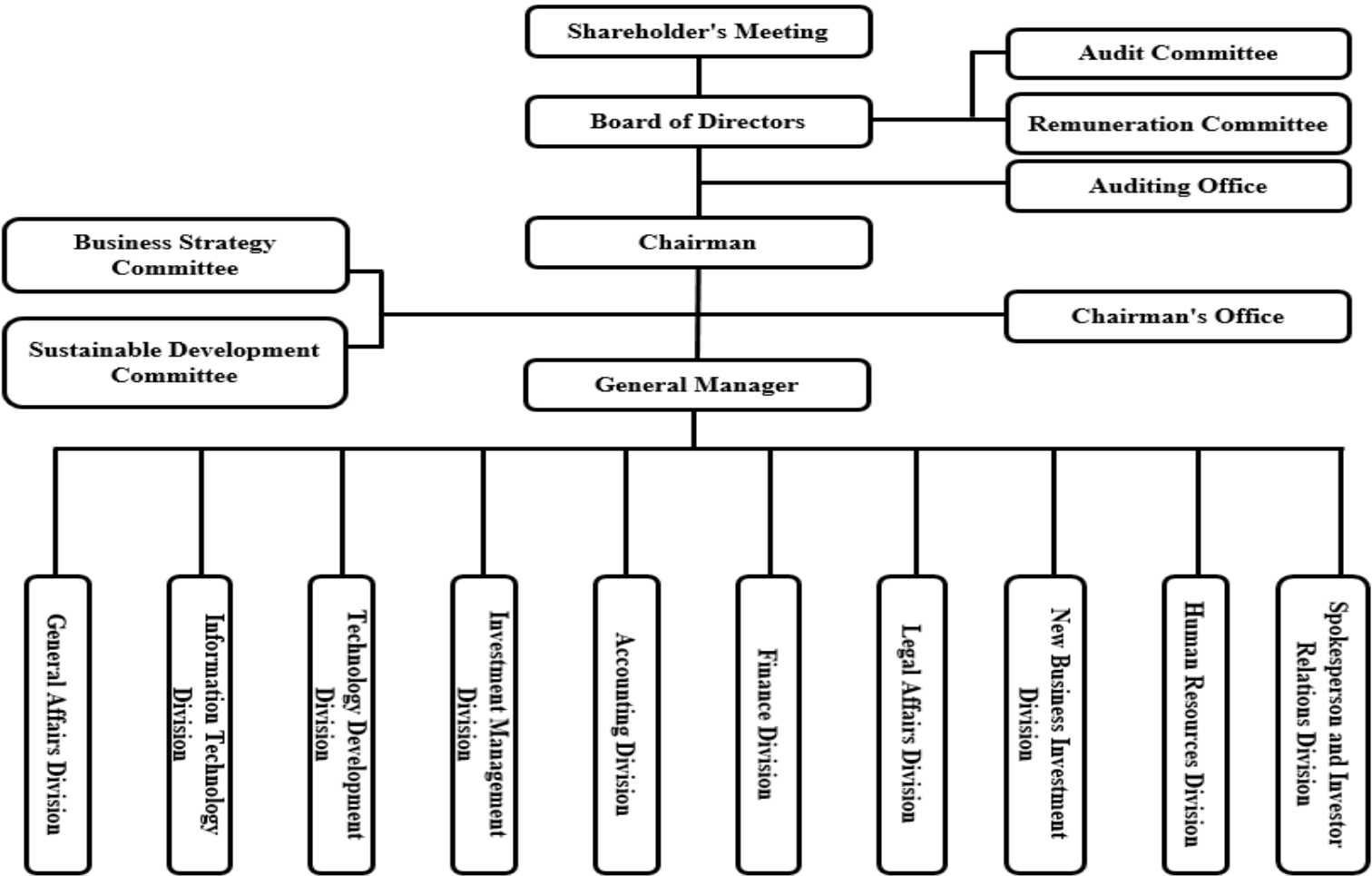
Date	Important Events
June 2006	FOXCONN ADVANCED TECHNOLOGY LIMITED was established in the Cayman Islands. The initial capital was US\$70,000,000.
October 2006	FOXCONN ADVANCED TECHNOLOGY LIMITED (CAYMAN ISLANDS) acquired 100% of the shares of Hung Sheng Electric Integration Technology Co., Ltd.
January 2007	The Company established Hongqunsheng Precision Electronics (Yingkou) Co., Ltd. and Hongqisheng Precision Electronics (Qinhuangdao) Co., Ltd.
April 2007	The Company acquired MONTEREY PARK FINANCE LIMITED and its shares in Fukui Precision Component (Shenzhen) Co., Ltd.
October 2007	FOXCONN ADVANCED TECHNOLOGY LIMITED issued 92,500,000 shares at a nominal value of US\$1 per share. The paid-up capital after the capital increase amounted to US\$162,500,000. The Company acquired LIGHT FLASH INTERNATIONAL LIMITED and its shares in Honghuasheng Precision Electronics (Yantai) Co., Ltd.
April 2008	The Company acquired WORLD BRIGHT GROUP LIMITED and its shares in Honghengsheng Electronical Technology (Huai'an) Co., Ltd.
October 2009	FOXCONN ADVANCED TECHNOLOGY LIMITED issued 39,500,000 shares at a nominal value of US\$1 per share. The paid-up capital after the capital increase amounted to US\$202,000,000.
June 2010	FOXCONN ADVANCED TECHNOLOGY LIMITED applied for guidance from Taiwan Stock Exchange Corporation and planned for immediate listing after return to Taiwan.
October 2010	On October 20, 2010, the shareholders' meeting resolved to convert the nominal value of each share of FOXCONN ADVANCED TECHNOLOGY LIMITED to NT\$10 and the paid-up capital became NT\$6,464,000,000.
June 2011	The shareholders' meeting resolved to rename "FOXCONN ADVANCED TECHNOLOGY LIMITED" to ZHEN DING TECHNOLOGY HOLDING LIMITED. Its Chinese name became. The Company performed a reelection of all directors and elected 7 directors including 3 independent directors. The Company also established an audit committee and a remuneration committee.
December 2011	The Company was listed on the Taiwan Stock Exchange and the paid-up capital increased to NT\$6,699,290,000.
February 2012	The Investment Commission of the Ministry of Economic Affairs approved the sales of Honghuasheng Precision Electronics (Yantai) Co., Ltd.
May 2012	The Company was ranked 82nd in the 2011 Top 1000 manufacturing companies by CommonWealth Magazine.
June 2012	The Company issued the first unsecured international convertible corporate bonds valued at US\$188 million and it was listed on the Singapore Stock Exchange.
September 2012	The Company converted earned surplus into capital increase with 33,496,450 shares and the paid-up capital increased to NT\$7,034,254,500.
May 2013	The Company was ranked 639th in the 2012 "Top 1000 companies in China, Hong Kong, and Taiwan" by Business Today.
September 2013	The Company converted earned surplus into capital increase with 35,171,272 shares and the paid-up capital increased to NT\$7,385,967,220.
November 2013	The Board of Directors resolved to acquire FOREVER GROWTH INVESTMENTS LIMITED and its shares in Fubo Industry (Shenzhen) Co., Ltd.
April 2014	The Company was ranked 555th in the 2013 "Top 1000 companies in China, Hong Kong, and Taiwan" by Business Today.

Date	Important Events
May 2014	The Company was ranked 23rd in operational performance, 38th in net income after tax, and 52nd in business revenue among the Top 1000 manufacturing companies by CommonWealth Magazine.
June 2014	The Company issued the second unsecured international convertible corporate bonds valued at US\$300 million and it was listed on the Singapore Stock Exchange.
August 2014	The Company converted its first international corporate bonds into 34,343 shares and the paid-up capital increased to NT\$7,386,310,650.
November 2014	The Company's first international convertible corporate bonds issued in Taiwan were converted for listing in Taiwan.
March 2015	The Company converted its first international corporate bonds into 29,137,036 shares and the paid-up capital increased to NT\$7,677,681,010.
April 2015	The Company converted its first international corporate bonds into 36,980,258 shares and the paid-up capital increased to NT\$8,047,483,590.
April 2015	The Company was ranked 972nd in the 2014 "Top 1000 companies in China, Hong Kong, and Taiwan" by Business Today.
May 2015	The Company was ranked 38th in net income after tax in the 2014 "Top 2000 manufacturing companies" by CommonWealth Magazine.
May 2015	The Company was ranked 50th in operating revenue in the 2014 "Top 2000 manufacturing companies" by CommonWealth Magazine.
May 2016	The Company was ranked 4th in operational performance among electronics companies in the 2015 "Top 2000 manufacturing companies" by CommonWealth Magazine.
May 2016	The Company was ranked 30th in net income after tax in the 2015 "Top 2000 manufacturing companies" by CommonWealth Magazine.
May 2016	The Company was ranked 43rd in operating revenue in the 2015 "Top 2000 manufacturing companies" by CommonWealth Magazine.
December 2016	The subsidiary company Fukui Precision Component (Shenzhen) Co., Ltd. exchanged shares for the acquisition of Hong Qi Sheng Precision Electronics (Qinhuangdao) Co., Ltd., Hongqunsheng Precision Electronics (Yingkou) Co., Ltd., Qingding Precision Electronics (Huaian) Co., Ltd., and Yuding Precision Electronics (Huaian) Co., Ltd.; It also used cash to acquire Fubo Industry (Shenzhen) Co., Ltd. and Honghengsheng Electronical Technology (Huaian) Co., Ltd. to complete shareholding reorganization.
May 2017	The Company's Board of Directors passed the reorganization of the subsidiary company Fukui Precision Component (Shenzhen) Co., Ltd. and officially renamed to Avary Holding (Shenzhen) Co., Ltd.
May 2017	The Company was ranked 4th in operational performance among electronics companies in the 2016 "Top 2000 manufacturing companies" by CommonWealth Magazine.
May 2017	The Company was ranked 57th in net income after tax in the 2016 "Top 2000 manufacturing companies" by CommonWealth Magazine.
May 2017	The Company was ranked 42nd in operating revenue in the 2016 "Top 2000 manufacturing companies" by CommonWealth Magazine.
May 2017	The Company was ranked among the top 100 in revenue growth in the 2016 "Top 2000 manufacturing companies" by CommonWealth Magazine.
May 2018	The Company was ranked 4th in operational performance among electronics companies in the 2017 "Top 2000 manufacturing companies" by CommonWealth Magazine.

Date	Important Events
May 2018	The Company was ranked 52nd in net income after tax in the 2017 "Top 2000 manufacturing companies" by CommonWealth Magazine.
May 2018	The Company was ranked 35th in operating revenue in the 2017 "Top 2000 manufacturing companies" by CommonWealth Magazine.
May 2018	The Company was ranked among the top 100 in revenue growth in the 2017 "Top 2000 manufacturing companies" by CommonWealth Magazine.
September 2018	China Securities Regulatory Commission approved the listing of the subsidiary company Avary Holding (Shenzhen) Co., Ltd. on Shenzhen A-Share.
March 2019	The second overseas conversion of corporate bonds converted 801,313 shares and the paid-up capital increased to NT\$8,055,496,720.
April 2019	The second overseas conversion of corporate bonds converted 96,680,215 shares and the paid-up capital increased to NT\$9,022,298,870.

Chapter 3 Corporate Governance Report

- I. Company Organization
  - (I) Company Organization





(II) Major Corporate Functions

Divisions	Functions
Investment Management Division	The Investment Management Division provides recommendations and decisions for major investments, acquisitions, and other business activities of the Company and participates in risk assessment and controls to maximize the interest of the Company and shareholders. The Investment Management Division is responsible for supervision and management of branch companies, subsidiary companies, and overseas investments.
Finance Division	The Finance Division is responsible for the Company's long-term and short-term fund planning, allocation, and usage.
Accounting Division	The Accounting Division is responsible for the Company's accounting tasks and the formulation and execution of accounting policies and systems.
Legal Affairs Division	The Legal Affairs Division is responsible for the formulation and management of the Company's intellectual property rights policies, review of contracts, and related litigation.
New Business Investment Division	The New Business Investment Division uncovers and consolidates investment opportunities for the Company's goals and development. It plans and implements investment projects and it is also responsible for investments in advanced materials from domestic and foreign sources and the promotion of technology collaboration.
Technology Development Division	The Technology Development Division is responsible for the formulation and implementation of the Company's technology development strategies and goals. It also integrates production, executes development of new technologies and products, and uses technology and creativity to increase the Company's value and competitiveness.
Human Resources Division	The Human Resources Division is responsible for the management of the Company's manpower, attendance management, and recruitment.
Information Technology Division	The Information Technology Division is responsible for the establishment and maintenance of a safe information system and the creation of related mechanisms such as firewalls. It is responsible for the formulation of the Company's information policies, planning and maintenance of information systems, and the creation, stability, timeliness, confidentiality, and security of Internet communication.
Spokesperson & Investor Relations Division	The Spokesman & Investor Relation Division is responsible for speaking on behalf of the Company to external entities regarding operations, finance, business philosophy, and businesses and delivering the Company's ideals for shareholders' interest.
General Affairs Division	The General Affairs Division is responsible for repairs and maintenance in plants, management and maintenance of the electricity and water supply system, maintenance of the generators and elevators, management of fire safety systems, and other facility management affairs.

## II. Information on Directors, Supervisors, General Manager, Vice Presidents, Assistant Vice Presidents, and Heads of Departments and Branches

### (I) Basic information of Directors (the Company does not appoint Supervisors)

#### 1. Directors:

April 23, 2019

Title	Nationality or Registry	Name	Gender	Date first elected	Date electe	Term / year	Shareholding when elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Primary work or academic experiences	Concurrent position in the Company and in other companies	Any managerial officer, director, or supervisor who is a spouse or relative within the second degree of kinship		
							Shares	%	Shares	%	shares	%	Shares	%			Title	Name	Relation
Chairman	Republic of China	Chang-Fang Shen	Male	2006.06.05	2017.06.20	3	3,958,000	0.49%	4,158,000	0.46%	—	—	—	—	General Manager, Unicap Electronics Industrial Corp. General Manager, Promisedland Resort Executive Vice President, Pacific Securities Vice President of Underwriting, Asia Securities Section Chief, Export-Import Bank of the Republic of China Department of Business Administration, Chinese Culture University	Note 2	—	—	—
Director	CAYMAN ISLANDS	Foxconn (Far East) Limited		2008.02.18	2017.06.20	3	305,515,627	37.96%	305,515,627	33.86%	—	—	—	—	—	—	—	—	—
Director Representative	Republic of China	CHE-HUNG YU (NOTE)	Male	—	—	—	—	—	—	—	—	—	—	—	Director, Avary Holding (Shenzhen) Co., Ltd. Director, ShunSin Technology Holdings Limited Master in Law, American University, United States	Note 2	—	—	—
Director	BRITISH VIRGIN ISLANDS	Wide Choice Investments Limited		2011.06.07	2017.06.20	3	6,679,625	0.83%	6,679,625	0.74%	—	—	—	—	—	—	—	—	—
Director Representative	Republic of China	Te-Wang Hsiao (Note)	Male	—	—	—	117,975	0.01%	117,975	0.01%	—	—	—	—	Deputy Manager, Foxconn Technology Group Special Assistant, Unicap Electronics Industrial Corp. Master's degree, Cornell University, United States	Note 2	—	—	—
Director	Republic of China	Chiu-Fong Huang	Male	2011.06.07	2017.06.20	3	—	—	—	—	—	—	—	—	Chairman, Usun Technology Co., Ltd. Chairman, Usun Materials Science Co., Ltd. Technology and Science Institute of Northern Taiwan	Note 2	—	—	—

Title	Nationality or Registry	Name	Gender	Date first elected	Date electe	Term / year	Shareholding when elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Primary work or academic experiences	Concurrent position in the Company and in other companies	Any managerial officer, director, or supervisor who is a spouse or relative within the second degree of kinship		
							Shares	%	Shares	%	shares	%	Shares	%			Title	Name	Relation
Independent Director	Republic of China	John-See Lee	Male	2011.06.07	2017.06.20	3	—	—	—	—	—	—	—	—	President, Industrial Technology Research Institute Chairman, Development Center for Biotechnology PhD in Chemical Engineering, Illinois Institute of Technology	Note 2	—	—	—
Independent Director	Republic of China	Chih-Cheng Chou	Male	2011.06.07	2017.06.20	3	—	—	—	—	—	—	—	—	CPA and Managing Partner of Taipei Office, WeTec International CPAs Chairman, Taiwan Provincial Accountant Association PhD in Accounting, Shanghai University of Finance and Economics	Note 2	—	—	—
Independent Director	Republic of China	Tung-Sheng Hsu	Male	2011.06.07	2017.06.20	3	—	—	—	—	—	—	—	—	Managing Partner, Pamir Law Group Partner, Direction International Law Offices (Taiwan Taipei) Bachelor of Law, National Chengchi University	Note 2	—	—	—

Note 1: Mr. Che-Hung Yu was appointed as a Director Representative on February 1, 2013; Mr. Te-Wang Hsiao was appointed as a Director Representative on June 20, 2017.

Note 2: Directors' concurrent duties in the company and in other companies are summarized in the table below.

Title	Name	Concurrent position in the Company and/or other companies
Chairman	Ching-Fang Shen	Chairman, Avary Holding (Shenzhen) Co., Ltd. CHAIRMAN, ZHEN DING TECHNOLOGY CO., LTD. Chairman, Qiding Technology (Qinhuangdao) Co., Ltd. Sole Director, Monterey Park Finance Limited Sole Director, FAT Holdings Limited Sole Director, Pacific Fair International Limited Sole Director, Mayco Industrial Limited Sole Director, Coppertone Enterprises Limited
Director Representative	Che-Hung Yu	Director, Zhen Ding Technology Holding Limited SUPERVISOR, ZHEN DING TECHNOLOGY CO., LTD. Director, Avary Holding (Shenzhen) Co., Ltd. SUPERVISOR, GARUDA TECHNOLOGY CO., LTD. Director, Syntrend Creative Park Co., Ltd.
Director Representative	Te-Wang Hsiao	Sole Director, Garuda International Limited Director, Zhen Ding Technology Co., Ltd. Director, Garuda Technology Co., Ltd. Executive Director, Yunding Technology (Shenzhen) Co., Ltd.
Director	Chiu-Fong Huang	Chairman, Usun Technology Co., Ltd. Chairman, Usun Materials Science Co., Ltd. Chairman, Cheng Han Technology Co., Ltd. Chairman, Usun (Foshan) Technology Co., Ltd. Chairman, Usun Materials Science (Shanghai) Co. Ltd. Chairman, Shanghai Usun Technology Co., Ltd.
Independent Director	John-See Lee	Chairman, Personal Genomics Taiwan, Inc. Independent Director, Far Eastern New Century Corporation Independent Director, Everlight Electronics Co., Ltd. Independent Director, San Fu Chemical Co., Ltd.
Independent Director	Chih-Cheng Chou	CPA, WeTec International CPAs Independent Director, Leader Electronics Inc. Independent Director, Sonix Technology Co., Ltd. Supervisor, Orient Pharma Co., Ltd. Supervisor, Taipei Livestock & Poultry Products Ltd.
Independent Director	Tung-Sheng Hsu	Managing Partner, Pamir Law Group (Taiwan Taipei)

2. Major Shareholders of Corporate Shareholders

Name of corporate shareholders	Major shareholders of corporate shareholders
Foxconn (Far East) Limited	HON HAI PRECISION INDUSTRY CO., LTD.
Wide Choice Investments Limited	Right Thrive Limited

3. Percentage of shares held by major shareholders of corporate shareholders with a juridical person as its major shareholder

April 23, 2019

Name	Account	Shares held (share)	Shares held (%)
Hon Hai Precision Industry Co., Ltd.	Gou, Tai-ming (Terry Gou)	1,334,668,518	9.63%
	CTBC Bank in custody for trust account of Terry Gou	400,000,000	2.89%
	Citibank in custody for ADR- Hon Hai Precision Industry Co., Ltd.	261,797,019	1.89%
	J.P. Morgan in custody for Vanguard Emerging Markets Stock Index Fund	187,088,891	1.35%
	J.P. Morgan in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	182,459,745	1.32%
	Citibank in custody for GDR- Hon Hai Precision Industry Co., Ltd.	180,800,395	1.30%
	Cathay Life Insurance	171,842,946	1.24%
	Fubon Life	171,480,000	1.24%
	Norges Bank	165,175,948	1.19%
	Standard Chartered in custody for Fidelity Pilgrim Trust: Fidelity Low-Priced Stock Fund	145,980,912	1.05%
Right Thrive Limited	Keen Victor Limited	1	100.00%

#### 4. Professional qualifications and independence analysis of directors

Qualifications  Name	Meet One of the Following Professional Requirements, Together with at Least Five Years Working Experience			Compliance with Independence Criteria (Note)										Number of serving other public companies as an independent director
	In a position of instructor or higher from a private or public college or university in the field of business, law, finance, accounting, or other departments relevant to the business of the Company	A judge, prosecutor, lawyer, accountant, or other national examinations required for professional practice or technician that must undergo national examinations and specialized license	Work experience required for business administration, legal affairs, finance, accounting, or other business related field of the company	1	2	3	4	5	6	7	8	9	10	
Ching-Fang Shen	—	—	✓	—	—	—	✓	✓	—	—	✓	✓	✓	0
Foxconn (Far East) Limited Representative: Che-Hung Yu	—	✓	✓	✓	—	✓	✓	—	✓	✓	✓	✓	—	0
Wide Choice Investments Limited Representative: Te-Wang Hsiao	—	—	✓	—	—	✓	✓	✓	—	—	✓	✓	—	0
Chiu-Fong Huang	—	—	✓	✓	✓	✓	✓	✓	—	✓	✓	✓	✓	0
John-See Lee	✓	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Chih-Cheng Chou	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Tung-Sheng Hsu	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note: Directors or Supervisors with a "✓" sign meets the following criteria:

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company's affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds in accordance of Taiwan government or local government laws.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
- (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
- (7) Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the Remuneration Committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEX".
- (8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- (9) Not been a person of any conditions defined in Article 30 of the Company Law.
- (10) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

(II) Remuneration paid to Directors and Supervisors in recent years

1. Remunerations Paid to Directors (including Independent Directors)

Unit: NT\$ thousands

Title	Name	Remunerations Paid to Directors								(A+B+C+D) as % of Net Income		Compensation Earned as Employee of the Company or of the Company's Affiliates								(A+B+C+D+E+F +G) as % of Net Income		Other compensations from non-subsidiary affiliates
		Salary (A)		Pension (B)		Remunerations (C)		Allowances (D)				Salary, bonus and etc. (E)		Pension (F)		Employee Compensation (G)						
		The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company		Consolidated Entities		The Company	Consolidated Entities	
																Cash	Stock	Cash	Stock			
Chairman	Chang-Fang Shen	3,960	3,960	—	—	0,500	10,500	—	—	0.13	0.13	—	8,811	—	—	—	—	15,713	—	0.13	0.34	—
Director	Foxconn (Far East) Limited																					
Representative	Che-Hung Yu																					
Director	Wide Choice Investments Limited																					
Representative	Te-Wang Hsiao																					
Director	Chiu-Fong Huang																					
Independent Director	John-See Lee																					
Independent Director	Chih-Chen Chou																					
Independent Director	Tung-Sheng Hsu																					

Note: The Company's Board of Directors approved the distribution of employee remuneration for 2018 in total of NT\$77,338,535 and remuneration of Directors total NT\$10,500,000. As of the publication date of the Annual Report, the lists of remuneration for employees and Directors have not been determined. The aforementioned amount is only an estimate.

2. Remuneration paid to Supervisors: Not applicable as the Company has not appointed Supervisors.

Table of Remunerations Paid to Directors

Remuneration Range	Name of Directors			
	Remunerations Paid to Directors (A+B+C+D)		Total Remunerations Paid to Directors (A+B+C+D+E+F+G)	
	The Company	Consolidated Entities	The Company	Consolidated Entities
Less than NT\$2,000,000	Foxconn, Che-Hung Yu, Wide Choice, Ching-Fang Shen	Foxconn, Che-Hung Yu, Wide Choice, Chang-Fang Shen	Foxconn, Che-Hung Yu, Wide Choice, Chang-Fang Shen	Foxconn, Che-Hung Yu, Wide Choice
NT\$2,000,000 to NT\$5,000,000	John-See Lee, Chiu-Fong Huang, Chih-Chen Chou, Tung-Sheng Hsu	John-See Lee, Chiu-Fong Huang, Chih-Chen Chou, Tung-Sheng Hsu	John-See Lee, Chiu-Fong Huang, Chih-Chen Chou, Tung-Sheng Hsu	John-See Lee, Chiu-Fong Huang, Chih-Chen Chou, Tung-Sheng Hsu
NT\$5,000,000 to NT\$10,000,000	-	-	-	Te-Wang Hsiao
NT\$10,000,000 to NT\$15,000,000	-	-	-	-
NT\$15,000,000 to NT\$30,000,000	-	-	-	-
NT\$30,000,000 to NT\$50,000,000	-	-	-	Ching-Fang Shen
NT\$50,000,000 to NT\$100,000,000	-	-	-	-
Above NT\$100,000,000	-	-	-	-
Total	8	8	8	9



## (III) Information of Management Team

Book closure date: April 23, 2019

Title	Nationality	Name	Gender	Date Effective	Current Shareholding		Spouse & Minor Children Shareholding		Shareholding by Nominee Arrangement		Education & Previous Working Experiences	Current Positions at Other Companies	Managers who have spouse or second-degree kinship within the Company		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
General Manager	Republic of China	Ting-Chuan Lee	Male	2017/05/11	—	—	—	—	—	—	Manager, Compeq Manufacturing Company Limited Vice President, Unimicron Technology Corp. General manager, Subtron Technology Co., Ltd. EMBA, National Taiwan University	N/A	—	—	—
Financial Executive	Republic of China	Tun Ling	Female	2018/03/15	—	—	—	—	—	—	Department of Underwriting, Asia Securities General Manager, Apex Investment Consulting Co., Ltd. Supervisor, Ways Technical Corp., Ltd. Spokesperson, Zhen Ding Technology Holding Bachelor's degree, Tatung University	Director, Garuda Technology Co., Ltd.	—	—	—
Accounting Executive	Republic of China	Jin-Ten Chang	Male	2017/05/11	15,000	—	—	—	—	—	Deputy Manager, Au Optronics Corp.; Deputy Section Chief, Deloitte; Department of Public Finance, National Chengchi University	N/A	—	—	—

Compensation and Employee Bonus Paid to Key Managers:

Unit: NT\$ thousands; thousand shares; %

Title	Name	Salary (A)		Pension (B)		Bonuses, allowances, etc. (C)		Employee's Compensation (D)				(A+B+C+D) as % of Net Income		Remuneration from Non-subsidiary Affiliate
		The Company	Consolidated Entities	The Company	Consolidated Entities	The Company		Consolidated Entities		The Company	Consolidated Entities			
						Cash amount	Stock	Cash amount	Stock					
General Manager	Ting-Chuan Lee	5,208	5,208	—	—	3,027	3,027	9,363	—	9,363	—	0.15%	0.15%	—
Financial Executive	I-Chung Lin (Note 1)													
Financial Executive	Tun Ling													
Accounting Executive	Jin-Ten Chang													

Note 1: I-Chung Lin was reassigned on March 15, 2018 and his original position was succeeded by Tun Ling.

Note 2: The Company's Board of Directors approved the distribution of employee remuneration for 2018 in total of NT\$77,338,535. As of the publication date of the Annual Report, the list of remuneration for employee have not been determined. The aforementioned amount is only an estimate.

Table of Compensation Paid to Key Managers

Compensation Range	Name of the Key Managers	
	The Company	Consolidated Entities E = (A + B + C + D)
Less than NT\$2,000,000	-	-
NT\$2,000,000 to NT\$5,000,000	-	-
NT\$5,000,000 to NT\$10,000,000	-	-
NT\$10,000,000 to NT\$15,000,000	Ting-Chuan Lee	Ting-Chuan Lee
NT\$15,000,000 to NT\$30,000,000	-	-
NT\$30,000,000 to NT\$50,000,000	-	-
NT\$50,000,000 to NT\$100,000,000	-	-
AboveNT\$100,000,000	-	-
Total	1	1

- (IV) Comparison and analysis of the total remuneration paid to each Director and Key Managers over the past two years by the Company and all companies listed in the consolidated financial statement as a percentage of total net income, and descriptions of the policies, standards, and packages for payment of remuneration, the procedures for determining remuneration, and its linkage to business performance and future risk exposure:

1. Analysis of the total remuneration paid to each Director and Key Managers by the Company and all companies listed in the consolidated financial statement as a percentage of net income:

Unit: NT\$ thousands

Item	2017		2018	
	Amount	%	Amount	%
Directors and Key Managers	50,261	0.74%	187,757	1.63%
Consolidated total profits	6,771,783	100.00%	11,536,495	100.00%

2. Policies, standards, and packages for payment of remuneration, as well as the procedures for determining remuneration, and its linkage to business performance and future risk exposure:
  - A. Remuneration paid to Directors is distributed based on their positions in the Company, their involvement in the Company's business performance, and the value of their contribution.
  - B. Compensation paid to the Key Managers is paid based on their positions, their contributions to the Company, and with reference to standards in the industry in accordance with the Company's human resources regulations.

- (V) Links between Directors' performance evaluation and their salary and remuneration

The Company's remuneration for Directors is based on regulations in Article 13.4 of the Company's Articles of Incorporation. It shall set aside no more than 0.5% of profits of the current year as remuneration for Directors. It shall also provide reasonable remuneration based on the results of operations and the Directors' contribution to the performance of the Company. The Company shall establish procedures for determining the remuneration which shall be assessed based on the performance evaluation of the Board of Directors and functional committee. In addition to the Company's overall performance, future development trend and risks in the industry, the Company shall also consider the achievement rate of personal performance targets and contribution to the Company's performance for providing reasonable remuneration. All related performance evaluation and the reasonableness of salary and remuneration shall be reviewed by the Remuneration Committee and the Board of Directors. They shall review the remuneration in a timely manner based on actual business operations and related laws to maintain a balance between sustainable management and risk management.

### III. Implementation of corporate governance

#### (I) Operations of Board of Directors

1. The Board of Directors of the Company shall be convened quarterly. The reasons for calling a Board meeting shall be notified to each director at least seven days in advance. In emergency circumstances; however, a meeting may be called on shorter notice. Except in cases of emergency or for other justifiable reasons, issues must be specified in the meeting notice and shall not be raised as extraordinary motions.

Notices specified in the preceding paragraph may be distributed in electronic form.

2. The Company convened a total of 6 meetings (A) of the Board of Directors in 2018 and the attendance of Directors was as follows:

Title	Name	Attendance in person (B)	Attendance by proxy	Attendance rate (%) (B/A)	Note
Chairman	Chang-Fang Shen	6	0	100.0%	-
Director	Foxconn (Far East) Limited Representative: Che-Hung Yu	6	0	100.0%	-
Director	Wide Choice Investments Limited representative: Te-Wang Hsiao	6	0	100.0%	-
Director	Chiu-Fong Huang	5	1	83.3%	Appointed the Chairman Chang-Fang Shen to attend as proxy
Independent Director	John-See Lee	5	1	83.3%	Appointed Independent Director Chih-Chen Chou to attend as proxy
Independent Director	Chih-Chen Chou	6	0	100.0%	-
Independent Director	Tung-Sheng Hsu	6	0	100.0%	-

Other items that shall be recorded:

- I. None of the following conditions occurred in the operations of the Board of Directors:
  - (I) Conditions listed in Article 14-3 of the Securities and Exchange Act.
  - (II) In addition to the preceding matter, other resolutions of the Board of Directors on which Independent Directors have dissenting opinions or qualified opinions, and that are documented or issued through written statements.
- II. When a director recuses himself/herself from proposals involving the conflict of interest, the director's name, the proposal, cause for the conflict of interest, and the voting shall be specified: The Company had no Director who recuses himself/herself from proposals involving the conflict of interest.
- III. Programs this year and in the most recent year for strengthening the functionality of the Board (establishment of an audit committee, improve transparency, etc.) and the evaluation of such measures: The Company added or amended the "Articles of Incorporation", "Procedure for Acquisition and Disposal of Assets", "Corporate Governance Best-Practice Principles", "Organizational Regulations of the Remuneration Committee", "Regulations for Performance Evaluation of the Board of Directors and Functional Committees" to strengthen the functions of the Board of Directors.

- (II) Supervisors' participation in board meetings: The Company has not appointed supervisors.

(III) Corporate Governance Implementation Status Required by "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies"

Assessment Items	Implementation Status			Reason for Non- Implementation
	Yes	No	Summary	
I. Does the Company stipulate and disclose best practice principles for corporate governance according to the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies?	V		The Company stipulated and disclosed best practice principles for corporate governance according to the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.	None
II. Equity structure and shareholders' rights of the Company				
(I) Does the Company establish internal procedures to handle shareholder's suggestions, questions, problems, and litigations, and implemented these measures accordingly?	V		(I) To protect shareholders' rights and interests, the Company has established the "Corporate Governance Best Practice Principles" and assigned a spokesperson to process shareholders' recommendations and questions. Disputes and litigation are processed by the Legal Affairs Division in accordance with the Best Practice Principles.	None
(II) Does the Company possess the list of its major shareholders as well as the ultimate owners of those shares?	V		(II) The Company reports changes in the number of shares held by insiders each month on the Market Observation Post System (MOPS) designated by the Securities and Futures Bureau in accordance with regulations. We also possess the list of major shareholders of the Company and individuals with ultimate control over main shareholders.	None
(III) Does the Company establish and carry out risk management and firewall mechanism within affiliated companies?	V		(III) The assets and financial management duties of affiliated companies are independent from one another and the implementation of risk management and firewall mechanism are processed in accordance with the internal control system of the Company to prevent irregular transactions.	None
(IV) Does the Company establish internal regulations against insider trading with undisclosed information?	V		(IV) The Company has established the "Procedures for the Prevention of Insider Trading" to prevent the Company's insiders and employees from using	None

Assessment Items	Implementation Status			Reason for Non- Implementation
	Yes	No	Summary	
			information that has not been disclosed on the market to purchase and sell securities.	
III. Composition and responsibilities of the Board of Directors:				
(I) Does the Board establish and implement a diversified policy for the composition of its members?	V		(I) All members of the Company's Board of Directors have strategic leadership, knowledge of the industry, international perspectives, professional skills, leadership skills, business decision-making skills, and knowledge of business management and the industry. Among them, the Directors Che-Hung Yu and Independent Director Tung-Sheng Hsu have legal expertise. The Independent Director Chih-Chen Chou has a finance and accounting background and is a professional CPA. We leverage the diverse industry expertise of Directors to gain positive benefits for the Company's operations and development.	None
(II) In addition to setting up a Remuneration Committee and Audit Committee, does the Company voluntarily establish other functional committees?	V		(II) The Company has voluntarily set up the Business Strategy Committee and the Sustainable Development Committee which operate in accordance with related regulations. The Company shall set up other functional committees based on the Company's requirements in future operations.	None
(III) Does the Company establish a standard to measure the performance of the Board of Directors, and conducts the evaluation annually?	V		(III) The Company's Board of Directors approved the "Board of Directors and Functional Committees Performance Evaluation Guidelines" on August 10, 2018 and requires at least one performance evaluation of the Board of Directors and functional committees each year. The Company completed evaluations of members in January 2019 and we shall report the evaluation results and plans for continuous improvement in the following year. The Company's evaluation items for the performance evaluation of the Board of Directors and functional	None

Assessment Items	Implementation Status			Reason for Non- Implementation
	Yes	No	Summary	
(IV) Does the Company regularly evaluate the independence of its certified public accountant (CPA)?	V		<p>committees from the following five major dimensions:</p> <ol style="list-style-type: none"> <li>1. Level of participation in corporate operations.</li> <li>2. Improvement in the quality of decision-making.</li> <li>3. Composition and structure.</li> <li>4. Election and continuous education.</li> <li>5. Internal control.</li> </ol> <p>The measurement items for the self-assessment of Directors of Board and functional committees shall include at least the following six dimensions:</p> <ol style="list-style-type: none"> <li>1. Familiarity with the goals and missions of the Company.</li> <li>2. Recognition of their duties.</li> <li>3. Degree of participation in the Company's operations.</li> <li>4. Management of internal relations and communication.</li> <li>5. Professional and continuing education and training.</li> <li>6. Internal Control.</li> </ol> <p>After the questionnaires are collected, the Chairman's Office, who is responsible for the performance evaluation of the Board of Directors and functional committees, shall report the evaluation results to the Board of Directors and propose recommendations for improvements. The regulations and assessment results have been disclosed on the Company's website. The latest evaluation results are as follows: Results of the 2018 performance appraisal of the Board of Directors and Functional Committee: The overall operation was graded as good.</p> <p>(IV) The Company reviews the independence of CPAs each year before deciding on their appointment. The Company verifies that with the exception of expenses for auditing and taxation cases, the CPAs and the Company have no other common financial interests or</p>	None



Assessment Items	Implementation Status			Reason for Non- Implementation
	Yes	No	Summary	
			business relations. After receiving approval from the Audit Committee and the Board of Directors, the company continued to review CPAs and fees. For detailed criteria for assessing the independence of CPAs, please refer to page XX of the annual report.	
IV. Does the Company set up a dedicated unit or appointed designated personnel to be in charge of governance related affairs (including but not limited to providing information requested by Directors, convening board meetings and shareholders' meetings according to regulations, processing company registration and change of registration, and preparing minutes of board meetings and shareholders' meetings)?	V		Ms. Wei-Ping Chen of the Company's Business Management Division serves as the part-time corporate governance personnel of the Company to safeguard shareholder interests and strengthen the functions of the Board of Directors. She has more than three years of experience in shareholder affairs and meeting management tasks. Her main duties are to provide information required for business execution by Directors, assist with legal compliance, and process matters related to board meetings and shareholders' meetings. The operations and status of implementation are as follows:	None
	V		<p>(1) Assist Independent Directors and general Directors in performing their duties by providing the necessary information and arranging for continuing education for Directors.</p> <ol style="list-style-type: none"> <li>1. Provide company information required by the Directors to maintain smooth communication and interaction between the Board of Directors and the heads of divisions.</li> <li>2. Assist Independent Directors in arranging meetings with the head of internal audit or CPAs in accordance with the Corporate Governance Best Practice Principles when they need to understand the Company's financial operations.</li> <li>3. Design appropriate company systems and organizational structure to promote the independence of the Board of Directors and transparency of the Company and to implement</li> </ol>	None

Assessment Items	Implementation Status			Reason for Non- Implementation
	Yes	No	Summary	
			<p>internal control.</p> <p>4. Consults the opinions of the Directors before the meeting to formulate the agenda and arrange directors' study plans and courses.</p> <p>(2) Corporate governance personnel notify Directors seven days prior to board meetings and provide sufficient information for meetings. If there are parties with conflicts of interest in the agenda items, corporate governance personnel remind the parties in advance and complete the meeting minutes of board meetings within 20 days of the meeting.</p> <p>(3) Corporate governance personnel register dates for shareholders' meetings in accordance with the deadline prescribed in regulations. They produce and file meeting notices, proceedings manual, and meeting minutes within the statutory period and they register changes for amendment of the Articles of Incorporation and reelection of Directors.</p> <p>(II) Prepare the agenda of the board of directors and notify the directors before the 7th, convene the meeting and provide sufficient meeting materials; if the content of the topic is relevant to the interested parties and should be appropriately avoided, a relative pre-person reminder will be given and completed within 20 days after the meeting. Events of the board of directors.</p> <p>(III) Register the date of the shareholders' meeting according to the law in accordance with the law, produce and notify the meeting notice, the discussion manual and the proceedings before the deadline, and apply for change registration to the registered country</p>	<p>None</p> <p>None</p>

Assessment Items	Implementation Status			Reason for Non- Implementation
	Yes	No	Summary after the amendment of the articles of association or the re-election of the directors.  (IV)Responsible for examining matters related to the release of major information regarding important resolutions approved by the Board of Directors to ensure the legality and accuracy of the content of these major messages and maintain information symmetry for investor trading.	
V. Does the Company set up channels of communication for stakeholders (including but not limited to shareholders, employees, customers and suppliers), dedicated a section of the Company's website for stakeholder affairs and adequately responded to stakeholders' inquiries on significant corporate social responsibility issues?	V		The Company has set up channels of communication for stakeholders (including but not limited to shareholders, employees, customers and suppliers) and it uses telephone, email, or meetings to adequately respond to stakeholders' inquiries on significant corporate social responsibility issues. please refer to the annual report the Annual Report for more information.	None
VI. Does the Company appoint professional shareholder services agency to deal with affairs related to shareholders' meetings?	V		The Company has engaged Grand Fortune Securities to handle affairs related to shareholders' meetings.	None
VII. Information disclosure (I) Does the Company set up a website to disclose information of financial standing and the status of corporate governance?	V		(I) The Company discloses financial information and corporate governance items on the website: <a href="http://www.zdtco.com/index/index.asp">http://www.zdtco.com/index/index.asp</a>	None
(II) Does the Company use other methods of information disclosure (such as setting up a website in English, assigning someone to be responsible for the collection and disclosure of company information, implementing a spokesperson system, and/or provided information on the investors' conference on the Company's website)?	V		(II) The Company has established a company website in Chinese and English. The spokesperson is responsible for the collection and disclosure of company information in Chinese and English, implementing the spokesperson system, and provide related information for investors' conferences on the MOPS and company website.	None
VIII. Does the Company disclose other information to facilitate a better understanding of its corporate governance (Including but not limited to	V		Related information is provided below	None

Assessment Items	Implementation Status			Reason for Non- Implementation
	Yes	No	Summary	
employee's rights, employee care, investor relations, supplier relations, stakeholders' rights, further studies of directors and supervisors, implementation of risk management policies and measurement standards, implementation of customer policies and purchase of liability insurance for the directors and supervisors of the Company)?				
IX. Improvements made in the most recent fiscal year in response to the results of corporate governance evaluation conducted by the Corporate Governance Center of the Taiwan Stock Exchange Corporation, and improvement measures and plans for items yet to be improved: None.				

- (I) Employee rights and benefits: To mitigate employees' risks of excessively long working hours, the Company has established regulations on working hours and regularly inspected and managed employees' attendance to protect their legal rights.
- (II) Investor relations: The Company values investors' interest. In addition to publishing related information on MOPS in accordance with regulations, it also assigned dedicated personnel to process shareholders' recommendations.
- (III) Supplier relations: Supplier relations are processed in accordance with the Company's regulations for operations. Partners perform their obligations in accordance with contracts to protect the rights of both parties. The Company maintains good relations with suppliers.
- (IV) Rights of stakeholders: Where necessary, stakeholders may communicate and provide recommendations to the Company through the telephone or mail. The Company has established a section on its website for stakeholders and properly respond to corporate social responsibility issues of concern to the stakeholders to protect their legal rights and interests.
- (V) Implementation of risk management policies and risk assessment standards: The Company has established various internal control systems and internal management regulations for risk management and assessment. The Company analyzes, tracks, and responds to high-risk incidents that may affect operations to improve risk management mechanisms.
- (VI) Implementation of customer relations policies: The Company chooses the right customers and establishes a grading and classification system. We establish good relations with all levels of the customer and uncover development opportunities for new products. We maintain stable and positive relations with customers to jointly generate profits for the Company.

(VII) The Company purchases liability insurance for all Directors (including Independent Directors).

Insured Individuals	Insurance Company	Insured Amount (NT\$_____)	Insured Period (start and expiry)	Insurance Status
All Directors and key personnel	Ace American Insurance Company	450,000,000	From January 1, 2018 to December 31, 2018	Renewed

\* On December 27, 2017, the Board of Directors reported on the purchase of directors (including independent directors) and important manager liability insurance, such as the amount of insurance coverage, coverage and insurance rates.

(VIII) The Company places great emphasis on human rights issues and regularly discloses the following information regarding related risks:

1. Diversity, tolerance, and equal opportunity:  
The Company does not discriminate between gender, race, age, marriage, family status, language, religion, partisanship, nationality or physical and mental disabilities. We also regularly follow up with the implementation status of policies for diversity, tolerance, and equal opportunity.
2. Employee care and a healthy and safe workplace:  
To prevent potential health and safety risks caused by work, we use the employee welfare system, education and training, and health examination subsidies to ensure that the Company provides employees with a healthy and safe workplace in accordance

with the regulations of human rights organizations. This is to reach the goals of zero discrimination in hiring policies, equal opportunities in hiring, and a working environment free of discrimination or harassment.

3. Freedom of association:  
The Company established diverse clubs and actively encourages employees to participate in club activities.
4. Labor-management negotiation:  
The Company established smooth communication channels and regularly organizes labor-management meetings to protect the rights of both parties.
5. Privacy protection:  
The Company has established comprehensive information security management mechanisms and adopted rigorous control and management regulations and protection measures to protect the privacy of customers and all stakeholders.
6. The Company invites all partners (including suppliers) to jointly raise the awareness of human rights topics and focuses on the management of related risks.

(IX) Directors' continued education status: The education status in 2018 is compiled below

Title	Name	Date of studies	Organizer	Course title	Number of hours
Chairman	Chang-Fang Shen	2018.11.12	Accounting Research and Development Foundation	Studies on Key Changes in the Income Tax or Business Tax & Latest Amendments of the Company Act	6 hours
Director Representative	Che-Hung Yu	2018.11.12	Accounting Research and Development Foundation	Studies on Key Changes in the Income Tax or Business Tax & Latest Amendments of the Company Act	6 hours
Director Representative	Te-Wang Hsiao	2018.11.12	Accounting Research and Development Foundation	Studies on Key Changes in the Income Tax or Business Tax & Latest Amendments of the Company Act	6 hours
Director	Chiu-Fong Huang	2018.11.12	Accounting Research and Development Foundation	Studies on Key Changes in the Income Tax or Business Tax & Latest Amendments of the Company Act	6 hours
Independent Director	Tung-Sheng Hsu	2018.11.12	Accounting Research and Development Foundation	Studies on Key Changes in the Income Tax or Business Tax & Latest Amendments of the Company Act	6 hours
Independent Director	Chih-Chen Chou	2018.11.12	Accounting Research and Development Foundation	Studies on Key Changes in the Income Tax or Business Tax & Latest Amendments of the Company Act	6 hours
Independent Director	Chih-Chen Chou	2018.03.07	Corporate Operation Association of the Republic of China	How to Convene a Satisfactory Shareholders' Meeting in 2018	3 hours
Independent Director	Chih-Chen Chou	2018.03.12	Corporate Operation Association of the Republic of China	How to Convene a Satisfactory Shareholders' Meeting in 2018	3 Hours
Independent Director	Chih-Chen Chou	2018.03.30	Corporate Operation Association of the Republic of China	Analysis of the Latest Amendments of the Company Act and Actual Practices	3 hours
Independent Director	Chih-Chen Chou	2018.04.11	Taiwan Academy of Banking and Finance	Corporate Governance Forum: Family Business Succession	3 hours
Independent Director	Chih-Chen Chou	2018.05.08	Taiwan Stock Exchange Corporation	New Corporate Governance Roadmap Summit	3 hours
Independent Director	Chih-Chen Chou	2018.09.07	Taiwan Corporate Governance Association	Comprehensive Smart Protection Strategy for Companies from the Perspective of Directors	3 hours
Independent Director	Chih-Chen Chou	2018.11.12	Accounting Research and Development Foundation	Studies on Key Changes in the Income Tax or Business Tax & Latest Amendments of the Company Act	6 hours
Independent Director	John-See Lee	2018.05.02	Taiwan Corporate Governance Association	How to Succeed in Negotiations for Investments and Merger and Acquisition.	3 hours
Independent Director	John-See Lee	2018.06.21	Taiwan Securities Association	Analysis of New Legislation on Money-Laundering Prevention and Case Studies	3 hours

(IV) Composition, duties, and operation of the Remuneration Committee:

1. The Company's Remuneration Committee was established based on the resolution of the board meeting on July 20, 2011. The board resolved to elect three members of the Remuneration Committee in the board meeting on June 20, 2017. Information on members is as follows:

Role	Qualifications	Has more than 5 years of work experience and the following professional qualifications			Compliant to the requirements of independence								Number of other public companies in which the member also serves as a member of their remuneration committee	Note
		Serve as an instructor or higher post in a private or public college or university in the field of business, law, finance, accounting, or the business sector of the Company	Serve as a judge, prosecutor, lawyer, certified public accountant or other professional or technical specialists who have passed the relevant national examinations and successfully obtained certificates in professions necessary for the business of the Company	Work experience in business, law, finance, accounting or other areas relevant to the business of the Company	1	2	3	4	5	6	7	8		
Convener	Chih-Chen Chou	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	4	
Committee Member	Tung-Sheng Hsu	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Committee Member	Chen-En Ko	✓	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	6	

2. The Company approved the "Organizational Regulations of the Remuneration Committee" in the board meeting on July 20, 2011. The duties of the Committee include:

Exercise the care of a good administrator, faithfully fulfill the following functions and powers, and submit the recommendations to the Board of Directors for deliberation. It shall also

- (1) Establish a system of evaluation and regularly review the performance of the Directors, members of the Audit Committee, and managerial officers as well as remuneration policies, systems, standards, and structures.
  - (2) Periodically evaluate and establish standards for salaries and remuneration for Directors, members of the Audit Committee, and managerial officers.
3. According to regulations of the Company's "Organizational Regulations of the Remuneration Committee", the reasons for convening committee meetings must be specified in the meeting notice and the members of the Committee shall be notified at least seven days before the meeting. The notice may be issued electronically.



4. Term of the Remuneration Committee: From June 20, 2017, the term of the Remuneration Committee shall be the same as the current term of Directors. The Remuneration Committee convened 3 meetings (A) in 2018 and the attendance of the members of the Remuneration Committee is as follows:

Title	Name	Attendance in person (B)	Attendance by proxy	Actual attendance rate (%) (B/A)	Remarks
Convener	Chih-Chen Chou	3	0	100%	
Committee Member	Cheng-En Ko	3	0	100%	
Committee Member	Tung-Sheng Hsu	3	0	100%	

Other items that shall be recorded:

- I. If the board meeting does not adopt or revise the remuneration committee's proposals, the board meeting's date, period, motion contents, and resolution decisions as well as the method in which the Company handles the remuneration committee's opinions shall be disclosed in detail (e.g. if the salary rate adopted by the board committee is superior to that proposed by the remuneration committee, the differences and reasons shall be explained): The Company's Directors have fully expressed their opinions in the meeting and they did not fail to adopt or revise the remuneration committee's proposals.
- II. If there are objections or reservations by the members that have been recorded in writing during the remuneration committee resolution, the remuneration committee meeting's date, period, motion content, the opinions of all of the members, and treatment of the member's opinions must be disclosed in detail: Members of the Company's Remuneration Committee have fully expressed their opinions in the meeting and there were no records or written statements of dissenting or qualified opinions.

(V) Operations of the Audit Committee

1. The main function of the Audit Committee is to supervise the following matters:
  - (1) The fair presentation of the Company's financial reports.
  - (2) Appointment or dismissal of the certifying CPAs and evaluation of their independence and performance.
  - (3) The effective implementation of the Company's internal control system.
  - (4) The compliance with relevant regulations and rules.
  - (5) Management of existing or potential risks.
2. The powers of the Committee are as follows:
  - (1) Adoption or amendment of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act.
  - (2) Evaluation of the effectiveness of internal control policies.
  - (3) Establish or amend relevant procedures which involve significant financial issues, including asset acquisition/disposal procedures, derivative trading procedures, lending procedures, endorsement and guarantee procedures in accordance with Article 36-1 of the Securities and Exchange Act.
  - (4) Items that involve the director's own interests.
  - (5) Major assets or derivative trading.
  - (6) Major lending of capital, endorsement, or providing guarantees.
  - (7) Offering, issuance or financing of equity-based securities.

- (8) Appoint, discharge, or fix remuneration of independent auditors.
  - (9) Appoint or discharge financial, accounting, or internal audit supervisors.
  - (10) Audit annual financial report and semiannual financial reports.
  - (11) Other major matters stipulated by other companies or competent authorities.
3. The reasons for convening committee meetings must be specified in the meeting notice and the members of the Committee shall be notified at least seven days before the meeting. The notice may be issued electronically.
  4. From June 20, 2017, the term of the Audit Committee shall be the same as the current term of Directors. The Audit Committee convened 5 meetings (A) in 2018 and the attendance of the members of the Audit Committee is as follows:

Title	Name	Attendance in person (B)	Attendance by proxy	Actual attendance rate (%) (B/A)	Remarks
Independent Director	Chih-Chen Chou	5	0	100%	
Independent Director	John-See Lee	5	0	100%	
Independent Director	Tung-Sheng Hsu	5	0	100%	

Other items that shall be recorded:

- I. None of the following conditions occurred in the operations of the Audit Committee:
  - (I) Conditions listed in Article 14-5 of the Securities and Exchange Act.
  - (II) Resolutions passed by two-thirds of all Directors, but without the approval of the Audit Committee.
- II. When an independent director recuses himself/herself from proposals involving the conflict of interest, the independent director's name, the proposal, cause for the conflict of interest, and the voting shall be specified: The Company had no Director who recused himself/herself from proposals involving the conflict of interest.
- III. Communications between Independent Directors and the head of internal audit and CPAs (material issues, methods and outcomes related to the Company's financial and business status shall be included): The head of internal audit delivers audit reports to each Independent Director to review each month and reports the operations of audits in meetings of the Audit Committee. In addition, Independent Directors review the Company's financial statements and communicates with CPAs through the telephone or face-to-face each quarter.

(VI) Implementation of corporate social responsibility:

Assessment items	Implementation Status			Reason for Non- implementation
	Yes	No	Summary	
I. Implementation of corporate governance				
(I) Does the Company establish a corporate social responsibility (CSR) policy or system, and assessed the effectiveness of implementations?	V		(I) The Company's Board of Directors has established the "Corporate Social Responsibility Policy" and regularly reviews the Company's performance.	None
(II) Does the Company provide educational training on corporate social responsibility on a regular basis?	V		(II) The Company organizes regular education and training on corporate social responsibility, ethics, and code of conduct for Directors and employees each year to implement corporate social responsibility and ensure enforcement.	None
(III) Does the Company establish a designated unit to promote CSR, and has the Board authorized senior management to deal with and then to report to the Board pertaining to relevant executions?	V		(III) 1. The Company's Human Resources Division, Investment Administration Division, Spokesman & Investor Relations Division, and General Affairs Division jointly established the Sustainable Development Committee. The spokesman serves as the convener and meetings are convened at least once every quarter. 2. The Committee compiles the opinions of stakeholders before the end of year and it evaluates and reviews response measures and establishes project objectives for the following year for implementation. It also reports the performance to the Board of Directors.	None
(IV) Does the Company declare a reasonable salary compensation policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	V		(IV) The Company declared a reasonable salary compensation policy, and integrate the employee performance appraisal system with its corporate social responsibility policy. We also established an effective reward and disciplinary system, a performance evaluation system, and promotion and salary adjustment system for implementation.	None

Assessment items	Implementation Status			Reason for Non- implementation
	Yes	No	Summary	
II. Developing a sustainable environment	V		(I) The Company established the Environment and Conservation Division to take charge of environmental protection engineering, increase the effectiveness and value of resources, and introduce innovative energy-saving technologies. It is committed to increasing the efficiency of the use of various resources and using renewable materials with lower impact on the environment. The resource recycling rate of waste in 2018 was 90%. Recycled pure copper amounted to 3,770 tons and we will soon add other green circular economy projects such as reusing electrolyte and various solutions.	None
(I) Does the Company strive to enhance the utilization rate of every resource and use renewable materials that have low impact on the environment?				
(II) Does the company establish proper environmental management systems based on the characteristics of their industries?	V		(II) As the Company is part of the PCB industry, we introduced ISO 14001 Environmental Management System, ISO 50001 Energy Resource Management System, etc. We implemented wastewater and sewage management system at production sites and we also established comprehensive exhaust gas management regulations and implemented waste management projects throughout the process to minimize the impact of wastewater, exhaust gas, and waste on the environment. In addition, the procurement departments conduct environmental protection and energy conservation evaluation when purchasing equipment to learn about water/electricity consumption and pollutant emissions.	None

Assessment items	Implementation Status			Reason for Non- implementation
	Yes	No	Summary	
(III) Does the Company pay attention to the impact of climate change on business operations, implement greenhouse gas audit and formulate company strategies for energy conservation and carbon reduction?	V		<p>(III) The Company pays close attention to the impact of climate change and actively promotes a series of energy conservation and carbon emissions reduction measures to reduce greenhouse gas emissions:</p> <ol style="list-style-type: none"> <li>1. The Company's production departments and other peripheral units have established energy and water conservation targets to "reduce consumption by 3% each year" based on actual water and electricity consumption.</li> <li>2. The Company continues to implement ISO certification of its fabrications each year to control the carbon emissions status more accurately. We establish reduction strategies based on business activities to respond to the impact of climate change on operations. In addition, we continue to request our main suppliers to obtain environmental management system certification to create a green supply chain and promote environmental protection ideals.</li> <li>3. The Company actively participates in the Carbon Disclosure Project (CDP) to announce our green development ideals and performance in energy conservation and carbon emissions reduction as we learn about carbon management from world-class companies. Zhen Ding was rated B in the 2018 CDP climate questionnaire which was higher than the average score in Asia and the industry. We shall continue to advance green upgrade and reforms and accelerate our efforts on becoming a company dedicated to the circular economy and green</li> </ol>	None

Assessment items	Implementation Status			Reason for Non- implementation
	Yes	No	Summary development.	
<p>III. Upholding public interests</p> <p>(I) Does the Company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?</p>	V		<p>(I) The Company strictly abides by related regulations of the jurisdiction (or country) of the plant and the International Bill of Human Rights. We establish related management policies and procedures based on labor laws, labor human right principles, and non-discrimination hiring policies. We convert contents into the Company's labor management policies and protect the legal rights of employees. We establish appropriate management regulations and procedures for implementation. (please refer to the annual report the Annual Report for more information.)</p>	None
<p>(II) Does the Company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?</p>	V		<p>(II) The Company has established an email and physical mailbox to provide employees with channels for filing complaints. We also assigned the Human Resources Division to take charge of processing complaints.</p>	None
<p>(III) Does the Company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?</p>	V		<p>(III) The Company promotes the 8S principles with the aim of providing employees with a clean environment. The Company carries out fire drills and access controls every six months to ensure employees' safety. In addition, the Company organizes annual health examination for employees and provide safety and health education for employees. Occupational safety units also review the work environment every month to provide employees with the safest environment for operations. There were no cases of occupational</p>	None

Assessment items	Implementation Status			Reason for Non- implementation
	Yes	No	Summary	
(IV) Does the Company have channels to communicate with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	V		injuries in 2018.  (IV) The Company organizes various meetings for communicating with employees each month to deliver the Company's policies and information. We also use reasonable methods to inform employees of operational changes that may cause significant impacts.	None
(V) Does the Company provide its employees with career development and training programs?	V		(V) The Company has provided its employees for different positions with career development and training programs, which can improve the quality of employees and the competitiveness of the Company.	None
(VI) Does the Company establish any consumer protection mechanisms and appealing procedures regarding research development, procurement, production, operation and services?	V		(VI) The Company formulated policies and systems of appeal for consumer rights for research and development, purchase, production, operations, and services. We also assigned dedicated personnel to provide transparent and effective services for products and services.	None
(VII) Does the Company advertise and label its goods and services according to relevant regulations and international standards?	V		(VII) The Company has marketed and labeled its products according to relevant regulations and international standards and we hold ourselves to the highest standards.	None
(VIII) Does the Company evaluate the records of suppliers' impact on the environment and society before engaging in commercial dealings with the said supplier?	V		(VIII) Suppliers that conduct business transactions with the Company must sign the "Environmental and Social Responsibility Letter of Undertaking" to guarantee that the environmental management substances in products and parts supplied to the Company completely comply with regulations in environmental protection standards. We evaluate suppliers based on whether they have records of	None

Assessment items	Implementation Status			Reason for Non- implementation
	Yes	No	Summary	
(IX) Do contracts between the Company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact upon the environment and society?			<p>affecting the environment and society in the past and we request suppliers' cooperation in compliance with related regulations on environmental protection, safety, and health issues to jointly improve corporate social responsibility.</p> <p>(IX) The Company's contracts with primary suppliers contain immediate termination clause for cases where the supplier violates corporate social responsibility and poses significant impacts to the environment and the society.</p>	None
IV. Enhancing information disclosure (I) Does the Company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System(MOPS)?	V		(I) The Company has disclosed relevant and reliable information regarding its corporate social responsibility on MOPS and the Company's website to fulfill corporate social responsibilities.	None
V. If the Company has established the corporate social responsibility principles based on "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies", please describe any discrepancy between the principles and their implementation: The Company has established the corporate social responsibility principles, formulated related policies, and regularly reviews results. There are no deviations between actual operations and the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies".				
VI. Other important information helpful in understanding CSR operation: (I) For information on the Company's systems and measures and implementation status with respect to environmental protection, community involvement, social contribution, social service, public interest, safety and health, and other social responsibility activities, please refer to the Company's website <a href="http://www.zdtco.com/index/index.asp">http://www.zdtco.com/index/index.asp</a> and related content in the Annual Report. (II) The Company has received the following certifications: ISO9001, ISO14001, OHSAS18001, QC080000, ISO14064, IATF16949, and ISO50001.				
VII. A clear statement shall be made if the Company's corporate social responsibility report complies with verification standards of relevant certification bodies: The company entrusted PwC to make limited convictions (limited by the conviction of the non-historical financial information check or review) issued by the Republic of China Accounting Research and Development Foundation. Assurance)				



(VII) Implementation of ethical corporate management

Assessment Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary	
I. Establishment of ethical corporate management policies and programs				
(I) Does the Company declared its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its Board of Directors and management team to implementing policies?	V		(I) The Company has declared its ethical corporate management policies and procedures in its rules, CSR Report, and external documents. In addition, the Board of Directors and the management actively discussed this issue in the board meeting on June 4, 2018 and implemented the management policy. We also strictly implement these policies and procedures in the Company.	None
(II) Does the Company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?	V		(II) The Company has established the "Ethical Corporate Management Best Practice Principles" and established operating procedures, behavioral code, and disincentive measures and grievance systems and implemented them in practice. We also conduct scheduled/unscheduled internal audits to reduce the probability of unethical conduct.	None
(III) Does the Company undertake preventative measures for the items stated in Article 2, Paragraph 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies" against high-potential unethical conducts or listed activities?	V		(III) For business activities with higher risks of unethical conduct, the Company evaluates the legal compliance and unethical conduct records of its agents, suppliers, customers, or other transaction counterparties before conducting business transactions to prevent transactions with companies that have records of unethical conduct. When the Company signs contracts with other entities, the Company includes provisions requiring compliance to its ethical business policy and termination or cancellation of the contract at any time in the event of unethical conduct by the transaction counterparty.	None

Assessment Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary	
(I) Dose the Company evaluate the integrity records of its business partners, and specified ethical-related clauses in business contracts?	V		(I) The Company evaluates the legal compliance and unethical conduct records of its agents, suppliers, customers, other companies, or other transaction counterparties before conducting business transactions to prevent transactions with companies that have records of unethical conduct. When the Company signs contracts with other entities, the Company includes provisions requiring compliance to its ethical business policy and termination or cancellation of the contract at any time in the event of unethical conduct by the transaction counterparty.	None
(II) Does the Company establish an exclusively (or concurrently) dedicated unit supervised by the Board, to be in charge of corporate integrity, and reports its implementations to the Board of Directors on a regular basis?	V		(II) The Company's Human Resources Division, Legal Affairs Division, Investment Administration Division and other units jointly formed the "Ethical Corporate Management Work Group" to take charge of the establishment, supervision, and execution of ethical corporate management policies and prevention solutions. The Chairman's Office is the part-time unit responsible for implementing ethical corporate management. It exercises due administrative diligence and supervises the Company to prevent unethical conduct. It also reviews the effectiveness of implementation and continues to improve to ensure the implementation of the ethical corporate management policies. It reports to the Board of Directors where necessary.	None
(III) Does the Company establish policies to prevent conflicts of interest, provided appropriate communication channels for filing related complaints and implemented the policies accordingly?	V		(III) The Company has established the "Ethical Corporate Management Best Practice Principles" to clearly define the policy conflict of interests and provide channels for filing related complaints.	None

Assessment Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary	
			The Principles are strictly implemented.	
(IV) Does the Company establish effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis?	V		(IV) The Company established effective accounting and internal control systems to implement ethical management and conducts regular reviews to ensure that the design and execution of the system remain effective. Internal auditors regularly review the compliance status and file audit reports to the Audit Committee and Board of Directors.	None
(V) Does the Company regularly hold internal and external training on ethical business operations?	V		(V) The Company organized 2,034 related internal and external courses on ethical management (including ethical corporate management regulations, food safety and health management, accounting system, and internal control system) in 2018 with more than 775,316 attendances in the courses.	None
III. Status for enforcing whistle-blowing systems in the Company				
(I) Does the Company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?	V		(I) The Company has established specific reporting system with convenient and independent report mailboxes and dedicated hotlines and assigned dedicated units and personnel to take charge of investigations and process reports.	None
(II) Does the Company set up SOP for confidential reporting on investigating accusation cases?	V		(II) The Company retains records on case acceptance, investigation processes, investigation results, and relevant documents. We also established confidentiality mechanisms to protect the identity of the whistleblower and the contents of the report.	None
(III) Does the Company provide proper whistleblower protection?	V		(III) The Company protects whistleblowers from inappropriate actions due to whistleblowing.	None

Assessment Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary	
IV. Enhancing information disclosure (I) Does the Company disclose its ethical corporate management policies and the results of its implementation on the company's website and MOPS?	V		(I) The Company fully discloses corporate governance information such as financial information, stock prices and dividends, organizational structure, and the Company's results in operations in quarterly reports, annual reports, and the Company's website to truthfully reflect the performance of business operations and allow stakeholders to obtain information on the Company's operations in a timely manner.	None
V. If the Company has established Ethical Corporate Management Principles in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies", please describe any discrepancy between the principles and their implementation: None				
VI. Other important information that facilitates a better understanding of the company's ethical corporate management policies: (e.g., review and amend its policies): Please refer to the Company's website and Annual Report for related information.				

- (VIII) Methods of inquiry on the Corporate Governance Best Practice Principles and related regulations established by the Company:

The Company has disclosed the "Corporate Governance Best Practice Principles" and other related regulations on MOPS, the Company's website (<http://www.zdtco.com>), and the Annual Report. The Company also operates and implements related corporate governance regulations in accordance with corporate governance principles.

- (IX) Other important information to facilitate a better understanding of the Company's corporate governance activities: Please refer to the following information, the Company's website (<http://www.zdtco.com>), and related contents in the Annual Report.

1. Managerial officers' participation in related corporate governance studies and training

Title	Name	Date of studies	Organizer	Course title	Number of hours
General Manager	Ting-Chuan Lee	2018.11.12	Accounting Research and Development Foundation	Studies on Key Changes in the Income Tax & Latest Amendments of the Company Act	6 hours
Accounting Executive	Jin-Ten Chang	2018.11.12	Accounting Research and Development Foundation	Studies on Key Changes in the Income Tax & Latest Amendments of the Company Act	6 hours
Spokesperson	Tun Ling	2018.11.12	Accounting Research and Development Foundation	Studies on Key Changes in the Income Tax & Latest Amendments of the Company Act	6 hours

2. Employee education and training status

A successful company must hire employees based on merit and it must also know how to cultivate talent. The Company upholds a people-oriented corporate philosophy and values each employee's value for growth to provide education based on their talents. We also actively establish diverse development and training programs for each employee to learn from different disciplines, make full use of their skills, and achieve their dreams to become the key for the Company's continued growth. The Company organized 2,034 courses totaling 2,296,815 training hours in 2018 with more than 775,316 attendances in the courses. The average employee received more than 60 training hours and the total training expenditures amounted to NT\$24,637,762.

- (1) Training for new employees: The Company arranges training courses on the Company's history, corporate culture, human resources policies, work safety, environmental protection knowledge, integrated management, and the SER policy to prepare employees for business development after they enter the Company.
- (2) Quality management training: To become a world-class and high-quality company, the Company implements various quality management policies and introduced comprehensive quality management training such as daily quality management, Seven Basic Tools of Quality, Eight Disciplines of Problem Solving (8D), SPC/CPK, FMEA 6 Sigma, and DOE.
- (3) Professional skills training: The Company provides all employees with professional skills training courses and appoints senior managers, technical experts, and professional companies to share their experience and systematically train talents necessary for the operations and

development of the Company and improve the Company's competitive advantages.

- (4) Management skills training: The Company incorporates professional skills and concepts into the talent improvement plans for various managers and key talents. We also arrange training for corresponding management skills to assist managers in work and management.
- (5) Language skills training: The Company is committed to creating a diverse foreign language learning environment. We continue to cultivate international talents and strengthen employees' proficiency in multiple foreign languages to achieve seamless communication with the world.
- (6) To satisfy the Company's future development requirements, the Company plans various development and training courses such as academic education (on-the-job studies), book clubs, expanded training, and overseas or occupational rotations to allow employees to realize their potential and improve work performance.

3. Licenses held by personnel involved in the transparency of financial information (e.g. internal auditors and finance and accounting personnel):

Certification name	Number of people
Certified Public Accountant of the Republic of China	4
Certified Public Accountant of the United States	1
Certified Securities Investment Analyst (CSIA)	1
International Certified Internal Auditor (CIA) organized by the Internal Audit Association	2
International Certified Information Systems Auditor (CISA)	2

4. Employee Code of Conduct

The Company has established the "Employee Code of Conduct", "Code of Ethical Conduct", "Procedures for Handling Material Information", and related regulations for compliance by all employees in order establish good conduct for employees, encourage compliance with ethical standards, and provide employees with a deeper understanding of the Company's moral standards. The "Employee Code of Conduct" is described as follows:

- (1) New employee guide: The guide allows new employees to quickly learn about the Company's environment and operations of related attendance systems after reporting for duties.

- (2) Employee Handbook: The Work Rules are specified in the Employee Handbook as well as the digital human resources platform for employees' reference and compliance to protect their rights and interests. The main chapters contain the following items:

Item	Description	Item	Description
A	Working hours, leaves, and holidays	J	Business travel
B	Extended unpaid leaves and reinstatement	K	Discharge, layoff, and resignation
C	Attendance management	L	Retirement
D	Salary	M	Occupational injuries, illnesses, and compensation
E	Overtime work	N	Industrial safety and sanitation
F	Rewards and Penalties	O	Communication between labor and management
G	Performance evaluation	P	Sexual harassment prevention
H	Benefits	Q	Confidentiality regulations, etc.
I	Education and training		

- (3) Employment Agreement: The Agreement specifies terms the employee must abide by after negotiations between labor and management to protect the interests of both parties. The main terms are as follows

Item	Description	Item	Description
A	Terms of services	F	Information security
B	Intellectual property right ownership	G	Integrity and self-disciplinary clause
C	Non-infringement guarantee	H	Non-compete clause
D	Confidentiality	I	Avoidance of conflicts of interest, etc.
E	External communication		

## 5. Code of Ethical Conduct

### Article 1 Purpose and basis for adoption

The Code is enacted in accordance with the "Guidelines for the Adoption of Codes of Ethical Conduct for TWSE/TPEX Listed Companies" to establish good models of conduct for the Company for the compliance of ethical standards as well as to allow all stakeholders of the Company to gain a deeper understanding of the Company's ethical business conduct regulations and abide by them.

### Article 2 The Code includes the follows eight items

- (1) Prevention of conflicts of interest:

Conflicts of interest occur when personal interest intervenes or is likely to intervene in the overall interest of the Company. As an example, when a director, supervisor, or managerial officer of the Company is unable to perform their duties in an objective and efficient manner, or when a person in such a position takes advantage of their position in the

Company to obtain improper benefits for either themselves or their spouse, parents, children, or relatives within the second degree of kinship. The Company shall pay special attention to loans of funds, provisions of guarantees, and major asset transactions or the purchase (or sale) of goods involving affiliated companies at which the aforementioned individuals work. The Company shall prevent conflicts of interest and provide suitable channels for Directors and managerial officers to explain any potential conflict of interest with the Company.

(2) Minimizing incentives to pursue personal gain:

The Company shall prevent Directors and managerial officers from taking the following actions:

- 1) Seeking an opportunity to pursue personal gain by using the Company property or information or taking advantage of their positions.
- 2) Obtaining personal gain by using company property or information or taking advantage of their positions;
- 3) Competing with the Company. When the Company has an opportunity for profit, it is the responsibility of the Directors and managerial officers to maximize the reasonable and proper benefits that can be obtained by the Company.

(3) Duty of confidentiality:

The Directors and managerial officers of the Company shall be bound by the obligation to maintain the confidentiality of any information regarding the Company itself or its suppliers and customers, except when authorized or required by law to disclose such information. Confidential information includes any undisclosed information that, if exploited by a competitor or disclosed, could result in damage to the Company or the suppliers and customers.

(4) Fair transactions:

Directors and managerial officers shall treat all suppliers and customers, competitors, and employees fairly, and may not obtain improper benefits through manipulation, nondisclosure, or misuse of the information learned by virtue of their positions, or through misrepresentation of important matters, or through other unfair trading practices.

(5) Protection and proper use of company assets:

All Directors and managerial officers have the responsibility to safeguard company assets and to ensure that they can be effectively and lawfully used for official business purposes; any theft, negligence in care, or waste of the assets will all directly impact the Company's profitability.

(6) Legal compliance:

In addition to enhancing the internal staff's legal compliance to the Securities and Exchange Act and other regulations, the Company has established the "Business Ethical Conduct Principles" to regulate the conduct all employees of the Company.



(7) Encouraging reporting on illegal or unethical activities:

The Company shall raise awareness of ethics and encourage employees to report to the Board of Directors, managerial officer, chief internal auditor, or other appropriate individuals upon suspicion or discovery of any activity in violation of a law or regulation or the Code of Ethical Conduct. To encourage employees to report illegal conduct, the Company has established a concrete whistle-blowing system and informed employees that the Company will use its best efforts to ensure the safety of informants and protect them from reprisals.

(8) Disciplinary measures:

When a Director or managerial officer violates the code of ethical conduct, the Company shall handle the matter in accordance with the disciplinary measures prescribed in the code, and shall disclose in time on the Market Observation Post System (MOPS) the date of the violation by the violator, reasons for the violation, the provisions of the code violated, and the disciplinary actions taken. The Company also established a relevant complaint system to provide the violator with remedies.

Article 3 Procedures for exemption

The exemption of a Director or managerial officer of the Company from compliance with the Company's Code of Ethical Conduct shall require a resolution by the Board of Directors and the information on the date on which the Board of Directors adopted the resolution for exemption, the period of the exemption, Independent Directors' objections or qualified opinions, reasons for the exemption, and principles behind the application of the exemption shall be disclosed on MOPS within two days.

Article 4 Method of disclosure

The Code shall be disclosed on the Company's website, annual report, prospectus, and MOPS. The same shall apply to any revision.

Article 5 Implementation

The Code shall be delivered to the Audit Committee for discussion and submitted to the Board of Directors for approval before implementation. It shall also be submitted to the shareholders' meeting. The same shall apply to any revision.

6. Ethical Corporate Management Best Practice Principles

Article 1 (Objective and scope of application)

Zhen Ding Technology Holding Limited and all subsidiaries (hereinafter referred to as the Company) established the Principles to foster a corporate culture of ethical management and sound development.

This Principle is applicable to the business groups and organizations of the Company, which comprise its subsidiaries, any affiliate companies to which the Company's direct or indirect contribution of funds exceeds 50% of the total

funds received, and other institutions or juridical persons that are substantially controlled by the Company ("business group").

#### Article 2 (Prohibition on unethical conduct)

When engaging in commercial activities, directors, managerial officers, employees of the Company, mandataries, or persons having substantial control over the Company ("substantial controllers") shall not directly or indirectly offer, promise to offer, request or accept any improper benefits, nor commit unethical acts including breach of ethics, illegal acts, or breach of fiduciary duty ("unethical conduct") for purposes of acquiring or maintaining benefits.

Parties referred to in the preceding paragraph include civil servants, political candidates, political parties or members of political parties, state-run or private-owned businesses or institutions, and their directors, supervisors, managerial officers, employees or substantial controllers or other stakeholders.

#### Article 3 (Patterns of benefits)

"Benefits" in these Principles means any valuable things, including money, endowments, commissions, positions, services, preferential treatment or rebates of any type or in any name. Benefits received or given occasionally in accordance with accepted social customs and that do not adversely affect specific rights and obligations shall be excluded.

#### Article 4 (Legal compliance)

The Company shall comply with the Company Act, Securities and Exchange Act, Business Entity Accounting Act, Political Donations Act, Anti-Corruption Act, Government Procurement Act, Act on Recusal of Public Servants Due to Conflict of Interest, TWSE/TPEX listing rules, or other laws or regulations regarding commercial activities, as the underlying basic premise to facilitate ethical corporate management.

#### Article 5 (Policies)

The Company shall abide by the operational philosophies of honesty, transparency and responsibility, base policies on the principle of good faith and establish good corporate governance and risk control and management mechanism to create an operational environment for sustainable development.

#### Article 6 (Prevention programs)

The Company shall establish ethical management policies clearly and thoroughly prescribe the specific ethical management practices and the programs to forestall unethical conduct ("prevention programs"), including operational procedures, guidelines, and training.

When establishing the prevention programs, the Company shall comply with relevant laws and regulations of the territory where the Company and its business group are operating.

In the process of developing the prevention programs, the Company should negotiate with staffs, labor unions members, important trading counterparties, or other stakeholders.

#### Article 6 (Scope of prevention programs)

When establishing the Code of Conduct, the Company shall analyze which business activities within their business scope are possibly at a higher risk of being involved in an unethical conduct, and strengthen the preventive measures.

The prevention programs adopted by the Company shall at least include preventive measures against the following:

- (1) Offering and acceptance of bribes.
- (2) Illegal political donations.
- (3) Improper charitable donations or sponsorship.
- (4) Offering or acceptance of unreasonable presents or hospitality, or other improper benefits.
- (5) Misappropriation of trade secrets and infringement of trademark rights, patent rights, copyrights, and other intellectual property rights.
- (6) Engaging in unfair competitive practices.
- (7) Damage directly or indirectly caused to the rights or interests, health, or safety of consumers or other stakeholders in the course of research and development, procurement, manufacture, provision, or sale of products and services.

#### Article 8 (Guarantee and execution)

The Company and its business group shall clearly specify in their rules and external documents the ethical corporate management policies and the commitment by the Board of Directors and the management on the active implementation of such policies, and shall exercise the policies in internal management and in commercial activities.

#### Article 9 (Ethical corporate management of commercial activities)

The Company shall engage in commercial activities in a fair and transparent manner based on the principle of ethical management.

Prior to any commercial transactions, the Company shall take into consideration the legality of its agents, suppliers, clients, or other trading counterparties and whether any of them are involved in unethical conduct, and shall avoid any transactions with persons so involved.

When entering into contracts with its agents, suppliers, clients, or other trading counterparties, the Company shall include in such contracts terms requiring compliance with ethical corporate management policy. In the event that the trading counterparties are involved in unethical conduct, the Company may at any time terminate or rescind the contracts.

#### Article 10 (Prohibition on offering and acceptance of bribes)

When conducting business, the Company, Directors, managerial officers, employees, mandataries, and substantial controllers may not directly or indirectly offer, promise to offer, request, or accept any improper benefits in

whatever form to or from clients, agents, contractors, suppliers, public servants, or other stakeholders.

#### Article 11(Prohibition on illegal political donations)

When directly or indirectly offering a donation to political parties or organizations or individuals participating in political activities, The Company, directors, managerial officers, employees, mandataries, and substantial controllers, shall comply with the Political Donations Act and relevant internal operational procedures, and shall not make such donations in exchange for commercial gains or business advantages.

#### Article 12 (Prohibition on improper charitable donations or sponsorship)

When making or offering charitable donations and sponsorship, the Company, directors, managerial officers, employees, mandataries, and substantial controllers shall comply with relevant laws and regulations and internal operational procedures, and shall not surreptitiously engage in bribery.

Article 13 (Prohibition on unreasonable gifts, hospitality, or other improper benefits) The Company, directors, managerial officers, employees, mandataries, and substantial controllers shall not directly or indirectly offer or accept any unreasonable gifts, hospitality or other improper benefits to establish business relationship or influence commercial transactions.

#### Article 14 (Prohibition on infringement of intellectual property rights)

The Company, directors, managerial officers, employees, mandataries, and substantial controllers shall observe applicable laws and regulations, the company's internal operational procedures, and contractual provisions concerning intellectual property; they may not use, disclose, dispose, or damage intellectual property or otherwise infringe intellectual property rights without the prior consent of the intellectual property rights holder.

#### Article 15 (Prohibition on unfair competitive practices)

The Company shall engage in business activities in accordance with applicable competition laws and regulations, and may not fix prices, make rigged bids, establish output restrictions or quotas, or share or divide markets by allocating customers, suppliers, territories, or lines of commerce.

#### Article 16 (Prevention of damage to stakeholders by products or services)

In the course of research and development, procurement, manufacture, provision, or sale of products and services, the Company, directors, managerial officers, employees, mandataries, and substantial controllers shall observe applicable laws and regulations and international standards to ensure the transparency of information about, and safety of, the products and services. It shall also adopt and publish a policy on the protection of the rights and interests of consumers or other stakeholders, and carry out the policy in its operations, with a view to preventing its products and services from directly or indirectly damaging the rights and interests, health, and safety of consumers or other stakeholders. Where there are sufficient facts to determine that the Company's products or services are likely to pose any hazard to the safety and health of consumers or other stakeholders, the Company shall, in principle, recall those products or suspend the services immediately.

#### Article 17 (Organization and responsibilities)

The Company's directors, managerial officers, employees, mandataries, and substantial controllers shall exercise the due care of good administrators to urge the Company to prevent unethical conduct. They shall readily review the results of the preventive measures and continually make adjustments to ensure thorough implementation of its ethical corporate management policies. To achieve sound ethical corporate management, the Company shall establish a dedicated unit that is under the board of directors and responsible for establishing and supervising the implementation of the ethical corporate management policies and prevention programs. The dedicated unit shall be in charge of the following matters, and shall report to the board of directors on a regular basis:

- (1) Assisting in incorporating ethics and moral values into the company's business strategy and adopting appropriate prevention measures against corruption and malfeasance to ensure ethical management in compliance with the requirements of laws and regulations.
- (2) Adopting programs to prevent unethical conduct and setting out in each program the standard operating procedures and conduct guidelines with respect to the company's operations and business.
- (3) Planning the internal organization, structure, and allocation of responsibilities and setting up check-and-balance mechanisms for mutual supervision of the business activities within the business scope which are possibly at a higher risk for unethical conduct.
- (4) Promoting and coordinating awareness and educational activities with respect to ethics policy.
- (5) Developing a whistleblowing system and ensuring its operating effectiveness.
- (6) Assisting the board of directors and management in auditing and assessing whether the prevention measures taken for the purpose of implementing ethical management are effectively operating, and preparing reports on the regular assessment of compliance with ethical management in operating procedures.

#### Article 18 (Legal compliance in business operations)

The Company's directors, managerial officers, employees, mandataries, and substantial controllers shall comply with laws and regulations and the prevention programs when conducting business.

#### Article 19 (Prevention of conflicts of interest)

The Company shall adopt policies for preventing conflicts of interest to identify, monitor, and manage risks possibly resulting from unethical conduct, and shall also offer appropriate means for directors, supervisors, managers, and other stakeholders attending or present at board meetings to voluntarily explain whether their interests would potentially conflict with those of the company.

When a proposal at a given board of directors meeting concerns the personal interest of, or the interest of the juristic person represented by, any of the

directors, managerial officers, and other stakeholders attending or present at board meetings of the Company, the concerned person shall state the important aspects of the relationship of interest at the given board meeting. If his or her participation is likely to prejudice the interest of the company, the concerned person may not participate in discussion of or voting on the proposal and shall recuse himself or herself from the discussion or the voting, and may not exercise voting rights as proxy for another director. Directors shall practice self-discipline and must not support one another in improper dealings.

The Company' directors, managerial officers, employees, mandataries, and substantial controllers shall not take advantage of their positions or influence in the Company to obtain improper benefits for themselves, their spouses, parents, children or any other person.

#### Article 20 (Accounting and internal control)

The Company shall establish effective accounting systems and internal control systems for business activities possibly at a higher risk of being involved in an unethical conduct, not have under-the-table accounts or keep secret accounts, and conduct reviews regularly to ensure that the design and enforcement of the systems are showing results.

The internal audit unit of the Company shall periodically examine the Company's compliance with the foregoing systems and prepare audit reports and submit the same to the board of directors. The internal audit unit may engage a certified public accountant to carry out the audit, and may engage professionals to assist if necessary.

#### Article 21 (Operating procedures and guidelines of conduct)

The Company shall establish operational procedures and guidelines in accordance with Article 6 hereof to guide directors, managerial officers, employees, and substantial controllers on how to conduct business. The procedures and guidelines should at least contain the following matters:

- (1) Standards regarding the determination of benefits received or given occasionally in accordance with accepted social customs and that do not adversely affect specific rights and obligations.
- (2) Procedures for offering legitimate political donations.
- (3) Procedures and the standard rates for offering charitable donations or sponsorship.
- (4) Rules for avoiding work-related conflicts of interests and how they should be reported and handled.
- (5) Rules for keeping confidential trade secrets and sensitive business information obtained in the ordinary course of business.
- (6) Regulations and procedures for dealing with suppliers, clients and business transaction counterparties suspected of unethical conduct.
- (7) Handling procedures for violations of these Principles.
- (8) Disciplinary measures on offenders.

## Article 22 (Education, training and evaluation)

The chairperson, general manager, or senior manager of the Company shall communicate the importance of corporate ethics to directors, employees, and mandataries on a regular basis.

The Company shall periodically organize training and awareness programs for directors, managerial officers, employees, mandataries, and substantial controllers and invite the Company's commercial transaction counterparties so they understand the Company's resolve for implementing ethical corporate management, the related policies, prevention programs and the consequences of committing unethical conduct.

The Company shall apply the policies of ethical corporate management when creating its employee performance appraisal system and human resource policies to establish a clear and effective reward and discipline system.

## Article 23 (Whistleblowing System)

The Company shall adopt a concrete whistleblowing system and scrupulously operate the system. The whistleblowing system shall include at least the following:

An independent mailbox or hotline, either internally established and publicly announced or provided by an independent external institution, to allow company insiders and outsiders to submit reports.

- (1) Dedicated personnel or unit appointed to handle whistle-blowing system. Any tip involving a director or senior manager shall be reported to the independent directors or supervisors. Categories of reported misconduct shall be delineated and standard operating procedures for the investigation of each shall be adopted.
- (2) Documentation of case acceptance, investigation processes, investigation results, and relevant documents.
- (3) Confidentiality of the identity of whistleblowers and the content of reported cases.
- (4) Measures for protecting whistleblowers from inappropriate disciplinary actions due to their whistleblowing.
- (5) Whistleblowing incentive measures.

When material violations or concerns involving material impairment to Company come to their awareness upon investigation, the dedicated personnel or unit handling the whistle-blowing system shall immediately prepare a report and notify the independent directors or supervisors in writing.

## Article 24 (Disciplinary and complaint system)

The Company shall establish and publish a well-defined disciplinary and appeal system for handling violations of the ethical corporate management rules. The Company shall make immediate disclosure on the company's internal website of the title and name of the culprit, the date and details of the violation, and the actions taken in response.

## Articles 25 (Information disclosure)

The Company shall collect quantitative data about the promotion of ethical management and continuously analyze and assess the effectiveness of the promotion of ethical management policy. It shall also disclose the measures taken for implementing ethical corporate management, the status of implementation, the foregoing quantitative data, and the effectiveness of promotion on the Company's website, annual reports, and prospectuses, and shall disclose the ethical corporate management best practice principles on the Market Observation Post System.

## Article 26 (Review and amendment of ethical corporate management policies measures)

The Company shall at all times monitor the development of relevant local and international regulations concerning ethical corporate management and encourage directors, managerial officers, and employees to make suggestions, based on which the adopted ethical corporate management policies will be reviewed and improved with a view to achieving better effectiveness of ethical management.

## Article 27 (Implementation)

The Principles shall be delivered to the Audit Committee for discussion and submitted to the Board of Directors for approval before implementation. It shall also be submitted to the shareholders' meeting. The same shall apply to any revision.

When the Company submits the ethical corporate management best practice principles for discussion by the Board of Directors pursuant to the preceding paragraph, the Board of Directors shall take into full consideration each independent director's opinions and record objections and reservations in the minutes of the Board of Directors meeting. An independent director that cannot attend the board meeting in person to express objection or reservations shall provide a written opinion before the board meeting, unless there is some legitimate reason to do otherwise, and the opinion shall be specified in the minutes of the Board of Directors meeting.

## 7. Procedures for Handling Material Inside Information

### Article 1 Objective

The Company enacted the Procedures to establish mechanisms for processing and disclosing material insider information and preventing inappropriate leaks of information for ensuring the consistency and accuracy of information disseminated by the Company to the outside world.

### Article 2 Legal Basis and Reference Procedures

- (1) The Company's processing and disclosure of its internal material information shall be carried out in accordance with related laws, orders, regulations of the Taiwan Stock Exchange or Taipei Exchange, and the Procedures.
- (2) The Company's internal reference procedures:



- 1) Regulations Governing the Disclosure of Financial and Non-Financial Information
- 2) Information Technology Division Operating Procedures
- 3) Plant Crisis (Emergency) Incident Processing Procedures
- 4) Crisis Management (Emergency Response) Information Table

#### Article 3 Scope of application

- (1) These Procedures shall apply to the following individuals:
  - 1) All directors, supervisors, managerial officers, and employees of the Company.
  - 2) Individuals who acquire knowledge of the Company's material inside information due to their position, profession, or relationship of control.
- (2) The Company shall ensure that such individuals comply with related regulations in the Procedures.

#### Article 4 Scope of material inside information

- (1) The scope of material inside information specified herein shall be defined by the Company's units responsible for processing material inside information.
- (2) The scope of material inside information is as follows:
  - 1) Material inside information specified in the Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities.
  - 2) For the purposes of these Procedures, the term "Material inside information" refers to information that, with reference to the Securities and Exchange Act, other applicable laws and regulations, and the applicable rules and regulations of Taiwan Stock Exchange Corporation.
  - 3) Knowledge and documents regarding R&D, process, technology, management, and other trade secrets.

#### Article 5 Designated Unit

The Company shall establish a unit charged with handling material inside information. The responsible unit shall be composed of an adequate number of competent members including managers for legal affairs, finance, accounting, information technology, Secretariat of the Board, public relations, and spokesperson based on the size, business conditions, and management needs of the Company. The unit shall have the following functions and authorities:

- (1) Responsibility for formulating the drafts of these Procedures and any amendments to them.
- (2) Responsibility for receiving inquiries in connection with the methods of handling material inside information, and for consultation, review, and recommendations relating to these Procedures.

- (3) Responsibility for designing a system for preserving all documents, files, electronic records, and other materials related to these Procedures.
- (4) Other activities related to these Procedures.

#### Article 6 Confidentiality firewall operations - Personnel

- (1) Individuals applicable to the Procedures shall exercise the due care and fiduciary duty of a good administrator and act in good faith when performing their duties.
- (2) Individuals applicable to the Procedures may not divulge material inside information of the Company to others.
- (3) Individuals applicable to the Procedures may not inquire about or collect any non-public material inside information of the Company not related to their individual duties from a person with knowledge of such information, nor may they disclose to others any non-public material inside information of the Company of which they become aware of for reasons other than the performance of their duties.

#### Article 7 Confidentiality firewall operations - Information

- (1) Proper protection of confidentiality shall be given to files and documents containing the Company's material inside information when transmitted in written form. When transmitted by e-mail or other electronic means, such files and documents must be processed with appropriate security technology such as encryption or electronic signatures.
- (2) Files and documents containing the Company's material inside information shall be backed up and stored in a secure location.

#### Article 8 Operation of confidentiality firewalls

The Company shall ensure that the firewalls specified in the preceding two articles are established, and take the following additional steps:

- (1) Adopt adequate control measures for the firewalls and perform periodic testing.
- (2) Enhance measures for custody and maintaining the secrecy of files and documents containing non-public material inside information of the Company.

#### Article 9 Confidentiality obligations of outside organizations and persons

Any organization or person outside of the Company that is involved in any corporate action of the Company relating to a merger or acquisition, major memorandum of understanding, strategic alliance, other business partnership plans, or the signing of a major contract shall be required to sign a confidentiality agreement, and may not disclose to another party any material inside information of the Company thus acquired.

#### Article 10 Principles for disclosure

The Company shall comply with the following principles when making external disclosures of material inside information:

- (1) The information disclosure shall be accurate, consistent, complete and prompt.
- (2) The information disclosure shall be based on facts.
- (3) The information shall be fairly disclosed.

#### Article 11 Implementation of the spokesperson system

- (1) Any disclosure of the Company's material inside information, except as otherwise provided by law or regulation, shall be made by the Company's spokesperson, or by a deputy spokesperson acting in such capacity in a confirmed sequential order. Other individuals may not disclose information to outside parties. This restriction does not apply to special and temporary assignments. When necessary, the disclosure may be made directly by a responsible person of the Company.
- (2) The Company's spokesperson or deputy spokesperson shall communicate to outside parties only information within the scope authorized by the Company, and no personnel of the Company other than those serving as the Company's responsible person, spokesperson, or deputy spokesperson may disclose any material inside information of the Company to outside parties without authorization.

#### Article 12 Record of disclosure of material inside information

The Company shall keep records of the following in respect of any disclosure of information to outside parties:

- (1) The person who discloses the information, the date, the time, and the recipient of the information.
- (2) The approach to disclose the information.
- (3) The disclosed content of information.
- (4) The content of the written information delivered.
- (5) Any other relevant details.

#### Article 13 Response to false media coverage

If a media agency releases information that is in any respect inconsistent with material information disclosed by the Company, the Company shall promptly issue a clarification on the Market Observation Post System (MOPS) and request the media agency to correct the information.

#### Article 14 Reporting of unusual events

- (1) Any director, supervisor, managerial officer, or employee of the Company that becomes aware of any unauthorized disclosure of the Company's material inside information shall report to the responsible unit and the internal audit department of the Company as soon as practicable.

- (2) Upon receipt of a report made pursuant to the preceding paragraph, the responsible unit shall formulate corresponding measures. When necessary, it may invite members from the internal audit and other departments to meet for discussion of the measures, and shall keep a record of the results of the measures for future reference. The internal auditors shall also perform such audits as their duties may require.

#### Article 15 Disciplinary measures

The Company shall take measures to discover those responsible and take appropriate legal action against any personnel under either of the following circumstances:

- (1) Personnel of the Company disclose material inside information without authorization to any outside party, or otherwise violate these Procedures or any other applicable law or regulations.
- (2) A spokesperson or deputy spokesperson of the Company communicates to any outside party any information beyond the scope authorized by the Company, or otherwise violates these Procedures or any other applicable law or regulations.
- (3) Any person outside the Company that divulges material inside information of the Company and causes damage to the rights and interests of the Company.

#### Article 16 Internal controls

These Procedures shall be incorporated into the Company's internal control system. The internal auditors shall keep themselves regularly informed of the status of compliance with these Procedures and shall prepare related audit reports to ensure full implementation of the procedures for handling material inside information.

#### Article 17 Awareness campaigns

The Company shall conduct educational campaigns to promote awareness among all directors, supervisors, managerial officers, and employees with respect to these Procedures and related laws and regulations.

Article 18 These Procedures shall be implemented after approval by the Board of Directors. The same shall apply to all amendments.

### 8. Corporate Governance Best Practice Principles

#### Chapter 1 General Provisions

##### Article 1

The Company enacted the Company's Corporate Governance Best Practice Principles in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies jointly established by Taiwan Stock Exchange Corporation (hereinafter referred to as TWSE) and Taipei Exchange (hereinafter referred to as TPEX) to establish an effective corporate governance framework and promote sound development of the securities market. The Principles are disclosed on the Market Observation Post System (MOPS).

## Article 2

The Company has established a corporate governance system. In addition to compliance with regulations, the Articles of Incorporation, contracts signed with TWSE, and related regulations, corporate governance shall be implemented based on the following principles:

- (1) Protect the rights and interests of shareholders.
- (2) Strengthen the function of the board of directors.
- (3) Fulfill the function of supervisors.
- (4) Respect the rights and interests of stakeholders.
- (5) Enhance information transparency.

## Article 3

The Company shall follow the Regulations Governing Establishment of Internal Control Systems by Public Companies and take the overall operational activities of itself and its subsidiaries into account to design and fully implement an internal control system, and shall conduct continuing reviews of the system in order to ensure the continued effectiveness of its design and implementation in light of changes in the Company's internal and external environment.

Unless approved by the competent authorities, the establishment or amendment of the internal control system shall be submitted to the Board of Directors for resolution and approval. If an Independent Director has dissenting or qualified opinions, they shall be specified in the meeting minutes of the Board of Directors. The amendment shall be approved with the consent of one-half or more of the entire membership of the Audit Committee and proposed to the Board of Directors meeting for a resolution.

The Company shall perform self-assessments of the internal control system. The Board of Directors and management shall review the results of self-assessments performed by each department at least annually and the reports of the internal audit department on a quarterly basis. The Audit Committee shall also attend to and supervise these matters.

The Company is advised to establish channels and mechanisms of communication between its independent directors, the Audit Committee, and chief internal auditors.

The management of the Company shall pay special attention to the internal audit department and its personnel, fully empower them and urge them to conduct audits effectively, to evaluate problems of the internal control system and assess the efficiency of its operations to ensure that the system can operate effectively on an on-going basis, and to assist the Board of Directors and the management to perform their duties effectively to ensure a sound corporate governance system.

TWSE/TPEX-listed companies are encouraged to submit the appointment, evaluation and remuneration of internal auditors to the board of directors for approval, or require the report of the chief auditor and the approval of the chairman.

### Article 3-1

The Company shall set up full-time (or part-time) units or personnel for matters related to corporate governance, and senior executives for supervision, whose work experience in the legal, financial or stock management field in a public offering company is more than three years or they are qualified as a lawyer or an accountant.

The relevant affairs of corporate governance in the preceding company should at least include the following:

- (1) Company registration and change registration.
- (2) Handle matters relating to board meetings and shareholders meetings according to laws, and assist the Company with compliance with laws and regulations governing such meetings.
- (3) Produce meeting minutes for the meetings of the Board of Directors and shareholders' meetings.
- (4) Provide directors (including independent directors) with the information required for the execution of businesses and the latest regulatory development for the operations of the Company to help directors (including independent directors) with regulatory compliance.
- (5) Matters related to investor relations.
- (6) Other matters set forth in the Company's Articles of Incorporation or contracts.

## Chapter 2 Protection of Shareholders' Rights and Interests

### Section 1 Encouraging Shareholders to Participate in Corporate Governance

#### Article 4

The corporate governance system of the Company shall protect shareholders' rights and interests and treat all shareholders equitably. The Company shall establish a corporate governance system which ensures shareholders' rights of being fully informed of, participating in and making decisions over important matters of the Company.

#### Article 5

The Company shall convene shareholders' meetings in accordance with the Company Act and relevant local laws and regulations, and provide comprehensive rules for such meetings. The Company shall faithfully implement resolutions adopted by shareholders' meetings in accordance with the rules for the meetings.

Resolutions adopted by shareholders meetings of the Company shall comply with laws, regulations and articles of incorporation.

#### Article 6

The Board of Directors of the Company shall properly arrange the agenda items and procedures for shareholders' meetings, and formulate the principles and procedures for shareholders' nominations of directors and members of the

Audit Committee and submissions of shareholder proposals. The Board of Directors shall also properly handle the proposals duly submitted by shareholders. Arrangements shall be made to hold shareholders' meetings at a convenient location, with sufficient time allowed and sufficient numbers of suitable employees assigned to handle attendance registrations. No arbitrary requirements shall be imposed on shareholders to provide additional evidentiary documents beyond those showing eligibility to attend. Shareholders shall be granted reasonable time to deliberate each proposal and an appropriate opportunity to make statements.

For a shareholders' meeting called by the Board of Directors, it is advisable that the chairman hold the meeting, that a majority of the directors and at least one supervisor attend in person, and that at least one member of each functional committee attends as representative. Attendance details should be recorded in the shareholders' meeting minutes.

#### Article 7

The Company shall encourage shareholders to participate in corporate governance, and shall appoint a professional stock agency to handle the affairs of the shareholders meeting to ensure it is convened under legal, effective and safe premises. The Company shall use various methods, including utilizing technically advanced information disclosure and voting methods, and submit meeting notice, meeting handbook and supplement materials in both Chinese and English to improve the attendance rate of shareholders to the shareholders meetings. This also ensures that shareholders can implement their rights at the shareholder meetings according to law.

When the Company adopts electronic voting at the shareholders meeting, it should avoid revision of the provisional motion and the original motion on the day of the shareholders' meeting. The Company shall adopt a candidate nomination system for the election of directors (including independent directors) if an election is organized in the current year.

The Company shall allow shareholders to vote on each separate proposal in the shareholders meeting agenda, and following the conclusion of the meeting, to enter the voting results the same day, namely the numbers of votes cast for and against and the number of abstentions, on the Market Observation Post System.

If the Company distributes souvenirs at its shareholders' meeting, it shall not practice differential treatment or discrimination.

#### Article 8

The Company shall keep a record of shareholder meetings according to the Company Act and relevant local regulations. If there are no objections from shareholders for a proposal, a "proposal passed with no objections from attending shareholders after the chair's inquiry" shall be noted. If there are objections from shareholders toward a proposal and the proposal was put to a vote, the decision method and result shall be clearly noted. For elections of director and independent directors, the voting method and the number of votes that each elected director and supervisor received shall be clearly noted.

## Article 9

The chairperson of the shareholders' meetings shall be fully familiar and comply with the rules governing the proceedings of the shareholders' meetings established by the Company. The chairperson shall ensure the proper progress of the proceedings of the meetings and may not adjourn the meetings at will.

To protect the interests of most shareholders, if the chairperson declares the adjournment of the meeting in a manner in violation of the Rules and Procedures of Shareholders Meeting, it is advisable for the members of the Board of Directors other than the chairperson of the shareholders' meeting to promptly assist the attending shareholders at the shareholders' meeting in electing a new chairman of the shareholders' meeting to continue the proceedings of the meeting, by a resolution to be adopted by a majority of the votes represented by the shareholders attending the said meeting in accordance with the legal procedures.

## Article 10

The Company shall place high importance on the shareholder's right to know, and shall faithfully comply with applicable regulations regarding information disclosure in order to provide shareholders regular and timely information on the Company's financial conditions and operations, insider shareholdings, and corporate governance status through the MOPS or the website established by the Company.

To treat all shareholders equally, it is advisable that the Company concurrently disclose the information under the preceding paragraph in English.

To protect its shareholders' rights and interests and ensure their equal treatment, the Company shall adopt internal rules prohibiting the Company's insiders from trading securities using information not disclosed to the market.

## Article 11

Shareholders shall be entitled to profit distributions by the Company. To protect the investment rights of shareholders, the shareholder meetings may, pursuant to the regulations of the place the Company is listed, examine the records and books prepared and submitted by the Board of Directors and the reports and decide profit distributions and loss makeup plans by resolution. To proceed with the above examination, the shareholders' meeting may appoint an inspector.

The shareholders may, pursuant to the regulations of the place the Company is listed, apply with the court to select an inspector in examining the accounting records and assets of the company.

The Board of Directors, Audit Committee, and managerial officers of the Company shall fully cooperate in the examination conducted by the inspectors in the aforesaid two paragraphs without any obstruction, rejection or circumvention.

## Article 12

In entering into material financial and business transactions such as acquisition or disposal of assets, lending funds, and making endorsements or providing



guarantees, the Company shall proceed in accordance with the applicable laws and/or regulations and establish operating procedures in relation to these material financial and business transactions which shall be reported to and approved by the shareholders meeting to protect the interests of the shareholders.

When the Company is engaged in a merger or public acquisition, it shall comply with related laws and regulations and pay attention to the fairness and reasonableness of the merger or public acquisition plan and transaction. It shall also pay attention to information disclosure and the comprehensiveness of the Company's financial structure after the merger or acquisition.

#### Article 13

To protect the rights of shareholders, the Company has assigned dedicated personnel to respond appropriately to suggestions, questions and complaints raised by shareholders. The Company shall properly deal with any legal action duly instituted by shareholders in which it is claimed that shareholders' rights and interests were damaged by a resolution adopted at a shareholders' meeting or a Board of Director meeting in violation of applicable laws, regulations, or the Company's articles of incorporation, or that such damage was caused by a breach of applicable laws, regulations or the Company's articles of incorporation by any directors, supervisors or managers in performing their duties.

The Company should adopt internal procedures for appropriate handling of matters referred to in the preceding two paragraphs, keep relevant written records for future reference, and incorporate the procedures in its internal control system for management purposes.

#### Section 2 Establishing a Mechanism for Interaction with Shareholders

##### Article 13-1

The Board of Directors of the Company is responsible for establishing an interaction mechanism with the shareholders to enhance the mutual understandings of the Company's development objectives.

##### Article 13-2

In addition to communicating with shareholders through shareholders' meetings and encouraging shareholders to participate in such meetings, the Board of Directors of the Company together with managers and independent directors shall engage with shareholders in an efficient manner to ascertain shareholders' views and concerns, and expound the Company's policies explicitly, in order to gain shareholders' support.

#### Section 3 Corporate Governance Relationships between the Company and Its Affiliated Enterprises

##### Article 14

The Company shall clearly identify the objectives and the division of authority and responsibility between it and its affiliated enterprises with respect to management of personnel, assets, and financial matters, and shall properly carry out risk assessments and establish appropriate firewalls.



## Article 15

Unless otherwise provided by the law and regulations, a managerial officer of the Company may not serve as a managerial officer of its affiliated enterprises. A Director who engages in any transaction for himself or on behalf of another person that is within the scope of the Company's operations shall explain the major content of such actions to the shareholders' meeting and obtain its consent.

## Article 16

The Company shall establish sound objectives and systems for the management of finance, operations, and accounting in accordance with applicable laws and regulations. It shall further, together with its affiliated enterprises, properly conduct an overall risk assessment of major banks, customers and suppliers, and implement the necessary control mechanisms to reduce credit risk.

## Article 17

When the Company and its affiliated enterprises enter into inter-company business transactions, a written agreement governing the relevant financial and business operations between them shall be made in accordance with the principle of fair dealing and reasonableness. Price and payment terms shall be definitively stipulated when contracts are signed, and non-arm's length transactions shall be prohibited.

All transactions or contracts made by and between the Company and its related parties and shareholders shall follow the principles set forth in the preceding paragraph, and improper channeling of profits is strictly prohibited.

## Article 18

A corporate shareholder having controlling power over the Company shall comply with the following provisions:

- (1) They are bound by the principle of good faith in their relations with other shareholders and they may not directly or indirectly influence the Company to engage in irregular practices or other unprofitable businesses.
- (2) The representatives shall abide by the Company's related regulations for the exercise of rights and participation in resolutions. When participating in shareholders' meetings, they shall exercise their voting rights based on the principle of good faith and maximize benefits for all shareholders. They shall also perform fiduciary duties as directors and independent directors.
- (3) The nomination of the Company's directors and independent directors shall proceed in accordance with related regulations and the Company's Articles of Incorporation. They may not exceed the scope of authority of the shareholders' meeting or the Board of Directors.
- (4) They may not Intervene with the Company's decisions or business activities in an improper manner.
- (5) They may not obstruct the Company's business activities through unfair means of competition such as monopolized procurement or closed

distribution.

- (6) A representative designated when a corporate shareholder has been elected as a director or independent director shall fulfill the Company's requirements for professional qualifications. Arbitrary replacement of the corporate shareholder's representative is considered inappropriate.

#### Article 19

The Company shall retain at any time a register of major shareholders who own a relatively high percentage of shares and have controlling power, and of the persons with ultimate control over those major shareholders.

The Company shall disclose periodically important information about its shareholders holding more than 10 percent of the outstanding shares of the Company relating to the pledge, increase or decrease of share ownership, or other matters that may possibly trigger a change in the ownership of their shares.

The primary shareholder stated in item one refers to shareholders who hold over 5% of company stocks or the top 10 shareholders with the most company stocks. However, the Company can set a lower stock ratio based on actual company controlling stock.

### Chapter 3 Strengthening the Function of Board Meetings

#### Section 1 Board Meeting Structure

#### Article 20

The Company's Board of Directors shall direct company strategies, supervise the management, and be responsible to the company and shareholders. The various procedures and arrangements of the corporate governance system shall ensure that, in exercising its authority, the board of directors complies with laws, regulations, the Articles of Incorporation, and the resolutions adopted by the shareholder meetings.

The structure of the Company's Board of Directors shall be determined by choosing an appropriate number of Board members, not less than seven and no more than nine, in consideration of its business scale, the shareholdings of its major shareholders, and practical operational needs.

The composition of the Board of Directors shall be determined by taking diversity into consideration. It is advisable that directors concurrently serving as the Company's managers not exceed one-third of the total number of the Board members, and that an appropriate policy on diversity based on the Company's business operations, operating dynamics, and development needs to be formulated and include, without being limited to, the following two general standards:

- (1) Basic qualifications and values: gender, age, nationality, culture, etc.
- (2) Professional knowledge and skills: professional background (e.g. law, accounting, industry, finance, marketing or technology), professional skills and industry experience, etc.

All members of the Board shall have the knowledge, skills, and experience necessary to perform their duties. To achieve the ideal goal of corporate governance, the Board of Directors shall possess the following abilities:

- (1) Judgment capabilities on company operation.
- (2) Accounting and financial analysis capabilities.
- (3) Business management skills.
- (4) Crisis management skills.
- (5) Industrial knowledge.
- (6) An understanding of international markets.
- (7) Leadership skills.
- (8) Decision-making capabilities.

#### Article 21

The Company shall uphold the principles of protection of shareholder rights and interests and equitable treatment of shareholders. It shall establish fair, just and open procedures for the election of directors, encourage shareholder participation, and adopt a cumulative voting system to fully reflect shareholders' opinions.

Unless the competent authority otherwise grants an approval, a spousal relationship or a familial relationship within the second degree of kinship may not exist among more than half of the Directors of the Company.

If the dismissal of a Director results in a board with less than five Directors, the Company shall hold a supplemental election at the next shareholders meeting. When the number of directors falls short by one-third of the total number prescribed by the articles of incorporation, the Company shall convene an extraordinary shareholders' meeting within 60 days of the occurrence of that fact for a by-election for Director(s).

The aggregate shareholding percentage of all directors of the Company shall comply with the laws and regulations. Restrictions on the share transfer of each director and the creation, release, or changes of any pledges over the shares held by each director shall be subject to the relevant laws and regulations, and the relevant information shall be fully disclosed.

#### Article 22

Before a shareholders' meeting is convened for the reelection of directors, the Company shall review in advance the qualifications, education, work experience, background, and the existence of any other matters set forth in Article 30 of the Company Act with respect to the director candidates recommended by shareholders or directors, and the Company shall not arbitrarily add requirements for documentation of other qualifications. It is advised to provide the results of the review to shareholders for their reference, so that qualified Directors will be elected.

The Board of Directors shall, in accordance with the provisions, carefully evaluate the qualifications listed in the preceding paragraph and other matters

and the candidate's willingness to serve as a Director once elected after the election before listing the list of the candidates.

## Article 23

Clear distinctions shall be drawn between the responsibilities and duties of the Chairman of the board of the Company and those of its general manager.

It is inappropriate for the chairman to also act as the general manager. If the chairman also acts as the general manager or the chairman and the general manager are spouses or relatives within the first degree of kinship, the Company should increase the number of independent directors.

If the Company sets up a functional committee, the responsibilities and duties of the committee shall be clearly defined.

## Section 2 Independent Director System

### Article 24

The Company shall appoint independent directors in accordance with the Articles of Incorporation. They shall be not less than three in number and not less than one-fifth of the total number of directors. Independent directors shall possess professional knowledge and there shall be restrictions on their shareholdings. Applicable laws and regulations shall be observed and, in addition, it is not advisable for an independent director to hold office concurrently as a director (including an independent director) or supervisor of more than five other TWSE/TPEX-listed companies. Independent directors shall also maintain independence within the scope of their directorial duties, and may not have any direct or indirect interest in the Company.

The election of independent directors shall be conducted based on a candidate nomination system in accordance with the regulations of the Company's place of listing and the Articles of Incorporation. Shareholders shall elect independent directors from the list of candidates for independent directors. Independent directors and non-independent directors shall be elected concurrently in accordance with the regulations of the place of the Company's listing and the seats shall be calculated separately.

Change of status between independent directors and non-independent directors during their tenure is prohibited.

If an independent director is discharged for any reason and causes the number of directors to be lower than that required under paragraph 1 or the Articles of Incorporation, a by-election for an independent director shall be held at the next shareholders' meeting. In the event that all independent directors have been discharged, the Company shall convene an extraordinary shareholders' meeting to hold a by-election within 60 days from the date on which the vacancies arose.

The professional qualifications, restrictions on both shareholding and concurrent positions held, determination of independence, method of nomination and other requirements with regard to the independent directors shall be set forth in accordance with the Securities and Exchange Act, the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies, and the regulations of the Taiwan Stock Exchange.

## Article 25

The Company shall submit the following matters to the Board of Directors for approval by resolution as provided in the Securities and Exchange Act. When an independent director has a dissenting opinion or qualified opinion, it shall be noted in the minutes of the Board of Director meeting:

- (1) Establishment or amendments to the internal control system according to Article 14-1 of the Securities and Exchange Act.
- (2) Establishment or amendment of the asset acquisition/disposal procedures, derivative trading procedures, lending procedures, endorsement and guarantee procedures, and other procedures involving major financial consequences according to Article 36-1 of the Securities and Exchange Act.
- (3) Matters concerning the personal interests of directors or independent directors.
- (4) Material asset or derivatives transactions.
- (5) Material loaning of funds, making of endorsements or provision of guarantees.
- (6) Offering, issuance, or private placement of any equity-type securities.
- (7) Appointment, dismissal and compensation of CPAs.
- (8) Appointments and dismissal of finance, accounting and internal audit managers.
- (9) Other material changes regulated by the competent authorities.

## Article 26

The Company shall stipulate the scope of duties of the independent directors and empower them with manpower and physical support related to the exercise of their power. The Company or board members shall not limit or obstruct independent directors in the execution of their duties.

The Company shall determine the remuneration of directors in the Articles of Incorporation or resolutions of the shareholders' meeting and it may establish a separate but reasonable set of remuneration rules for independent directors.

The Company shall stipulate the remuneration of the directors in the Articles of Incorporation, which shall fully reflect individual performance and long-term operation performance of the Company, and the risk of the Company's operation shall be taken into consideration. It may establish a separate but reasonable set of remuneration rules for independent directors.

Under the Articles of Incorporation of the Company, the resolution of the shareholders' meeting, or by order of competent authorities, if any special surplus reserves are to be drawn, such allocation shall be made after the allocation of legal surplus reserves and before the distribution of remuneration of the directors and supervisors and employee bonuses, and the Articles of Incorporation shall specify the method for profit distribution to be adopted when the reversal of the special surplus reserves are included in the undistributed earnings.



### Section 3 Audit Committee and Other Functional Committees

#### Article 27

For the purpose of developing supervisory functions and strengthening management mechanisms, the Board of Directors of the Company, in consideration of the Company's scale and type of operations and the number of its Board members, may set up functional committees for auditing, remuneration, nomination, risk management or any other functions, and based on concepts of corporate social responsibility and sustainable operation, may set up environmental protection, corporate social responsibility, or other committees, and expressly provide for them in the Articles of Incorporation.

Functional committees shall be responsible to the Board of Directors, and submit their proposals to the board for voting.

Functional committees shall set organization regulations to be passed by the Board of director resolution. The organizational charter shall contain the number, tenure, and powers of the committee members as well as the meeting rules and resources to be provided by the Company for the exercise of power by the committee.

#### Article 28

The Company established an Audit Committee.

The Audit Committee shall be composed of all independent directors. It shall not be fewer than three persons in number, one of whom shall be the convener, and at least one of whom shall have accounting or financial expertise.

If the Company set up an Audit Committee, the regulations on supervisors of the place of the Company's listing shall apply mutatis mutandis to the Audit Committee. The follows items must be approved by at least one-half of all members of the Audit Committee and submitted to the Board of Directors for resolution. Article 39 of the Principles shall not be applicable:

- (1) Establishment or amendments to the internal control system according to Article 14-1 of the Securities and Exchange Act.
- (2) Evaluation of the effectiveness of internal control systems.
- (3) Establishment or amendment of the asset acquisition/disposal procedures, derivative trading procedures, lending procedures, endorsement and guarantee procedures, and other procedures involving major financial consequences according to Article 36-1 of the Securities and Exchange Act.
- (4) Matters concerning the personal interests of Directors.
- (5) Material asset or derivatives transactions.
- (6) Material loaning of funds, making of endorsements or provision of guarantees.
- (7) Offering, issuance, or private placement of any equity-type securities.
- (8) Appointment, dismissal and compensation of CPAs.

- (9) Appointments and dismissal of finance, accounting and internal audit managers.
- (10) Annual and semi-annual financial reports.
- (11) Other material items required by other companies or competent authorities

The exercise of power by the Audit Committee and independent directors and related matters shall be set forth in accordance with the Securities and Exchange Act, the Regulations Governing the Exercise of Powers by Audit Committees of Public Companies, and regulations of Taiwan Stock Exchange.

#### Article 28-1

The Company established the Remuneration Committee.

The Remuneration Committee shall exercise the care of a good administrator, faithfully fulfill the following function and power and submit suggestions to the Board of Directors for discussion. However, suggestions for the remuneration of independent directors may be submitted for deliberation by the Board of Directors only when the Board of Directors is expressly authorized to handle the independent directors' remuneration in the Company's Articles of Incorporation or by a resolution of the shareholders' meeting:

- (1) Establish and periodically review the performance evaluation and remuneration policy, system, standards, and structure for directors, independent directors and managerial officers.
- (2) Periodically evaluate and establish remuneration and benefits for directors, independent directors, and managerial officers.

The Remuneration Committee shall fulfill the aforementioned function and power in accordance with the following principles:

- (1) Performance appraisal and remuneration of directors, independent directors, and managerial officers shall be based on the prevailing rates of the industry as well as their individual performance, the Company's overall performance, and reasonable assessments of future risks.
- (2) There shall be no incentive for directors or managerial officers to pursue remuneration by engaging in activities that exceed the tolerable risk level of the Company.
- (3) The percentage of bonus to be distributed to directors and senior managerial officers based on their short-term performance and the time for payment of any variable remuneration shall be determined by the characteristics of the industry and the nature of the Company's business.

The exercise of power by the Remuneration Committee and independent directors and related matters shall be set forth in accordance with the Securities and Exchange Act, Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter, and regulations of TWSE.

#### Article 28-2

The Company is advised to establish an announce channels for internal and external whistleblowers and establish whistleblower protection mechanisms. The unit that handles whistleblowers' reporting shall be independent, provide encrypted protection for the files furnished by whistleblowers, and appropriately restrict access to such files. It shall also formulate internal procedures and incorporate those procedures into the company's internal control system for management purposes.

#### Article 29

To improve the quality of its financial reports, the Company shall establish the position of deputy to its principal accounting officer.

To enhance the professional abilities of the deputy accounting officer of the preceding paragraph, the deputy's continuing education shall proceed in accordance with the schedule of the principal accounting officer.

Related accounting personnel that participate in the formulation of accounting reports shall also take at least 6 hours of professional courses each year. The continuing studies may attend the Company's internal education and training courses or professional accounting supervisor courses offered by institutions.

The Company shall select a professional, responsible, and independent CPA to perform regular reviews of financial conditions and internal control measures of the Company. With regard to any irregularity or deficiency discovered and disclosed in a timely manner by the auditor during the review, and concrete measures for improvement or prevention suggested by the auditor, the Company shall faithfully implement improvement actions. The Company should establish channels and mechanisms of communication between the independent directors, the Audit Committee, and CPA, and incorporate procedures for that purpose into the Company's internal control system for management purposes.

The Company shall evaluate the independence and suitability of the CPA engaged by the Company regularly (at least once every year). In the event that the Company engages the same CPA without replacement for seven consecutive years, or if the CPA is subject to disciplinary action or other circumstances prejudicial to the CPA's independence, the Company shall evaluate the necessity of replacing the CPA and submit its conclusion to the Board of Directors.

#### Article 30

The Company should engage a professional and competent legal counsel to provide adequate legal consultation services to the Company, or to assist the Board of Directors, independent directors, and the management to improve their knowledge of the law, for the purposes of preventing any infraction of laws or regulations by the Company or its staff and ensuring that corporate governance matters proceed pursuant to the relevant legal framework and the prescribed procedures.

When, as a result of performing their lawful duties, directors, independent directors, or the management are involved in litigation or a dispute with shareholders, the Company shall retain a legal counsel to provide assistance as circumstances require.

The Audit Committee or an independent director may retain a legal counsel, CPA, or other professionals on behalf of the Company to conduct a necessary audit or provide consultation services on matters in relation to the exercise of their power, at the expense of the Company.

#### Section 4 Rules for the Proceedings of Board Meetings and the Decision-Making Procedures

##### Article 31

The Board of Directors of the Company shall meet at least once every quarter, or convene at any time in case of emergency. To convene a board meeting, a meeting notice which specifies the purpose of the meeting shall be sent to each director and independent director no later than seven days before the scheduled date. Sufficient meeting materials shall also be prepared and enclosed in the meeting notice. Directors have the right to request supplemental information or postpone certain agendas if they consider the information presented to them to be inadequate.

The Company shall set board meeting procedure specifications. The main procedure content, work procedures, items that should be recorded in the meeting records, public notifications, and other items to be followed should be according to the Regulations Governing Procedure for Board of Director Meetings of Public Companies.

##### Article 32

Directors of the Company shall exercise a high degree of self-discipline. If a director or a juristic person represented by the director is an interested party with respect to any proposal for a board of director meeting, the director shall state the important aspects of the interested party relationship at the meeting. When the relationship is likely to prejudice the interests of the Company, the director shall not participate in any discussion or voting on that proposal and shall enter recusal during the discussion and voting. The director shall also not act as another director's proxy to exercise the voting right on that matter. Directors shall maintain discipline among one another and not inappropriately support one another.

Items that directors must excuse themselves from shall be clearly stated in the board meeting procedure specifications.

##### Article 33

Independent directors shall attend in person any meeting of the Board of Directors, with respect to matters prescribed in Article 14-3 of the Act that shall be proposed to the Board of Directors. They shall not appoint another non-independent director to attend the meeting as a proxy. When an independent director has a dissenting or qualified opinion, it shall be noted in the minutes of the board of director meeting; if the independent director cannot attend the board meeting in person to voice his or her dissenting or qualified opinion, he or she shall provide a written opinion before the board meeting unless there are justifiable reasons for failure to do so, and the opinion shall be noted in the minutes of the board meeting.

In any of the following circumstances, decisions made by the Board of Directors shall be noted in the meeting minutes, and publicly announced and

filed in the MOPS two hours before the beginning of trading hours on the first business day after the date of the board of director meeting:

(I) An independent director has a dissenting or qualified opinion which is on record or stated in a written statement.

(II) Items that have not been approved by the Audit Committee shall require the approval of more than two-thirds of all directors.

During a board meeting, the Company may, based on the content of the agenda, notify managers of relevant departments who are not board members to attend the meeting as non-voting participants to report the Company's current business status and answer directors' questions. Certified public accountants, lawyers, or other professionals may also be invited to participate in board meetings where necessary to help directors understand situations and make decisions accordingly but they shall leave the meeting during discussions and votes.

#### Article 34

The Company's staff attending board meetings shall collect and correctly record detailed meeting minutes, as well as a summary, the method of resolution, and the voting results of all the proposals submitted during the board meeting in accordance with relevant regulations.

The meeting minutes shall be signed or sealed by the chair and the minute taker and issued to all directors within 20 days after the meeting. The attendance log constitutes part of the board meeting minutes and shall be listed as key files of the Company and retained as such over the Company's existence.

Meeting minutes may be produced, distributed, and preserved by electronic means.

The Company shall record on audio or video tape the entire proceedings of a board of directors meeting and preserve the recordings for at least 5 years, in electronic form or otherwise.

If before the end of the preservation period referred to in the preceding paragraph a lawsuit arises with respect to a resolution of a Board of Directors meeting, the relevant audio or video recordings shall be preserved for a further period, in which case the preceding paragraph does not apply.

Where a Board of Directors meeting is held via teleconference or video conference, the audio or video recordings of the meeting form a part of the meeting minutes and shall be preserved permanently.

When a resolution of the Board of Directors violates laws, regulations, the Articles of Incorporation, or resolutions adopted in the shareholders meeting, and thus causes an injury to the Company, dissenting directors whose dissent can be proven by minutes or written statements will not be liable for damages.

#### Article 35

The Company shall submit the following matters to its Board of Directors for discussion:

(1) Corporate business plans.

- (2) Annual and semi-annual financial reports, with the exception of semi-annual financial reports which, under relevant laws and regulations, need not be audited or attested by a CPA.
- (3) Establishment or amendments to the internal control system according to Article 14-1 of the Securities and Exchange Act.
- (4) Establishment or amendment of the asset acquisition/disposal procedures, derivative trading procedures, lending procedures, endorsement and guarantee procedures, and other procedures involving major financial consequences according to Article 36-1 of the Securities and Exchange Act.
- (5) Offering, issuance, or private placement of any equity-type securities.
- (6) Performance assessment and the standard of remuneration of the managerial officers.
- (7) Structure and system for the remuneration of directors.
- (8) Appointments and dismissal of finance, accounting and internal audit managers.
- (9) Donations to related parties or major donations to non-related parties. However, in the event of a major natural disaster, emergency aids of charitable nature can be made first and ratified in the next board meeting.
- (10) Any matter required by Article 14-3 of the Securities and Exchange Act or any other law, regulation, or by law to be approved by resolution at a shareholders meeting or to be submitted to a meeting of the Board of Directors, or any such significant matter as may be prescribed by the competent authority.

Except for matters that must be submitted to the Board of Directors for discussion under the preceding paragraph, when the Board of Directors is in recess, it may delegate the exercise of its power to others in accordance with law, regulations, or its articles of incorporation. However, the level of delegation or the content or matters to be delegated shall be clearly specified, and general authorization is not permitted.

The Company shall report meeting minutes and discussion on internal system defects to the Board of Directors.

#### Article 36

The Company shall ask the appropriate corporate department or personnel to execute matters pursuant to Board of Directors' resolutions in a manner consistent with the planned schedule and objectives. It shall also follow up those matters and faithfully review their implementation.

The Board of Directors shall remain informed of the progress of implementation and receive reports in subsequent meetings to ensure the actual implementation of the Board's management decisions.

#### Section 5 Fiduciary Duty, Duty of Care and Responsibility of Directors

#### Article 37

Members of the Board of Directors shall faithfully conduct corporate affairs and perform the duty of care of a good administrator. In conducting the affairs of the Company, they shall exercise their powers with a high level of self-discipline and prudence. Unless matters are otherwise reserved by the law or the articles of incorporation for approval in shareholders' meetings, they shall ensure that all matters are handled according to the resolutions of the Board of Directors.

Any resolution of the Board of Directors that involves the Company's business development or a major policy direction shall be carefully considered and shall not affect the implementation or effectiveness of corporate governance.

Independent directors shall carry out their duties according to relevant regulations and company policies to protect the rights and interests of the Company and shareholders.

#### Article 38

If a resolution of the Board of Directors violates laws, regulations or the Company's articles of incorporation, at the request of shareholders holding shares continuously for a year or an independent director, or at the notice of an independent director to discontinue the implementation of the resolution, members of the Board of Directors shall take appropriate measures or discontinue the implementation of such a resolution as soon as possible.

Upon discovering a likelihood that the Company would suffer material damage, members of the Board of Directors shall immediately report to the Audit Committee or the independent director members of the Audit Committee in accordance with the foregoing paragraph.

#### Article 39

According to Articles of Incorporation or a resolution of the shareholders' meeting, the Company shall buy liability insurance according to the scope of directors' liabilities they are legally responsible for during their tenure's business implementations. The objective is to lower and distribute the risk of major damages caused to the Company and shareholders as a result of directors' error or negligence.

The Company is advised to report the insured amount, coverage, premium rate, and other major contents of the liability insurance it has purchased or renewed for directors at the next board meeting.

#### Article 40

Members of the Board of Directors are advised to participate in training courses on finance, business, commerce, accounting, or law offered by institutions designated in the Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies, which cover subjects relating to corporate governance upon becoming directors and throughout their tenure. They shall also ensure that employees at all levels enhance their professionalism and knowledge of the law.

## Chapter 4 Empowering Supervisors

### Article 41

The Company has appointed three independent directors and set up an Audit Committee, the regulations on the functions and obligations of supervisors of the place of the Company's listing shall apply mutatis mutandis to the Audit Committee.

## Chapter 5 Respecting Stakeholders' Rights and Interests

### Article 42

The Company shall maintain channels of communication with its banks, other creditors, employees, consumers, suppliers, community or other interested parties and stakeholders of the Company. It shall also respect and safeguard their legal rights and interests. The Company is also advised to set up a stakeholders' section on its website.

When a management buy-out occurs at the company, attention must be paid to the Company's finance structure and integrity after the buy-out.

When a stakeholder's legal right is violated, the Company shall respond appropriately according to the principle of good faith.

### Article 43

The Company shall provide sufficient information to banks and its other creditors to facilitate their evaluation of the operational and financial conditions of the Company and its decision-making process. When any of their legal rights or interests are harmed, the Company shall respond with a responsible attitude and assist creditors in obtaining compensation through proper means.

### Article 44

The Company shall establish channels of communication with employees and encourage employees to communicate directly with the management, directors, or independent directors to reflect employees' opinions about the management, financial conditions, and material decisions of the Company concerning employee welfare.

### Article 45

In developing its normal business and maximizing the shareholders' interests, the Company shall pay attention to consumers' interests, environmental protection of the community, and public welfare, and shall give serious regard to its social responsibility.

## Chapter VI Improving Information Transparency

### Section 1 Enhancing Information Disclosure

#### Article 46

Disclosure of information is a major responsibility of the Company. The Company shall perform its obligations faithfully in accordance with the relevant laws and the rules of TWSE or TPEX.



The Company shall establish an online reporting system for public information, appoint employees responsible for gathering and disclosing the information, and establish a spokesperson system to ensure the proper and timely disclosure of information on policies that might affect the decisions of shareholders and stakeholders.

#### Article 47

To enhance the accuracy and timeliness of the material information disclosed, the Company shall appoint a spokesperson and acting spokesperson(s) who understand thoroughly the Company's financial and business conditions and who are capable of coordinating among departments for gathering relevant information and representing the Company in making statements independently.

The Company shall appoint one or more acting spokespersons who shall represent the Company, when the spokesperson cannot perform his/her duties, in making statements to the public independently, provided that the order of delegation shall be established to avoid any confusion.

To implement the spokesperson system, the Company shall unify the process of making external statements. It shall require the management and employees to maintain the confidentiality of financial and operational secrets and prohibit their disclosure of any such information at will.

The Company shall disclose the relevant information immediately whenever there is any change in the position of a spokesperson or acting spokesperson.

#### Article 48

In order to keep shareholders and stakeholders fully informed, the Company shall utilize the convenience of the Internet and set up a website containing the information regarding the Company's finances, operations, and corporate governance. The Company should also furnish the financial, corporate governance, and other relevant information in English.

To avoid misleading information, the aforesaid website shall be maintained by specified personnel, and the recorded information shall be accurate, detailed and updated on a timely basis.

#### Article 49

The Company shall hold an investor conference in compliance with the regulations of the TWSE and TPEx, and shall keep an audio or video record of the meeting. The financial and business information disclosed in the investor conference shall be disclosed on the Market Observation Post System and provided for inquiry through the website established by the Company, or through other channels, in accordance with the TWSE rules.

### Section 2 Disclosure of Information on Corporate Governance

#### Article 50

The Company shall disclose and continuously update the following information regarding corporate governance during the fiscal year in accordance with laws and regulations, and TWSE rules.

- (1) Corporate governance framework and regulations.
- (2) Ownership structure and the rights and interests of shareholders (including specific and explicit dividend policy).
- (3) Structure, professionalism and independence of the Board of Directors.
- (4) Obligations and responsibilities of the Board of Directors and managerial officers.
- (5) Composition, duties and independence of the Audit Committee.
- (6) Composition, duties and operation of the Remuneration Committee and other functional committees.
- (7) The remuneration paid to the directors (including independent directors), general manager and vice presidents in the last two fiscal years, the analysis of the percentage of total remuneration to net profit after tax in the parent company only financial reports or individual financial reports, the policy, standard and package of remuneration payment, the procedure for determination of remuneration and the connection with the operation performance and future risk. Under special individual circumstances, remuneration of individual directors shall be disclosed.
- (8) The progress of training of directors and independent directors.
- (9) The rights, relationships, appeal channels, concerns, and appropriate response mechanism regarding stakeholders.
- (10) Details of the events subject to information disclosure required by law and regulations.
- (11) Deviations and reasons for the deviations between the status of corporate governance and the Company's Corporate Governance Best Practice Principles.
- (12) Other information regarding corporate governance.

The Company should adopt appropriate methods to improve tactical planning and measures for corporate governance based on the actual implementation status of corporate governance.

## Chapter 7 Supplementary Provisions

### Article 51

The Company shall at all times monitor domestic and international developments in corporate governance as a basis for review and improvement of the Company's own corporate governance mechanisms to enhance their effectiveness.

## 9. Corporate Social Responsibility Best Practice Principles

### Article 1

The Company has established the Principles in accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies" to fulfill corporate social responsibilities and promote the economic, environmental, and social advancement for the purpose of achieving the Company's sustainable development.

### Article 2

The Principles applies to the Company and the entire operations of the Company and its business group.

The Principles encourages the Company to actively fulfill its corporate social responsibility in the course of its business operations so as to follow international development trends and to contribute to the economic development of the country, to improve the quality of life of employees, the community and society by acting as responsible corporate citizens, and to enhance competitive advantages built on corporate social responsibility.

### Article 3

The Company fulfills its corporate social responsibility and pays attention to the rights and interests of stakeholders. While pursuing sustainable development and profit, the Company focuses on environmental, social, and corporate governance factors and incorporates them into its management approaches and operating activities.

### Article 4

The Company shall adhere to the following principles to implement corporate social responsibility initiatives:

- (1) Exercise corporate governance.
- (2) Develop a sustainable environment.
- (3) Protect public welfare.
- (4) Enhance disclosure of corporate social responsibility information.

### Article 5

The Company shall take into consideration the correlation among the development of domestic and international corporate social responsibility principles and corporate core business operations, and the effect of the operation of individual companies and of their respective business groups as a whole on stakeholders, in establishing their policies, systems or relevant management guidelines, and concrete promotion plans for corporate social responsibility programs, which shall be approved by the Board of Directors and then reported to the shareholders meeting.

When a shareholder proposes a motion involving corporate social responsibility, the Company's Board of Directors is advised to review and consider including it in the shareholders' meeting agenda.

## Article 6

The Company is advised to follow the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies, and the Code of Ethical Conduct for TWSE/TPEX Listed Companies to establish effective corporate governance frameworks and relevant ethical standards to enhance corporate governance.

## Article 7

The directors of the Company shall exercise the due care of good administrators to urge the Company to perform its corporate social responsibility initiatives, examine the results of the implementation thereof from time to time and continually make adjustments to ensure the thorough implementation of its corporate social responsibility policies. When the Board of Directors performs its corporate social responsibilities, it should fully consider the interests of stakeholders including the following matters:

- (1) Proposing the company's mission or vision of corporate social responsibility, and declaring its corporate social responsibility policy, systems or relevant management guidelines;
- (2) Making corporate social responsibility the guiding principle of the company's operations and development, and ratifying concrete promotional plans for corporate social responsibility initiatives; and
- (3) Enhancing the timeliness and accuracy of the disclosure of corporate social responsibility information.

The Board of Directors shall appoint executive-level positions with responsibility for economic, environmental, and social issues resulting from the business operations of the Company, and to report the status of the handling to the Board of Directors. The handling procedures and the responsible person for each relevant issue shall be concrete and clear.

## Article 8

The Companies shall organize regular education and training on the implementation of corporate social responsibility initiatives, including promotion of the matters prescribed in paragraph 2 of the preceding article.

## Article 9

For the purpose of managing corporate social responsibility initiatives, the Company established a dedicated unit to be in charge of proposing and enforcing the corporate social responsibility policies, systems, or relevant management guidelines, and concrete promotional plans and to report to the Board of Directors on a regular basis.

The Company shall adopt reasonable remuneration policies, to ensure that remuneration arrangements support the strategic aims of the organization, and align with the interests of stakeholders.

The employee performance evaluation system shall be combined with corporate social responsibility policies and the Company shall establish a clear and effective incentive and discipline system.

#### Article 10

The Company shall, based on respect for the rights and interests of stakeholders, identify stakeholders of the company, and establish a designated section for stakeholders on the company website. It shall understand the reasonable expectations and demands of stakeholders through proper communication with them and adequately respond to the important corporate social responsibility issues which they are concerned about.

#### Article 11

The Company shall follow relevant environmental laws, regulations and international standards to properly protect the environment and shall endeavor to promote a sustainable environment when engaging in business operations and internal management.

#### Article 12

The Company shall endeavor to utilize all resources more efficiently and use renewable materials which have a low impact on the environment to improve sustainability of natural resources.

#### Article 13

The Company shall establish proper environment management systems based on the characteristics of their industries. Such systems shall include the following tasks:

- (1) Collect sufficient and up-to-date information to evaluate the impact of the company's business operations on the natural environment.
- (2) Establish measurable goals for environmental sustainability, and examining whether the development of such goals should be maintained and whether it is still relevant on a regular basis.
- (3) Adopt enforcement measures such as concrete plans or action plans, and examining the results of their operation on a regular basis.

#### Article 14

The Company has established the Environmental Protection and Energy Conservation Division for drafting, promoting, and maintaining relevant environment management systems and concrete action plans. It regularly holds environment education courses for their managerial officers and other employees.

#### Article 15

The Company takes into account the impact on the ecology and promotes the sustainable consumption concepts. It also conducts research, procurement, production, operations, services, and other business activities based on the following principles to reduce the impact of the Company's operations on the natural environment and humans:

- (1) Reduce resource and energy consumption in products and services.
- (2) Reduce emissions of pollutants, hazardous substances, and waste and process waste in an appropriate manner.

- (3) Improve recycling and reuse of materials and products.
- (4) Ensure maximum sustainable use of renewable resources.
- (5) Extend the durability of products.
- (6) Improve the performance of products and services.

#### Article 16

The Company shall improve the utilization of water resources and it shall establish related management measures to facilitate proper and sustainable use of water resources.

The Company shall construct and improve environmental protection treatment facilities to avoid polluting water, air and land. It shall also do its utmost to reduce adverse effect on human health and environment and adopt the best feasible pollution prevention and technical control measures.

#### Article 17

The Company has adopted standards or guidelines generally accepted in Taiwan and abroad to enforce corporate greenhouse gas inventory and to disclose information. The scope of information disclosure includes:

- (1) Direct greenhouse gas emissions: emissions from operations that are owned or controlled by the company.
- (2) Indirect greenhouse gas emissions: emissions resulting from the generation of externally purchased or acquired electricity, heating, or steam.

The Company pays attention to the impact of climate change on business operations. It formulates energy conservation and carbon reduction as well as greenhouse gas cutback strategies based on its business operations and results greenhouse gas inventory. It also includes the acquisition of carbon rights into the Company's carbon emissions reduction strategy for implementation to reduce the impact of the Company's business activities on climate change.

#### Article 18

The Company shall comply with relevant laws and regulations, and the International Bill of Human Rights with respect to rights such as gender equality, the right to work, and prohibition of discrimination.

The Company shall establish related management policies and procedures to perform its obligations to protect human rights including:

Propose the Corporate Human Rights Policy or Statement.

Evaluate the impact of the Company's business activities and internal management on human rights and establish corresponding processing procedures.

Conduct regular reviews on the effectiveness of the Corporate Human Rights Policy or Statement.

In the event of any infringement of human rights, the Company shall disclose the processes for handling of the matter with respect to the stakeholders involved.

The Company shall comply with the internationally recognized human rights of labor, including the freedom of association, the right of collective bargaining, caring for vulnerable groups, prohibiting the use of child labor, eliminating all forms of forced labor, eliminating recruitment and employment discrimination, and shall ensure that its human resource policies do not contain differential treatments based on gender, race, socioeconomic status, age, or marital and family status to achieve equality and fairness in employment, hiring conditions, remuneration, benefits, training, evaluation, and promotion opportunities.

With regard to incidents that damage to labor rights, the Company shall provide effective and appropriate complaint mechanisms to ensure equality and transparency in the complaint filing process. The grievance channels shall be simple, convenient, and open and the Company responds to employees' complaints in an appropriate manner.

#### Article 19

The Company shall provide information for their employees for them to understand labor laws and the rights they enjoy in the countries where the companies have business operations.

#### Article 20

The Company shall provide safe and healthful work environments for employees, including necessary health and first-aid facilities and shall endeavor to curb dangers to employees' safety and health and to prevent occupational accidents.

The Company shall organize regular training on safety and health for employees.

#### Article 21

The Company shall create an environment conducive to the development of employees' careers and establish effective training programs to foster career skills.

The Company shall appropriately reflect the corporate business performance or achievements in the employee remuneration policy, to ensure the recruitment, retention, and motivation of human resources, and achieve the objective of sustainable operations.

#### Article 22

The Company shall establish a platform to facilitate regular two-way communication between the management and the employees for the employees to obtain relevant information on and express their opinions on the company's operations, management and decisions.

The Company shall respect the employee representatives' rights to bargain for the working conditions, and shall provide the employees with necessary information and hardware equipment, in order to improve the negotiation and cooperation among employers, employees and employee representatives.

The Company shall, by reasonable means, inform employees of operation changes that might have material impacts.

#### Article 22-1

The Company shall consider the products and services it provides to customers and select the following applicable principles in accordance with the characteristics of the printed circuit board industry. It shall develop relevant strategies and specific measures for implementation in a fair and reasonable manner.

- (1) Uphold mutual benefits, fairness, and integrity in signing contracts.
- (2) Accept due diligence and fiduciary duty for customers' assignments.
- (3) Ensure that products or services provided are suitable for customers.
- (4) Fully explain the important contents of products and services provided and disclose risks.
- (5) Ensure open complaint channels for customers and truthful responses from the Company.
- (6) Ensure the validity of advertisement.
- (7) Consider the balance between remuneration for sales personnel and sales performance.
- (8) Professionalism of sales personnel.

#### Article 23

The Company shall take responsibility for their products and services, and take marketing ethics seriously. In the process of research and development, procurement, production, operations, and services, the Company shall ensure the transparency and safety of its products and services. It shall establish and disclose policies for consumer rights and interests and enforce them in the course of business operations to prevent the products or services from adversely impacting the rights, interests, health, or safety of consumers.

#### Article 24

The Company shall ensure product and service quality in accordance with related government and industry regulations.

The Company shall adhere to related regulations and international standards for product and service marketing and labeling. The Company shall not engage in any activities involving deceptive or misleading behaviors, frauds, or other actions which may diminish the trust of consumers or damage consumer interest.

#### Article 25

The Company shall evaluate and manage all types of risks that could cause interruptions in operations to reduce the impact on consumers and society.

The Company shall provide a clear and effective procedure for accepting consumer complaints to fairly and timely handle consumer complaints. It shall comply with the Personal Information Protection Act and related laws and



regulations for respecting consumers' rights of privacy and it shall protect personal data provided by consumers.

#### Article 26

The Company shall assess the impact of procurement on where the source of supply from the society as well as the environment of the community. It shall cooperate with suppliers to jointly implement corporate social responsibility initiatives.

Prior to engaging in commercial dealings, the Company shall assess whether there is any record of a supplier's impact on the environment and society and avoid conducting transactions with suppliers that violate its corporate social responsibility policy.

When the Company enters into a contract with a major supplier, the content should include terms stipulating mutual compliance with corporate social responsibility policy and specify that the contract may be terminated or rescinded any time if the supplier has violated such policy and has caused significant negative impact on the environment and society of the community of the supply source.

#### Article 27

The Company shall evaluate the impact of their business operations on the community, and adequately employ personnel from the location of the business operations to enhance community acceptance.

The Company shall, through equity investment, commercial activities, endowments, volunteering service, other charitable professional services, etc., dedicate resources to organizations that commercially resolve social or environmental issues, participate in events held by citizen organizations, charities and local government agencies related to community development and community education to promote community development.

#### Article 28

The Company shall disclose information according to relevant laws, regulations and the Corporate Governance Best Practice Principles for TWSE/TPEX listed Companies and shall fully disclose relevant and reliable information related to its corporate social responsibility initiatives to improve information transparency.

- (1) The Company shall disclose the following CSR information:
- (2) The policy, systems or relevant management guidelines, and concrete promotion plans for corporate social responsibility initiatives, as resolved by the Board of Directors.
- (3) The risks and the impact on the corporate operations and financial condition arising from exercising corporate governance, fostering a sustainable environment and preserving social public welfare.
- (4) Goals and measures for realizing the corporate social responsibility initiatives established by the companies, and performance in implementation.

- (5) Major stakeholders and their concerns.
- (6) Disclosure of information on major suppliers' management and performance with respect to major environmental and social issues.

Other information related to corporate social responsibility initiatives.

#### Article 29

The Company shall adopt widely recognized international standards or guidelines when producing corporate social responsibility reports to disclose the status of their implementation of the corporate social responsibility policy. It shall also obtain a third-party assurance or verification for reports to enhance the reliability of the information in the reports. The contents include:

- (1) Implementation of CSR policies, systems, related management policies, and specific advancement plans.
- (2) Major stakeholders and their concerns.
- (3) Results and a review of the exercising of corporate governance, fostering of a sustainable environment, preservation of public welfare and advancement of economic development.
- (4) Future improvement plans and goals.

#### Article 30

The Company shall continuously monitor the development of domestic and foreign corporate social responsibility standards and the change of business environment to examine and improve the corporate social responsibility framework it has established and to obtain better results from the implementation of the corporate social responsibility policy.

### 10. Regulations Governing the Evaluation of the Performance of the Board of Directors and Functional Committees

#### Article 1 (Purpose and basis for adoption)

These Regulations are established in accordance with the “Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies” and the Company's "Corporate Governance Best Practice Principles" to implement corporate governance, enhance the functions of the Board of Directors and functional committees of the Company, and to set forth performance objectives to improve the operation efficiency of the board of directors.

#### Article 2 (Applicable regulations)

The main evaluation cycle, evaluation period, evaluation scope and methods, unit responsible for the evaluation, evaluation procedures, and other compliance items for the evaluation of the Company's Board of Directors and functional committees shall be processed in accordance with these Regulations.

The aforementioned functional committees of the Company include the Audit Committee and the Remuneration Committee.

#### Article 3 (Frequency and length of evaluation)

The Company's Board of Directors and functional committees shall conduct at least one performance evaluation every year. The performance evaluation shall be conducted at the end of each year in accordance with the evaluation procedures and standards set forth in Article 6 and Article 7 to evaluate the performance of the year.

Performance evaluations for a given year shall be completed before the first meeting of the Board of Directors in the following year.

#### Article 4 (Scope and methods of evaluation)

The scope of the evaluation covers the evaluation of the Board of Directors as a whole, individual Directors and functional committees and their members.

Methods of evaluations include the performance evaluation of the Board of Directors, self-evaluation by members of the Board of Directors and functional committees.

#### Article 5 (Evaluation unit)

The Chairman's Office shall have an adequate understanding of the operation of the Board of Directors and functional committees. It shall serve as the executive unit for the performance evaluation of the Board of Directors and functional committees.

#### Article 6 (Internal evaluation procedures)

The Chairman's office shall collect information related to the activities of the Board of Directors and functional committees at the end of the year and distribute the following questionnaires to compile statistics on evaluation results for reports to the Board of Directors as the basis for review and improvement.

- (1) "Board Performance Evaluation Form" (Attachment 1): Filled out by the Chairman's Office.
- (2) "Board Member Self-Evaluation Questionnaire" (Attachment 2): Filled out by board members.
- (3) "Audit Committee Performance Evaluation Form" (Attachment 3): Filled out by the Chairman's Office.
- (4) "Remuneration Committee Performance Evaluation Form" (Attachment 4): Filled out by the Chairman's Office.
- (5) "Remuneration Committee Member Self-Evaluation Form" (Attachment 5): Filled out by members of the Remuneration Committee.

#### Article 7 (Evaluation indicators and scoring standards)

The Company's evaluation items for the performance evaluation of the Board of Directors and functional committees shall include at least the following five dimensions:

- (1) Degree of participation in the Company's operations;
- (2) Improvement in the quality of decision-making.
- (3) Composition and structure.

- (4) Election and continuous education.
- (5) Internal controls.

The measurement items for the self-assessment of the performance of directors and members of functional committees shall include at least the following six dimensions:

- (1) Understanding company goals and missions;
- (2) Recognition of their duties.
- (3) Degree of participation in the Company's operations;
- (4) Management of internal relationship and communication;
- (5) Professional and continuing education and training.
- (6) Internal controls.

The performance evaluation indicators and evaluation standards may be adjusted in accordance with the actual operations of the Company.

#### Article 8 (References for selection of directors by the Board of Directors)

When the Company's Board of Directors nominates a director, the results of performance evaluations for individual directors shall be listed as references for the nomination.

#### Article 9 (Information disclosure)

The Company shall disclose the implementation status of performance evaluations of the Board of Directors in the Annual Report or the Company's website each year. It shall also explain the evaluation methods.

#### Article 10 (Methods of disclosure)

The performance evaluation methods established by the Company have been fully disclosed on the MOPS and the Company's website for reference.

#### Article 11 (Implementation)

The Regulations shall be implemented upon approval by the Board of Directors. The same applies to amendments.

## 11. Specific Plans for Implementing Corporate Social Responsibilities and Achievements

The Company took on the mission of "Technological development for the benefit of mankind; protect the environment and make the Earth a better place" and we have remained committed to building a corporate culture. We also use our core values in the industry to promote activities related to corporate social responsibilities and achieved results in the four dimensions including ethical management, environmental protection and energy conservation, employee care, and social participation. We hope to achieve sustainable development while protecting the interests of all stakeholders and become a role model in the PCB industry.

The Company upholds a people-oriented corporate philosophy and core values for integrity, responsibility, and excellence. We actively established a training system for employees and we provide benefits and related subsidies. We hope that employees identify with the Company's ideas and implement them in their life to bring benefits to their family and society. The Company implements a CSR policy based on "Six Assistances and Six Loves" to encourage employees to participate in our employee care, environmental protection, and social activities. In addition, the Company also promotes the "Zhen Ding Seven Green" policy with the aim of planting green seeds for environmental protection in each employee and establish a unique green corporate culture to achieve prosperity for the Company, society, and natural environment.

### 1. Pollution prevention

#### (1) Wastewater treatment

1. Wastewater from production is categorized into 20 to 25 categories based on the characteristics of product and pollutants. We collect wastewater for processing or recycling.
2. Based on the characteristics of wastewater, we adopted unique designs that include ten major processing systems with high-efficiency processing equipment, three-dimensional distribution of processing units for multiple phases, and a smart central control system.
3. We ensure wastewater treatment functions and effectively recycle water resources and heavy metals. We also save land usage, reduce energy consumption in the process, and expand flexibility.
4. Each wastewater treatment plant is equipped with a water quality laboratory for designated personnel to review the water quality in the wastewater treatment system.
5. Each wastewater effluent outlet is equipped with an online water quality/water volume monitoring device which is linked to environmental protection agencies for comprehensive 24-hour monitoring. A series of protection measures is implemented to ensure compliance with wastewater effluent standards.

#### (2) Exhaust gas treatment

1. The exhaust gas from all production lines is divided into 4 to 6 categories based on the contents of pollutants for sorting and processing.

2. Regular outsourced inspections ensure emissions concentration to be far lower than requirements in national standards.

(3) Waste disposal

1. Solid waste is divided into three categories: Hazardous waste, general industrial waste, and general waste.
2. Waste are sorted and collected at the sources on the production line.
3. Resources are fully recycled to create value. Waste that cannot be recycled is contracted to licensed professional contractors for processing.

(4) Radiation safety management

1. Radioactive equipment refers to devices that emit X-ray, gamma ray, or neutron radiation. They can be classified into Category I, Category II, and Category III based on the radiation level from high to low. All radioactive equipment used by the Company consists of Category III X-ray devices which are mainly used for inspections.
2. Each radioactive has passed rigorous environmental impact assessments and the Company has obtained radioactive safety licenses from local governments. All indicators have met requirements in related national standards.
3. Each operator must undergo training before taking office. They perform their duties as licensed professionals after passing tests. The Company strictly forbids unlicensed personnel from operating radioactive equipment.
4. The Company requires all operators of radioactive equipment to wear radiation monitoring badges and regularly inspects the radiation level to protect employees' health and safety.

2. Energy conservation and carbon emissions reduction

(1) Energy conservation design in plant building

We studied the local environment and original landform to introduce green building concepts for the entire park based on characteristics of the natural environment.

(2) Adoption of advanced equipment for environmental protection and energy conservation

We use production line equipment provided by the world's top three manufacturers and we prioritize the use of low-energy consumption and low-pollution equipment. We develop various energy-saving and water-saving solutions with manufacturers and strictly monitor and control all resource consumption in regular production.

(3) Certified clean production process

To comply with the "Cleaner Production Promotion Law" and "Cleaner Production Standards for Printed Circuit Board Manufacturing" promulgated in China, plants have actively implemented reviews and

continuous improvements to pass the clean production review and receive certification.

(4) Carbon emissions inventory and management

The Company has actively inventoried greenhouse gas emissions for multiple years and passed third-party accreditation.

The Company has continuously improved the energy efficiency of equipment to achieve the energy conservation and carbon emissions reduction targets in China's 13th Five-Year Plan. Since 2015, subsidiaries have adopted ISO 50001 Energy Management System (systems have been established and certified for all plants as of 2017) for their plants. We have implemented systematic optimization for energy management and control and continuously improved energy consumption efficiency to fulfill our responsibilities for energy conservation and carbon emissions reduction and protect the Earth.

3. Resource Recycling

- (1) PCB production requires massive amounts of water. Our plants have introduced high-performance wastewater recycling equipment to process wastewater for use based on the requirements of water usage sites. Water is recycled for reuse in production, environmental cleaning, and irrigation.
- (2) The Company implemented multiple water usage projects such as alkaline drainage recovery, steam condensate recovery, rainwater recovery, and condensate recovery projects. The Company saved approximately 3.717 million tons of water in 2018.
- (3) The Company established a waste resource management unit to implement waste sorting and management. We established a dedicated R&D team to develop new resource recycling technologies to increase the value of resources. The waste recycling rate in the plants is now 90%.

4. Green Culture

- (1) "Zhen Ding Seven Green" is the Company's key strategy and platform in environmental protection and energy conservation activities. We analyzed all aspects of production and general usage and examined methods and practices for improving energy conservation, carbon emissions reduction, efficiency, consumption reduction, greenery, and recycling and implemented in our daily lives and work.
- (2) We organize Environmental Protection Month events and other environmental protection events each year to improve employees' environmental protection and energy conservation awareness.
- (3) We planted trees in the plants on Arbor Day each year to jointly create a low-carbon green environment.
- (4) We actively respond to government authorities' environmental protection and energy conservation policies and activities to promote a green culture and become a role model for environmental protection. Please refer to the Annual Report for awards won by the plants for environmental protection and energy conservation.

- (5) We strengthened communication with residents of neighborhoods near the plants and customers of the Company to promote our environmental protection culture and fulfill corporate social responsibilities.



## 5. Employee Care

The Company upholds corporate values of "integrity, responsibility, innovation, excellence, and helping others". We firmly place employees at the center of our activities. The Company passed a series of events centered around the "Six Loves" to take care of employees. The so-called "Six Loves" include:

- (1) "Love Yourself": The Company encourages employees to learn to love themselves. We planned a series of professional, technical, and management courses to help employees improve themselves. We organized various yoga, dance, handicraft, spiritual growth, and healthy lifestyle courses to help employees take care of themselves, improve their tastes, improve their cultural appreciation, and build personal charm and style.
- (2) "Love Family": The Company actively organized social gatherings, family events, family development day, happy couple events in each plant to increase employees' sense of happiness. We provide employees with happiness in the Company and increase their interactions with their families to thank them for their hard work.
- (3) "Love Colleagues": The Company provided employees with comprehensive care from visits to production lines, employee seminars, hotline assistance, and organizing birthday parties for employees to increase interactions between employees and create a friendly, happy, and harmonious teamwork environment.
- (4) "Love the Company": The Company provides employees with a stage to fulfill their personal values in life. We encourage employees to integrate their own growth in the Company's development. The Company's listing on the Stock Exchange allowed employees to reap the results of their labor and share the glory. We organized various reward and incentive activities to inspire employees' passion for their jobs and careers. We continue to encourage employees of Avary Holding and increase their sense of belonging and happiness.
- (5) "Love Life": The Company constructed and improved the movie theater, dance and yoga room, gym, and other integrated multi-functional cultural venues and used activities such as gym check-in, amateur club activities, sports competitions, themed parties,



pottery, and floral design activities to satisfy all employees' requirements and help them lead healthier lives so they can improve their health and increase their quality of life.

- (6) "Love the Earth": "Protect the environment and make the Earth a better place" is one of the Company's motto. The Company organized Environmental Protection Month events, environmental protection education on campus and in local communities, recycle resources, and green hikes to promote a green corporate culture, fulfill our environmental protection missions, and make the Earth a more beautiful place through our actions.

The series of events surrounding the "Six Loves" above established the Company's corporate culture. We continue to distribute "Ding Sheng Monthly" magazine and host the "Ding Yue Voice" program on radio stations each day to encourage employees. We let each employee feel the Company's care at all times so that they can improve themselves and be with their family.

We organized 2,676 sessions of the Six Loves events with approximately 374,900 attendances in 2018.

## 6. Social Participation

We uphold the business philosophy of "love, confidence, and resolve" to promote a corporate culture of love. The Company advanced the "Six Assistances" events centered around "being responsible" to fulfill corporate social responsibilities. The "Six Assistances" include:

- (1) "Assist the Elderly": We regularly visit elderly people who live alone and we organize employees to provide volunteer services in retirement homes to improve employees' gratitude and awareness for respecting their elders. We promote respect, honor, and love for the elders and provide them with love and care to contribute to social welfare activities.
- (2) "Assist the Weak": The Company sponsors children's homes and lead employees to care for and spend time with disadvantaged groups in society. We organize volunteer service teams and use our actions to implement the volunteer's spirit of "sacrifice, love, helping others, and progress". We use our love as a force for building hope and the future.
- (3) "Assist the Disabled": The Company provides disabled people with jobs to help them self-reliant and fulfill their own goals. We visit rehabilitation centers and home of disabled people to accompany disabled people, bring love to disabled children, and give them sunshine and warmth.
- (4) "Assist Studies": We visit students with financial difficulties and donate books and other materials for studies. We improve the education environment at schools and set up book corners. We use a variety of interactive activities to help children expand their horizons and gain knowledge for their growth and maturity.
- (5) "Assist Transportation": We promote transportation safety and increase pedestrians' awareness of traffic laws to construct a civilized and orderly transportation environment. We encourage compliance with traffic laws and civilized driving. We provide citizens and environment

sanitation workers with drinking water and we distribute environmentally friendly bags to fulfill our low-carbon environmental protection ideals and show how much the Company cares.

- (6) "Assist Cleanliness": We promote the maintenance of a clean environment and we organize charity cleaning events on the beach and in parks to transform our care for the environment into actions in the daily lives of Avary Holding employees. We fulfill goals for energy conservation and environmental protection development and lead the society in jointly implementing our ideals for loving the Earth to create a civilized homeland with clean water and blue skies.

We fulfilled our corporate social responsibility through a series of "Six Assistances" events. Avary Holding adopted its own song "Let the World See" to deliver Avary Holding's corporate culture and take on corporate social responsibilities to contribute to social advancement. The Company shall uphold the spirit for continuous innovation and we hope to make ourselves, the environment, society, and the Earth better each day. We organized 89 sessions of the Six Assistances events with approximately 25,000 attendances in 2018. We donated approximately NT\$970,000 in charity donations in 2018 and we claimed 1.25 hectares in the "My Piece of Land" event to support local rice growers.



## 7. Strategic Partners

The Company has always been happy to share our experience with strategic partners and learn from each other in research and innovation. We prosper with suppliers, professional institutions, and other strategic partners and share the results of our work. We firmly believe that business management is not a zero-sum game but it is about coexistence and joint prosperity with strategic partners. We hope to form alliances with strategic partners to jointly innovate and develop core technologies (new products, new technologies, new equipment, new materials and new processes) and share the results. We also hope that our high-quality circuit boards can be widely adopted in products of end-customers for the benefit of consumers and society. This constitutes the fulfillment of "Technological development for the benefit of mankind" (one of the Company's missions).

## 8. Identity of Stakeholders, Issues of Concern, Communication Channels, and Response Methods

We used internal CSR work meetings to discuss and identify stakeholder groups with significant economic, environmental, and social impact on Zhen

Ding. We reference issues disclosed by other companies and identified eight major stakeholder groups for Zhen Ding based on dependency, responsibility, influence, diverse perspectives, focus, and the Company's actual operations. Investors, customers, competent authorities, suppliers, contractors, employees, communities and banks.

Each stakeholder is very important to the Company and they are the cornerstones for Zhen Ding's sustainable development. We constantly remind ourselves of our goals when we first started and to conduct business with integrity and responsibility.

We used questionnaire surveys to collect and compile information regarding issues of concern to stakeholders. We also review the Company's existing communication channels with stakeholders and communication frequency below:

Stake holders	issues of concern to stakeholders	Communication channel	Communication frequency
Competent authority:	Economic performance, Wastewater and waste, Compliance with environmental protection regulations, Compliance with social regulations, Compliance with product regulations	<input checked="" type="radio"/> Shareholders' meeting MOPS Contact mailbox on the Company's official website Foreign investor forum Institutional investors' conference Official document	Irregular basis <input checked="" type="radio"/> Regular
Investors	Economic performance, Compliance with environmental protection regulations, Total environmental protection expenditures, Compliance with social regulations, Compliance with product regulations	<input checked="" type="radio"/> Shareholders' meeting MOPS Investors Section on the Company's official website Participation in domestic and foreign investment forums Institutional investors' conference Conferences (small-scale conferences with multiple individuals and one-on-one telephone conferences)	Irregular basis <input checked="" type="radio"/> Regular
Suppliers	Economic performance, Procurement and supplier management, Products and services, Compliance with product regulations	<input checked="" type="radio"/> Supplier audits and inspections	<input checked="" type="radio"/> Audits based on the supplier audit plans (annual audits for main materials) Green product investigations (e.g. conflict minerals) are implemented on an irregular basis

Stake holders	issues of concern to stakeholders	Communication channel	Communication frequency
Contractors	Energy management, Greenhouse gas and air pollution emissions, Wastewater and waste, Infrastructure investment, Procurement and supplier management	Contact mailbox on the Company's official website	Irregular basis
Communities	Basic salary, Greenhouse gas and air pollution emissions, Wastewater and waste, Infrastructure investment	Contact mailbox on the Company's official website Corporate volunteer activities	Irregular basis
Customers	Forced and coerced labor, Products and services, Compliance with product regulations	Products and services section on the Company's official website Satisfaction questionnaire surveys ◎Business meetings	Irregular basis ◎Implemented once a year
Employees	Basic salary	Labor suggestion boxes Labor-management meetings ◎Ding Sheng Monthly Thematic activities	Irregular basis ◎Monthly publication
Banks	Economic performance, Compliance with environmental protection regulations, Compliance with social regulations Compliance with product regulations	Contact mailbox on the Company's official website Contracts and correspondence	Irregular basis

#### Grievance channel and contact method

Stakeholders	Contact person
Competent authority	Deputy Manager Li Email: zdt-contact@zdtco.com
Investors	Manager Ling Email: zdt-ir@zdtco.com
Suppliers	Manager Liu Email: zdt-contact@zdtco.com
Contractors	Manager Wang Email: zdt-contact@zdtco.com
Communities	Deputy Manager Li Email: zdt-hr@zdtco.com
Customers	Deputy Manager Li Email: zdt-sales@zdtco.com
Employees	Deputy Manager Li Email: zdt-hr@zdtco.com
Banks	Deputy Manager Li Email: zdt-contact@zdtco.com

## 12. Sustainable Development and Publication of the Report

The Company's Human Resources Division, Investment Administration Division, Spokesman & Investor Relation Division, and General Affairs Division jointly established the Sustainable Development Committee and the spokesperson serves as the convener to convene monthly meetings on material topics. The Committee oversees and reviews the Company's goals, performance, and progress in corporate social responsibilities and sustainable development. Units initiate projects based on different topics.

Main duties: Oversee the Company's corporate social responsibilities; collect and compile the opinions of stakeholders and identify the impact and target achievement rate; report the performance to the Board of Directors before the publication of the CSR Report for the Board of Directors to review and publish; assist in communication with stakeholders. The Committee is at the core of corporate sustainable development.

**Zhen Ding Technology Holding Limited**  
**Internal Control System Statement**

Date: March 29, 2019

This Internal Control System Statement is issued based on the self-assessment results of the Company for the year 2018:

- I. The Company acknowledges that the Company's Board of Directors and managers are responsible for the implementation and maintenance of the internal control system, and that the Company has already established such a system. The objectives of internal control system include achieving various objectives in business benefits and efficiency (including profitability, performance, and protection of assets and safety); ensuring the reliability, timeliness, transparency, and regulatory compliance of reporting; and providing reasonable assurance.
- II. There are inherent limitations to even the most well-designed internal control system. As such, an effective internal control system can only reasonably ensure the achievement of the aforementioned goals. Moreover, the effectiveness of the internal control system may vary due to changes in the environment and circumstances. However, self-supervision measures were implemented within the Company's internal control policies to facilitate immediate rectification once procedural flaws have been identified.
- III. The Company determines the effectiveness of the design and implementation of its internal control system in accordance with the items in "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as "Governing Regulations") that are related to the effectiveness of internal control systems. The criteria adopted by the Governing Regulations are divided into 5 components in accordance with the procedures of management control: 1. Control environment; 2. Risk assessment; 3. Control activities; 4. Information and communication; and (5) Monitoring activities. Each constituent element includes a number of categories. Please refer to "Governing Regulations" for details.
- IV. This Company has already adopted the aforementioned internal control system assessment items to evaluate the effectiveness of internal control system design and implementation.
- V. Based on the findings of the evaluation mentioned in the preceding paragraph, the Company believes that its internal control system (including its supervision and management of subsidiaries) on December 31, 2018, encompassing internal controls for knowledge of the degree of achievement of operational effectiveness and efficiency objectives, reliability of reporting, and compliance with applicable laws and regulations, is effectively designed and operated that reasonably assures the achievement of the above-stated objectives.
- VI. This Statement of declaration shall be the primary content of the Company's Annual Report and prospectus, and shall be made available to the public. Falsehood, concealment, or other

illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.

- VII. This Statement was approved in the meeting of the Board of Directors on March 29, 2019 where all 7 attending Directors approved the content of this Statement.

Zhen Ding Technology Holding Limited

Chairman: Signature and Seal

General Manager: Signature and Seal

(XI) From the most recent fiscal year up until the publication date of the Annual Report, the circumstances in which the Company and its personnel have been punished by law, the Company has undertaken disincentive measures for its personnel for breaching the internal control system, and any material deficiencies and revisions shall be disclosed: None.

(XII) Important resolutions adopted in the shareholders' meeting, Board of Directors' meeting, and the Audit Committee in the past year and up to the publication date of the Report:

1. Key Resolutions of the shareholders' meeting and implementation status:

The attendance and attendance by proxy in the shareholders' meeting totaled 648,556,756 shares which accounted for 80.59% of total shares outstanding.

Date of Meeting	Agenda, results of votes, and implementation status
2018.06.04	<p>1. Ratification of the 2017 business report and consolidated financial statements Resolution: Based on the results of the vote, the number of votes in favor of ratification totaled 605,397,750 votes (including 188,143,438 votes exercised electronically) which accounted for 93.49% of the votes in attendance; the number of votes against of ratification totaled 82,317 votes (including 82,317 votes exercised electronically) which accounted for 0.01% of the votes in attendance; the number of abstentions totaled 42,055,689 votes (including 41,378,174 votes exercised electronically) which accounted for 6.49% of the votes in attendance. The number of votes in favor of the proposal exceeded the statutory requirement and the proposal was passed. Implementation status: Publication and filing in the consolidated financial statements in accordance with regulations.</p> <p>2. Ratification of the Company's 2017 statement of surplus distribution Resolution: Based on the results of the vote, the number of votes in favor of ratification totaled 606,787,590 votes (including 189,533,278 votes exercised electronically) which accounted for 93.70% of the votes in attendance; the number of votes against of ratification totaled 95,317 votes (including 95,317 votes exercised electronically) which accounted for 0.01% of the votes in attendance; the number of abstentions totaled 40,652,849 votes (including 39,975,334 votes exercised electronically) which accounted for 6.27% of the votes in attendance. The number of votes in favor of the proposal exceeded the statutory requirement and the proposal was passed. Implementation status: The Company completed the distribution of NT\$2,655,669,585 on August 15, 2018 and distributed NT\$2.2 per share.</p> <p>3. Amendments to the "Articles of Incorporation" Resolution: Based on the results of the vote, the number of votes in favor of ratification totaled 593,877,700 votes (including 176,623,388 votes exercised electronically) which accounted for 91.71% of the votes in attendance; the number of votes against of ratification totaled 13,006,317 votes (including 13,006,317 votes exercised electronically) which accounted for 2.00% of the votes in attendance; the number of abstentions totaled 40,651,739 votes (including 39,974,224 votes exercised electronically) which accounted for 6.27% of the votes in attendance. The number of votes in favor of the proposal exceeded the statutory requirement and the proposal was passed. Implementation status: The Company implemented measures in accordance with</p>



	the amended "Articles of Incorporation" after the date of resolution in the shareholders' meeting.
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2. Material Resolutions of the Board of Directors:

Date of Meeting	Key Resolutions and the Company's follow-up implementation
2018.03.15 (6th meeting of the 3rd Board of Directors)	<ol style="list-style-type: none"> <li>1. Passed the appointment of the Company's Financial Director.</li> <li>2. Passed the 2017 "Internal Control System Statement".</li> <li>3. Passed the 2017 Business Report.</li> <li>4. Passed the proposal for the appointment and remuneration for the Company's certified CPA.</li> <li>5. Passed the 2017 consolidated financial statements.</li> <li>6. Passed the 2017 remuneration distribution plan for directors and employees.</li> <li>7. Passed the 2017 earnings distribution proposal.</li> <li>8. Passed the proposal for the bank credit limit for the Company and subsidiary companies.</li> <li>9. Passed the proposal for the credit limit for the Company's customers.</li> <li>10. Passed the proposal on loans between the Company's wholly-owned subsidiaries in 2018.</li> <li>11. Passed the amendment to the "Articles of Incorporation".</li> <li>12. Passed the proposal regarding the time, place, and related matters for the Company's 2018 shareholders' meeting.</li> </ol> <p>Independent Directors' Opinions: None. The Company's response to the opinions of Independent Directors: None. Resolution: Passed by all directors present at the meeting and implemented in accordance with the resolution and regulations.</p>
2018.05.11 (7th meeting of the 3rd Board of Directors)	<ol style="list-style-type: none"> <li>1. Passed the proposal on loans between the Company and wholly-owned subsidiaries and between the Company's wholly-owned subsidiaries in 2018.</li> <li>2. Passed the proposal for the bank credit limit for the Company and subsidiary companies.</li> </ol> <p>Independent Directors' Opinions: None. The Company's response to the opinions of Independent Directors: None. Resolution: Passed by all directors present at the meeting and implemented in accordance with the resolution and regulations.</p>
2018.06.04 (8th meeting of the 3rd Board of Directors)	<ol style="list-style-type: none"> <li>1. Passed the proposal on the ex-dividend date, distribution date, and related matters.</li> </ol> <p>Independent Directors' Opinions: None. The Company's response to the opinions of Independent Directors: None. Resolution: Passed by all Directors present at the meeting. The board resolved to complete the distribution of NT\$2,655,669,585 on August 15, 2018 and distribute NT\$3.3 per share.</p>
2018.08.10 (9th meeting of the 3rd Board of Directors)	<ol style="list-style-type: none"> <li>1. Passed the proposal for the bank credit limit for the Company and subsidiary companies.</li> <li>2. Passed the proposal for the credit limit for the Company's customers.</li> <li>3. Passed the proposal for the Company's application for a syndicated loan from a consortium of banks including Mega International Commercial Bank.</li> <li>4. Passed the "Regulations Governing the Evaluation of the Performance of the Board of Directors and Functional Committees".</li> <li>5. Passed the 2017 remuneration distribution proposal for managerial officers.</li> <li>6. Passed the proposal for adjustments of the remuneration for directors starting from 2018.</li> </ol> <p>Independent Directors' Opinions: None. The Company's response to the opinions of Independent Directors: None. Resolution: Passed by all Directors present at the meeting and implemented in accordance with the resolution and regulations.</p>

Date of Meeting	Key Resolutions and the Company's follow-up implementation
2018.11.12 (10th meeting of the 3rd Board of Directors)	<p>1. Proposal for passage of the Company's 2019 audit plan. Independent Directors' Opinions: The annual audit plan requires additional contents. The Company's response to the opinions of Independent Directors: The annual audit plan shall be filed in the next meeting. Resolution: Passed by all directors present at the meeting and implemented in accordance with the resolution.</p> <p>2. Passed the proposal for the credit limit for the Company's customers.</p> <p>3. Passed the proposal for the bank credit limit for the Company and subsidiary companies. Independent Directors' Opinions: None. The Company's response to the opinions of Independent Directors: None. Resolution: Passed by all directors present at the meeting and implemented in accordance with the resolution and regulations.</p>
2018.12.28 (11th meeting of the 3rd Board of Directors)	<p>1. Passed the Company's 2019 audit plan.</p> <p>2. Passed the proposal for the bank credit limit for the Company and subsidiary companies.</p> <p>3. Passed the proposal on the credit limit for loans between the Company and wholly-owned subsidiaries and between the Company's wholly owned subsidiaries in 2019.</p> <p>4. Passed the proposal for capital increase for the Company's wholly-owned subsidiary Qiding Technology Qinhuangdao Co., Ltd.</p> <p>5. Passed the Company's operating targets and budget for 2019.</p> <p>6. Passed the principles for the Company's 2018 performance evaluation and year-end bonus distribution for managerial officers (executives ranked Assistant Vice President and above). Independent Directors' Opinions: None. The Company's response to the opinions of Independent Directors: None. Resolution: Passed by all directors present at the meeting and implemented in accordance with the resolution and regulations.</p>
2019.03.29 (12 <sup>th</sup> meeting of the 3 <sup>rd</sup> -term Board of Directors)	<p>1. Passed 2018 "Internal Control System Statement".</p> <p>2. Passed the proposal for the bank credit limit for the Company and subsidiary companies.</p> <p>3. Passed the amendment to the "Procedures for Acquisition or Disposal of Assets".</p> <p>4. Passed the amendment to the "Procedures for Engaging in Derivative Transactions".</p> <p>5. Passed the amendment to the "Procedures for Making Endorsements and Guarantees".</p> <p>6. Passed the amendment to the "Procedures for Loaning of Funds to Others".</p> <p>7. Passed the amendment to the "Articles of Incorporation".</p> <p>8. Passed the amendment to the "Corporate Governance Best Practice Principles".</p> <p>9. Passed the amendment to the "Remuneration Committee Charter".</p> <p>10. Passed the amendment to the "Regulations Governing the Evaluation of the Performance of the Board of Directors and Functional Committees".</p> <p>11. Passed the 2018 Business Report.</p> <p>12. Passed 2018 consolidated financial statements.</p> <p>13. Passed 2018 remuneration distribution proposal for Directors and employees.</p> <p>14. Passed the 2018 earnings distribution proposal.</p> <p>15. Passed the proposal for the appointment and remuneration for the certifying CPAs.</p> <p>16. Passed the establishment of the Company's "Standard Operating Procedures for Requests filed by Directors".</p> <p>17. Passed the capital increase proposal of the subsidiary company Jiawei Industrial Development Co., Ltd. for purchase of land.</p>

Date of Meeting	Key Resolutions and the Company's follow-up implementation
	<p>18. Passed the proposal regarding the time, place, and related matters for the 2019 general shareholders' meeting.</p> <p>Opinions of the Independent Directors: None</p> <p>The Company's response to the opinions of Independent Directors: None</p> <p>Resolution: Passed by all Directors present at the meeting and implemented in accordance with the resolution and regulations.</p>

### 3. Material Resolutions of the Audit Committee

Date of Meeting	Key Resolutions and the Company's follow-up implementation
2018.03.15 (5th meeting of the 3rd Audit Committee)	<p>1. Passed the 2017 "Internal Control System Statement".</p> <p>2. Passed the 2017 consolidated financial statements.</p> <p>3. Passed the 2017 earnings distribution proposal.</p> <p>4. Passed the evaluation of the Company's CPA.</p> <p>5. Passed the proposal for the appointment and remuneration for the Company's CPA.</p> <p>6. Passed the appointment of the Company's Financial Director.</p> <p>Independent Directors' Opinions: None.</p> <p>The Company's response to the opinions of the Audit Committee: Passed by all directors present at the meeting.</p> <p>Resolution: Passed by all members of the Audit Committee and implemented in accordance with the resolution and regulations.</p>
2018.05.11 (6th meeting of the 3rd Audit Committee)	<p>1. Passed the 1st quarter consolidated financial statements for 2018.</p> <p>2. Passed the proposal on loans between the Company and wholly-owned subsidiaries and between the Company's wholly owned subsidiaries in 2018.</p> <p>Independent Directors' Opinions: None.</p> <p>The Company's response to the opinions of the Audit Committee: Passed by all directors present at the meeting.</p> <p>Resolution: Passed by all members of the Audit Committee and implemented in accordance with the resolution and regulations.</p>
2018.08.10 (7th meeting of the 3rd Audit Committee)	<p>1. Passed the company's 2nd quarter consolidated financial statements for 2018.</p> <p>Independent Directors' Opinions: None.</p> <p>The Company's response to the opinions of the Audit Committee: Passed by all directors present at the meeting.</p> <p>Resolution: Passed by all members of the Audit Committee and implemented in accordance with the resolution and regulations.</p>
2018.11.12 (8th meeting of the 3rd Audit Committee)	<p>1. Proposal for passing the Company's 2019 audit plan.</p> <p>Independent Directors' Opinions: The annual audit plan requires additional contents.</p> <p>The Company's response to the opinions of Independent Directors: The annual audit plan shall be filed in the next meeting.</p> <p>Resolution: Passed by all directors present at the meeting and implemented in accordance with the resolution.</p> <p>2. Passed the company's 3rd quarter consolidated financial statements for 2018.</p> <p>3. Passed the proposal for the bank credit limit for the Company and subsidiary companies.</p> <p>Independent Directors' Opinions: None.</p> <p>The Company's response to the opinions of Independent Directors: None.</p> <p>Resolution: Passed by all directors present at the meeting and implemented in accordance with the resolution and regulations.</p>

2018.12.28 (9th meeting of the 3rd Audit Committee)	<ol style="list-style-type: none"> <li>1. Passed the Company's 2019 audit plan.</li> <li>2. Passed the proposal on the credit limit for loans between the Company and wholly-owned subsidiaries and between the Company's wholly owned subsidiaries in 2019.</li> <li>3. Passed the proposal for capital increase for the Company's wholly-owned subsidiary Qiding Technology Qinhuangdao Co., Ltd.</li> </ol> <p>Independent Directors' Opinions: None.</p> <p>The Company's response to the opinions of Independent Directors: None.</p> <p>Resolution: Passed by all directors present at the meeting and implemented in accordance with the resolution and regulations.</p>
2019.03.29 (10 <sup>th</sup> meeting of the 3rd-term Audit Committee)	<ol style="list-style-type: none"> <li>1. Passed the 2018 "Internal Control System Statement".</li> <li>2. Passed the amendment to the "Procedures for Acquisition or Disposal of Assets"</li> <li>3. Passed the amendment to the "Procedures for Engaging in Derivative Transactions"</li> <li>4. Passed the amendment to the "Procedures for Making Endorsements and Guarantees"</li> <li>5. Passed the amendment to the "Procedures for Loaning of Funds to Others"</li> <li>6. Passed the 2018 consolidated financial statements</li> <li>7. Passed the 2018 earnings distribution proposal</li> <li>8. Passed the evaluation of the Company's certifying CPAs</li> <li>9. Passed the proposal for the appointment and remuneration for the Company's certifying CPA</li> </ol> <p>Opinions of the Independent Directors: None</p> <p>The Company's response to the opinions of the Audit Committee: Passed by all directors present at the meeting.</p> <p>Resolution: Passed by all members of the Audit Committee and implemented in accordance with the resolution and regulations.</p>

(XIII) Dissenting or qualified opinion of Directors or the Audit Committee against an important resolution passed by the Board of Directors that is on record or stated in a written statement in the past year and up to the date of report: None.

(XIV) Any resignation or dismissal of the Company's Chairman of the Board, General Manager, Accounting Director, Financial Director, internal audit manager, and research and development manager in the most recent year up to the publication date of this report:

Summary Table for Resignation or Dismissal of Individuals

March 31, 2019

Title	Name	Date of assumption of duty	Date of dismissal	Reasons for resignation or dismissal
Financial Director	I-Chung Lin	2006.06.05	2018.03.15	Work adjustment or reassignment

#### IV. Information on CPA fees

##### (I) Table on the range of professional charge of the CPA:

Table on the range of professional charge of the CPA

Name of the accounting firm	CPA name		Audit period	Notes
PricewaterhouseCoopers, Taiwan	Sheng-Chung Hsu	Yung-Chien Hsu	2018.01.01~2018.12.31	-

##### (II) The non-audit fee paid to the CPA, certified Office of CPA and affiliated enterprises account for over a quarter of the audit fee:

Unit: NT\$1,000

CPA Name of CPA Firm	Name of CPA	Audit fees	Non-audit fees					Audit period (including complete fiscal years)	Remark
			System design	Business registration	Human resources	Others	Subtotal		
PricewaterhouseCoopers, Taiwan	Sheng-Chung Hsu	5,500						2018.01.01~2018.12.31	-
	Yung-Chien Hsu								

Professional fee Amount bracket		Audit fees	Non-audit fees	Total
1	Less than NT\$2,000,000		V	
2	NT\$2,000,000 (inclusive) to NT\$4,000,000			
3	NT\$4,000,000 (inclusive) to NT\$6,000,000	V		V
4	NT\$6,000,000 (inclusive) to NT\$8,000,000			
5	NT\$8,000,000 (inclusive) to NT\$10,000,000			
6	More than NT\$ 10,000,000 (inclusive)			

##### (III) The Company has switched accounting firms and the annual audit shared expenses are less than that of the previous year prior to the switch: No such occurrences.

##### (IV) The audit fee is reduced by over 15% compared with the previous year: No such occurrences.

**V. Replacement of CPAs: No such occurrences.**

**(I) Information on the previous and succeeding CPA: Not applicable.**

**(II) The detailed standards for evaluating the independence of CPAs are as follows:**

Item	Specific Criteria	Evaluation Results	Meet Independence Criteria
1	The CPA does not have significant financial interest in his/her trustor.	No	Yes
2	The CPA and the trustor do not have any inappropriate relationship.	No	Yes
3	The CPA and assistants regularly participate in evaluations conducted by the industry association or other related organizations maintain their honesty, fairness and independence.	Yes	Yes
4	The CPA may not perform audit and assurance services on the financial statements of companies he/she has served within two (2) years before practicing.	No	Yes
5	The CPA may not permit others to practice under his/her name.	Yes	Yes
6	The CPA may not hold shares of the trustor.	No	Yes
7	The CPA may not engage in lending and borrowing of money with the trustor except for regular transactions in the finance industry.	No	Yes
8	The CPA may not engage in joint investments or benefit sharing with the trustor.	No	Yes
9	The CPA may not concurrently serve as a regular employee of the trustor and receive a fixed salary.	No	Yes
10	The CPA may not collect any commission related to his/her service.	No	Yes
11	No CPA's tenure has lasted for more than seven consecutive years and no CPA's reappointment is less than two years from replacement.	No	Yes
12	Does the CPA have experience in audits in related to the electronics industry?	Yes	Yes
13	Does the CPA communicate appropriately with the Audit Committee before the audit planning process and maintained records of such communication?	Yes	Yes
14	Does the CPA communicate with the Audit Committee frequently (e.g. before submitting audit reports) and maintained records of such communication? (At least twice each year)	Yes	Yes
15	Does the CPA propose recommendations regarding the Company's internal controls or business management to the Audit Committee?	Yes	Yes
16	The CPA did not receive letters from the competent authority for securities regarding adjustments and improvements for the quality of audits.	No	Yes
17	Can the CPA control the implementation of overseas audits to ensure consistency and validity of audits across the world?	Yes	Yes
18	Does the CPA complete audits (reviews) in a timely manner from the date comprehensive audit information is provided to the CPA till the date the CPA adjusted entries and provided them to the Company?	Yes	Yes

Item	Specific Criteria	Evaluation Results	Meet Independence Criteria
19	Does the CPA provide opinions for audits (reviews) in a timely manner from the date the entries are provided to the CPA till the date the CPA's audit (review) report is finalized and reported to the Company?	Yes	Yes
20	Does the CPA quickly respond to related accounting or accounting policy issues in a timely manner?	Yes	Yes

**VI. The Company's Directors, General Managers, managerial officers in charge of finance or accounting who have served in the CPA firm or its affiliated companies in the most recent fiscal year: No such occurrences.**

**VII. Equity transfer or changes to equity pledge of directors, managerial officers, and shareholders holding more than ten percent (10%) of company shares during the year prior to the publication date of this report:**

**(I) Equity transfer or changes to equity pledge of directors, managerial officers, and shareholders holding more than ten percent (10%) of company shares:**

Unit: Share

Title	Name	2018		As of April 23, 2019	
		Number of shares held increase (decrease)	Number of pledged shares increase (decrease)	Number of shares held increase (decrease)	Number of pledged shares increase (decrease)
Chairman	Chang-Fang Shen	200,000	—	—	—
Director	Foxconn (Far East) Limited	—	—	—	—
	Representative: Che-Hung Yu	—	—	—	—
Director	Wide Choice Investments Limited	—	—	—	—
	Representative: Te-Wang Hsiao	—	—	—	—
Director	Chiu-Fong Huang	—	—	—	—
Independent Director	John-See Lee	—	—	—	—
Independent Director	Chih-Chen Chou	—	—	—	—
Independent Director	Tung-Sheng Hsu	—	—	—	—
General Manager	Ting-Chuan Lee	—	—	—	—
Accounting Director	Jin-Ten Chang	—	—	( 18,000 )	—
Financial Director	Tun Ling	—	—	—	—

**(II) Equity transfer or equity pledge in which the counterparty is a related party: None**



**VIII. Shareholders who account for the top ten shareholder, who are related to each other or relatives within the relationship of spouse, second parent, etc.:**

Shareholders who account for the top ten shareholder, their relationship with each other

Name	Current Shareholding		Spouse & Minor Children Shareholding		Shareholding in the name of others		The names or names and relationships of the top ten shareholders who have a relationship with each other or are relatives of a spouse or a second parent.		Remarks
	Shares	Shareholding %	Shares	Shareholding %	Shares	Shareholding %	Name	relationship	
Foxconn (Far East) Limited	305,515,627	33.86%	0	0.00%	0	0.00%	No	No	-
New Labor Pension Fund	21,735,587	2.41%	0	0.00%	0	0.00%	No	No	-
LGT Bank AG	18,175,000	2.01%	0	0.00%	0	0.00%	No	No	-
Credit Suisse Securities (Europe) Limited	16,294,647	1.81%	0	0.00%	0	0.00%	No	No	-
Stichting APG Emerging Markets Equity Pool	12,776,800	1.42%	0	0.00%	0	0.00%	No	No	-
Old Labor Pension Fund	12,546,500	1.39%	0	0.00%	0	0.00%	No	No	-
LGT Bank (Singapore) Ltd.	12,220,000	1.35%	0	0.00%	0	0.00%	No	No	-
Morgan Stanley & Co. International Plc	11,514,078	1.28%	0	0.00%	0	0.00%	No	No	-
UBS Europe SE	10,738,065	1.19%	0	0.00%	0	0.00%	No	No	-
Taiwan Life Insurance Co., Ltd.	9,730,000	1.08%	0	0.00%	0	0.00%	No	No	-

**IX. Number of shares held by the Company, its directors, supervisors, managerial officers and directly or indirectly controlled investment companies in the same investment companies, and the combined calculation of shareholding percentages:**

December 31, 2018

Unit: Shares; %

Reinvestment Entities	Investment by the Company		Investments by the directors, supervisors, managerial officers, and companies directly or indirectly controlled by this Company		Combined investment	
	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage
Monterey Park Finance Limited	802,250,000	100%	—	—	802,250,000	100%
Zhen Ding Technology Co., Ltd.	12,548,800	100%	—	—	12,548,800	100%
Coppertone Enterprises Limited	102,785,806	100%	—	—	102,785,806	100%
Pacific Stand Enterprises Limited(in the process of liquidation)	—	100%	—	—	—	100%
Mayco Industrial Limited	9,321,841,932	100%	—	—	9,321,841,932	100%
Pacific Fair International Limited	2,133,300,000	100%	—	—	2,133,300,000	100%
FAT Holdings Limited	5,000	100%	—	—	5,000	100%
Henley International Limited	1	100%	—	—	1	100%
Garuda International Limited	56,799,990	72.82%	—	—	56,799,990	72.82%
Garuda Technology Co., Ltd.	1,820,477	72.82%	—	—	1,820,477	72.82%
Avary Holding (Shenzhen) Co., Ltd.	1,683,196,766	72.82%	35,743,966	1.55%	1,718,940,732	74.37%
Fu Bo Industrial (Shenzhen) Co., Ltd.,	(Note)	72.82%	—	—	(Note)	72.82%
Yun Ding Technology (Shenzhen) Co., Ltd.	(Note)	72.82%	—	—	(Note)	72.82%
Kui Sheng Technology (Shenzhen) Co., Ltd.	(Note)	72.82%	—	—	(Note)	72.82%
Hong Qun Sheng Precision Electronics (Yingkou) Co., Ltd.	(Note)	72.82%	—	—	(Note)	72.82%
Hong Qi Sheng Precision Electronics (Qinhuangdao) Co., Ltd.	(Note)	72.82%	—	—	(Note)	72.82%
Hong Heng Sheng Electrical Technology (Huaian) Co., Ltd.	(Note)	72.82%	—	—	(Note)	72.82%
Yu Ding Precision Electronics (Huaian) Co., Ltd.	(Note)	72.82%	—	—	(Note)	72.82%
Qing Ding Precision Electronics (Huaian) Co., Ltd.	(Note)	72.82%	—	—	(Note)	72.82%
Ji Ding Technology (Qinhuangdao) Co., Ltd.	(Note)	100%	—	—	(Note)	100%
Jiawei Industry (Huai'an) Co., Ltd.	(Note)	100%	—	—	(Note)	100%

Note: Except for Avary Holding (Shenzhen) Co., Ltd., all subsidiary companies in China are limited liability companies and not companies limited by shares.

## Chapter 4 Capital Overview

### I. Capital and Shares

#### (I) Source of Share Capital:

##### 1. Source of capital

April 23, 2019; Unit: Shares; NT\$

Year and month	Issued Price	Authorized Capital		Paid-Up Capital		Remarks	
		Number of Shares	Amount	Number of Shares	Amount	Source of Capital Shares	Authorization Date and Document Number
2006.06	US\$1	50,000	50,000	1	1	Capital stock at establishment	-
2006.09	-	500,000,000	500,000,000	-	-	Authorized capital increase	-
2006.10	US\$1	500,000,000	500,000,000	70,000,000	70,000,000	Cash capital increase	-
2007.10	US\$2	500,000,000	500,000,000	162,500,000	162,500,000	Cash capital increase	-
2009.10	US\$2.15	500,000,000	500,000,000	202,000,000	202,000,000	Cash capital increase	-
2010.10	-	1,600,000,000	16,000,000,000	646,400,000	6,464,000,000	The nominal value was changed from US\$1 to NT\$10	Tai-Zheng-Shang-2 No. 1000035056 dated November 1, 2011
2011.12	NT\$52	1,600,000,000	16,000,000,000	669,929,000	6,699,290,000	Cash capital increase	Jin-Guan-Zheng-Fa No. 1000056412 dated November 21, 2011
2012.08	NT\$10	1,600,000,000	16,000,000,000	703,425,450	7,034,254,500	Recapitalization of Retained Earnings	Tai-Zheng-Shang-2 No. 10100194981 dated August 30, 2012
2014.08	NT\$10	1,600,000,000	16,000,000,000	738,596,722	7,385,967,220	Recapitalization of retained earnings	Tai-Zheng-Shang-2 No. 1020015935 dated August 9, 2013
2014.08	NT\$10	1,600,000,000	16,000,000,000	738,631,065	7,386,310,650	Converted ECB to common shares	Tai-Zheng-Shang-2 No. 10300161141 dated August 7, 2014
2015.03	NT\$10	1,600,000,000	16,000,000,000	767,768,101	7,677,681,010	Converted ECB to common shares	Tai-Zheng-Shang-2 No. 10400061361 dated April 8, 2015
2015.04	NT\$10	1,600,000,000	16,000,000,000	804,748,359	8,047,483,590	Converted ECB to common shares	Tai-Zheng-Shang-2 No. 1040013225 dated July 6, 2015
2019.03	NT\$10	1,600,000,000	16,000,000,000	805,549,672	8,055,496,720	Converted ECB to common shares	Tai-Zheng-Shang-2 No. 1040013225 dated July 6, 2015
2019.04	NT\$10	1,600,000,000	16,000,000,000	902,229,887	9,022,298,870	Converted ECB to common shares	Tai-Zheng-Shang-2 No. 1040013225 dated July 6, 2015

April 23, 2019; Unit: Shares; NT\$

Type of Shares	Authorized Capital Stock	Remarks
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	Outstanding Shares	Unissued shares	Total	
Registered Common Shares	902,229,887	697,770,113	1,600,000,000	Listed on the Exchange
Total	902,229,887	697,770,113	1,600,000,000	Listed on the Exchange

2. Information regarding shelf registration: N/A

## (II) Shareholder Structure 82

April 23, 2019

Shareholder Structure Amount	Government institutions	Financial institutions	Investment institutions in China	Other corporations	Foreign institutions and foreigners	Individual investors	Total
Number of people	5	104	-	84	765	10,271	11,229
Shares held (shares)	41,066,087	42,180,750	-	13,961,849	751,641,834	53,379,367	902,229,887
Shareholding Percentage (%)	4.55%	4.68%	-	1.55%	83.30%	5.92%	100.00%

## (III) Share Distribution

1. Common shares:

April 23, 2019

Shareholding Classification	Number of Shareholders	Number of Shares Held	Shareholding Percentage
1-999	2,037	271,519	0.03%
1,000-5,000	7,092	12,697,849	1.41%
5,001-10,000	699	5,751,451	0.64%
10,001-15,000	233	3,011,581	0.33%
15,001-20,000	134	2,495,428	0.28%
20,001-30,000	141	3,608,615	0.40%
30,001-40,000	90	3,192,967	0.35%
40,001-50,000	73	3,342,928	0.37%
50,001-100,000	203	14,460,804	1.60%
100,001-200,000	171	24,559,352	2.72%
200,001-400,000	132	37,939,091	4.21%
400,001-600,000	36	17,938,309	1.99%
600,001-800,000	39	27,633,915	3.06%
800,001-1,000,000	28	24,728,972	2.74%
1,000,001 or more	121	720,597,106	79.87%
Total	11,229	902,229,887	100.00%

2. Preferred shares: None

**(IV) List of Major Shareholders: Names, number, and percentage of shares held by shareholders with more than 5% of the shares or the top ten shareholders**

April 23, 2019

Major Shareholder Name	Shares	Number of Shares Held	Ownership (%)
Foxconn (Far East) Limited		305,515,627	33.86%
New Labor Pension Fund		21,735,587	2.41%
Custodial Account (LGT Bank AG) Used by Standard Chartered LGT Bank AG		18,175,000	2.01%
Custodial Account (Credit Suisse Securities (Europe) Limited) Used by Standard Chartered Credit Suisse Securities (Europe) Limited		16,294,647	1.81%
Custodial Account (Stichting APG Emerging Markets Equity Pool) Limited) Used by JPMorgan Chase Stichting APG Emerging Markets Equity Pool		12,776,800	1.42%
Old Labor Pension Fund		12,546,500	1.39%
Custodial Account (LGT Bank (Singapore) Ltd) Used by Standard Chartered LGT Bank (Singapore) Ltd		12,220,000	1.35%
Custodial Account (Morgan Stanley & Co. International Limited) Used by HSBC Morgan Stanley & Co. International Plc		11,514,078	1.28%
Custodial Account (UBS Europe SE) Used by Citibank UBS Europe SE		10,738,065	1.19%
Taiwan Life Insurance Co., Ltd.		9,730,000	1.08%

**(V) Stock Price, Net Worth, Earnings, Dividends and Related Information in the Most Recent Two Years**

Unit: NT\$; thousand shares

Item	Year	2017	2018
Market price per share	Highest	79.60	84.80
	Lowest	59.50	58.70
	Average	70.49	70.20
Net value per share (Note 4)	Before distribution	55.10	69.66
	After distribution	51.80	64.66
Earnings per share	Weighted average shares	804,748	804,748
	Earnings per share	6.43	10.50
Dividends per	Cash dividend	3.30	5.00 (Note 5)

Item \ Year			2017	2018
share	Stock dividends	Stock dividends from retained earnings	-	-
		Stock dividends from capital reserve	-	-
	Cumulative unpaid dividends		-	-
Return on investment analysis	Price-to-earnings ratio (Note 1)		10.96	6.69
	Price-to-dividend ratio (Note 2)		21.36	14.04
	Cash dividend yield (Note 3)		4.68%	7.12%

Source: CPA-audited consolidated financial report for 2017 to 2018.

Note 1: P/E Ratio = Average closing price for each share for the year/earnings per share

Note 2: P/D Ratio = Average closing price for each share for the year/cash dividend per share

Note 3: Cash dividend yield = cash dividends per share/ average closing price per share for the year.

Note 4: Net value per share (NTD) = (interest – non-controlling interest) / (number of common shares + subscription payment collected in advance – number of treasury stocks – number of capital shares to be canceled)

Note 5: Distribution of earnings for 2018 is subject to approval of the shareholders' meeting.

## (VI) Dividend Policy and Implementation Status

### 1. Dividend policy:

The Board of Directors, following a ordinary resolution in the shareholders' meeting or under conditions specified in Article 11.4(a) of the Articles of Incorporation, shall adopt a special resolution to distribute dividends to shareholders based on their shareholding percentage in compliance with the Articles of Incorporation and the instructions of the shareholders' meeting. The dividends can be partially or entirely distributed in cash, stocks, or various assets and the value of the assets shall be determined by the Board of Directors. The Company shall not pay interest on undistributed dividends.

Unless otherwise specified in laws, Article 11.4(a), Articles of Incorporation, or rights attached to shares, the Company may distribute earnings based on the Board of Directors' earnings distribution proposal that is passed in a ordinary resolution in the shareholders' meeting. Except for the Company's realized profits, premium share issuance account, mandatory reserves, reserves or other funds for paying dividends or other allocations, the Company may not distribute dividends or other allocations. All dividends and other allocations shall be calculated based on shareholders' shareholding ratios unless otherwise stated in the rights attached to shares. If the conditions for the issuance of shares requires the calculation of dividends to start from a specific date, the dividends for such shares shall be calculated accordingly.

Based on Article 13.5 of the Articles of Incorporation regarding the Company's decision on its dividend policy, the Board of Directors understands that the Company operates in a mature industry and the Company has stable revenues and healthy financial structure. Regarding the proposals for shareholders to approve dividends or other allocations (if any) in each fiscal year, the Board of

Directors may:

- (a) Consider the Company's surplus, overall development, financial plans, capital requirement, industry outlook, and the Company's future development in each fiscal year to protect shareholders' rights and interests; and
- (b) The Company shall allocate dividends from the Company's surplus in each fiscal year for: (i) payment of related preparatory funds for taxes in the fiscal year; (ii) make up for past losses; (iii) ten percent (10%) for the regular surplus reserve, and (iv) surplus reserve determined by the Board of Directors based on Article 14.1 or special surplus reserve required by the competent authority of securities for public companies.
- (c) Under conditions of strict compliance with laws, the Board of Directors shall set aside no less than ten percent (10%) of the distributable amount as dividends for shareholders after distributing remuneration for employees and directors in accordance with Article 13.4 and setting aside an appropriate amount based on the dividend distribution policy in Article 13.5. The Company shall distribute the dividends after the proposal is passed in a resolution of the shareholders' meeting.

**2. Implementation status:**

The Company's 2018 earnings distribution proposal was approved by the Board of Directors on May 10, 2019. The Company proposed to distribute NT\$4.459774 per share in cash dividends. Following the resolution of the Board of Directors, the earnings allocation shall be as follows:

## Earning distribution for 2018

Unit: NT\$

Item	Amount
Net income after tax	\$ 8,447,791,634
Less: 10% general reserve	844,779,163
Less: Special reserve appropriated (Note 2)	1,230,393,578
Add: undistributed earnings in previous years	15,283,722,453
Add: unappropriated earnings adjustments for the current year (Note 3, Note 4)	84,748
Retained earnings available for distribution for this year	\$ 21,656,426,094
Distribution Project	
Cash dividends (NT\$4.459774 per share)	4,023,741,795
Accumulated undistributed earnings at the end of the period	\$ 17,632,684,299
<p>Note:</p> <ol style="list-style-type: none"> <li>As of April 23, 2019, the Company's outstanding shares were 902,229,887 shares.</li> <li>Pursuant to the Order No. Financial-Supervisory-Securities-Corporate-1010012865 of the Financial Supervisory Commission's Securities and Futures Commission, a special surplus reserve of the same amount should be included for the net amount of other shareholders' equity deducted for the current year. Later when the other shareholders' equity deductions have been reversed, the reversal in surplus will be distributed.</li> <li>The actuarial gains and losses of defined benefit plans are recognized in other comprehensive income (net), and is an adjustment for distributable earnings for the current year.</li> <li>Using the retained earnings as a result of adopting international accounting standards, directly transfer the retained earnings into the retained earnings account without the need for (reversal) general reserve. (Reference to Order No. 10202433490 issued by Ministry of Economic Affairs)</li> <li>The amount of NT\$ is converted according to the balance of US\$, the functional currency.</li> <li>The cash dividends shall be calculated in NT\$ (allocated to NT\$1) in accordance with distribution ratio, and below NT\$1 will be rounded down.</li> </ol>	

Chairman:  
Chang-Fang Shen

Manager:  
Lee Ting-Chan

Accounting Manager: Chang,  
Jinn-Ten

**(VII) Impacts on the Company's Business Performance and Earnings Per Share of Any Stock Dividend Distribution Proposed or Adopted at the Most Recent Shareholders' Meeting:**

Not applicable for the Company because it did not distributed stock dividends.



**(VIII) Employee Remuneration and Director and Supervisor Remuneration: The Company did not appoint supervisors and thus only discloses remuneration for directors.**

1. Percentage or range of remuneration for employees and directors as stipulated in the Company's Articles of Incorporation:

If the Company "turned a profit" (definitions provided below) in the current year, it shall set aside half percent (0.5%) to twenty percent (20%) of the profit in the current year as remuneration for employees. The recipients of employee remuneration include employees of affiliate companies that meet certain criteria. The Company may set aside no more than half percent (0.5%) of the aforementioned profit in the current year as remuneration for directors (Article 13.4 of the Articles of Incorporation).

The Board of Directors may decide to use cash, the undistributed shares paid for with the cash amount, or both for the distribution of dividends for shareholders and remuneration for employees. However, cash dividends shall account for no less than fifty percent (50%) of all dividends for shareholders. The Company shall not pay interest on undistributed dividends and remuneration (Article 13.7 of the Articles of Incorporation).

2. Accounting procedures for discrepancies between the estimated and actual distributed amount of compensations in the form of shares to the Company's employees and directors in this period:

The remuneration for employees and directors is calculated as per the standards specified in the Articles of Incorporation and it is calculated each year based on this principle. The differences between the amounts approved in the shareholders' meeting and the estimated amount, if any, are accounted for as changes in accounting estimate and are adjusted for accounting based on a resolution of the shareholders' meeting.

3. Information on the proposed employee remuneration approved by the Board of Directors:

- (1) The Company's 2018 earnings distribution proposal was passed by the Board of Directors which proposed the distribution of NT\$10,500,000 in remuneration for directors and cash remuneration of NT\$77,338,535 for employees.

- (2) For cash remuneration and stock remuneration distributed to employees and remuneration for directors, if there is any discrepancy between an amount and estimated amount of recognized expenses for the current fiscal year, the amount, causes and treatment of such discrepancy shall be disclosed:

The Company's undistributed surplus in the current period shall be determined within a certain percentage range in accordance with the Articles of Incorporation after setting aside 10% for the regular reserve and other factors. The differences between the amounts approved in the shareholders' meeting and the estimated amount, if any, are accounted for as changes in accounting estimate and are adjusted for accounting based on a resolution of the shareholders' meeting.

- (3) The proposed employee stock remuneration allocation as a ratio of the

net income for the period and the total employee remuneration: Not applicable.

- (4) Earnings per share after the proposed remuneration for employees and directors: NT\$10.5
- 4. Distribution of remuneration for employees and directors in the previous year:
  - (1) Actual distribution status: NT\$10,500,000 in remuneration for directors and cash remuneration of NT\$85,902,916 for employees.
  - (2) Deviation from recognized remuneration for employees, directors, and supervisors: No deviation.
- 5. The Company shall establish procedures for determining the remuneration which shall be assessed based on the Regulations Governing the Evaluation of the Performance of the Board of Directors. In addition to the Company's overall performance, future risks in the industry, and development trends, the Company shall also consider personal contributions to the Company for providing reasonable remuneration. Related performance evaluation and the reasonableness of salary and remuneration shall be reviewed by the Remuneration Committee and the Board of Directors. They shall review the remuneration based on actual business operations and related laws to maintain a balance between sustainable management and risk management.

**(IX) Repurchase of Shares and Other Information: None**

## II. Issuance of Corporate Bonds

### (I) Domestic corporate bonds: None

### (II) Overseas corporate bonds:

Type of corporate bond	Second issuance of unsecured overseas convertible corporate bond
Date of Issuance (Undertaking)	June 26, 2014
Face value	The face value of each bond is US\$100,000 or its integer multiples
Issuance and trading place	Singapore Exchange, Taiwan
Issuance price	100% of face value
Total amount	US\$300,000,000
Coupon interest rate	0%
Term	Five-year term; maturity date: June 26, 2019
Guarantor	N/A
Trustee	Citigroup International Limited
Underwriter	Domestic underwriter: Concord Securities Corporation (5) Overseas underwriters: Merrill Lynch Far East Limited, Citigroup Global Markets Limited, and Credit Suisse (Hong Kong) Limited
Certifying lawyer	Lee & Li Attorneys-at-Law
CPA	PricewaterhouseCoopers, Taiwan CPAs Yung-Chien Hsu and Ming-Hui Chang
Repayment method	Conversion into ordinary shares based on Article 13 of the conversion policy, exercise of call options based on Article 11, or exercise of early redemption options based on Article 12
Unpaid principal	US\$4,700,000
Articles for redemption or early liquidation	<p>(I) If the closing price of issuer's ordinary shares on Taiwan Stock Exchange reaches 125% of the conversion price (defined in Article 13) for 20 consecutive trading days (if the 20 days include distribution of cash and stock dividends, the closing price for the period from the ex-rights or ex-dividend date to the ex-rights or ex-dividend baseline date shall be based on the price before ex-rights or ex-dividend) three years after issuance, the issuer may redeem all or parts of the corporate bonds early based on the early redemption price (defined in Article 12(4));</p> <p>(II) When more than 90% of the corporate bonds are redeemed or repurchased and subsequently canceled or where the bondholder exercises conversion rights, the issuer may redeem all or parts of the corporate bonds early based on the early redemption price; and</p> <p>(III) Where a change in tax laws in the Republic of China or the Cayman Islands causes additional tax expenses, additional interest expenses, or increased cost for the corporate bonds to the issuer after the issuance date. The issuer may redeem all or parts of the corporate bonds early based on the early redemption price.</p> <p>(IV) The early redemption price is the amount calculated based</p>

		on the face value of the corporate bond plus an annual interest rate of 0.125% as yield from the issuance date till the date the matter triggering the early redemption occurs.
Restriction clauses		The corporate bonds may not be directly raised, sold, or delivered within the territory of the Republic of China
Name of credit rating agency (CRA), rating date, and results of corporate bond ratings		N/A
Other rights attached	Amount converted into ordinary shares as of the publish date of the Annual Report	US\$279,800,000 元
	Regulations for issuance and conversion	See Appendix below
Possible dilution of equity or impact to the shareholders' equity caused by regulations on the issuance and conversion, exchange, or subscription to stocks		If all unsecured overseas convertible corporate bonds in this issuance are converted into ordinary shares based on the conversion price, the maximum dilution caused to shareholders' equity shall be approximately 0.2%
Commissioned custodian of exchangeable underlyings		N/A

### (III) Information regarding the conversion of corporate bonds:

Type of corporate bond		Second issuance of unsecured overseas convertible corporate bond (Singapore)	
Item	Year	2018	As of Mar 29, 2019
Market value of convertible corporate bond	Highest	103.728	108.510
	Lowest	99.076	99.783
	Average	100.715	102.960
Conversion price		NT\$86.1660	NT\$86.1660 (Note)
Conversion price at the date of issuance (undertaking) and during issuance		Date of issuance (undertaking): June 26, 2014 Conversion price at issuance: NT\$108	
Methods of fulfilling conversion obligations		Issuance of new shares	
Expiry Date		June 26, 2019	

Note: The conversion price is adjusted based on the distribution of cash dividends in past years.

Corporate bond type		Second issuance of unsecured overseas convertible corporate bond (Taiwan)	
Item	Year	2018	As of Mar 29, 2019
Market value of convertible corporate bond	Highest	100.07	100.07
	Lowest	100.07	100.07
	Average	100.07	100.07
Conversion price		NT\$86.1660	NT\$86.1660 (Note)
Conversion price at the date of issuance (undertaking) and during issuance		Date of issuance (undertaking): June 26, 2014 Date of listing in Taiwan: November 10, 2014 Conversion price at issuance: NT\$108	
Method for exercising conversion obligations		Issuance of new shares	
Expiry Date		June 26, 2019	

Note: The conversion price is adjusted based on the distribution of cash dividends in past years.

## <Appendix>

### ZHEN DING TECHNOLOGY HOLDING LIMITED

#### Zhen Ding Technology Holding Limited

#### Regulations for the Second Issuance of Unsecured Overseas Convertible Corporate Bonds

I. Issuance company name

Zhen Ding Technology Holding Limited (hereinafter referred to "Zhen Ding", "issuer", or "the Company").

II. Issuance purpose

Payment for the debt for the first issuance of unsecured overseas convertible corporate bonds and repayment of bank loans.

III. Total issuance amount

The total issuance amount is capped at US\$300 million (including oversubscription). The actual issuance amount shall be determined based on market demand on the fixing date.

IV. Issuance method

The unsecured overseas convertible bonds (hereinafter referred to as "the corporate bonds") shall be issued outside the territory of the Republic of China and they shall be issued in accordance with the laws and regulations of the country of issuance and customary practices on international markets. All corporate bonds shall be open to subscription to external sources.

V. Corporate bond type, face value, and issuance price

The corporate bonds are registered unsecured convertible bonds. The face value of each bond is US\$100,000 or its integer multiples and bond shall be issued based on 100% of the face value.

VI. Issuance date

The corporate bonds shall be issued within three months after the Company receives the registration letter for approval from the Financial Supervisory Commission (FSC) of the Republic of China. However, the Company may apply to the FSC for extensions in accordance with laws if necessary.

VII. Maturity date

The maturity date shall be five years after the issuance date.

VIII. Exchange listing

The corporate bonds shall be listed on the Singapore Exchange and Taipei Exchange.

IX. Coupon rate

The coupon rate of the corporate bonds is an annual interest rate of 0%.

X. Repayment upon maturity

The issuer has direct and unconditional obligations for payment for the corporate bonds. Except where the corporate bonds are redeemed early, repurchased and subsequently

canceled or where the bondholder exercises conversion rights, the issuer shall repay all corporate bonds in USD on the maturity date in the amount based on the face value of the corporate bond plus an annual interest rate of 0.125% as yield (calculated once every six months). The early redemption amount shall be approximately 100.63% of the face value of the bonds. The actual yield rate shall be determined by the issuer and the overseas underwriter based on actual market conditions on the fixing date.

#### XI. Bondholder's put rights

- (I) The bondholders may not request the issuer to redeem all or parts of the corporate bonds they hold before the maturity date except for the following occurrences.
  - 1. In addition to early redemption or repurchase and subsequent cancellation of the corporate bonds or where the bondholder exercises conversion rights, the bondholder may request the issuer to redeem all or parts of the corporate bonds based on the face value plus interest compensation calculated based on an annual interest rate of 0.125% (calculated once every six months) (i.e. 100.38% of the face value) (hereinafter referred to as the "early redemption price").
  - 2. Once the ordinary shares of the issuer are removed from listing on Taiwan Stock Exchange, the bondholder may request the issuer to redeem all or parts of the corporate bonds based on early redemption price.
  - 3. In the event of changes to controlling rights of the issuer as defined in the trust agreement for the corporate bonds (hereinafter referred to as "trust agreement"), the bondholder may request the issuer to redeem all or parts of the corporate bonds based on early redemption price.
- (II) The bondholder's exercise of the aforementioned put right and the issuer's acceptance of bondholders' requests for redemption shall be processed in accordance with procedures specified in the trust agreement. Payment for the early redemption of corporate bonds shall be paid by the Company in cash on the payment date specified in the trust agreement.

#### XII. Issuer's right to early redemption

The issuer may redeem the corporate bonds earlier under the following conditions:

- (I) If the closing price of issuer's common stocks on Taiwan Stock Exchange reaches 125% of the conversion price (defined in Article 13) for 20 consecutive trading days (if the 20 days include distribution of cash and stock dividends, the closing price for the period from the ex-right or ex-dividend date to the ex-right or ex-dividend baseline date shall be based on the price before ex-right or ex-dividend) three years after issuance, the issuer may redeem all or parts of the corporate bonds early based on the early redemption price (defined in Article 12(4));
- (II) When more than 90% of the corporate bonds are redeemed or repurchased and subsequently canceled or where the bondholder exercises conversion rights, the issuer may redeem all or parts of the corporate bonds early based on the early redemption price; and
- (III) Where a change in tax laws in the Republic of China or the Cayman Islands causes additional tax expenses, additional interest expenses, or increased cost for the corporate bonds to the issuer after the issuance date. The issuer may redeem all or parts of the corporate bonds early based on the early redemption price.

- (IV) The early redemption price is the amount calculated based on the face value of the corporate bond plus an annual interest rate of 0.125% as yield from the issuance date till the date the matter triggering the early redemption occurs.

### XIII. Conversion

(I) Conversion of subjects

The bondholder may apply for conversion of the corporate bonds into newly-issued ordinary shares of the issuer within the conversion period (defined below) based on the conversion price.

(II) Conversion procedures

When requesting a conversion, the bondholder shall provide the conversion notice provided in the trust agreement and other related documents or certificates required by the laws of the Republic of China or Cayman Islands to the conversion agency outside the territory of the Republic of China which shall apply for the conversion with the issuer.

According to the current regulations of the Republic of China, when the bondholder applies for the conversion of corporate bonds into the issuer's newly-shared ordinary shares, the issuer shall, within five trading days of receiving the conversion notification, deliver new shares through the account in the Taiwan Depository and Clearing Corporation to the bondholder who exercised the conversion option. If the bondholder who requested the conversion has not opened an overseas corporate bonds conversion depository account, the issuer shall deliver the new shares through account transfer after the bondholder completes related account opening procedures. In the event of changes to regulations on conversion in the Republic of China, the conversion shall be processed based on the amended regulations.

The trading day specified in the preceding paragraph refers to trading days of Taiwan Stock Exchange.

(III) Conversion period

In addition to early redemption or repurchase and subsequent cancellation of the corporate bonds or where the bondholder exercises conversion rights, regulatory requirements, and suspension of transactions as required in the trust agreement, the bondholder may request the issuer to convert the corporate bonds into newly-issued ordinary shares of the issuer from the day following the 30th day of the issuance of corporate bonds to (1) ten days before the maturity date or (2) the fifth business day before the date the bondholder exercises put options or the date the issuer exercises redemption options (excluding the maturity date).

The account transfer suspension period under current laws is as follows:



- (a) 60 days prior to a general shareholders meeting, 30 days prior to an extraordinary shareholders' meeting, or five days prior to the baseline date for the issuer's distribution of dividends, bonuses, or other interests.
- (b) From the issuer's first book closure date for stock dividends, first book closure date for cash dividends, or 15 business days prior to the first book closure date for cash capital increase till the distribution baseline date of the aforementioned rights.
- (c) If the issuer implements capital reduction, it shall be from the issuer's capital reduction baseline date to the day before the transaction date of conversion of the capital reduction to stocks.
- (d) Other account transfer suspension periods required by the laws and regulations of the Republic of China, Taiwan Stock Exchange, or Cayman Islands.

In the event of changes to regulations on account transfer suspension periods in the Republic of China, the conversion shall be processed based on the amended regulations.

#### (IV) Conversion price

The conversion price for corporate bonds shall be established on the fixing date. The conversion price is 115.02% of the reference price (defined below) (the actual conversion price shall be determined by the issuer and the overseas underwriter based on market demand on the fixing date). The conversion price shall be rounded to the nearest cent. The reference price shall be the simple arithmetic average of the closing price of the Company's ordinary shares on TWSE on the fixing date or the first, third, or fifth day prior to the fixing date

#### (V) Number of converted ordinary shares

The number of converted ordinary shares shall be calculated based on the face value of the corporate bonds at issuance multiplied by the fixed exchange rate between NTD and USD and divided by the conversion price at the time of the request. Amounts less than one share shall be paid in cash to NTD and rounded to the nearest NTD.

#### (VI) Conversion price adjustment

After the issuance of the corporate bonds, the conversion price shall be adjusted in accordance with the anti-dilution provision described below and related anti-dilution provisions in the trust agreement:

- (a) After the issuance of corporate bonds, except for the issuance of new shares through ordinary shares with conversion or subscription rights for the conversion of various securities into ordinary shares and new shares issued for employee bonuses, in the event of increase in the Company's ordinary shares outstanding or placement (including but not limited to cash capital increase,

conversion of earnings to capital, conversion of capital reserve to capital increase, division of stocks, recipient of capital increase from other companies, consolidated capital increase and cash capital increase in subscription for global depositary receipts) where the subscription price or issuance price is lower than the current price of each share (the current price of each share shall be defined in accordance with the trust agreement), the conversion price shall be adjusted (downward adjustment; no upward adjustments shall be provided; rounded to the nearest cent) in accordance with the following formula. It shall also be adjusted on the ex-rights baseline date (Note 1) for the issuance of new shares. However, the adjustments shall be implemented on the day of full payment for shares if actual payments are required.

If the issuance price for new shares is changed after the ex-rights baseline date, the updated issuance price for new shares shall be adjusted in accordance with the following formula. If the adjusted conversion price is lower than the conversion price announced and adjusted prior to the original ex-rights baseline date, it shall be announced again.

Conversion price after adjustment =

conversion price before adjustment  $\times$   $[\text{ENS} + (\text{NNSPNI})/\text{P}] / [\text{ENS} + \text{NNS}]$

ENS = number of issued shares (Note 2)

NNS = new shares

PNI = price of new shares (Note 3)

P = share price on baseline date (defined in the trust agreement)

Note 1: Adjustments shall be made on the merger baseline date if the capital increase is a result of a merger; adjustments shall be made on the transfer baseline date if the capital increase is a result of the transfer of other companies' shares; adjustments shall be made on the delivery date of the private placement of securities for ordinary shares under private placement. If the cash capital increase is implemented via private placement sales or with the issuance of GDRs, as there is no ex-rights baseline date, it shall be adjusted on the day the issuance is completed.

Note 2: The number of issued shares refers to the total number of ordinary shares issued and obtained through private placement minus the number of treasury shares repurchased by the Company that have not been canceled or transferred.

Note 3: The price of new shares shall be zero if they are share dividends or stock splits. For capital increase due to a merger or transfer of shares from other companies, the price of new shares shall be: (1) The closing price of the dissolved company on the day of the resolution of the shareholders' meeting that determines the share exchange ratio (if the dissolved company is a listed company) or (2) the fair price of the shares of the dissolved company (if the dissolved company is a listed company) based on the opinions of independent experts multiplied by the share exchange ratio.

- (b) After the issuance of the corporate bonds, where the conversion or subscription price in the issuer's issuance or private placement of various securities with ordinary share conversion rights or subscription rights is lower than the current price per share (the current price per share shall be defined in accordance with the trust agreement), the conversion price shall be adjusted based on the following formula (rounded to the nearest NTD cent for downward adjustments; no upward adjustments shall be implemented) and the adjustments shall be implemented on the delivery date of the issuance of securities, subscription rights, or private placement:

Conversion price after adjustment =

$$\begin{array}{rclcl}
 \text{conversion price} & \text{Issued} & & \text{Price at which a new or} & \text{Number of shares for which a} \\
 \text{before} & \text{shares} & & \text{private placement of} & \text{new or private placement of} \\
 \text{adjustment} \times & \text{(Note 1} & + & \text{securities or options may be} & \text{securities or options may be} \\
 & \text{and Note} & & \text{converted or subscribed} & \text{converted or subscribed} \\
 & \text{2)} & & & \\
 & & & \text{Current market price per share} & \\
 \hline
 & \text{Issued shares + number of shares for which a new or private placement of} & & & \\
 & \text{securities or options may be converted or subscribed} & & & 
 \end{array}$$

Note 1: The number of issued shares shall include the total number of ordinary shares issued and obtained through private placement minus the number of treasury shares repurchased by the issuer that have not been canceled or transferred.

Note 2: If reissued or private placement securities with common stock conversion rights or subscription rights are funded by treasury shares, the number of new (or private placement) shares that may be converted or subscribed shall be deducted for adjusting the number of issued shares in the formula.

- (c) If the issuer implements capital reduction with treasury stock, the conversion price shall not be adjusted.

If the number of ordinary shares is reduced due to the capital reduction conducted through means other than the Company's cancellation of treasury stock after the issuance of corporate bonds, the conversion price shall be calculated based on the following formula and adjusted on the capital reduction baseline date:

$$\text{Conversion price after adjustment} = \frac{\text{conversion price before adjustment} \times \text{number of issued and outstanding ordinary shares before capital reduction}}{\text{number of issued and outstanding ordinary shares after capital reduction}}$$

- (d) When the issuer distributes cash dividends or other forms of cash to shareholders after the issuance of the corporate bonds, the conversion price shall be adjusted based on the following formula (downward adjustment; no upward adjustments shall be provided; rounded to the nearest cent) in accordance with the regulations in the trust agreement (adjustments for the conversion price shall be provided in detail in the trust agreement):

Conversion price after reduction = conversion price before reduction  $\times$  (1 – distribution of cash dividends for ordinary shares as a ratio of the current price per share)

The current market price per share shall be defined in accordance with the trust agreement.

(VII) Ownership of related dividends and bonuses in the conversion year

The bondholder shall not enjoy the Company's stock dividends or bonuses prior to the conversion. It shall be entitled to the distribution of dividends and bonuses attributable to holders of the Company's ordinary shares in accordance with laws after the conversion when bondholder's rights shall enjoy the same rights as other shareholders of the Company's ordinary shares.

- (a) Cash dividends

1. Where the bondholder applies for the conversion to the Company's ordinary shares from January of the year of application for conversion to the date 15 business days prior to the first ex-dividend date (exclusive), the ordinary shares shall be entitled to the cash dividends for the previous year based on the resolution of the shareholders' meeting in the current year.

2. The conversion of the corporate bonds shall be suspended from the date 15 business days prior to the first ex-dividend date (inclusive) for the distribution of the Company's cash dividends till the ex-dividend date.
3. Where the bondholder applies for the conversion to the Company's ordinary shares within the period from the date after the Company's ex-dividend date to December 31 of the same year, the ordinary shares shall be entitled to the cash dividends for the current year based on the resolution of the shareholders' meeting in the next year.

(b) Stock dividends

1. Where the bondholder applies for the conversion to the Company's ordinary shares from January of the year of application for conversion to the date 15 business days prior to the first ex-rights date (exclusive), the ordinary shares shall be entitled to the stock dividends for the previous year based on the resolution of the shareholders' meeting in the current year.
2. The conversion of the corporate bonds shall be suspended from the date 15 business days prior to the first ex-rights date (inclusive) for the distribution of the Company's stock dividends till the ex-rights date.
3. Where the bondholder applies for the conversion to the Company's ordinary shares within the period from the date after the Company's ex-rights date to December 31 of the same year, the ordinary shares shall be entitled to the stock dividends for the current year based on the resolution of the shareholders' meeting in the next year.

(VIII) Restrictions on qualifications for conversion

According to current laws and regulations of the Republic of China, if the holder of corporate bonds is a Chinese investor, it must be a qualified domestic institutional investor (QDII) approved by the competent authority for securities in China and it may only exercise conversion rights within the limit regulated by related competent authorities. In the event of changes to regulations on securities investment in Taiwan by Mainland area investors, the conversion shall be processed based on the amended regulations.

#### XIV. Cancellation of bonds

If the convertible bond is purchased (including purchased from the secondary market), early redeemed, or repaid at maturity by the Company, or if the convertible bond is converted into ordinary shares or redeemed by the bondholder, the bond is to be retired and will not be reissued.

#### XV. Sales restrictions

The corporate bonds may not be directly raised, sold, or delivered within the territory of the Republic of China.

#### XVI. Taxes

- (I) Securities transaction tax: According to current laws and regulations of the Republic of China, shareholders must pay 0.3% of the transaction amount as securities transaction tax when selling their shares.
- (II) If there are changes in related taxation laws of the Republic of China or Cayman Islands, the taxes shall be processed in accordance with current regulations.

#### XVII. Governing laws

The issuance, management and disposal of the corporate bonds shall be processed in accordance with the laws and regulations of a foreign country based on the agreement between the issuer and the foreign underwriter. However, the approval for issuance and exercise of conversion rights of the corporate bonds shall be implemented in accordance with the laws of the Republic of China and governed by the laws of the Republic of China.

#### XVIII. Amendments of issuance clauses

The Regulations may be amended by agreements between the issuer and the underwriter based on changes in market conditions in accordance with related regulations.

#### XIX. List of underwriters and other related agencies

Overseas underwriters: Merrill Lynch Far East Limited, Citigroup Global Markets Limited, and Credit Suisse (Hong Kong) Limited

Domestic underwriter: Concord Securities Corporation

Trustee: Citicorp International Limited

Payment and conversion agency: Citibank, N.A., London Branch

- III. Issuance of Preferred Stocks/Stocks with Subscription Rights: None**
- IV. Issuance of Overseas Depository Receipts: None**
- V. Issuance of Employee Stock Options: None**
- VI. Issuance of New Restricted Employee Shares: None**
- VII. Issuance of New Shares for Merger or Acquisition: None**
- VIII. Implementation of Capital Utilization Plans**

The Company proceeded with the second issuance of unsecured overseas convertible corporate bonds in June 2014:

The second issuance of unsecured overseas convertible corporate bond was completed according to plan. There are no instances of incomplete issuance or completed issuance without yielding benefits in the past three years.

## Chapter 5 Operational Highlights

### I. Business activities

#### (I) Business scope

##### 1. Major business activities:

The Company's main business consists of the design, development, manufacturing, and sales of printed circuit boards (PCBs).

##### 2. Operating proportion:

Unit: NT\$1,000; %

Products	2017		2018	
	Amount	Operating proportion	Amount	Operating proportion
Various PCBs	109,237,731	100%	117,912,881	100%
Total	109,237,731	100%	117,912,881	100%

##### 3. Current products and services:

- ◆ PCBs for mobile phone products
- ◆ PCBs for personal computers
- ◆ PCBs for servers
- ◆ PCBs for tablet computers
- ◆ PCBs for gaming devices
- ◆ PCBs for graphic cards and modular products in computers and consumer electronics
- ◆ PCBs for digital cameras
- ◆ PCBs for Bluetooth and Wi-Fi modules
- ◆ PCBs for wireless communication products
- ◆ PCBs for LCM modules
- ◆ PCBs for storage devices
- ◆ PCBs for telecommunications base stations
- ◆ PCBs for wearable devices
- ◆ PCBs for automotive electronics
- ◆ PCBs for smart home products
- ◆ Various PCB products

##### 4. Plans for new product development:

- ◆ Industrial research in multi-layer high-frequency high-speed flexible PCB products
- ◆ Industrial research in 5G base station multi-layer hybrid low-loss



## PCBs

- ◆ Industrial research in medium and small size LED PCB products with high-reflective rate
- ◆ Industrial research in high-end mounting products with buried components
- ◆ Industrial research in multi-layer coreless metal materials with high-power efficiency of heat dissipation
- ◆ Research and development of ultra-fine chip-on-film flexible PCB products
- ◆ Research and development of asymmetrical high-power flexible and rigid PCB products
- ◆ Research and development of multi-layer high-frequency hybrid PCB for vehicle-mounted radars
- ◆ Research and development of buried ultra-fine circuits in IC products

## (II) Industry overview

### 1. Current state and development of the industry

The Company is a professional company that specializes in the design, development, manufacturing, and sales of printed circuit boards (PCBs) for products such as mobile phones, tablet computers, personal computers, servers /storage devices, telecommunication equipment, and various consumer electronics products and equipment. Our products have been widely adopted in the automobile, industrial, medical, and aerospace sectors in recent years. The development of related end products is closely related to the Company's businesses. The current state of the industries for related applications of PCB products is described below.

#### (1) Current status and development of the PCB industry

A printed circuit board (PCB or PWB for printed wire board) is a board manufactured on general materials based on a predetermined design that forms connections between points and embedded with printed components. Its main function is to connect various electronic components to form connections between predetermined circuits and provide transmission functions. PCBs are key components in the assembly of electronic components. They provide electrical connections for electronic components and are responsible for the transmission of digital and analog signals, power supply, and sending and receiving radio frequency and microwave signals for electronic devices. They are necessary equipment for most electronic devices and products and they are therefore referred to as the "mother of electronic products". 5G, Internet of Things, Internet of Vehicles, Industrial Internet of Things, and Artificial Intelligence lead current trends and development for electronic products and PCBs advance toward light-weight, thin, short, small, and high (high-frequency and high speed), low (low pollution/low loss/low power consumption), multiple (multi-functional), fast (high speed),

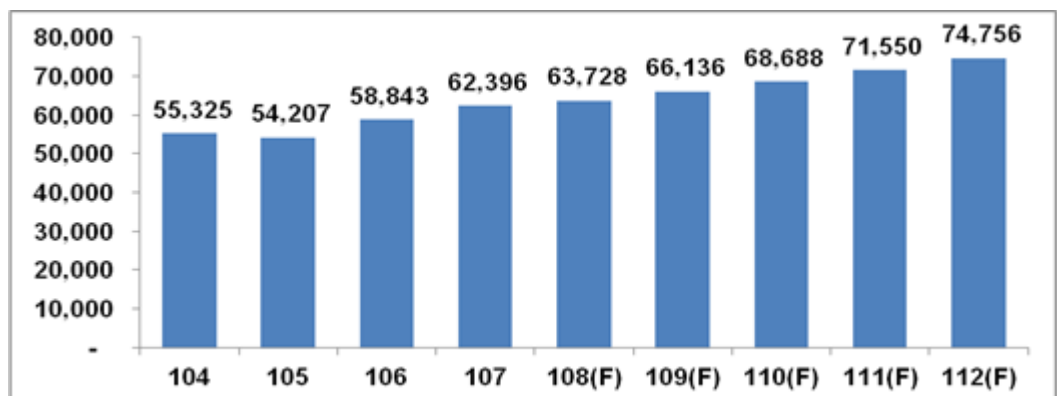
precision (low tolerance), accurate (accuracy), refined (refinement), and beauty (aesthetically appealing). Product applications include but not limited to consumer electronics such as smartphones, smart watches, communication electronics, tablet computers, new energy vehicles, base stations, cloud servers, wireless communications, and smart home and smart city hardware products.

PCBs are key components for all electronic products and they are mainly used to mount electronic components and deliver information between various electronic components. Products are widely adopted in wearable devices, communications, tablet computers, automotive electronics, servers/storage devices, Internet communications, personal computers, and various consumer electronic products.

Cycles in the global electronics industry exert a relatively high impact on the PCB industry. The high levels of applications and the importance of PCBs in modern electronics industry and the rapid development of electronics equipment and systems for modern social communication, digital computing, and entertainment applications will lead to continuous growth in the demand for various PCBs. According to Prismark's forecasts, the global PCB output grew from US\$48.3 billion in 2008 to US\$62.3 billion in 2018 with a growth rate of 29%. It projected a growth rate of 2.1% in 2019 and various PCB industries will grow at a compound annual growth rate of 3.7% from 2018 to 2023.

#### **Global PCB market scale from 2015 to 2023**

Unit: US\$1 million



Source: Prismark (March 2019) [Note]: Values for 2019-2023 are estimates

Growth in PCB output is in close positive correlation with the global economic growth rate. Changes in the global economy would therefore directly impact growth in the entire industry. Regional economic growth reflects the local demand for end-user products and causes indirect impact on the purchase orders of suppliers of related upstream applications. Therefore, regional economic development causes more direct impacts on the operations of individual operators.

The upstream raw materials of PCBs consist mainly of copper foil, copper-clad laminates, process chemicals and copper balls. Copper-clad laminates are the most important direct raw materials for PCBs. Copper accounts for the highest proportion of the materials and the fluctuation of copper prices on the international market have a profound impact on cost. Recent increase in the price of raw materials on the international market

has caused tremendous pressure on cost for PCB companies.

Downstream industries that use PCBs consist of applications and products for end users and are thus susceptible to changes in the macroeconomic environment, market, and purchasing power. In addition, different PCB products have different applications and varying levels of price sensitivity. For consumer electronics products with short product life cycles, the prices of new products begin their downward adjustments as soon as they are launched. PCBs therefore have weaker price bargaining power. However, PCBs for certain special applications such as medical, industrial, or aerospace applications are less sensitive to price. PCBs are widely used for mobile phones, mobile communications base stations, tablet computers, personal computers, industrial computers, servers/storage devices, digital cameras, TVs, wearable devices, game consoles, home appliances, automotive electronics, medical equipment, robots, aerospace equipment, defense, military, etc.

Taiwan occupies an important position in the global PCB industry. According to Prismark data, China, Taiwan, Korea, and Japan's market shares in 2018 were 52.4%, 12.6%, 10.5%, and 8.7%, respectively. Taiwanese PCBs achieved the highest market share with 31.3%. In terms of the place of production, approximately half of the world's PCBs are produced in China which has become the world's largest PCB production base. It is followed by Taiwanese PCB manufacturers with 12.6% in second place.

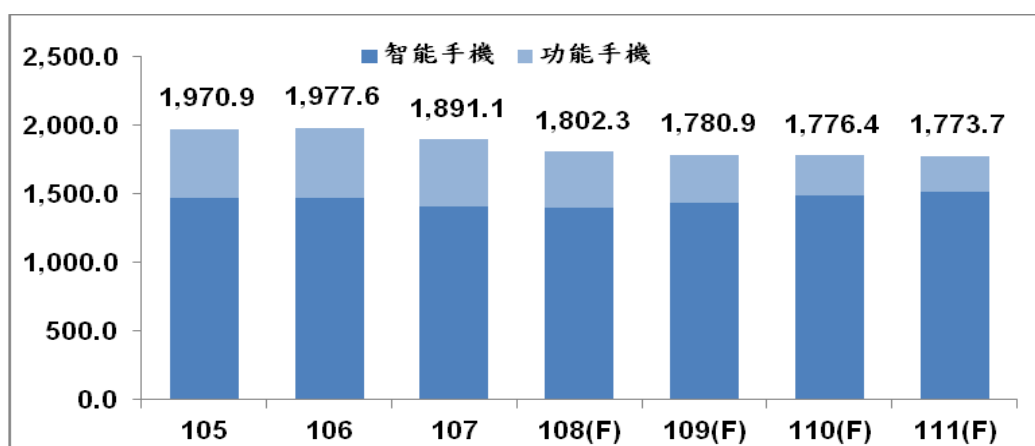
## (2) Industrial development trends of main products

### A. Mobile phone industry

The mobile phone industry consists of smartphones and feature phones. Compared to feature phones, smartphones have far superior computing power and functions. Smartphones have diverse functions such as data transmission, wireless Internet access, digital camera, voice assistant, audio and video playback, and biometrics which have become the mainstream trends in the development of mobile phone products. According to IDC research, global smart phone shipment reached 1.41 billion units in 2018 and will grow at a compound annual growth rate of 1.9% from 2018 to 2023. Global smart phone shipment is projected to reach 1.54 billion units by 2023. Feature phone sales will continue to decline and it is expected to drop from 490 million units in 2018 to 240 million units in 2023 with a compound annual growth rate of -13.3%.

## Global mobile phone shipment

Unit: million units



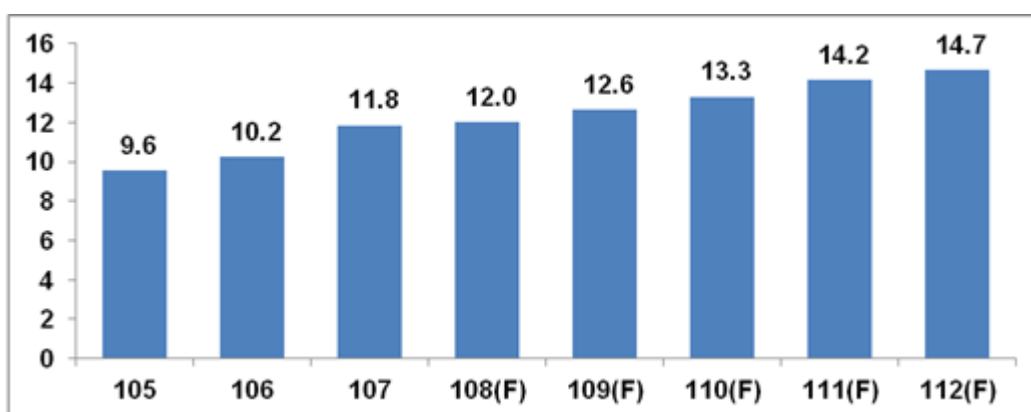
Source: IDC (February 2019) [Note]: Values for 2019-2022 are estimates

### B. Server and related industries

The emergence of AI, IoT, 5G, and other new applications increased demand for data storage and computing, contributing to continuous growth in the output of servers, storage devices, and related hardware equipment. According to IDC research, global server shipments reached 11.84 million units in 2018 with an annual growth rate of 15.7%. The projected compound annual growth rate from 2018 to 2023 is 4.3%.

#### Projected global server shipment

Unit: million units



Source: IDC (March 2019) [Note]: Values for 2019-2023 are estimates

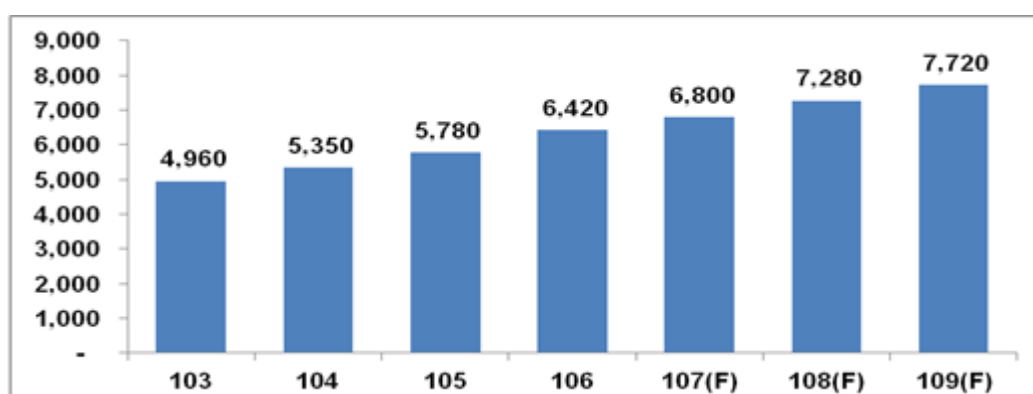
### C. Automotive electronics industry

The advancement of the global automotive industry from electronics into automation has promoted the output of automotive PCBs as multiple PCB operators expanded investment in technology to gain market share. Although the application involves human safety and thus incurs long product certification schedules and high entry barriers, the products would generate stable growth in the Company's revenue once they are certified and shipped. According to the latest NT Information statistics, the output of global automotive PCBs in 2018 amounted to US\$6.8 billion and it is expected to grow at a

compound annual growth rate of 6.6% from 2018 to 2020. It is set to reach US\$7.7 billion in terms of market scale by 2020.

### Projected global PCB market scale

Unit: US\$1 million



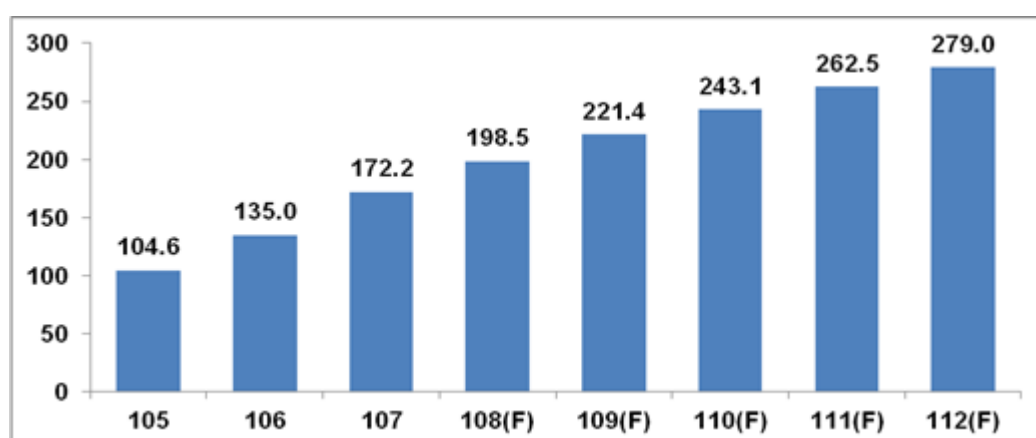
Source: NT Information (September 2018) [Note]: Values for 2018 to 2020 are estimates

### D. Wearable devices industry

As the development of wearable devices intensifies, the application markets gradually expanded. It started out from smart wristbands and now includes smart watches, smart clothing, head-mounted devices, earpieces, and various other products. The growth in sports and leisure wearable devices is the most significant while the potential for applications in the future healthcare sector is also highly anticipated. IDC estimates that the shipment of global smart wearable devices in 2019 may reach 198 million units, a 15.3% growth from the 172 million units in 2018. It is expected to grow at a compound annual growth rate of 10.1% from 2018 to 2023

### Projected global wearable devices market scale

Unit: million units

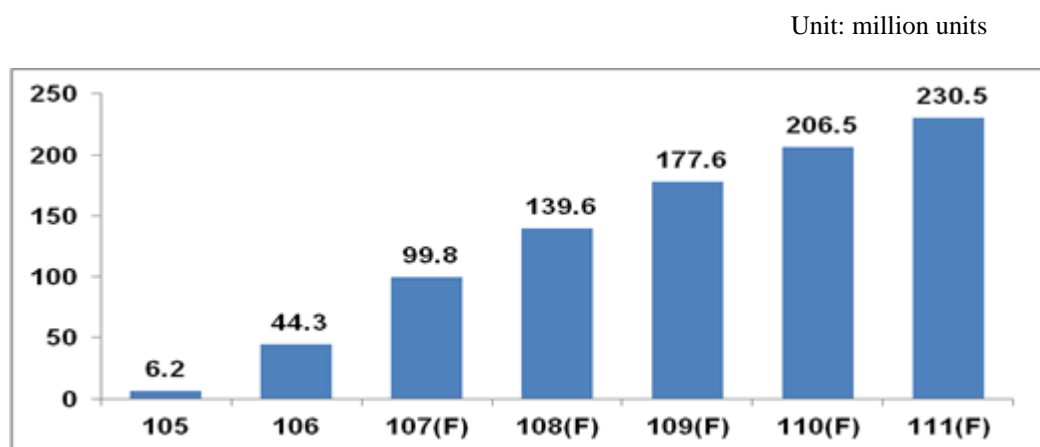


Source: IDC (March 2019) [Note]: Values for 2019-2023 are estimates

### E. Smart speaker industry

As audio recognition technology advances, smart speakers catered to audio interactions gradually found their way into homes as they connect and integrate with independent smart appliances. In the future, they shall not be confined to the smart home platform but will also connect industries to become indispensable elements in each sector. IDC estimates that global smart home devices will achieve explosive growth at a compound annual growth rate of 20.8% from 2017 to 2022. Smart speakers will experience the fastest growth and shipments in 2018 will be close to 100 million units, up 125.3% from 2017. It is expected to grow at a compound annual growth rate of 39.1% from 2017 to 2022.

#### Projected global smart speaker shipment



Source: IDC (December 2018) [Note]: Values for 2018 to 2022 are estimates

### (3) Competition

Continuous upgrade of electronics product applications and specifications accelerate advancements in PCB technology and intensify competition between large international PCB manufacturers in Taiwan, Japan, Korea, and China. The Company's existing and potential competitors leverage their advantages in finance, manufacturing, technology, marketing personnel, and marketing resources to enter the consumer electronics market while the Company focuses on a wide range of products and services as well as partnerships with long-standing customers. We seek to differentiate ourselves from competitors and prevent price competition.

The Company believes that our main competitors are companies that provide long-term services for leading brands in the consumer electronics market. These companies often have good relations with customers, highly competitive products, and the skills and capacity required for developing new products that lead the market. The Company's main competitors in various products include Mektron, TTM, Unimicron, Compeq, Tripod, SEMCO, Sumitomo, Fujikura, AT&S, Ividen, Meiko, and other major manufacturers.

The Company focuses on a market with high levels of competition and

change. It is particularly susceptible to the impact of rapid technological changes, evolving industry standards, continuous decrease in average prices, and high product replacement rate. Future competition will continue to intensify and the competition will not only come from existing competitors but may also come from other companies that enter our existing or future markets. Their solutions may be cheaper, perform better, or have more ideal functions than the Company's products. Consumer electronics PCB suppliers compete on the following competitive niches:

- ◆ Product quality, performance, and functions
- ◆ System integration level
- ◆ Technology R&D and execution
- ◆ Reliability
- ◆ Price
- ◆ Market time
- ◆ Market presence and reputation
- ◆ Compliance to industrial standards
- ◆ Intellectual property rights
- ◆ Product development roadmap
- ◆ Customer service and support

Based on the aforementioned standards, the Company retains favorable conditions for competition. However, the Company's future competitive capacity is determined by whether we can establish, design, and launch new products that meet or foresee customers' demand for next-generation products and applications. In addition, the Company's competitive position will also be determined by whether we can continue to attract and retain talents and whether we can securely protect the Company's intellectual property rights. These are key factors to the Company's continuous growth and success.

### **(III) Overview of Technology and R&D**

#### **1. Technology level and R&D for operations**

The Company upholds rigorous production management and high-quality technical services to provide high reliability and output that satisfy the demands of first-rate international companies and become one of the leading companies in the world. In addition, the Company is also committed to the research and development of advanced technologies and we strengthen cooperation with customers to develop next-generation products and technologies, gain knowledge of mainstream markets, and satisfy customers' demands. We also leverage planned actions and management synergy to establish the Company as a role model among global PCB and semiconductor suppliers.

The Company focuses on providing comprehensive PCB and semiconductor products and services for industry-leading customers. We provide customers with comprehensive solutions for the design, R&D, manufacturing, and after-sales services of PCB and semiconductor products based on demands for customization from various downstream consumer products. Solutions can be

divided into PCBs for communications, consumer electronics, and other applications based on different downstream applications. They are also widely adopted in downstream products such as smartphones, Internet equipment, tablet computers, wearable devices, laptop computers, servers, base stations, smart appliances, and automotive electronics. We use advanced production technology and outstanding quality to provide services to our customers and win the approval of world-class manufacturers. The Company established a R&D team based on demands in the mainstream market. The team consists of members with PCB and semiconductor experience and professional backgrounds. It is committed to research and development of high-end products to satisfy customers' demand for future products including flexible printed circuit boards (FPC), high density interconnection (HDI), regular printed circuit board (R-PCB), substrate-like PCB (SLP), rigid-flex printed circuit boards (Rigid Flex), chip-on-film (COF), modular products, and related semiconductor products. We focus on technology innovation and development and establish a technology development roadmap required for customer demands to improve the Company's equipment and process capacity and create product uniqueness and technological leads in order to improve customer satisfaction and enhance competitiveness.

The Company actively develops patents to establish intellectual property rights to maintain its lead over competitors. As of December 31, 2018, the Company has accumulated 787 effective patents in Taiwan, China, and the United States including 355 in Taiwan, 310 in China, and 122 in the United States. We also continue to apply for patents for our R&D results in advanced technologies.

## 2. Specific results of technology and R&D

- (1) Mass production of wireless charging technology for smart wearable devices
- (2) Mass production of SiP system-level packaging
- (3) Mass production of 10-layer 0.37mm ultra-fine substrates
- (4) Mass production of multi-channel signal transmission LCP
- (5) Mass production of semiconductor embedded 13/13um ultra-fine circuits
- (6) Mass production of semiconductor mSAP 25/25um ultra-fine circuit board technology
- (7) Mass production of low-level contact resistance embedded capacitors and resistors
- (8) Certification for low-loss 5G rigid board materials
- (9) Successful development of low-loss 5G antenna communication board technology
- (10) Successful development of high-speed signal skip via technology
- (11) Successful development of 10L SBU hybrid boards for small cells
- (12) Completion of the establishment of a high-frequency high-speed simulation technology platform
- (13) Successful development of ultrasonic fingerprint identification PCB technology
- (14) Successful development of single and double-sided ultra-fine circuit flip chips
- (15) Successful development of ultra-large Rigid Flex hybrid boards



- (16) Successful development of embedded copper heat dissipation stacked boards
- (17) Successful development of mini LED backlit PCB technology
- (18) Successful development of high-level heat dissipation coreless technology
- (19) Successful development of high-end mSAP substrates technology with embedded components
- (20) Successful development of mSAP substrates technology with ABF materials
- (21) Successful development of ultra-thin RtR semiconductor process

#### **(IV) Long and short-term development strategies and plans**

##### **1. Short-term development strategies and plans**

###### **(1) R&D strategies and plans**

The Company actively constructed environmental protection and green processes in response to future product development trends and directions. We continue to develop advanced process technology and low-cost high-performance materials to lead the industry and strengthen competitiveness. Our short-term R&D plans focus on technologies that satisfy customer demands including low-loss high frequency 5G transmission technology, 5G base stations, antenna technology, medium and small size LED technology, multi-layer high variation USB technology, new ultrasonic identification PCBs, double-sided ultra fine circuit flip chips, multi-layer ultra-large Rigid Flex hybrid boards, low-loss multi-layer stacked boards, vehicle-mounted high-frequency radar board, partial-use thermal copper pillar bump technology, substrate embedded component technology, coreless substrate technology, embedded vehicle-mounted camera technology, high-reliability solid-state drive technology, semiconductor ECRS microchip technology, semiconductor 10/10 embedding technology, and semiconductor ultra-thin UTS technology to expand product line and improve the Company's competitive advantages.

###### **(2) Production strategies and plans**

The Company shall continue to expand production capacity in all plants based on customer requirements and the plants shall also focus on the product types and customers established in the plans. Product development and production strategies shall be established for each plant based on the Company's annual sales strategy. We shall focus on both purchasing high-end production equipment in response to product upgrade and expanding new capacity based on customer demand and orders. We added investment plans for Shenzhen, Huai'an, and Qinhuangdao plants and the investments shall be executed in accordance with the plans as well as market and order status in the next quarter.

###### **(3) Operation and finance strategies and plans**

- A. Maintain suitable short-term liquidity funding levels to secure company operations
- B. Use financial hedging products to evade risks of uncertainty and

reduce the impact of the exchange rate to respond to risks in exchange rate fluctuations.

- C. Adopt unified price negotiation and centralized procurement for equipment, raw materials, and consumables of each plant to effectively reduce overall operating costs

## 2. Long-term development strategies and plans

### (1) R&D strategies and plans

The Company's long-term R&D strategy is to participate in customers' preliminary product research, development, and design. We seek to use innovation and R&D to guide customers and commit resources to developing leading technologies that meet customer demands to create value for customers. The Company has constructed a cooperation platform for the industry, government, academia, and research institutes and established a R&D center for advanced technologies. We integrate the capacity for basic research of the ITRI and related departments in Tsinghua University, Chiao Tung University, Cheng Kung University, Chung Hsing University, Taiwan University of Science and Technology, Chung Yuan University, Feng Chia University to expand the reach and intensity of technology development. We also integrate joint development models in the industry from upstream to downstream to attain independence in the key technologies so that we may strengthen the Company's core technologies, guide customers in long-term partnerships, fully satisfy customers' demands for new products, and continue to create win-win conditions for mutual prosperity.

### (2) Production strategies and plans

- A. Maintain long-term partnerships with strategic partners and jointly develop new materials, new equipment, and new technologies. Proceed with joint development of process with special functions and strengthen the development automation equipment to lower production cost and develop high-quality and high-functionality products.
- B. Select long-term strategic partners for non-core processes and leverage the capacity of partners for single specialized processes to increase production efficiency, lower cost, improve yield, and enhance overall competitiveness.
- C. Establish two R&D centers in Taiwan and China and continue to improve the capacity for developing new technologies and maintain leading advantages in high-end products and technologies.

### (3) Operation and finance strategies and plans

- A. Uphold a people-oriented corporate philosophy and core values for integrity, responsibility, and excellence to build world-class business management capabilities, recruit talents, and achieve world-class performance in R&D, production, markets, marketing, and operation management.
- B. Strengthen environmental protection and industrial safety risk management and implement services and corporate ideals for speed,

equal quality, technology, efficiency, cost, and added value.

- C. Develop the Company's comprehensive PCB industrial platform and jointly develop new products, new technologies, new equipment, new materials, and new processes with the Company's partners in production technology, equipment, and raw materials as well as professional research institutions. Provide brand companies and professional electronics OEM companies with high-quality and cost-effective PCB design, development, manufacturing, and sales services.
- D. Plan long-term fundraising activities, repay matured long-term debts, and implement suitable adjustments to the structure of long-term liabilities.
- E. Control suitable financial leverages based on the Company's operations and growth while retaining sufficient cash reserves to respond to future demand in cash flows.

## II. Market, Production and Sales Overview

### (I) Market analysis

#### 1. Sales regions for major products

Unit: NT\$1,000

Sales Territory	2017		2018	
	Amount	Percentage	Amount	Percentage
USA	68,428,524	62.65%	81,805,602	69.38%
China	26,746,784	24.48%	23,946,317	20.31%
Taiwan	7,625,992	6.98%	5,637,193	4.78%
Others	6,436,431	5.89%	6,523,769	5.53%
Total	109,237,731	100.00%	117,912,881	100.00%

Note: Geographical information on the Group's revenue is shown based on the countries of customers.

#### 2. Market share

Based on comparison with statistics on major competitors' revenue in 2018, the Company's revenue has exceeded NT\$100 billion for two consecutive years and we became the world's largest PCB plant. However, our 6.3% market share demonstrates the high level of competition in this market. The Company has an exceedingly high demand for product process technology and a wide range of applications. We have leveraged our technical advantages and explored sectors such as tablet computers, automotive electronics, game consoles, servers/storage devices, and Internet communications.

#### 3. Future market supply/demand and growth

In terms of the concentration of the industry, there are more than 2,000 PCB manufacturers across the world with close to 1,000 in China where the overall output in the circuit board industry is rapidly increasing. As environmental protection legislation in all countries grow stricter and the demand for circuits

grows increasingly refined, it has become apparent that there are fewer large-scale companies with the capacity for providing high-tech and high-quality products while meeting requirements in environmental protection legislation. According to Prismark statistics, the top 30 PCB companies accounted for 47% of the revenue in the industry in 2010. The proportion reached 60.8% by 2018, demonstrating a visible trend toward consolidation and survival of the largest companies.

As global economy gains steady growth, consumers' purchasing power for electronics products also strengthened and emerging countries' demand for electronics products also increased. Coupled with development in applications for new technologies, the scale of the PCB market is expected to continue growth. According to Prismark's forecast in February 2019, the global PCB market scale will grow at a compound annual growth rate of 3.8% from 2017 to 2022 and reach US\$71 billion by 2022. The outlook of the PCB industry remains optimistic in the next few years.

#### 4. Competitive niches

The industry is a basic industry in the electronics sector and it provides key components for all electronics systems and products. The industry provides functions for mounting and connecting electronics components that ensure the operations of system products. The Company's competitive niches include the following:

##### A. Establishment of a one-stop supply platform for brand companies with entire product lines for various PCBs.

The Company designs, develops, manufactures, and sell PCBs with different materials, electrical components, and functional designs. We have distinct production processes and mass production management methods. The Company has accumulated years of patents, technologies, and professional know-how to fully understand and satisfy customer demands and to provide specific customers with rapid design, development, sample production, and ramp-up services within a short time. We assist customers in shortening product launch schedule and take the initiative on the market. We help customers by building a successful operation model of Time to Market + Time to Volume + Time to Money / Market share.

The Company has invested massive amounts of resources in various PCB engineering R&D and process development. We can therefore cooperate with companies and provide system brands companies with up-to-date and high-quality products. We shall continue to expand based on our past records. Most popular electronics products on the market in a given year use products provided by the Company to our customers. We help system brand companies achieve success with their products on the global market. We take the lead in industry trends and significantly reduce product launch time. The Company also plans to use our advantage of the proximity of our plants to customers and develop specific new technologies, materials, and equipment for specific customers in order to expand product portfolio and satisfy customer demands for one-stop procurement. We believe that, compared to competitors, we are a professional global company with product design, development, manufacturing, and sales expertise and our comprehensive product

capacity will help maintain solid and long-term strategic partnerships with system brand companies.

- B. Maintain solid and close business partnerships with leading global brand customers and electronics OEMs.

The Company has always provided customers with flexible and high-quality customized manufacturing services and built long-lasting partnerships with customers. The Company's main customers are all well-known international companies, electronics OEMs, and innovators in advanced technologies. By cooperating with customers in joint product research and development, the Company continues to strengthen and refine our technology platform. We also leverage the Company's expertise in R&D and focus on developing technologies and enhancing engineering services to satisfy customer demands and gain knowledge of market trends and business opportunities for new products.

- C. Direct purchase orders and participation in design and development of brand customers (JDVM/JDSM)

The Company's main orders are issued directly by major electronics system brands or main electronics OEM companies across the world. The Company participates in the Early Involvement phase for product design and ensure that all mass production after products is launched to satisfy customer demands. We thus form close partnerships with major electronics system brands or main electronics OEM companies across the world and establish lasting and stable business alliances. With regard to competitors, most companies either lack the capacity for providing independent OEM services to global brand customers or leading OEM companies or they may have insufficient engineering service capacity or lack the flexibility or production capacity that customers need. Therefore, many companies obtain orders from agents and only position themselves as production plants. The customer relations and prices in this business model are controlled by the agent. The manufacturers are only the production plants which have no significant added value and are highly replaceable. Order cancellations and bankruptcy are common issues.

- D. Experienced operations and management team with capacity for consecutive years of high-speed growth

Our management team has extensive experience in the industry and the executives of main product business units have practical management experience. An operations and management team with capacity for implementation is the Company's key to success. After the holding company was established in 2006, we successfully focused on the main customers and assisted the customers in promoting its products across the world in 2007. The operations and management team then formulated strategies to expand operations and product development and to establish new plants. They led the Company's rapid expansion while improving core engineering and technology capacity. We later became the main supplier of various PCBs used by global leading mobile phones, laptop computers, tablet computers, game consoles, digital cameras, and digital books. Under the professional leadership of the operations and management team, the Company's revenue surpassed NT\$100 billion for

the first time in 2017 and we became the world's largest PCB supplier.

Since the establishment of the Company, we have recruited many engineers with good academic backgrounds and extensive experience in the industry. We organized diverse operations and management teams and grew from a medium-sized company to a large professional company with a full product line and comprehensive capacity that operates in plants in four provinces in China and conducts businesses across the world.

E. Cross-strait cooperation strengthens competitive advantages

As traditional products mature, the Company has concentrated on high-end products for new product development in recent years. We use automation to replace labor cost which has risen continuously in China. We also continue to optimize the product portfolio and use engineering development capacity as our core competency to provide customers with product designs and innovation to grasp business opportunities on the market. The Company actively uses high-quality human resources and engineering technology to develop high-end PCB products and focuses on the Company's technical development roadmap with the aim of helping customers maintain leading positions in technology and R&D capacity.

Our subsidiaries in China integrate engineering and R&D resources of the plants and focus on related technology that can be used for customers' future mass production to improve product performance as well as production efficiency and yield. Engineering units focus on improvements for process and replacement of raw materials/consumables in the production process of current products. They aim to reduce production cost, improve yield, and provide customers with more advantages in production in terms of cost and flexibility. The effective cross-strait cooperation model encompasses the technology development required for the Company's development growth in all stages and effectively builds comprehensive product development capabilities.

5. Favorable and adverse factors for long-term growth and response strategy

A. Favorable factors

(A) Stable industrial development

The wide range of applications for PCBs, rapid expansion in smart devices in recent years, increase in the scale of online communication industries due to continuous growth in the cloud computing market, and applications for automotive electronics and IoT have contributed to forecasts of steady growth in the global consumer electronics product, computer, communications, automobile, and semiconductor industries. Industries related to these industries therefore maintained stable growth. According to Prismark data, the compound annual growth rate of the global PCB industry from 2018 to 2023 will be 3.7% and the market exhibits stable growth.

The Company's product strategy centers on providing high-quality

and comprehensive PCB products and we adjust our product portfolio based on industrial development trends at all times. We also integrate R&D and order acceptance in Taiwan and allocate production capacity in China to facilitate flexible orders and production and maintain optimal competitive advantages.

(B) Comprehensive development in the industry with comprehensive production bases in key economic areas in China

Related operators in the PCB industry are concentrated in Taoyuan in Northern Taiwan and they have formed comprehensive supply chains in the Yangtze Delta in East China and Pearl River Delta in South China where upstream and downstream plants and various suppliers congregate and accumulate a significant amount of competitive strengths. Bohai Economic Rim recently became a highlight in economic growth in China. Industrial clusters quickly formed and the most prominent clusters included the "Five Points One Line" stretching from Beijing and Tianjin to Liaoning.

The Company has established large-scale production bases in key economic development areas in China including Shenzhen in South China, Yangtze Delta in East China, Beijing and Tianjin, Shandong in North China, and Liaoning in Northeast China. We remain close to customers to provide, consistent high-speed, technically efficient, cost-effective, value-added, environmentally friendly, and industrial safety PCB design, development, manufacturing, and sales services. The Company differentiated itself from competitors by implementing comprehensive development in Taiwan, South China, East China, North China, and Northeast economic regions to provide customers with convenient, diverse, flexible, and customized manufacturing services.

(C) Grasp opportunities based on optimistic outlook for the consumption market in China

The Chinese market is the world's most important and vibrant market with the most rapid growth. The high efficiency of the Chinese government, comprehensive infrastructure, and high-quality human resources make China a key target for global brands and give birth to Chinese brands. As an example, the scale of its mobile phone market is the largest in the world and local brands continue to grow. As the Company is one of the few companies with product design, development, manufacturing, and sales capacity, it naturally became an important partner for Chinese mobile phone brands. In addition, opportunities in the Chinese consumption market can also be found in the information and computer sector and telecommunications sector which help the Company's development.

(D) A sound management system

The Company's operations and management system have evolved over the years and we have formed a sound operation and management style that upholds strict management systems and cost control with the aim of achieving reasonable cost control, optimal resources allocation, and stable quality.

The Company obtains stable sources of raw material supply and price bargaining powers by integrating the Company's resources. Our management system and performance have received recognition from customers and we have established a good reputation in Taiwan and abroad to increase the Company's business expansion capacity. Business performance of top companies across the world relies on a foundation of corporate management skills in order to achieve sustainability. The Company's management teams adopted "Technological development for the benefit of mankind; "Protect the environment and make the Earth a better place" as the Company's motto.

B. Unfavorable factors and the response measures

(A) Rise of environmental protection awareness in China leads to increase in operators' green expenditures

China provided many investment incentives in the past to encourage foreign companies to set up plants in China. The investments have powered economic growth in the country but also polluted the environment. As such, China has established more rigid environmental protection regulations in recent years and increased the level of implementation while imposing rigid controls on the issuance of wastewater effluent licenses. As large amounts of water and chemical substances are required in the production of PCBs, effluent and waste would impact the environment if they are not processed in professional procedures. In response to such impact, China announced the "Action Plan for Prevention and Control of Water Pollution" in April 2015 and launched environmental protection tasks in the "Made in China 2025" initiative in May of the same year. China amended the "Amendments of the Hazard Waste List" in March 2016, "amended the "Industrial Company Energy Conservation Management Regulations" in April 2016, and promulgated the "Action Plan for Prevention and Control of Soil Pollution" in June 2016. It established specific targets as management indicators for waste transportation and classification management for industrial companies, company energy conservation and carbon emissions reduction control, and water and soil pollution in areas near companies. The government also strengthened related penalties including plant closure or suspension of production on the day of discovery for the most severe violations and high penalties.

Requirements for civilized ecology was written into the Constitution in March 2018. The State Council established the Ministry of Ecology and Environment based on its legal mandate and the Ministry initiated seven major actions to crack down on pollution prevention. In May of the same year, China organized the national ecology and environmental protection conference and established Xi Jinping's thoughts on ecological civilization in the new era. In July, the State Council published the "Three-Year Action Plan for Defending Blue Skies" which marked the beginning of the second phase of atmospheric governance. In August, the Ministry of Ecology and Environment established the "Three-Year Action Plan for Ecological and Environmental Monitoring and Quality



Supervision (2018-2020)" and the "Soil Pollution Prevention Law" was passed on August 31. In December, the second National Pollution Survey and National Soil Pollution Investigation Work Meeting was held to promote the second national survey on sources of pollution and a thorough investigation on the status of soil pollution across the country and establish the foundation to fight pollution.

In conclusion, China's continuous enhancement of environmental protection legislation and law enforcement shows high levels of focus on environmental protection issues and it also implements stricter penalties on violations of environmental protection regulations. At the same time, energy conservation and consumption reduction requirements have become mandatory targets for companies. The policy of integrating economic development with environmental protection will have profound impact on the PCB industry. Certain small and medium-sized manufacturers or plants that do not comply with environmental protection regulations will be forced to reduce production or cease operations.

#### Response measures

The Company actively introduced high-performance, low-pollution environmental protection equipment and advanced innovative green technology to improve wastewater recycling rate, reduce waste production, and promote green upgrade in process optimization. The departments have actively implemented Zhen Ding's Seven Greens KPI goals for green innovation, green procurement, green production, green operations, green services, green renewable resources, and green life. Our efforts not only meet global trends and Chinese environmental protection regulations but also fulfill our corporate social responsibilities.

In addition, China's gradual shift to green trends and sustainable ecological development will cause significant impact on expansion in the PCB industry. The Company has taken early steps to disperse production capacity along the coast to the Bohai Economic Rim (Qinhuangdao in Hebei and Yingkou in Liaoning) and Northern Jiangsu (Huai'an, Jiangsu) in 2007. We have obtained sufficient wastewater effluent volume for the new parks to ensure favorable conditions for the Company's continuous growth.

#### (B) Homogeneous products and price wars threaten industry development

Domestic PCB manufacturers are affected by development trends in the upstream electronics industry and they have concentrated product applications excessively on information and communication products. The industrial cluster effect also contributed to gradual reductions in production capacity and technical entry barriers, leading to an increase in the number of competitors in the industry. During periods of economic downturn or slowdown in growth, PCB operators face tightened profit margins and fall into the trap of price wars which cause difficulties in company operations and increase

risks of operations.

#### Response measures

The Company rates and classifies target customers and allocates resources to main customers. We also actively pursue target customers and use high quality and outstanding services to replace price wars. In addition, we also enter markets for new applications and develop products with high margins. Despite the long learning curve, the relatively high technical entry barriers lead to fewer competitors, reduce downward pressure on prices, and maintain stable profits for companies.

The Company allocates production capacity, implements division of labor between plants, adjusts production capacity for different customers, and forms strategic alliances with suppliers and customers to diversify operations and disperse operational risks. The Company is a comprehensive PCB supplier and is thus able to implement flexible adjustments in our product portfolio strategy. In terms of high-end products, we cooperate with customers for joint development to understand development trends for future products and we leverage our advantages in mass production, technology, and abundant supply of materials to maintain strong and stable business relations with customers.

In addition, we strengthen price bargaining power against upstream raw materials suppliers to effectively reduce cost on raw materials and maintain product competitiveness. Measures such as enhancing automation of production equipment, improving employees' overall qualifications, and training workers with multiple skills help improve productivity per capita and maintain the Company's overall competitiveness.

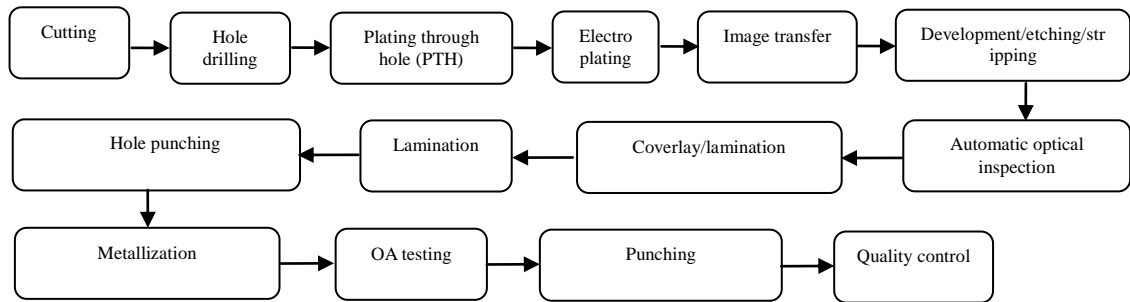
## **(II) Usage and Manufacturing Processes of Main Products**

### **1. Major applications of main products**

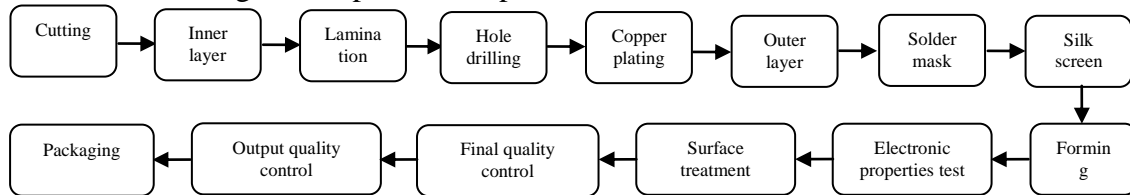
Main products	Characteristics	Important applications
Rigid PCBs	Inflexible, wide range of thickness, high-current capacity	Automotive electronics, servers/storage devices, desktop computers, laptop computers, monitors, hard drives, TVs, game consoles, etc.
Flexible PCBs	Flexible, bendable, light-weight, thin	Wearable devices, mobile phones, tablet computers, laptop computers, digital cameras, handheld game consoles, TFT-LCD panels, touch panels, etc.
High-density interconnect PCB	Small, high-density circuit distribution, high transmission efficiency	Wearable devices, mobile phones, tablet computers, ultra-thin laptop computers, digital cameras, handheld game consoles, etc.
IC substrate	Lighter, smaller, superior quality stability and signal channels	Application processors, baseband chips, power management chips, NFC chips, RF chips, graphics chips, power amplifiers, flash memory, MEMS, etc.

## 2. Production processes of major products

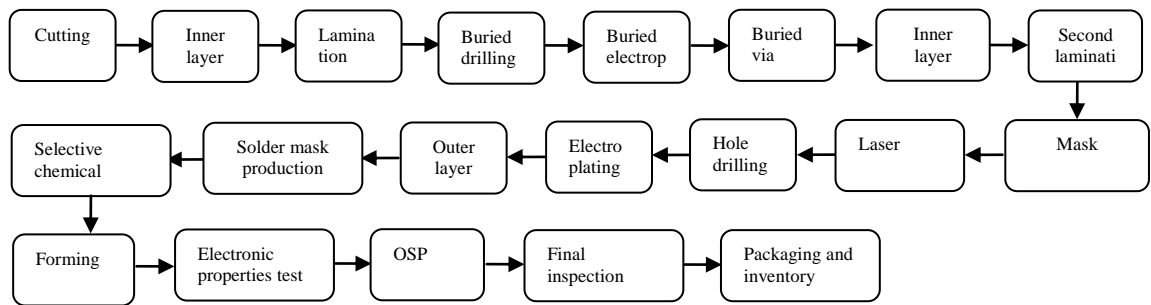
### A. Flexible PCB production process



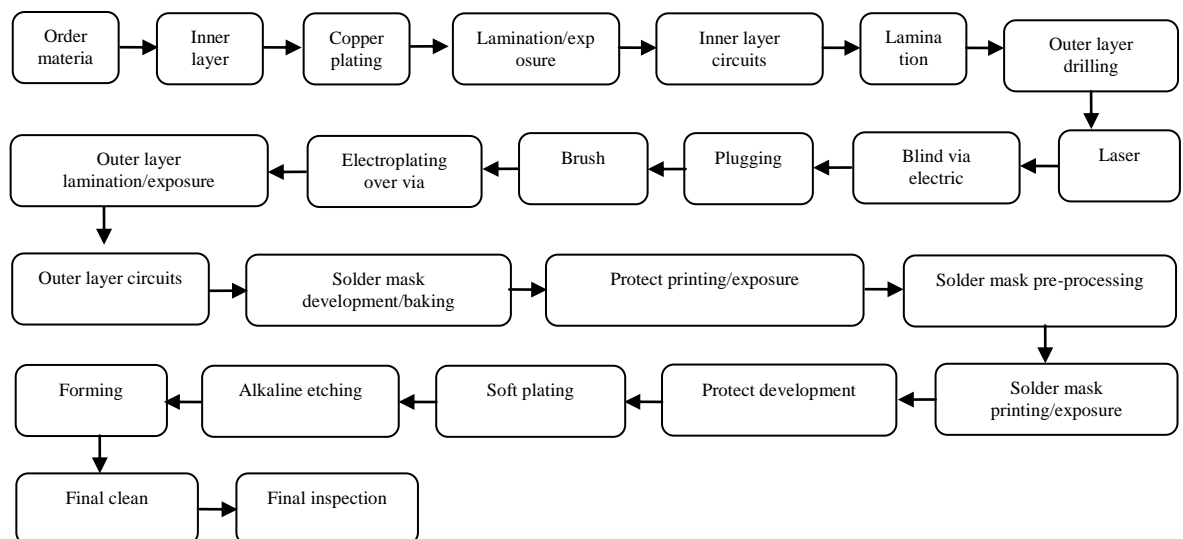
### B. Rigid PCB production process



### C. High-density interconnect PCB production process



### D. Board production process



**(III) Supply Status of Main Materials**

Key raw materials	Major supplier	Supply status
Copper-clad laminates	Nan Ya Plastics, Elite Material, Taiflex Scientific, RCCT Technology	Good
Chemical products	Atotech, Macdermid Enthone	Good
Electronics components	Apple, Avago	Good

**(IV) Names of Customers who Accounted for More Than 10% of the Purchase (sales) in Any of the Most Recent two years, Transaction amount, and Sales as a Percentage of Total Sales**

- Names of suppliers who accounted for more than 10% of the purchases of the Company in the last two years, and the ratio to total purchases:

Information of major suppliers in the last 2 years

Unit: USD

	2017				2018			
Item	Name	Amount	Total annual net purchase ratio (%)	Relationship with the issuer	Name	Amount	Total annual net purchase ratio (%)	Relationship with the issuer
1	Supplier H	382,166,568	17.0	None	Supplier H	401,922,382	19.99	None
2	Others	1,861,479,857	83.0	None	Others	1,609,147,863	80.01	None
3	-	-	-	None	-	-	-	-
	Net purchase	2,243,646,425	100.00	-	Net purchase	2,011,070,245	100.00	-

Note: Where procurement acquired from a supplier exceed 10% of total procurement for the most recent two years, the name of the said supplier, procurement value, and proportion of the procurement shall be disclosed. However, contractual terms dictate that the name of such a supplier or trading partner cannot be disclosed if the said supplier or trading partner is an individual and unrelated party, and codes may be used to replace the names instead.

- Names of customers who accounted for more than 10% of the sales in the most recent two years, and sales as a percentage of total sales

Unit: NT\$1,000

	2017				2018			
Item	Name	Amount	Proportion of total net sales value for the entire year (%)	Relationship with the issuer	Name	Amount	Proportion of total net sales value for the entire year (%)	Relationship with the issuer
1	Customer X	68,417,479	62.63	None	Customer X	81,779,622	69.36	None
2	Others	40,820,252	37.37	-	Others	36,133,259	30.64	-
	Net sales	109,237,731	100.00	-	Net sales	117,912,881	100.00	-

**(V) Production Volume and Value in Most Recent Two Years**

Unit: KSF : KPCS : NT\$1,000

Production quantity and value Primary products	Year	2017			2018		
		Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Various PCBs (KSF)		60,669	3,596,610	95,476,184	65,320	3,671,906	90,676,433
Total		60,669	3,596,610	95,476,184	65,320	3,671,906	90,676,433

**(VI) Sales Volume and Value in Most Recent Two Years**

Unit: 1,000 pcs/NT\$1,000

Sales volume and value Main product	Year	2017				2018			
		Domestic sales		Export sales (Note)		Domestic sales		Export sales (Note)	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
Various PCBs		2,315,394	26,746,784	1,368,256	82,490,947	1,843,166	23,946,317	1,521,400	93,966,564
Total		2,315,394	26,746,784	1,368,256	82,490,947	1,843,166	23,946,317	1,521,400	93,966,564

Note: As the Company's main place of operations is Mainland China, export refers to sales to regions other than China.

**III. Number of Employees in the Most Recent Two years as the Publication Date Report**

Unit: person; year; age

Year		2017	2018	March 31, 2019
Number of employees	Direct labor	31,189	25,092	20,789
	Indirect labor	10,333	11,238	10,898
	Total	41,522	36,330	31,687
Average age		28	28.9	29.4
Average years of services		2.2	2.7	3.0
Education Background Distribution	Doctorate	7	10	10
	Master	232	269	289
	Bachelor	4,396	4,868	4,553
	College	7,145	6,885	6,556
	Senior high school and below	29,742	24,298	20,279

#### IV. Expenditure on Environmental Protection

**(I) Explanations on the pollution treatment and environment improvement of the Company over the most recent year until the publication date of this annual report. If there had been any pollution dispute, its handling process will also be explained:**

There have been no disputes regarding environmental pollution in the most recent year and as of the publication date of the Annual Report. The Company took on the mission of "Technological development for the benefit of mankind; protect the environment and make the Earth a better place". We will continue our practice of continuing to optimize the processing capacity and innovation in management for environmental protection and energy conservation equipment and take actions to promote coexistence and mutual prosperity between company development and environmental protection. Our actions are provided as follows:

1. Focus on environmental protection laws and international standards

The Company strictly adheres to regulatory requirements for environmental assessment applications and related environmental protection facilities our investments. We obtained emissions licenses after qualifying in acceptance inspections performed by environmental protection authorities. All operations meet requirements in environmental protection regulations. In addition, we have introduced and executed ISO 14001 environmental management systems for all plants. We strictly abide by the EU's RoHS requirements and related requirements of customers in our management to provide products that meet environmental protection regulations. In addition, we established the "Supplier (Contractor) Management System", "Supplier Corporate Social Responsibility Management Regulations", and "Supplier Conflict Minerals Management Regulations" to extend our environmental protection ideals to the supply chain and establish partnerships with suppliers for joint management. We require companies to abide and commit to such regulations and ensure all operations meet related environmental protection laws and international regulations.

2. Develop independent pollution prevention and resource recycling technologies

As our production process consumes large amounts of water, electricity, and chemicals, the wastewater we produce in the process have complicated characteristics and our waste resources can be recycled and reused. The Company thus established a department to take charge of environmental protection and to manage and develop our own energy conservation, emissions reduction, pollution prevention, and resource recycling technologies and management systems. Wastewater is divided into 25 categories of sources based on their characteristics and difference in concentration. The Company also planned and designed wastewater treatment and recycling systems and the investee companies' current wastewater effluent standards far exceed government regulations for emissions. The average wastewater recycling rate is above 40% and we recycled 3.717 million tons of water in 2018. In terms of waste resources, we have more than 65 types of waste resources derived from different products and sources. We increased the recycling rate and value for waste and the average waste recycling rate in the plants is now above 90%.

3. Create the "Zhen Ding Seven Greens" platform and let green culture take root

Corporate development is centered around "people". We actively implemented

the aforementioned environmental protection and energy conservation measures and we have always been focused on educating employees and cultivating their environmental protection awareness and habits. Therefore, the Company organizes an environmental protection and energy conservation month promotion event with participation from all employees from April 22 to June 5 each year. We also interact with the government, communities, schools, and other companies in the industrial parks of our subsidiaries and share our environmental protection and energy conservation experience and achievements. In addition, the Company proposed the "Zhen Ding Seven Greens" concept in 2008 and established a platform to guide employees in all aspects of production and life to achieve green innovation, green procurement, green production, green operations, green services, green renewable resources, and green life. We carefully analyzed and examined methods and practices for improving energy conservation, carbon emissions reduction, efficiency, consumption reduction, greenery, and recycling and implemented in our daily lives and work. We aim to cultivate habits in hopes of creating a unique green corporate culture for the Company and plant the seeds for the most valuable intangible assets.

4. Respond to global climate change and actively promote energy conservation and carbon emissions reduction

The Company began implementing regular greenhouse gas inventories since 2007 to monitor the status of carbon emissions of the Company at all times. We integrated government requirements and our own development needs to establish specific energy conservation and carbon emissions reduction goals and actively implemented various carbon emissions reduction programs. Starting from 2010, our subsidiaries simultaneously began voluntary clean production reviews and converted the Company environmental protection ideals from traditional governance at the end-points to energy conservation and carbon emissions reduction at the source. The Company has completed ISO 50001 Energy Management Certification in all plants and we continue to improve our energy management methodology and standards. This year, we advanced multiple energy conservation and carbon emissions reduction programs such as the standing reflow oven introduction project, dual-sided high-power UV device introduction project, chilled water station energy efficiency management system project, low-efficiency chiller COP improvement project, and the control suction cup/automatic arm suction time project. We reduced a total of 12,501 tons of CO<sub>2</sub>. The Company also actively participates in the Carbon Disclosure Project (CDP) as we continue to learn from advanced carbon management initiatives from foreign countries. We also use this platform to share our experience in reducing carbon emissions. The Company's CDP score in 2018 was B which was higher than the average score in Asia and the industry.

In addition, the Company also actively participates in the Shenzhen carbon emission trading system and cooperates with carbon emission trading surveys in Hebei and Jiangsu Provinces in China. We continue to enhance carbon asset management and operations through cooperation with the government.

5. Fulfill corporate social responsibilities and purchase environmental liability insurance

The Company is committed to innovation and improvements in energy conservation and carbon emissions reduction technologies to improve

environmental protection and provide additional commitments and protection of the environment and related parties. Our subsidiaries have purchased independent environmental liability insurance policies since 2013 and the Company's insurance amount in 2018 amounted to NT\$25,000 KNTD as we sought to fulfill corporate social responsibilities.

**(II) The Company's losses and total fines as a result of pollution to the environment (including reparation) within the previous year up to the publication date of the Annual Report. Disclose future response measures and possible expenditures (including estimated losses, fines, and compensation if response measures are not taken; if the amount cannot be reasonably estimated, please state reason for not being able to make a reasonable estimate): None.**

**(III) Current status of pollution and improvement, its effects on the Company's earnings, competitive position and capital spending, and capital expenditure estimated major environmental protection measures in the following year:**

1. Current status of pollution and improvement, its effects on the Company's earnings, competitive position and capital spending:

All plants of the Company have retained legal and comprehensive reviews and emissions permits and certificates for environmental protection operations in the most recent year and as of the publication date of the Annual Report. All environmental protection tasks have been effectively implemented in a stable manner without any material environmental protection. Therefore, there has been no negative impact on the Company's earnings, competitive position and capital spending.

China has implemented increasingly rigid controls on pollutant emissions and companies would face difficulties in obtaining necessary permit for total pollutant emissions in the future. In response to such trends, the Company continues to improve environmental protection measures and actively develops energy conservation, carbon emissions reduction, wastewater recycling, and waste reduction technologies to reduce the Company's emissions and waste and to provide greater room for development in the Company's future expansion.

The Company has won the trust and support of various local governments and customers based on our outstanding performance in environmental protection tasks and active participation in government policies and green activities. We have also obtained green awards issued by the government and customers and created more favorable foundations for additional environmental resources for the future and corporate sustainable development.

#### **Awards won by the plants for environmental protection and energy conservation**

Year	Award	Plant
2018	Regarded as "a company with environmental protection awareness and outstanding performance" in the "2018 Supplier Responsibility Progress Report" of an important customer	Shenzhen
	"Green Label Enterprise" in Guangdong Province's 2017 Environmental Protection Credit Rating	
	2017 Guangdong Printed Circuit Association PCB "Green Environmental Protection Model Enterprise"	
	Jiangsu Province 2017 Water Conservation Enterprise	Huai'an Comprehensive



		Bonded Zone
2018	"Advanced Unit" for environmental protection tasks in Huai'an Economic and Technological Development Zone in 2017	Huai'an Comprehensive Bonded Zone
	Huai'an 2017 Water Conservation Enterprise	
	Jiangsu Province 2017 Water Conservation Enterprise	Huai'an Industrial Park
	"Advanced Unit" for environmental protection tasks in Huai'an Economic and Technological Development Zone in 2017	
	Huai'an 2017 Water Conservation Enterprise	
	China Ministry of Industry and Information Technology "Green Factory" for green manufacturing companies in 2017	
	"Green Enterprise" in the 2017 Huai'an Environmental Protection Credit Rating	Qinhuangdao
	"Platinum award" for zero-landfill in waste processing	
	China Ministry of Industry and Information Technology "Green Factory" for green manufacturing companies in 2017	
	"China Environmental Social Responsibility Company" awarded by the Ministry of Environmental Protection (China Environment News) of the People's Republic of China in 2018	
2017	China Ministry of Industry and Information Technology "Green Factory" for green manufacturing companies in 2016	Shenzhen
	"Green Label Enterprise" in Guangdong Province's 2016 Environmental Protection Credit Rating	
	2016 Guangdong Printed Circuit Association PCB "Green Environmental Protection Model Enterprise"	
	Qinhuangdao 2017 "Advanced Water Conservation Unit"	Qinhuangdao
	Qinhuangdao 2016 "Advanced Water Conservation Unit"	
	"China Environmental Social Responsibility Company" awarded by the Ministry of Environmental Protection (China Environment News) of the People's Republic of China in 2016	
	"Advanced Unit" for environmental protection tasks in Huai'an Economic and Technological Development Zone in 2016	Huai'an Comprehensive Bonded Zone
	Huai'an 2016 Water Conservation Enterprise	
	"Advanced Unit" for environmental protection tasks in Huai'an Economic and Technological Development Zone in 2016	Huai'an Industrial Park
	Huai'an 2016 Water Conservation Enterprise	
2016	"Green Label Enterprise" in Guangdong Province's 2015 Environmental Protection Credit Rating	Shenzhen
	Shenzhen 2015 "Advanced Water Conservation Unit"	
	"China Environmental Social Responsibility Company" awarded by the Ministry of Environmental Protection (China Environment News) of the People's Republic of China in 2015	Qinhuangdao
	"Advanced Unit" for environmental protection tasks in Qinhuangdao Economic and Technological Development Zone in 2015	
	"Green Enterprise" in the 2015 Environmental Protection Credit Rating by the Department of Ecology and Environment of Jiangsu Province	Huai'an Comprehensive Bonded Zone
2015	"China Environmental Social Responsibility Company" awarded by the Ministry of Environmental Protection (China Environment News) of the People's Republic of China in 2014	Qinhuangdao
	"Advanced Unit" for environmental protection tasks in Qinhuangdao Economic and Technological Development Zone in 2014	
	"Advanced Unit" for environmental protection tasks in Huai'an Economic and	Huai'an

	Technological Development Zone in 2014	Comprehensive Bonded Zone
2014	"Best Corporate Social Environment Responsibility Award" in the third Microsoft Annual Supplier Social and Environmental Responsibility Conference	Zhen Ding
	"Advanced Enterprise" in Shenzhen's 2013 Pengcheng Waste Reduction Action	Shenzhen
	Shenzhen 2013 "Water Conservation Construction Award"	
	Bao'an 2013 "Advanced Energy Conservation Group"	
	"Advanced Unit" for environmental protection tasks in Huai'an Economic and Technological Development Zone in 2013	Huai'an Comprehensive Bonded Zone
	"Green Enterprise" in the 2013 Environmental Protection Credit Rating by the Department of Ecology and Environment of Jiangsu Province	
	Huai'an Environmental Protection Bureau 2013 "Green Enterprise"	
	"Advanced Unit" for environmental protection tasks in Qinhuangdao Economic and Technological Development Zone in 2013	Qinhuangdao
2013	"Best Energy Conservation Award" in the second Microsoft Annual Supplier Social and Environmental Responsibility Conference	Zhen Ding
	Guangdong Province 2011 "Advanced Energy Conservation Group"	Shenzhen
	"Green Enterprise" in Guangdong Province's 2012 Key Pollution Source Environmental Protection Credit Rating	
	Huai'an 2012 "Advanced Energy Conservation Enterprise"	Huai'an Comprehensive Bonded Zone
2013	"Advanced Unit" for environmental protection tasks in Huai'an Economic and Technological Development Zone in 2012	Huai'an Comprehensive Bonded Zone
	"Green Enterprise" for corporate environmental tasks in the 2012 Huai'an Corporate Environmental Initiatives	
	"Advanced Unit" for environmental protection tasks in Qinhuangdao Economic and Technological Development Zone in 2012	Qinhuangdao
2012	"Best Wastewater Treatment Award" in the first Microsoft Annual Supplier Social and Environmental Responsibility Conference	Zhen Ding
	Shenzhen 2011 "Energy Conservation Role Model Enterprise"	Shenzhen
	"Green Enterprise" for corporate environmental tasks in the 2011 Jiangsu Province Corporate Environmental Initiatives	Huai'an Comprehensive Bonded Zone
	"Advanced Unit" for environmental protection tasks in Huai'an Economic and Technological Development Zone in 2011	
	Jiangsu Province 2011 "Outstanding Environmental Protection Construction" (Wastewater Treatment Construction)	
2011	"Outstanding Enterprise" in Shenzhen's 2010 Pengcheng Waste Reduction Action	Shenzhen
	"Green Environmental Protection Integrity Enterprise" in the 2010 Shenzhen Environmental Protection Credit Rating	
	"Green Enterprise" in the 2010 Environmental Protection Credit Rating by Jiangsu Province	Huai'an Comprehensive Bonded Zone
	"Advanced Unit" for environmental protection tasks in Qinhuangdao Economic and Technological Development Zone in 2010	Qinhuangdao
2010	"Advanced Group" in Shenzhen's water conservation tasks in 2009-2010	Shenzhen
	"Blue Enterprise" in the 2009 Huai'an Environmental Protection Credit Rating	Huai'an Comprehensive Bonded Zone
2009	"Advanced Enterprise" in Shenzhen's 2008 Pengcheng Waste Reduction Action	Shenzhen
	"Blue Enterprise" in the 2008 Huai'an Environmental Protection Credit Rating	Huai'an Comprehensive

		Bonded Zone
2008	"Advanced Enterprise" in Shenzhen's 2007 Pengcheng Waste Reduction Action	Shenzhen

\* As government authorities in Liaoning Province and Yingkou have not organized awards for environmental protection or energy conservation, no statistics on awards are available.

2. Material capital expenditure on environmental protection anticipated for the next year:

Material capital expenditure on environmental protection anticipated in the next year consists mainly of construction conducted in response to future expansion of production in plants, stricter environmental protection regulations, and production capacity expansion. They also include capital expenditures for continuous improvements such as recycling various wastewater and waste resources and energy conservation and carbon emissions reduction.

Material capital expenditure on environmental protection anticipated for the next year:

Unit: NT\$1,000

Subsidiary and location	Capital expenditure item	2019 (KNTD)	2020 (KNTD)	2021 (KNTD)
Avary (Shenzhen)	Pollution prevention equipment and construction	123,810	34,462	53,507
	Energy conservation improvement equipment and construction	125,334	77,993	
Hong Heng Sheng (Huai'an Comprehensive Bonded Zone)	Pollution prevention equipment and construction	35,097	1,088	726
	Energy conservation improvement equipment and construction	11,336		
Qing Ding, Yu Ding Precision Electronics (Huai'an Industrial Park)	Pollution prevention equipment and construction	53,412	37,229	2,267
	Energy conservation improvement equipment and construction	19,498		
Hong Qi Sheng, Qiding Technology (Qinhuangdao)	Pollution prevention equipment and construction	197,310	145,013	136,035
	Energy conservation improvement equipment and construction	2,267	6,802	
Energy conservation improvement equipment and construction	Pollution prevention equipment and construction	50,061		
	Energy conservation improvement equipment and construction	2,267		
Total		620,392	302,587	192,535

## V. Labor Relations

- (I) List various employee benefit plans, continuing education, training, retirement systems, and the state of implementation as well as various employee–employer agreements and measures for protecting employee rights and the interests of the Company:

1. Employee benefits

The employee welfare measures for the Company's employees in Taiwan include the National Health Insurance, Labor Insurance, and labor pension systems required by the Labor Standards Act of the Republic of China. We also provide employees with group insurance to protect their related benefits. The Company's group insurance in Taiwan includes a certain amount of term life insurance, accident insurance, hospitalization and medical insurance, cancer insurance, accident injury medical insurance, and occupational hazards insurance. In addition, employees' family members can also purchase the Company's group insurance with lower insurance premiums. Other benefits include birthday gift money, gift (money) for festivities, subsidies for relief funds, gift money for weddings, funerals, and childbirth, employee lotteries, annual health examinations, employee travel subsidies, business travel insurance, and related expenses.

Employees in China are provided with social insurance and housing provident fund appropriations in accordance with laws. The Company provides regular promotion and salary adjustment opportunities each year to reward employees with outstanding performance. We also distribute year-end bonuses based on the Company's operations and performance. Other welfare measures include the establishment of employee clubs such as basketball, volleyball, dance, and chess clubs. We hold dinner parties on important holidays and organize outdoor hiking and other large-scale activities. We provide production incentive bonuses and funding for employee care activities.

2. Continuing education and training

A successful company must hire employees based on merit and it must also know how to cultivate talent. The Company upholds a people-oriented corporate philosophy and values each employee's value for growth to provide education based on their talents. We also actively establish diverse development and training programs for each employee to learn from different disciplines, make full use of their skills, and achieve their dreams to become the key for the Company's continued growth. The Company's education and training include training for new employees, quality management training, professional skills training, management skills training, language skills training, online learning, and self-development training. The Company organized 2,034 courses totaling 2,296,815 training hours in 2018 with more than 775,316 attendances in the courses. The average employee received more than 60 training hours and the total training expenditures amounted to NT\$24,637,762.

- A. Training for new employees: The Company arranges training courses on the Company's history, corporate culture, human resources policies, work safety, environmental protection knowledge, integrated management, and the SER policy to prepare employees for business development after they enter the Company.

- B. Quality management training: To become a world-class and high-quality company, the Company implements various quality management policies and introduced comprehensive quality management training such as daily quality management, Seven Basic Tools of Quality, Eight Disciplines of Problem Solving (8D), SPC/CPK, FMEA 6 Sigma, and DOE.
- C. Professional skills training: The Company provides all employees with professional skills training courses and appoints senior managers, technical experts, and professional companies to share their experience and systematically train talents necessary for the operations and development of the Company and improve the Company's competitive advantages.
- D. Management skills training: The Company incorporates professional skills and concepts into the talent improvement plans for various managers and key talents. We also arrange training for corresponding management skills to assist managers in work and management.
- E. Language skills training: The Company is committed to creating a diverse foreign language learning environment. We continue to cultivate international talents and strengthen employees' proficiency in multiple foreign languages to achieve seamless communication with the world.
- F. Online training programs: The Company established an online platform learning platform for individual employees to expedite their studies. Employees can learn and test themselves at any time to improve their skills.
- G. Self-development Training: To satisfy the Company's future development requirements, the Company plans various development and training courses such as academic education (on-the-job studies), book clubs, expanded training, and overseas or occupational rotations to allow employees to realize their potential and improve work performance.

### 3. Retirement System and the status of implementation

The Company's subsidiaries in Taiwan have established retirement and pension management regulations in accordance with the Labor Standards Act to take care of employees after retirement and improve their services during employment. The Company also established the Supervisory Committee of the Labor Retirement Reserve in accordance with regulations. The labor retirement reserve fund is appropriated each month in accordance with the "Regulations for the Allocation and Management of the Workers' Retirement Reserve Funds" to the Committee's dedicated account in the Central Trust of China and managed by the Committee.

The Company complied with the implementation of the Labor Pension Act (new system) after July 1, 2005. Employees applicable to the Regulations that opt for the calculation of years of services in the new system and employees appointed after the implementation of the new system that opt for the appropriation system, the Company shall appropriate pension equivalent 6% of the monthly salary and deposit the funds in the personal labor pension account established for each employee. Employees may also appropriate 0-6% of their monthly salary to their person pension account; once employees meet the legal retirement age prescribed by the government, they may apply for monthly

pension payments or a lump-sum pension payment from the government.

The Company's subsidiaries in China set aside pension insurance based on the mandatory ratio assigned for employees' salary in accordance with the retirement and pension system required by the government of the People's Republic of China. All pension funds of current and retired employees are organized and managed by local governments.

4. Protection measures for agreements between the employer and employees and all employee rights

The successful fulfillment of the Company's operation targets relies on employees' dedication and contributions. Therefore, the Company has always focused on cultivating a harmonious relationship between labor and management. The Company upholds the ideals of creating mutual prosperity to take care of employees and we designed salary, benefit, and training policies for employees' interest and providing personal work satisfaction and a good work environment. Both labor and management work hard to pursue growth for the Company.

The Company's internal control system and management regulations clarified the duties and interest of employees on all levels in all departments. We also specified Work Rules in the Employee Handbook to protect their rights and interests. We established the Employee Welfare Committee to organize various employee activities. We also provide incentives in the form of rewards, salary adjustments, bonuses, and promotions based on performance evaluations.

The Company's subsidiaries in Taiwan established labor meeting systems in accordance with laws and they convene labor-management meetings each quarter to facilitate bidirectional communication and coordination on the Company's recent and future policies and form consensus. Employees can also use the Company's employee opinion box, digital platform, and other grievance channels to propose recommendations and feedback to the Human Resources Department or senior managers to maintain good relations and protect employees' legal rights.

The Company's main sites for operations are provided with social welfare funds that correspond to the social security and welfare system required for each site to protect employees' rights and interests in work.

- (II) List the losses suffered due to labor disputes in the most recent fiscal year up to the publication date of this annual report, and disclose the estimated amount for current and possible future occurrences, and response measures. If the amount cannot be reasonably estimated, clarify the reason:

The Company has always enjoyed a harmonious relationship between labor and management and there are no labor disputes or losses in the most recent year and up to the publication date of the Annual Report.

## VI. Important Contracts

Item No.	Nature of the contract	Counterpart	Commencement date/expiration date	Main content	Restrictive terms
1	Syndicated loan contract	Bank consortium including Mega International Commercial Bank and Taipei Fubon Commercial Bank	From the signature date of the contract to April 4, 2019 (if the credit extension period is renewed in accordance with the contract, the expiry date shall be April 4, 2021); if the expiry date is not a business day, the business day prior to the expiry date shall be the expiry date of the credit extension period	The Company signed a syndicated loan contract with a total credit extension amount of US\$300 million with a consortium of banks including Mega International Commercial Bank	Financial standards
2	Syndicated loan contract	Bank consortium including Mega International Commercial Bank and Taipei Fubon Commercial Bank	3 years from the signature date September 19, 2018 to the drawdown date (5 years if the credit extension period is renewed in accordance with the contract)	The Company signed a syndicated loan contract with a total credit extension amount of US\$300 million with a consortium of banks including Mega International Commercial Bank	Financial standards
3	Sales	Company AA	3 years starting from September 4, 2017; automatic renewal	Framework Agreement	Confidentiality
4	Sales	Company FF	November 14, 2017 to June 30, 2018	Framework Agreement	Confidentiality
5	Sales	Company NN	From June 19, 2017	Framework Agreement	Confidentiality
6	Sales	Company MM	From May 15, 2017	Framework Agreement	Confidentiality
7	Sales	Company GG	2 years starting from June 2, 2016; automatic renewal	Framework Agreement	Confidentiality
8	Sales	Company JJ	1 year starting from November 22, 2016; automatic renewal	Framework Agreement	Confidentiality
9	Sales	Company KK	From February 13, 2017	Framework Agreement	Confidentiality
10	Sales	Company HH	1 year starting from March 1, 2017; automatic renewal	Framework Agreement	Confidentiality
11	Sales	Company BB	From January 1, 2017	Framework Agreement	Confidentiality

Item No.	Nature of the contract	Counterpart	Commencement date/expiration date	Main content	Restrictive terms
12	Sales	Company EE	1 year starting from January 7, 2017; automatic renewal	Framework Agreement	Confidentiality
13	Sales	Company PP	From November 16, 2018	Framework Agreement	Confidentiality



## Chapter 6 Financial Overview

### I. Condensed Balance Sheet and Condensed Consolidated Income Statement in the Most Recent Five Years

#### (I) Condensed balance sheet

Disclosure based on the revised International Financial Reporting Standards (IFRS) as endorsed by the Financial Supervisory Commission (FSC):

Unit: NT\$1,000

Year		2014	2015	2016	2017	2018
Item						
Current assets		53,189,719	56,823,003	60,420,173	81,368,070	88,894,203
Property, plant and equipment		30,072,970	32,074,418	32,261,917	36,681,453	41,913,166
Intangible assets		94,497	98,021	96,289	88,854	91,721
Other assets		2,127,361	2,259,973	2,125,457	5,578,136	9,208,063
Total assets		85,484,547	91,255,415	94,903,836	123,716,513	140,107,153
Current liabilities	Before distribution	39,629,322	39,250,046	46,623,696	55,181,109	51,835,059
	After distribution	42,583,846	42,871,414	48,394,142	57,836,779	(Note 3)
Non-current liabilities		13,832,480	9,752,836	10,049,783	13,274,085	10,163,514
Total liabilities	Before distribution	53,461,802	49,002,882	56,673,479	68,455,194	61,998,573
	After distribution	56,416,326	52,624,250	58,443,925	71,110,864	(Note 3)
Equity attributable to owners of the parent company		32,022,745	42,252,533	38,230,357	44,344,034	56,055,207
Capital		7,386,311	8,047,484	8,047,484	8,047,484	8,047,484
Capital surplus		6,602,150	11,942,690	11,942,690	14,851,298	22,000,657
Retained earnings	Before distribution	15,318,180	20,093,605	19,928,539	23,163,165	28,955,372
	After distribution	12,363,656	16,472,237	18,158,093	20,507,495	(Note 3)
Other equity		2,716,104	2,168,754	(1,688,356)	(1,717,913)	(2,948,306)
Treasury stock		-	-	-	-	—
Non-controlling equity		-	-	-	10,917,285	22,053,373
Total equity	Before distribution	32,022,745	42,252,533	38,230,357	55,261,319	78,108,580
	After distribution	29,068,221	38,631,165	36,459,911	52,605,649	(Note 3)

Note 1: CPA-audited consolidated financial report for 2014 to 2018.

Note 2: Financial data from the 2019 up to the publication date of the Annual Report has not been reviewed by CPAs.

Note 3: Distribution of earnings for 2018 is subject to approval of the shareholders' meeting.

## (II) Condensed consolidated income statement and condensed income statement

The condensed consolidated income statement is disclosed based on the revised IFRS as endorsed by the FSC:

Unit: NT\$1,000

Item \ Year	2014	2015	2016	2017	2018
Operating revenue	75,953,540	85,737,736	82,392,633	109,237,731	117,912,881
Gross profit	14,322,844	16,427,434	12,541,524	17,833,435	26,060,948
Operating profit	7,916,774	8,355,594	4,616,704	8,657,136	14,845,618
Non-operating income and expenses	67,232	1,036,833	690,491	(163,246)	(179,056)
Net profit before tax	7,984,006	9,392,427	5,307,195	8,493,890	14,666,562
Net profit from continuing operations in the current period	6,734,684	7,730,720	3,456,186	6,771,783	11,536,495
Losses from discontinued operations	-	-	-	-	-
Net profit for the period	6,734,684	7,730,720	3,456,186	6,771,783	11,536,495
Net value of other comprehensive income after tax	907,946	(548,121)	(3,856,994)	234,175	(1,485,700)
Total combined income for this period	7,642,630	7,182,599	(400,808)	7,005,958	10,050,795
Net income attributable to owners of parent company	6,734,684	7,730,720	3,456,186	5,172,436	8,447,792
Net income attributable to non-controlling interests	-	-	-	1,599,347	3,088,703
Comprehensive income (loss) attributable to owners of parent company	7,642,630	7,182,599	(400,808)	5,148,524	7,217,484
Comprehensive income (loss) attributable to non-controlling interests	-	-	-	1,857,434	2,833,311
Basic earnings per share (unit: NTD)	9.12	9.80	4.29	6.43	10.50

Note 1: CPA-audited consolidated financial report for 2014 to 2018.

Note 2: Financial data from the 2019 up to the publication date of the Annual Report has not been reviewed by CPAs.

**(III) Names of CPAs for the 5 most recent years and audit opinions**

1. Names of CPAs for the last 5 years and their audit opinions

Year	Certifying CPA	Company name	Audit opinion
2014	Sheng-Chung Hsu, Yung-Chien Hsu	PricewaterhouseCoopers, Taiwan	Unqualified opinion
2015	Sheng-Chung Hsu, Yung-Chien Hsu	PricewaterhouseCoopers, Taiwan	Unqualified opinion
2016	Sheng-Chung Hsu, Chang, Ming-Hui	PricewaterhouseCoopers, Taiwan	Unqualified opinion
2017	Sheng-Chung Hsu, Chang, Ming-Hui	PricewaterhouseCoopers, Taiwan	Unqualified opinion
2018	Sheng-Chung Hsu, Yung-Chien Hsu	PricewaterhouseCoopers, Taiwan	Unqualified opinion

2. If there is any replacement of auditor in the last 5 fiscal years, the reasons for the replacement of the accounting firm and the former and successor auditors should be explained: No such occurrences.

## II. Financial analysis for the last five years

### Financial Analyses – Adoption of IFRSs

Item analyzed \ Year		Financial analysis for each year				
		2014	2015	2016	2017	2018
Financial structure	Liability to asset ratio (%)	62.54	53.70	59.72	55.33	44.25
	Proportion of long-term capital in PP&E (%)	152.48	162.14	149.65	186.84	210.61
Solvency	Current ratio (%)	134.22	144.77	129.59	147.46	171.49
	Quick ratio (%)	116.35	125.94	109.64	121.46	144.95
	Interest coverage ratio (times)	17.05	22.56	13.55	12.04	16.83
Operating ability	Receivables turnover (times)	3.35	4.59	4.72	4.39	4.29
	Average collection days	109	80	77	83	85
	Inventory turnover (times)	10.49	10.65	9.73	9.33	8.18
	Payables turnover (times)	4.13	4.98	4.94	4.62	4.45
	Average inventory turnover days	35	34	38	39	45
	Property, plant and equipment turnover rate (times)	2.53	2.67	2.55	3.17	3.00
	Total asset turnover (times)	0.89	0.94	0.87	1.00	0.89
Profitability	Return on assets (%)	9.11	9.15	4.01	6.76	9.30
	Return on equity (%)	23.33	20.82	8.59	14.49	17.30
	Ratio of pre-tax income to paid-in capital (%)	108.09	116.71	65.95	105.55	182.25
	Net profit margin (%)	8.87	9.02	4.19	6.20	9.78
	Earnings per share (NTD)	9.12	9.80	4.29	6.43	10.50
Cash flow	Cash flow ratio (%)	37.71	38.45	20.21	4.01	51.90
	Cash flow adequacy ratio (%)	103.97	120.20	110.98	80.10	94.03
	Cash reinvestment ratio (%)	19.48	15.90	7.80	0.46	20.07
Leverage	Operating leverage	1.81	1.97	2.72	2.06	1.76
	Financial leverage	1.07	1.06	1.10	1.10	1.07

### III. Financial Statements in the Most Recent Year: Not applicable.

### IV. Consolidated Financial Statements of the Most Recent Year Audited and Certified by the CPA: please refer to the annual report the Annual Report for more information.

### V. Financial Difficulties Occurred to the Company and its Affiliated Enterprises in the Most Recent Year and as of the Publication Date of this Report: None

**VI. Audit Committee's Report on the Financial Statements in the Most Recent Year**

**Zhen Ding Technology Holding Limited**

**Audit Committee's Audit Report**

The Board of Directors has prepared and submitted the 2018 business report, consolidated financial statements, and earnings distribution proposal, of which the consolidated financial statements have been audited by the CPAs Sheng-Chung Hsu and Yung-Chien Hsu of PricewaterhouseCoopers, Taiwan and an Audit Report is submitted. The Audit Committee has reviewed the business report, consolidated financial statements, and the earnings distribution proposal and did not find any incompliance. According to the regulations in the Articles of Incorporation, it is hereby submitted for your examination.

To:

2019 Shareholders' Annual General Meeting

Zhen Ding Technology Holding Limited

Audit Committee Convener: Chih-Chen Chou

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This draft report is provided to the management of Zhen Ding Technology Holding Limited AND SUBSIDIARIES solely for the purpose of obtaining their comments and confirmation that the information in the report is completed, accurate and not misleading. The findings are subject to amendment or withdrawal and our definitive opinions and conclusion will be those contained in the final written report. PricewaterhouseCoopers, Taiwan accepts no liability —whether in contract, tort (including negligence), or otherwise—to the management of Zhen Ding Technology Holding Limited AND SUBSIDIARIES or any other third parties in respect of this report.

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Zhen Ding Technology Holding Limited

### **Opinion**

We have audited the accompanying consolidated balance sheets of Zhen Ding Technology Holding Limited and its subsidiaries (the ‘Group’) as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and their consolidated financial performance and their consolidated cash flows for the years then ended in accordance with the ‘Regulations Governing the Preparation of Financial Reports by Securities Issuers’ and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed and issued into effect by the Financial Supervisory Commission.

### **Basis for opinion**

We conducted our audits in accordance with the ‘Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants’ and generally accepted auditing standards in the Republic of China. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with the code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

This draft report is provided to the management of Zhen Ding Technology Holding Limited AND SUBSIDIARIES solely for the purpose of obtaining their comments and confirmation that the information in the report is completed, accurate and not misleading. The findings are subject to amendment or withdrawal and our definitive opinions and conclusion will be those contained in the final written report. PricewaterhouseCoopers, Taiwan accepts no liability —whether in contract, tort (including negligence), or otherwise—to the management of Zhen Ding Technology Holding Limited AND SUBSIDIARIES or any other third parties in respect of this report.

## **Key audit matters**

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

Key audit matters on the consolidated financial statements of the Group for the year ended December 31, 2018 were as follows:

### **Cutoff of hub warehouse sales revenue**

#### **Description**

Refer to Note 4(27) for accounting policies on revenue recognition.

The Group recognises revenue when the goods are directly shipped from factories and when customers accept the goods (the transfer of control) if picked up from hub warehouses. For pick-ups from hub warehouses, the Group recognises sales revenue based on movements of inventory records contained in the statements or other information provided by the warehouse custodians. The hub warehouses are located around the world with numerous warehouse custodians, the frequency and contents of statements provided by custodians are different, and the process of revenue recognition may involve manual procedures. These factors may potentially result in inaccurate timing of sales revenue recognition.

As there are numerous daily sales transactions from hub warehouses and the transaction amounts prior to and after the balance sheet date are significant to the financial statements, we consider the cutoff of hub warehouse sales revenue a key audit matter.

#### **How our audit addressed the matter**

We performed the following audit procedures in respect of the above key audit matter:

- A. Assessed and tested internal controls over regular record verification between the Group and customers.
- B. Assessed and checked the appropriateness of cutoff of sales revenue prior to or after the balance

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sheet date, and verified the statements provided by the hub warehouse custodians.

C. Performed confirmation of the storage quantities or observed physical counts in warehouse, compared against inventory records, and determined whether differences, if any, are properly adjusted.

### **Estimation of allowance for inventory valuation losses**

#### Description

Refer to Note 4(14) for accounting policies on inventory valuation, Note 5 for the uncertainty of accounting estimates and assumptions applied on inventory valuation, and Note 6(5) for details of inventory. As of December 31, 2018, the Group's inventory cost and allowance for valuation losses were NT\$10,715,051 thousand and NT\$631,169 thousand, respectively.

The Group is primarily engaged in manufacturing and sales of printed circuit board. Due to rapid technological innovations, short lifespan of electronic products and fluctuations in market prices, there is a higher risk of inventory losses due to market value decline or obsolescence. The Group measures inventories at the lower of cost and net realisable value and recognises the allowance for inventory valuation losses based on the inventories over normal age and those individually identified as obsolete or damaged.

As the amounts of inventories are material, the types of inventories are numerous, and the estimation of net realisable value for individually obsolete or damaged inventories are subject to judgement, we consider the estimation of allowance for inventory valuation losses a key audit matter.

#### How our audit addressed the matter

We performed the following audit procedures in relation to the estimation of allowance for inventory valuation losses:

- A. Assessed the reasonableness of accounting policy on allowance for inventory valuation losses and checked whether it has been consistently applied.
- B. Checked whether the logic in calculating inventory aging report was appropriate and confirmed whether inventory over normal age has been included in the aging report.
- C. Assessed the reasonableness of individually obsolete or damaged inventory identified by the Group



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against related supporting documents, reviewed scrap inventory before and after the balance sheet date, and verified the information obtained from physical count.

D. For net realisable value of inventories over normal age and those individually identified as obsolete and damaged inventory, discussed with the Group, obtained supporting documents and reviewed calculation of inventory loss.

### **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 the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed and issued into effect by the Financial Supervisory Commission, 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 audit committee) are responsible for overseeing the Group’s financial reporting process.

### **Auditors’ responsibilities for the audit of the consolidated financial statements**

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

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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 judgement and maintain professional skepticism throughout the audit. We also:

- A. 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.
- B. 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.
- C. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- D. 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.

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- E. 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.
- F. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hsu, Yung-Chien

Hsu, Sheng-Chung

For and on behalf of PricewaterhouseCoopers, Taiwan

This draft report is provided to the management of Zhen Ding Technology Holding Limited AND SUBSIDIARIES solely for the purpose of obtaining their comments and confirmation that the information in the report is completed, accurate and not misleading. The findings are subject to amendment or withdrawal and our definitive opinions and conclusion will be those contained in the final written report. PricewaterhouseCoopers, Taiwan accepts no liability —whether in contract, tort (including negligence), or otherwise—to the management of Zhen Ding Technology Holding Limited AND SUBSIDIARIES or any other third parties in respect of this report.

March 29, 2019

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2018 AND 2017  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets			December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 40,652,973	29	\$ 19,147,388	15
1110	Current financial assets at fair value through profit or loss	6(2)	3,437	-	7,935	-
1136	Current financial assets at amortised cost	6(7)	8,778,797	6	-	-
1170	Accounts receivable, net	6(3)	21,631,860	15	28,480,474	23
1180	Accounts receivable due from related parties, net	6(3) and 7	2,644,519	2	2,138,685	2
1200	Other receivables	6(4)	855,783	1	2,786,315	2
130X	Inventories	6(5)	10,083,882	7	11,259,382	9
1410	Prepayments	6(4)	3,673,318	3	3,088,106	3
1470	Other current assets	6(6)	569,634	-	14,459,785	12
11XX	Total current assets		88,894,203	63	81,368,070	66
Non-current assets						
1517	Non-current financial assets at fair value through other comprehensive income	6(9)	52,473	-	-	-
1527	Non-current held-to-maturity financial assets	6(8)	-	-	151,064	-
1543	Non-current financial assets at cost	6(10)	-	-	120,992	-
1600	Property, plant and equipment	6(11)	41,913,166	30	36,681,453	30
1780	Intangible assets	6(12)	91,721	-	88,854	-
1840	Deferred income tax assets	6(29)	1,024,491	1	825,911	1
1990	Other non-current assets	6(13)	8,131,099	6	4,480,169	3
15XX	Total non-current assets		51,212,950	37	42,348,443	34
1XXX	Total assets		\$ 140,107,153	100	\$ 123,716,513	100

(Continued)

**ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2018 AND 2017**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Liabilities and Equity	Notes	December 31, 2018		December 31, 2017	
		AMOUNT	%	AMOUNT	%
<b>Current liabilities</b>					
2100 Short-term borrowings	6(14)	\$ 9,184,066	7	\$ 15,791,085	13
2170 Accounts payable		17,056,824	12	22,503,648	18
2180 Accounts payable to related parties	7	1,022,641	1	704,783	-
2200 Other payables	6(15)	13,346,522	9	10,331,671	8
2230 Current income tax liabilities		2,391,519	2	1,268,536	1
2320 Long-term liabilities, current portion	6(16)(17)	8,699,319	6	4,457,881	4
2399 Other current liabilities		134,168	-	123,505	-
21XX <b>Total current liabilities</b>		<u>51,835,059</u>	<u>37</u>	<u>55,181,109</u>	<u>44</u>
<b>Non-current liabilities</b>					
2530 Bonds payable	6(16)	-	-	8,242,274	7
2540 Long-term borrowings	6(17)	9,194,880	6	4,457,881	4
2570 Deferred income tax liabilities	6(29)	857,644	1	423,207	-
2645 Guarantee deposits received		110,990	-	150,723	-
25XX <b>Total non-current liabilities</b>		<u>10,163,514</u>	<u>7</u>	<u>13,274,085</u>	<u>11</u>
2XXX <b>Total liabilities</b>		<u>61,998,573</u>	<u>44</u>	<u>68,455,194</u>	<u>55</u>
<b>Equity</b>					
<b>Equity attributable to owners of parent</b>					
<b>Share capital</b>	6(20)				
3110 Ordinary share		8,047,484	6	8,047,484	7
<b>Capital surplus</b>	6(21)				
3200 Capital surplus		22,000,657	16	14,851,298	12
<b>Retained earnings</b>	6(22)				
3310 Legal reserve		3,505,859	2	2,988,615	2
3320 Special reserve		1,717,913	1	1,688,354	1
3350 Unappropriated retained earnings		23,731,600	17	18,486,196	15
<b>Other equity interest</b>	6(23)				
3400 Other equity interest		( 2,948,306 )	( 2 )	( 1,717,913 )	( 1 )
31XX <b>Total equity attributable to owners of parent</b>		<u>56,055,207</u>	<u>40</u>	<u>44,344,034</u>	<u>36</u>
36XX <b>Non-controlling interest</b>	6(31)	<u>22,053,373</u>	<u>16</u>	<u>10,917,285</u>	<u>9</u>
3XXX <b>Total equity</b>		<u>78,108,580</u>	<u>56</u>	<u>55,261,319</u>	<u>45</u>
<b>Significant contingent liabilities and unrecognised contract commitments</b>	9				
3X2X <b>Total liabilities and equity</b>		<u>\$ 140,107,153</u>	<u>100</u>	<u>\$ 123,716,513</u>	<u>100</u>

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

ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE)

Items	Notes	For the years ended December 31,			
		2018		2017	
		AMOUNT	%	AMOUNT	%
4000 <b>Operating revenue</b>	7 and 14	\$ 117,912,881	100	\$ 109,237,731	100
5000 <b>Operating costs</b>	6(5) and 7	( 91,851,933)	( 78)	( 91,404,296)	( 84)
5950 <b>Gross profit from operations</b>		<u>26,060,948</u>	<u>22</u>	<u>17,833,435</u>	<u>16</u>
<b>Operating expenses</b>	6(24)				
6100 Selling expenses		( 1,490,569)	( 1)	( 1,234,196)	( 1)
6200 Administrative expenses		( 4,075,331)	( 3)	( 3,216,909)	( 3)
6300 Research and development expenses		( 5,637,557)	( 5)	( 4,725,194)	( 4)
6450 Expected credit loss in accordance with IFRS 9		( 11,873)	-	-	-
6000 <b>Total operating expenses</b>		( 11,215,330)	( 9)	( 9,176,299)	( 8)
6900 <b>Net operating income</b>		<u>14,845,618</u>	<u>13</u>	<u>8,657,136</u>	<u>8</u>
<b>Non-operating income and expenses</b>					
7010 Other income	6(26)	1,668,596	2	1,257,792	1
7020 Other gains and losses	6(27)	( 921,381)	( 1)	( 651,933)	-
7050 Finance costs	6(28)	( 926,271)	( 1)	( 769,105)	( 1)
7000 <b>Total non-operating income and expenses</b>		( 179,056)	-	( 163,246)	-
7900 <b>Profit before income tax</b>		14,666,562	13	8,493,890	8
7950 Income tax expense	6(29)	( 3,130,067)	( 3)	( 1,722,107)	( 2)
8200 <b>Profit</b>		<u>\$ 11,536,495</u>	<u>10</u>	<u>\$ 6,771,783</u>	<u>6</u>

(Continued)

ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE)

Items	Notes	For the years ended December 31,			
		2018		2017	
		AMOUNT	%	AMOUNT	%
<b>Other comprehensive income</b>					
<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>					
8311 Gain on remeasurements of defined benefit plans		\$ 345	-	\$ 6,801	-
8316 Unrealised losses from investments in equity instruments measured at fair value through other comprehensive income		( 68,671)	-	-	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		( 260)	-	( 1,156)	-
8310 <b>Other comprehensive income that will not be reclassified to profit or loss</b>		( 68,586)	-	5,645	-
<b>Components of other comprehensive income that will be reclassified to profit or loss</b>					
8361 Exchange differences on translation of foreign financial statements		( 1,417,114)	( 1)	223,516	-
8362 Unrealised gains on valuation of available-for-sale financial assets		-	-	5,014	-
8360 <b>Other comprehensive (loss) income that will be reclassified to profit or loss</b>		( 1,417,114)	( 1)	228,530	-
8300 <b>Other comprehensive (loss) income</b>		( \$ 1,485,700)	( 1)	\$ 234,175	-
8500 <b>Total comprehensive income</b>		<u>\$ 10,050,795</u>	<u>9</u>	<u>\$ 7,005,958</u>	<u>6</u>
<b>Profit attributable to:</b>					
8610 Owners of the parent		<u>\$ 8,447,792</u>	<u>7</u>	<u>\$ 5,172,436</u>	<u>5</u>
8620 Non-controlling interests		<u>\$ 3,088,703</u>	<u>3</u>	<u>\$ 1,599,347</u>	<u>1</u>
<b>Comprehensive income attributable to:</b>					
8710 Owners of the parent		<u>\$ 7,217,484</u>	<u>7</u>	<u>\$ 5,148,524</u>	<u>4</u>
8720 Non-controlling interests		<u>\$ 2,833,311</u>	<u>2</u>	<u>\$ 1,857,434</u>	<u>2</u>
<b>Earnings per share</b>					
9750 <b>Basic earnings per share</b>	6(30)	<u>\$ 10.50</u>		<u>\$ 6.43</u>	
9850 <b>Diluted earnings per share</b>	6(30)	<u>\$ 9.54</u>		<u>\$ 5.95</u>	

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



ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

Equity attributable to owners of the parent											
Notes	Retained Earnings					Other Equity Interest			Total	Non-controlling interest	Total equity
	Ordinary shares	Capital surplus-additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealised gains or losses on available-for-sale financial assets			
<u>2017</u>											
Balance at January 1, 2017	\$ 8,047,484	\$ 11,942,690	\$ 2,642,996	\$ -	\$ 17,285,543	(\$ 1,683,342 )	\$ -	(\$ 5,014 )	\$ 38,230,357	\$ -	\$ 38,230,357
Profit for the year	-	-	-	-	5,172,436	-	-	-	5,172,436	1,599,347	6,771,783
Other comprehensive income (loss) for the year	-	-	-	-	5,645	( 34,571 )	-	5,014	( 23,912 )	258,087	234,175
Total comprehensive income	-	-	-	-	5,178,081	( 34,571 )	-	5,014	5,148,524	1,857,434	7,005,958
Appropriations and distribution of retained earnings											
General reserve	-	-	345,619	-	( 345,619 )	-	-	-	-	-	-
Special reserve	-	-	-	1,688,354	( 1,688,354 )	-	-	-	-	-	-
Cash dividends	-	-	-	-	( 1,770,446 )	-	-	-	( 1,770,446 )	-	( 1,770,446 )
Compensation cost of employee restricted stock	-	70,767	-	-	-	-	-	-	70,767	13,142	83,909
Changes in non-controlling interests	-	2,837,841	-	-	( 173,009 )	-	-	-	2,664,832	9,046,709	11,711,541
Balance at December 31, 2017	\$ 8,047,484	\$ 14,851,298	\$ 2,988,615	\$ 1,688,354	\$ 18,486,196	(\$ 1,717,913 )	\$ -	\$ -	\$ 44,344,034	\$ 10,917,285	\$ 55,261,319
<u>2018</u>											
Balance at January 1, 2018	\$ 8,047,484	\$ 14,851,298	\$ 2,988,615	\$ 1,688,354	\$ 18,486,196	(\$ 1,717,913 )	\$ -	\$ -	\$ 44,344,034	\$ 10,917,285	\$ 55,261,319
Profit for the year	-	-	-	-	8,447,792	-	-	-	8,447,792	3,088,703	11,536,495
Other comprehensive income (loss) for the year	-	-	-	-	85	( 1,161,722 )	( 68,671 )	-	( 1,230,308 )	( 255,392 )	( 1,485,700 )
Total comprehensive income	-	-	-	-	8,447,877	( 1,161,722 )	( 68,671 )	-	7,217,484	2,833,311	10,050,795
Appropriations and distribution of retained earnings											
General reserve	-	-	517,244	-	( 517,244 )	-	-	-	-	-	-
Special reserve	-	-	-	29,559	( 29,559 )	-	-	-	-	-	-
Cash dividends	-	-	-	-	( 2,655,670 )	-	-	-	( 2,655,670 )	-	( 2,655,670 )
Compensation cost of employee restricted stock	-	96,645	-	-	-	-	-	-	96,645	28,151	124,796
Changes in non-controlling interests-distribution of retained earnings by subsidiaries	-	-	-	-	-	-	-	-	-	( 827,540 )	( 827,540 )
Changes in non-controlling interests-issuance of common stock by subsidiaries	-	7,052,714	-	-	-	-	-	-	7,052,714	9,102,166	16,154,880
Balance at December 31, 2018	\$ 8,047,484	\$ 22,000,657	\$ 3,505,859	\$ 1,717,913	\$ 23,731,600	(\$ 2,879,635 )	(\$ 68,671 )	\$ -	\$ 56,055,207	\$ 22,053,373	\$ 78,108,580

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

ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Notes	For the years ended December 31, 2018	2017
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Profit before tax		\$ 14,666,562	\$ 8,493,890
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(24)	6,739,651	5,602,547
Amortisation expense	6(24)	80,090	76,687
Expected credit loss	12	11,873	-
Provision for bad debts expense		-	32,859
Losses on disposal of property, plant and equipment	6(27)	165,887	27,353
Impairment losses on property, plant and equipment	6(11)	745,571	555,441
Rental expense - long-term prepaid rents	6(13)	158,965	27,849
Interest income	6(26)	( 1,060,710 )	( 762,819 )
Interest expense	6(28)	926,271	769,105
Losses on disposal of land use right		-	( 17,719 )
Gains on disposal of investments	6(27)	-	( 9,155 )
Share-based payment	6(19)	124,796	83,909
Dividend income		( 2,643 )	( 15,400 )
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss		4,498	( 7,935 )
Notes receivable		31,447	( 10,488 )
Accounts receivable		7,378,839	( 12,389,453 )
Accounts receivable due from related parties		( 437,064 )	( 510,239 )
Other receivables		1,831,287	( 846,982 )
Inventories		1,247,962	( 4,375,940 )
Prepayments		( 663,397 )	( 990,673 )
Other current assets		( 270,118 )	38,730
Changes in operating liabilities			
Accounts payable		( 5,057,452 )	6,988,065
Accounts payable to related parties		339,588	11,894
Other payables		1,685,015	1,268,316
Other current liabilities		13,574	58,810
Cash inflow generated from operations		28,660,492	4,098,652
Income tax paid		( 1,760,171 )	( 1,888,378 )
Net cash flows from operating activities		26,900,321	2,210,274

(Continued)

**ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)**

	Notes	For the years ended December 31, 2018	2017
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from repayment of financial assets at amortised cost		\$ 5,675,521	\$ -
Increase in other financial assets		-	( 5,775,626 )
Acquisition of held-to-maturity financial assets		-	( 275,830 )
Proceeds from disposal of held-to-maturity financial assets		-	152,944
Proceeds from disposal of available-for-sale financial assets		-	103,842
Proceeds from disposal of other financial assets		-	282,172
Acquisition of property, plant and equipment	6(32)	( 12,625,121 )	( 9,607,740 )
Proceeds from disposal of property, plant and equipment		59,869	533,277
Acquisition of land use right (long-term prepaid rents)	6(32)	( 3,598,949 )	( 3,139,590 )
Proceeds from disposal of land use right (long-term prepaid rents)		5,226	-
Increase in other non-current assets		( 198,350 )	( 162,158 )
Decrease (increase) in refundable deposits		5,482	( 24,618 )
Interest received		1,146,823	641,008
Dividends received		2,643	15,400
Net cash flows used in investing activities		( 9,526,856 )	( 17,256,919 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
(Decrease) increase in short-term borrowings		( 6,584,316 )	3,776,432
Proceeds from long-term borrowings		-	991,530
Repayments of long-term borrowings		-	( 979,590 )
Cash dividends paid	6(22)	( 2,655,670 )	( 1,770,446 )
Interest paid		( 667,178 )	( 570,290 )
Repayments of convertible bonds		-	( 471,901 )
(Increase) decrease in guarantee deposits received		( 10,399 )	110,388
Syndicated loan arrangement fee paid		( 22,898 )	-
Changes in non-controlling interests-issuance of common stock by subsidiaries	6(31)	16,154,880	11,711,541
Changes in non-controlling interests-distribution of retained earnings by subsidiaries		( 827,540 )	-
Net cash flows from financing activities		5,386,879	12,797,664
Effect of exchange rate changes on cash and cash equivalents		( 1,254,759 )	( 21,194 )
Net increase (decrease) in cash and cash equivalents		21,505,585	( 2,270,175 )
Cash and cash equivalents at beginning of year		19,147,388	21,417,563
Cash and cash equivalents at end of year		\$ 40,652,973	\$ 19,147,388

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

ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,  
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Zhen Ding Technology Holding Limited (the ‘Company’, formerly named as Foxconn Advanced Technology Limited) was incorporated in the Cayman Islands in June 2006. According to the resolution of the Board of Directors in May 2011, the Company was renamed to Zhen Ding Technology Holding Limited and related registration was completed in July 2011. The registration address is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. The Company and its subsidiaries (collectively referred herein as the ‘Group’) are engaged in manufacturing and selling printed circuit board (the ‘PCB’). The Company has been listed on the Taiwan Stock Exchange since December 26, 2011.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorised for issuance by the Board of Directors on March 29, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission (‘FSC’) (collectively referred herein as the ‘IFRSs’).

New, Revised or Amended Standards and interpretations endorsed by FSC effective from 2018 are as follows:

New, Revised or Amended Standards and Interpretations	Effective date by International Accounting Standards Board
Amendments to IFRS 2, ‘Classification and measurement of share-based payment transactions’	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15, Revenue from contracts with customers’	January 1, 2018

New, Revised or Amended Standards and Interpretations	Effective date by International Accounting Standards Board
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

The impact of the above standards and interpretations on the Group's financial position and financial performance based on the Group's assessment is listed below:

IFRS 9, 'Financial instruments'

- A. According to the entity's business model and the contractual cash flow characteristics of the financial assets, the debt instruments of the financial assets would be classified as a financial asset at fair value through profit or loss, a financial asset measured at fair value through other comprehensive income or a financial asset at amortised cost. The equity instruments of the financial assets would be classified as a financial asset at fair value through profit or loss, unless the entity makes an irrevocable election to present subsequent changes in the fair value of the investments in equity instruments not held for trading in other comprehensive income.
- B. The impairment losses of debt instruments at each balance sheet date shall use an expected credit loss approach to assess whether there has been a significant increase in credit risk on that financial instrument since initial recognition, and recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue calculated on the gross carrying amount of the asset before impairment losses occurred). If the instrument has objective evidence of impairment, interest revenue would be calculated on net carrying amount of credit allowance after the impairment. The Group shall measure the loss allowance for trade receivables (excluding significant financing component) at an amount equal to lifetime expected credit losses.
- C. The Group has elected not to restate prior-period financial statements (collectively referred herein as the 'modified retrospective transition') under IFRS 9. For details of the effect at January 1, 2018, please refer to Notes 12(4).

(2) Effect of new issuances of or amendments of IFRSs as endorsed by the FSC but not yet adopted by the group

New, Revised or Amended Standards and interpretations endorsed by the FSC effective from 2019

are as follows:

New, Revised or Amended Standards and Interpretations	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
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
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Group's financial position and financial performance based on the Group's assessment. The quantitative impact will be disclosed once the assessment is complete.

IFRS 16, 'Leases'

IFRS 16, 'Leases', supersedes IAS 17, 'Leases' and related interpretations. The standard requires lessees to recognise a right-of-use asset and a lease liability (except for those leases with lease terms of 12 months or less and leases of low value assets). The accounting stays the same for lessors, which is to classify and account for a lease as either an operating lease or a finance lease, and this standard only requires enhanced disclosures to be provided by the lessor.

The Group expects to recognise the lease contract of lessees in accordance with IFRS 16. However, the Group does not intend to restate the prior period financial statements (referred herein as the 'modified retrospective transition'). At January 1, 2019, it is expected that right-of-use asset and lease liability will be increased by \$8,058,382 (including the reclassification of long-term prepaid rents of \$7,727,595) and \$623,563 (including the reclassification of payable on land use right of \$292,776), respectively

(3) IFRSs issued by International Accounting Standard Board ('IASB') but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

New, Revised or Amended Standards and Interpretations	Effective date by International Accounting Standards Board
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-definition of material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
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

The above standards and interpretations have no significant impact to the Group's financial position

and financial performance based on the Group's assessment.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as stated otherwise, the principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all the periods presented.

##### (1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the 'Regulations Governing the Preparation of Financial Reports by Securities Issuers', International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

##### (2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Available-for-sale financial assets measured at fair value.
- (c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The items involving a higher degree of judgement or complexity, or items where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

C. Upon the first-time adoption of IFRS 9 effective January 1, 2018, the Group has elected to apply modified retrospective transition whereby the cumulative impact of the first-time adoption was recognised as retained earnings or other equity as at January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in accordance with International Accounting Standard 39 (the 'IAS 39') and the related IFRIC Interpretations and SIC Interpretations. Please refer to Notes 12(4) for details of significant accounting policies.

##### (3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between

companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

- (c)The profit or loss and each component of other comprehensive income shall be attributed to the owners of the parent and to the non-controlling interests, and total comprehensive income shall also be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d)Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners). It shall be recognised directly in equity and difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received.

B. Subsidiaries included in the consolidated financial statements:



Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
The Company	Zhen Ding Technology Co., Ltd.	Trading company	100	100	
The Company	Monterey Park Finance Limited (B.V.I.)	Holding company	100	100	
Zhen Ding Technology Co., Ltd.	FAT Holdings Limited (Cayman)	Holding company	100	100	
Monterey Park Finance Limited (B.V.I.)	Pacific Stand Enterprises Limited (Hongkong)	Holding company	100	100	(c)
Monterey Park Finance Limited (B.V.I.)	Coppertone Enterprises Limited (B.V.I.)	Holding company	100	100	
Monterey Park Finance Limited (B.V.I.)	Pacific Fair International Limited (Hongkong)	Holding company	100	100	
Monterey Park Finance Limited (B.V.I.)	Light Flash International Limited (B.V.I.)	Holding company	-	100	(b)
Monterey Park Finance Limited (B.V.I.)	Henley International Limited (Hongkong)	Trading company	100	100	
Monterey Park Finance Limited (B.V.I.)	Qi Ding Technology Qinhuaangdao Co., Ltd.	Manufacturing company	100	100	

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
Coppertone Enterprises Limited (B.V.I.)	Mayco Industrial Limited (Hongkong)	Holding company	100	100	
Mayco Industrial Limited (Hongkong)	Avary Holding (Shenzhen) Co., Limited	Manufacturing company	66.38	73.75	(d)
Pacific Fair International Limited (Hongkong)	Avary Holding (Shenzhen) Co., Limited	Manufacturing company	6.44	7.16	(d)
Avary Holding (Shenzhen) Co., Limited	Hong Qun Sheng Precision Electronics (Yingkou) Co., Ltd.	Manufacturing company	100	100	
Avary Holding (Shenzhen) Co., Limited	Hong Qi Sheng Precision Electronics (Qinhuangdao) Co., Ltd.	Manufacturing company	100	100	
Avary Holding (Shenzhen) Co., Limited	Hong Heng Sheng Electronical Technology (Huaian) Co., Ltd.	Manufacturing company	100	100	
Avary Holding (Shenzhen) Co., Limited	Yu Ding Precision Electronics (Huaian) Co., Ltd.	Manufacturing company	100	100	
Avary Holding (Shenzhen) Co., Limited	Qing Ding Precision Electronics (Huaian) Co., Ltd.	Manufacturing company	100	100	
Avary Holding (Shenzhen) Co., Limited	Fu Bo Industrial (Shenzhen) Co., Ltd.	Manufacturing company	100	100	
Avary Holding (Shenzhen) Co., Limited	Garuda International Limited (Hongkong)	Trading company	100	100	
Avary Holding (Shenzhen) Co., Limited	Yun Ding Technology (Shenzhen) Limited	Trading company	100	100	
Avary Holding (Shenzhen) Co., Limited	Kui Sheng Technology (Shenzhen) Limited	Trading company	100	100	

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
Garuda International Limited (Hongkong)	Garuda Technology Co., Ltd.	Trading company	100	100	
Hong Heng Sheng Electronical Technology (Huaian) Co., Ltd.	New Creation Electronics (Huaian) Co., Ltd.	Manufacturing company	-	100	(a)

(a) The Group has restructured the investment structure. New Creation Electronics (Huaian) Co., Ltd. has completed the winding-up process in the second quarter of 2018.

(b) The Group has restructured the investment structure. Light Flash International Limited (B.V.I.) has completed the winding-up process in the third quarter of 2018.

(c) The Group has restructured the investment structure. Pacific Stand Enterprises Limited (Hongkong) was in the winding-up process in the fourth quarter of 2018.

(d) Mayco Industrial Limited (Hongkong) and Pacific Fair International Limited (Hongkong) did not subscribe for the issuance of common stock by Avary Holding (Shenzhen) Co., Limited in percentage of their ownership ratios in 2018, thus their ownership ratios became 66.38% and 6.44%, respectively.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.

F. Subsidiaries that have non-controlling interests that are material to the Group:

As of December 31, 2018 and 2017, the non-controlling interests of the Group amounted to \$22,053,373 and \$10,917,285, respectively. The information on the non-controlling interests and their subsidiaries is as follows:

Name of subsidiary	Principal place of business	Non-controlling interests		Description
		December 31, 2018		
		Amount	Ownership (%)	
Avary Holding (Shenzhen) Co., Limited	China	\$ 22,053,373	27.18%	

Name of subsidiary	Principal place of business	Non-controlling interests		
		December 31, 2017		
		Amount	Ownership (%)	Description
Avary Holding (Shenzhen) Co., Limited	China	\$ 10,917,285	19.09%	

Summary of the financial information of subsidiaries

The balance sheets of Avary Holding (Shenzhen) Co., Limited

	December 31, 2018	December 31, 2017
Current assets	\$ 75,194,305	\$ 67,877,432
Non-current assets	48,810,042	39,702,893
Current liabilities	( 42,386,256)	( 50,170,152)
Non-current liabilities	( 478,361)	( 216,573)
Total net assets	\$ 81,139,730	\$ 57,193,600

The statements of comprehensive income of Avary Holding (Shenzhen) Co., Limited

	For the years ended December 31,	
	2018	2017
Revenue	\$ 116,767,739	\$ 107,943,237
Profit before income tax	15,933,383	10,300,642
Income tax expense	( 2,654,110)	( 1,616,484)
Profit	13,279,273	8,684,158
Other comprehensive income (loss), net of tax	103,913	( 60,227)
Total comprehensive income	\$ 13,383,186	\$ 8,623,931
Comprehensive income attributable to non-controlling interests	\$ 2,833,311	\$ 1,857,434

The statements of cash flows of Avary Holding (Shenzhen) Co., Limited

	For the years ended December 31,	
	2018	2017
Net cash from operating activities	\$ 26,331,686	\$ 7,227,832
Net cash used in investing activities	( 5,510,626)	( 20,886,381)
Net cash from financing activities	5,464,546	12,175,799
Effect of exchange rate changes on cash and cash	( 324,619)	( 718,416)
Net increase (decrease) in cash and cash equivalents	25,960,987	( 2,201,166)
Cash and cash equivalents at beginning of year	9,016,038	11,217,204
Cash and cash equivalents at end of year	\$ 34,977,025	\$ 9,016,038

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional

currency'). The Company's functional currency is USD; however, the consolidated financial statements are presented in NTD because of regulatory requirements.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

The operating results and financial position of all the group entities and associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at the average exchange rates of that period; and
- (c) All resulting exchange differences are recognised in other comprehensive income.

When presenting the Group's functional currency denominated financial statements in NT dollars, the average exchange rates were NT\$30.15 (in dollars) to US\$1 (in dollar) and NT\$30.43 (in dollars) to US\$1 (in dollar) for the years ended December 31, 2018 and 2017, respectively; the closing rates were NT\$30.72 (in dollars) to US\$1 (in dollar) and NT\$29.76 (in dollars) to US\$1 (in dollar) as of December 31, 2018 and 2017, respectively.

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realised within twelve months from the balance sheet date; or
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (a) Liabilities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be paid off within twelve months from the balance sheet date; or
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. 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.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets/liabilities at fair value through profit or loss

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income. Financial assets measured at amortised cost or fair value through other comprehensive income are designated as the financial assets at fair value through profit or loss at initial recognition by the Group if doing so eliminates or significantly reduces a measurement or recognition inconsistency.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using settlement date accounting.
- C. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently measured and stated at fair value, and any changes in the fair value of these financial assets are recognised in profit or loss.
- D. The Group recognises the dividend income in profit or loss only when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and the amount of the dividend can be measured reliably.

(8) Financial assets at fair value through other comprehensive income

- A. The Group may make irrevocable election at initial recognition to recognise the changes in fair

value in other comprehensive income for the investments in equity instruments that is not held for trading or the investments in debt instruments meet both of the following conditions:

- (a) The financial assets held within a business model whose objective is both collecting contractual cash flows and selling financial assets and
  - (b) The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using settlement date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:
- (a) The changes in fair value of equity instruments are recognised in other comprehensive income. The cumulative gain or loss previously recognised in other comprehensive income shall be recorded to retained earnings and not be reclassified to profit or loss upon the derecognition. Dividends are recognised in profit or loss when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and the amount of the dividend can be measured reliably.
  - (b) Except for the impairment losses, interest income and foreign exchange gains or losses which are recognised in profit or loss, the changes in fair value of debt instruments are recognised in other comprehensive income before derecognition. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

(9) Financial assets at amortised cost

- A. Financial assets at amortised cost are meet both of the following conditions:
- (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
  - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using settlement date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.
- D. The Group's time deposits which do not meet the condition of cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(10) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently

measured at initial invoice amount as the effect of discounting is immaterial.

(11) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortised cost including accounts receivable or contract assets containing a significant financing component, lease receivables, loan commitments and financial guarantee contracts, at each balance sheet date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information (including forecasts). On the other hand, the Group recognises the impairment provision for lifetime ECLs for accounts receivable or contract assets containing a significant financing component.

(12) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(13) Leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognised in profit or loss on a straight-line basis over the lease term.

(14) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in process comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(15) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.



D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting policies, changes in accounting estimates and errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	5 ~ 53 years
Machinery and equipment	2 ~ 10 years
Leased assets	20 years
Leasehold improvements	5 years
Other equipment	3 ~ 15 years

(16) Leases (lessee)

Payments under the operating lease, net of any incentives received from the lessors, are recognised in profit or loss on a straight-line basis over the lease term.

(17) Goodwill

Goodwill arises in a business combination accounted for by applying the acquisition method.

(18) Impairment of non-financial assets

A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there are any impairment indications. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognising impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

B. The recoverable amounts of goodwill shall be evaluated periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognised in profit or loss shall not be reversed in the following years.

C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated based on the operating segment to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination.

(19) Borrowings

A. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of

transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

- B. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.
- C. Extension option is not closed related to the host debt instruments, unless the rates are also adjusted close to current market rates when extending.

(20) Accounts payable

- A. Accounts payable are the liabilities for purchases of raw materials, goods or services.
- B. The short-term accounts payable without bearing interest are measured at initial invoice amount as the effect of discounting is immaterial.

(21) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged, cancelled, or expired.

(22) Financial liabilities and equity instruments

Convertible corporate bonds issued by the Group are embedded with conversion options (that is, the bondholders have the right to convert the bonds into the Group's ordinary share by exchanging a fixed amount of cash for a fixed number of ordinary share), call options and put options. In accordance with the terms and conditions of the indenture, the Group classifies the convertible corporate bonds and the embedded derivative instruments on initial recognition as a financial asset, a financial liability or an equity instrument (the 'capital surplus-share options'). Convertible corporate bonds are accounted for as follows:

- A. The exercise price of call options and put options embedded in the convertible corporate bonds is approximately equal to the amortised cost of the host debt instrument on each exercise date; therefore, call options and put options are closely related to the host debt contract.
- B. Call options, put options, and host debt of the convertible corporate bonds are initially recognised at fair value. Any difference between the proceeds and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortised in profit or loss as an adjustment to the 'finance costs' over the period of bond outstanding using the effective interest method.
- C. Conversion options embedded in convertible corporate bonds issued by the Group, which meet the definition of an equity instrument, are initially recognised in the 'capital surplus-share options' at the residual amount of total issue price less amounts of the 'bonds payable' as stated above. Conversion options are not subsequently remeasured.
- D. Any transaction costs directly attributable to the issuance of convertible corporate bonds are

allocated to the liability and equity components in proportion to the allocation of proceeds.

- E. When bondholders exercise conversion options, the liability component shall be remeasured on the conversion date. The carrying amount of ordinary share issued due to the conversion shall be based on the remeasured carrying amount of the abovementioned liability component plus the carrying amount of the 'capital surplus-share options'.

(23) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for that service, and shall be recognised as expenses when the employees have rendered service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions shall be recognised as pension expenses when they are due on an accrual basis. Prepaid contributions shall be recognised that excess as an asset to the extent that the prepayment will lead to a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is accrued from the present value of future benefits that employees have earned in return for their services in the current or prior periods. The Group recognised the present value of the defined benefit obligation deducting the fair value of plan assets at the balance sheet date. Net obligation of the defined benefit is calculated annually by independent actuaries using the projected unit credit method and is discounted by using the market yield on government bonds (at the balance sheet date).

ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

C. Employees' remuneration and directors' remuneration

Employees' remuneration and directors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employees' remuneration (bonus) is distributed by shares, the Group calculates the number of shares based on the fair value per share (closing price) at the previous day of the Board of Directors' resolution.

(24) Employee share-based payment

- A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair

value of the equity instruments granted shall reflect the impact of market vesting conditions and non-vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the quantity of equity instruments that are expected to vest under the non-market vesting conditions. Ultimately, the amount of compensation cost is recognised based on the number of equity instruments that eventually vest.

B. Employee restricted stocks:

- (a) Employee restricted stocks measured at the fair value of the equity instruments at the grant date, and are recognised as compensation cost over the vesting period.
- (b) Those restricted stocks do not restrict distribution of dividends to employees and employees are not required to return the dividends received if they resign during the vesting period, the Group recognises the fair value of the dividends received by the employees who are expected to resign during the vesting period as compensation cost at the date of dividends declared.
- (c) Employees have to pay to acquire those restricted stocks. If employees resign during the vesting period, the Group must refund their payments in exchange for the restricted stocks return by the employees. The Group recognises the payments to the employees who are expected to resign during the vesting period as liabilities at the grant date, and recognises the payments for the employees who are expected to be eventually vested with the stocks in 'capital surplus – others'.

(25) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. Different tax regulations are applicable to the Group according to the countries where the companies are registered:
  - (a) Companies that are registered in Cayman Islands, British Virgin Islands and Bahamas are exempted from income tax in accordance with local regulations.
  - (b) For the companies that are registered in the Republic of China, except for income tax that is estimated in accordance with the tax laws, an additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the shareholders resolve to retain the earnings. When calculating income tax, except for

applying the tax laws to calculate regular tax, the basic tax is calculated under the 'Income Basic Tax Act.' If regular tax is lower than basic tax, the difference between the two shall be added to income tax payable. The aforementioned difference shall not be offset with investment tax credits under other regulations.

- (c) Income taxes of companies that are registered in Mainland China are calculated in accordance with 'Law of the People's Republic of China on Enterprise Income Tax' and its implementation and related notification letters.
  - (d) Income taxes of companies that are registered in the Government of the Hong Kong Special Administrative Region of the People's Republic of China are calculated based on the revenue earned in Hong Kong and in accordance with 'Hong Kong Inland Revenue Ordinance'.
- C. Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

## (26) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(27) Revenue recognition

A. Sales of goods

- (a) The Group manufactures and sells PCB and related products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Sales of PCB and related products are recognised as the amount of contract price, net of the estimated discounts credits and price concessions.

- (b) A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

B. Financial component

The contract between the Group and the customer, as the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, the Group does not adjust the transaction price to reflect the time value of money.

(28) Business combinations

- A. The Group accounts for a business combination by applying the acquisition method, unless it is a combination involving entities or businesses under common control or the acquiree is a subsidiary of an investment entity, as defined in IFRS 10, 'Consolidated financial statements', which is required to be measured at fair value through profit or loss. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.
- B. If the total of the fair values of the consideration of acquisition, non-controlling interest in the acquiree, and previous equity interest in the acquiree is higher than the fair value of the identifiable assets and obligations acquired, the difference is recorded as goodwill; if the fair

value of the identifiable assets and obligations acquired is higher than the total of the fair values of the consideration of acquisition, non-controlling interest in the acquiree, and previous equity interest in the acquiree, the difference is recognised directly in profit or loss as 'gain recognised in bargain purchase transaction'.

(29) Operating segments

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-maker, who is responsible for allocating resources to operating segments and evaluating their performance.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, and the related information is addressed below:

Critical accounting estimates and assumptions

Accounting estimates are based on the situation on the balance sheet date to estimate future events, though there could be differences between the actual events and estimation. Estimates and assumptions on the risk of possible critical adjustments to the carrying amount of assets and liabilities for the next fiscal year are as follows:

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Because of the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2018, the carrying amount of inventories was \$10,083,882.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and petty cash	\$ 3,232	\$ 3,334
Checking accounts and demand deposits	22,631,171	10,532,034
Cash equivalents		
Time deposits	<u>18,018,570</u>	<u>8,612,020</u>
	<u>\$ 40,652,973</u>	<u>\$ 19,147,388</u>

A. For the year ended December 31, 2018, the Group's time deposits over three months which are recognised within 'current financial assets at amortised cost' are referred to Note 6(7)

B. For the year ended December 31, 2017, the Group's time deposits over three months which are recognised within 'other current assets' are referred to Note 6(6).

C. The Group has no cash and cash equivalents pledged to others.

### (2) Current financial assets at fair value through profit or loss

<u>Items</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current items - assets:		
Forward foreign exchange contracts	<u>\$ 3,437</u>	<u>\$ 7,935</u>

A. The Group recognised net gain of \$15,139 and \$58,755 within 'financial assets at fair value through profit or loss held for trading' for the years ended December 31, 2018 and 2017, respectively.

B. The non-hedging derivative instruments transaction and contract information are as follows:

<u>December 31, 2018</u>			
<u>Derivative Instruments</u>	<u>Contract Amount</u>		<u>Contract Period</u>
	<u>(Notional Principal in thousands)</u>		
Current items:			
Forward foreign exchange contracts	RMB (BUY) 48,934		2018/11~2019/2
	USD (SELL) ( 7,000)		
<u>December 31, 2017</u>			
Current items:			
Forward foreign exchange contracts	RMB (BUY) 80,034		2017/9~2018/2
	USD (SELL) ( 12,000)		

The Group entered into forward foreign exchange contracts to hedge exchange rate risk of import and export transactions. However, these forward foreign exchange contracts do not meet the criteria of hedge accounting.

C. The Group has no financial assets at fair value through profit or loss pledged to others.



(3) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable	\$ 76,594	\$ 109,810
Accounts receivable	21,594,939	28,406,499
	21,671,533	28,516,309
Less: Allowance for sales returns and discounts	- (1,779)	(1,779)
Allowance for bad debts	(39,673)	(34,056)
	<u>\$ 21,631,860</u>	<u>\$ 28,480,474</u>
Accounts receivable-due from related parties	\$ 2,666,750	\$ 2,153,811
Less: Allowance for bad debts	(22,231)	(15,126)
	<u>\$ 2,644,519</u>	<u>\$ 2,138,685</u>

A. The ageing analysis of accounts receivable and notes receivable that were past due but not impaired is as follows:

	December 31, 2018	December 31, 2017
Not past due	\$ 24,121,424	\$ 30,316,105
Between 1 and 90 days	205,009	353,179
Between 91 and 180 days	8,954	626
Over 180 days	2,896	210
	<u>\$ 24,338,283</u>	<u>\$ 30,670,120</u>

The above ageing analysis was based on overdue days. For the year ended December 31, 2017, the ageing analysis of accounts receivable are referred to Note 12(4).

B. The Group does not hold any collateral as security.

(4) Other receivables and prepayments

	December 31, 2018	December 31, 2017
<u>Other receivables</u>		
Business tax refundable	\$ 506,371	\$ 2,356,900
Others	349,412	429,415
	<u>\$ 855,783</u>	<u>\$ 2,786,315</u>
	December 31, 2018	December 31, 2017
<u>Prepayments</u>		
Excess business tax paid	\$ 2,940,840	\$ 2,227,880
Prepaid expenses	712,844	835,444
Others	19,634	24,782
	<u>\$ 3,673,318</u>	<u>\$ 3,088,106</u>

The Group's Mainland China subsidiaries are engaged in export sales. Under local regulations, the subsidiaries are entitled to tax benefits on business tax ('VAT') exemption, deduction and refund on the exports of goods. The subsidiaries calculate VAT refund and deductible amounts based on

monthly sales by product types. The subsidiaries' counterparties and performing parties are mainly government organizations, so the possibility of default is remote. The subsidiaries recognise related refunds and deductibles within 'other receivables' and 'prepayments', respectively.

(5) Inventories

	December 31, 2018		
	Cost	Allowance for valuation losses	Carrying amount
Raw materials	\$ 2,305,687	(\$ 294,428)	\$ 2,011,259
Work in process	1,703,362	( 79,178)	1,624,184
Finished goods	6,706,002	( 257,563)	6,448,439
	<u>\$ 10,715,051</u>	<u>(\$ 631,169)</u>	<u>\$ 10,083,882</u>
	December 31, 2017		
	Cost	Allowance for valuation losses	Carrying amount
Raw materials	\$ 2,888,155	(\$ 226,603)	\$ 2,661,552
Work in process	2,339,181	( 76,873)	2,262,308
Finished goods	6,526,282	( 190,760)	6,335,522
	<u>\$ 11,753,618</u>	<u>(\$ 494,236)</u>	<u>\$ 11,259,382</u>

Expenses and losses incurred on inventories for the years ended December 31, 2018 and 2017 are as follows:

	For the years ended December 31,	
	2018	2017
Cost of goods sold	\$ 91,634,709	\$ 91,210,407
Impairment losses	446,035	470,991
Losses (reversal of) on valuation of inventory	146,398 (	262,407)
Income from sale of scraps and wastes	( 375,209)	( 14,695)
	<u>\$ 91,851,933</u>	<u>\$ 91,404,296</u>

The Group reversed losses from a previous inventory write-down and recognised gains on reversal for the year ended December, 2017 as the Group sold some inventories, which the net realisable values were lower than the costs.

(6) Other current assets

	December 31, 2018	December 31, 2017
Time deposits with maturity of over three months	\$ -	\$ 14,148,555
Others	569,634	311,230
	<u>\$ 569,634</u>	<u>\$ 14,459,785</u>

- A. The Group's time deposits over three months and guaranteed income financial products which are recognised within 'financial assets at amortised cost' are referred to Note 6(7).  
B. Please refer to Note 8 for the aforementioned other financial assets pledged to others as collateral.

(7) Current financial assets at amortised cost

	<u>December 31, 2018</u>
Time deposits with maturity of over three months	\$ 6,658,081
Guaranteed income financial products	1,843,200
Corporate bonds	<u>277,516</u>
	<u>\$ 8,778,797</u>

- A. The Group recognised interest income of \$593,416 in profit or loss for amortised cost for the year ended December 31, 2018.  
B. The Group has no financial assets at amortised cost pledged to others.  
C. Please refer to Table 2 for the information as of December 31, 2018.  
D. Please refer to Note 6(6) and Note 6(8) for the information as of December 31, 2017.

(8) Non-current held-to-maturity financial assets

<u>Corporate bonds</u>	<u>December 31, 2017</u>
BOND OF BABA	\$ 29,965
HUAHK	90,713
HACOMN	<u>30,386</u>
	<u>\$ 151,064</u>

- A. The Group recognised interest income of \$2,855 in profit or loss for amortised cost for the year ended December 31, 2017.  
B. The Group has no held-to-maturity financial assets pledged to others.

(9) Non-current financial assets at fair value through other comprehensive income

<u>Unlisted equity securities</u>	<u>December 31, 2018</u>
SynPower Co., Ltd.	\$ 120,992
Valuation adjustment	(\$ 68,671)
Net exchange differences	<u>152</u>
	<u>\$ 52,473</u>

- A. The Group has elected to classify the investment in the shares of SynPower Co., Ltd. that is considered to be the strategic investment as financial assets at fair value through other comprehensive income.  
B. Amounts recognised in other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	<u>For the year ended December 31, 2018</u>
Equity instruments	(\$ <u>68,671</u> )

C. The Group has no financial assets at fair value through other comprehensive income pledged to others.

D. Please refer to Note 6(10) for the information as of December 31, 2017.

(10) Non-current financial assets at cost

	<u>December 31, 2017</u>
<u>Unlisted equity securities</u>	
SynPower Co., Ltd	\$ 121,000
Net exchange differences	( 8)
	<u>\$ 120,992</u>

A. According to the Group's intention, the investment in the shares of SynPower Co., Ltd. shall be classified as available-for-sale financial assets. As the shares are not publicly traded in active market and the Group cannot obtain sufficient industry information of similar companies as well as the investee's financial information, the fair value of the underlying investment in the shares cannot be assessed reasonably. Accordingly, the Group classified the investment as 'financial assets at cost'.

B. The Group has no financial assets at cost pledged to others.

(11) Property, plant and equipment

	Land	Buildings and structures	Machinery and equipment	Other facilities	Unfinished construction and equipment under acceptance	Total
<u>At January 1, 2018</u>						
Cost	\$ 50,997	\$ 17,000,094	\$ 35,240,022	\$ 9,798,157	\$ 3,124,222	\$ 65,213,492
Accumulated depreciation and impairment	-	( 6,548,725)	( 16,797,220)	( 5,186,094)	-	( 28,532,039)
	<u>\$ 50,997</u>	<u>\$ 10,451,369</u>	<u>\$ 18,442,802</u>	<u>\$ 4,612,063</u>	<u>\$ 3,124,222</u>	<u>\$ 36,681,453</u>
<u>2018</u>						
Opening net carrying amount	\$ 50,997	\$ 10,451,369	\$ 18,442,802	\$ 4,612,063	\$ 3,124,222	\$ 36,681,453
Additions (transfers)	-	1,774,444	6,771,750	3,151,900	2,132,977	13,831,071
Disposals	-	( 76,166)	( 77,654)	( 40,330)	( 31,606)	( 225,756)
Depreciation charge	-	( 1,124,495)	( 4,096,691)	( 1,518,465)	-	( 6,739,651)
Impairment losses	-	( 84,211)	( 564,960)	-	( 96,400)	( 745,571)
Net exchange differences	78	( 207,703)	( 453,461)	( 122,349)	( 104,945)	( 888,380)
Closing net carrying amount	<u>\$ 51,075</u>	<u>\$ 10,733,238</u>	<u>\$ 20,021,786</u>	<u>\$ 6,082,819</u>	<u>\$ 5,024,248</u>	<u>\$ 41,913,166</u>
<u>At December 31, 2018</u>						
Cost	\$ 51,075	\$ 17,641,398	\$ 40,296,156	\$ 12,424,359	\$ 5,118,832	\$ 75,531,820
Accumulated depreciation and impairment	-	( 6,908,160)	( 20,274,370)	( 6,341,540)	( 94,584)	( 33,618,654)
	<u>\$ 51,075</u>	<u>\$ 10,733,238</u>	<u>\$ 20,021,786</u>	<u>\$ 6,082,819</u>	<u>\$ 5,024,248</u>	<u>\$ 41,913,166</u>

	Land	Buildings and structures	Machinery and equipment	Other facilities	Unfinished construction and equipment under acceptance	Total
<u>At January 1, 2017</u>						
Cost	\$ 50,987	\$ 16,994,481	\$ 31,461,747	\$ 7,265,470	\$ 3,012,295	\$ 58,784,980
Accumulated depreciation and impairment	-	( 6,542,005)	( 15,620,131)	( 4,360,927)	-	( 26,523,063)
	<u>\$ 50,987</u>	<u>\$ 10,452,476</u>	<u>\$ 15,841,616</u>	<u>\$ 2,904,543</u>	<u>\$ 3,012,295</u>	<u>\$ 32,261,917</u>
<u>2017</u>						
Opening net carrying amount	\$ 50,987	\$ 10,452,476	\$ 15,841,616	\$ 2,904,543	\$ 3,012,295	\$ 32,261,917
Additions (transfers)	-	1,280,522	7,728,713	2,387,277	170,058	11,566,570
Disposals	-	( 105,178)	( 429,250)	( 20,130)	( 32,403)	( 586,961)
Depreciation charge	-	( 1,023,670)	( 3,419,329)	( 1,159,548)	-	( 5,602,547)
Impairment losses	-	-	( 555,441)	-	-	( 555,441)
Net exchange differences	10	( 152,781)	( 723,507)	499,921	( 25,728)	( 402,085)
Closing net carrying amount	<u>\$ 50,997</u>	<u>\$ 10,451,369</u>	<u>\$ 18,442,802</u>	<u>\$ 4,612,063</u>	<u>\$ 3,124,222</u>	<u>\$ 36,681,453</u>
<u>At December 31, 2017</u>						
Cost	\$ 50,997	\$ 17,000,094	\$ 35,240,022	\$ 9,798,157	\$ 3,124,222	\$ 65,213,492
Accumulated depreciation and impairment	-	( 6,548,725)	( 16,797,220)	( 5,186,094)	-	( 28,532,039)
	<u>\$ 50,997</u>	<u>\$ 10,451,369</u>	<u>\$ 18,442,802</u>	<u>\$ 4,612,063</u>	<u>\$ 3,124,222</u>	<u>\$ 36,681,453</u>

- A. The significant parts of the Group's buildings and structures include main plants and auxiliary improvements, which are depreciated over 20~53 years and 5~10 years, respectively.
- B. The Group assesses recoverable amount of assets at the end of the reporting period based on fair value less selling cost and value-in-use calculations at discount rate of 7.17%. Based on the aforementioned assessment, the Group recognised impairment losses on property, plant and equipment of \$745,751 and \$555,441 for the years ended December 31, 2018 and 2017, respectively. The amounts recognised in 2018 were shown within the 'operating costs' of \$446,035 and the 'other gains and losses' of \$299,536 while the amounts recognised in 2017 were shown within the 'operating costs' of \$470,991 and the 'other gains and losses' of \$84,450. The impairment losses belong to PCB segments.

(12) Intangible assets

	December 31, 2018	December 31, 2017
Goodwill	\$ 91,721	\$ 88,854
	For the years ended December 31,	
Beginning balance	\$ 88,854	\$ 96,289
Net exchange differences	2,867	( 7,435)
Ending balance	\$ 91,721	\$ 88,854

The Group acquired 100% shares of Hong Heng Sheng Electronical Technology (Huaian) Co., Ltd. in 2008, and recognised goodwill under the acquisition method.

(13) Other non-current assets

	December 31, 2018	December 31, 2017
Long-term prepaid rent (land use right)	\$ 7,727,595	\$ 4,155,550
Refundable deposits	44,842	51,277
Others	358,662	273,342
	\$ 8,131,099	\$ 4,480,169

The Group's subsidiaries signed land use right contracts with local governments whom the subsidiaries will return the right to when the contract expires. The Group recognised rental expenses of \$158,965 and \$27,849 for the years ended December 31, 2018 and 2017, respectively.

(14) Short-term borrowings

	December 31, 2018	December 31, 2017
Credit loans	\$ 9,184,066	\$ 15,791,085
Interest rate range	2.23%~4.79%	1.80%~4.70%

Please refer to Note 8 for the collaterals of the short-term borrowings.

(15) Other payables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Payable on machinery and equipment	\$ 4,190,436	\$ 3,066,678
Wages and bonuses payable	3,289,246	3,060,896
Payable on mold and jig	1,864,188	1,267,275
Repairs and maintenance fees payable	928,325	543,084
Payable on consumable goods	500,549	531,162
Payable on land use right	292,776	-
Others	2,281,002	1,862,576
	<u>\$ 13,346,522</u>	<u>\$ 10,331,671</u>

(16) Bonds payable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
2nd overseas unsecured convertible bonds:		
Bonds payable	\$ 8,794,901	\$ 8,520,060
Less: discount on bonds payable	( 95,582)	( 277,786)
	<u>8,699,319</u>	<u>8,242,274</u>
Total bonds payable	<u>8,699,319</u>	<u>8,242,274</u>
Less: Current portion of bonds payable (within 'long-term liabilities, current portion')	( 8,699,319)	-
Bonds payable	<u>\$ -</u>	<u>\$ 8,242,274</u>

A. Conditions for issuance of 2nd overseas unsecured convertible bonds are as follows:

- (a) The competent authority has approved the Company's second issuance of overseas unsecured corporate bonds on June 6, 2014. The total issue amount of the bonds is USD 300,000 thousand, at a coupon rate of 0% and maturity of 5 years from June 26, 2014 to June 26, 2019.
- (b) The conversion price of the bonds is adjusted based on the pricing model in the terms of the bonds. As of December 31, 2018, no bonds have been converted into ordinary shares, and the conversion price was NTD 86.1660 (exchange rate of NTD 30.02 (in dollars) to USD 1 (in dollar)).
- (c) The bondholders have the right to require the Company to repurchase all or any portion of bonds at the price of the bonds' principal amount with an annual rate of 0.125% (calculated semi-annually) as interest compensation (100.38% of the principal amount of the corporate bonds) on June 26, 2017. On June 26, 2017, the bondholders redeemed a total of USD 15,500 thousand.
- (d) Except for bonds redeemed before maturity, repurchased and retired, or converted by the bondholders, the Company will fully redeem the bonds at the maturity date with an annual rate of 0.125% based on the principal amount (calculated semi-annually). The redemption amount is about 100.63% of the principal amount of the corporate bonds, and the bonds will be redeemed in full.



(e)According to the terms of the bonds, all bonds repurchased (including bonds repurchased from the secondary market), redeemed before or at maturity, or converted by the bondholders are retired and not to be re-issued.

(f)According to the terms of the bonds, rights and obligations of newly issued shares after conversion are the same as other issued ordinary share.

(g)The effective rate of the corporate bonds is 2.3%.

B. Regarding the issuance of 1st overseas unsecured corporate bonds in 2012, the equity conversion options were separated from the liability component in accordance with IAS 32. As of June 7, 2015, the maturity date of convertible bonds, the remaining unconverted shared options were recognised within ‘capital surplus-expired share options’ of \$258.

C. Regarding the issuance of the 2nd overseas unsecured corporate bonds in 2014, the equity conversion options were separated from the liability component in accordance with IAS 32. As of December 31, 2018, the Company’s 2nd overseas unsecured corporate bonds with par value of USD 15,500 thousand were redeemed and recognised within ‘capital surplus-expired share options’ of \$45,401. The remaining bonds were neither mature nor converted, and recognised within ‘capital surplus-share options’ of \$833,332.

(17) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	December 31, 2018
Syndicated loans	Borrowing period is from October 4, 2018 to October 4, 2021; principal is repayable semiannually from October 4, 2021 in two installments; 50% of principal has to be repaid respectively.	\$ 9,216,000
Less: Syndicated loan arrangement fees		( 21,120)
Current portion of long-term borrowings (within ‘Long-term liabilities, current portion’)		-
		<u>\$ 9,194,880</u>
Interest rate		<u>3.41%</u>
Type of borrowings	Borrowing period and repayment term	December 31, 2017
Syndicated loans	Borrowing period is from December 28, 2016 to April 4, 2019; principal is repayable semiannually from October 4, 2018 in two installments; 50% of principal has to be repaid respectively.	\$ 8,928,000
Less: Syndicated loan arrangement fees		( 12,238)
Current portion of long-term borrowings (within ‘Long-term liabilities, current portion’)		( 4,457,881)
		<u>\$ 4,457,881</u>
Interest rate		<u>3.01%</u>

A. Please refer to Note 13 for the collaterals of long-term borrowings.

B. During the terms of the syndicated loans, in accordance with the syndicated loan

agreement, the Company is required to calculate and maintain certain level of current ratio, liability ratio, times-interest-earned ratio and net tangible asset balance based on the audited annual consolidated financial statements and the reviewed semi-annual consolidated financial statements.

(18) Pensions

A. Defined benefit plans

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of funded defined benefit obligations	(\$ 3,911)	(\$ 3,730)
Fair value of plan assets	<u>15,741</u>	<u>15,114</u>
Net defined benefit asset (within "other non-current assets")	<u>\$ 11,830</u>	<u>\$ 11,384</u>

(a) The Group's subsidiary in Taiwan, Zhen Ding Technology Co., Ltd., has a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Labor Standards Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent Supervisory Committee of Labor Retirement Reserve Fund(the 'Fund'). Before the end of each year, the Taiwan subsidiary assesses the balance in the aforementioned Fund. If the balance in the Fund is inadequate to pay the retirement benefits of employees who are eligible for retirement in the following year by the aforementioned method, the Taiwan subsidiary is required to fund the deficit in one appropriation before the end of next March.

(b) Movements in net defined benefit assets are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit assets
Balance at January 1, 2018	(\$ 3,730)	\$ 15,114	\$ 11,384
Interest (expense) income of net defined benefit asset	( 17)	103	86
	<u>(\$ 3,747)</u>	<u>\$ 15,217</u>	<u>\$ 11,470</u>
Remeasurements:			
Return on plan assets (excluding aforementioned interest income or expense)	-	509	509
Change in demographic assumptions	( 1)	-	( 1)
Experience adjustments	( 163)	-	( 163)
	<u>( 164)</u>	<u>509</u>	<u>345</u>
Pension fund contribution	-	15	15
Balance at December 31, 2018	<u>(\$ 3,911)</u>	<u>\$ 15,741</u>	<u>\$ 11,830</u>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit assets
Balance at January 1, 2017	(\$ 10,453)	\$ 14,951	\$ 4,498
Interest (expense) income of net defined benefit asset	( 136)	205	69
	<u>(\$ 10,589)</u>	<u>\$ 15,156</u>	<u>\$ 4,567</u>
Remeasurements:			
Return on plan assets (excluding aforementioned interest income or expense)	-	( 58)	( 58)
Change in demographic assumptions	( 28)	-	( 28)
Change in financial assumptions	( 123)	-	( 123)
Experience adjustments	<u>7,010</u>	<u>-</u>	<u>7,010</u>
	<u>6,859</u>	<u>( 58)</u>	<u>6,801</u>
Pension fund contribution	-	16	16
Balance at December 31, 2017	<u>(\$ 3,730)</u>	<u>\$ 15,114</u>	<u>\$ 11,384</u>

- (c) The Bank of Taiwan was commissioned to manage the plan assets of the Fund for the Taiwan subsidiary's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the 'Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund' (Article 6: the scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate

securitisation products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the amounts accrued from the local bank interest rates of two-year time deposits. If the earnings is inadequate, government shall make payment for the deficit after being authorised by the Taiwan Competent Authority. The Taiwan subsidiary has no right to participate in managing and operating the Fund and hence the Taiwan subsidiary is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. As of December 31, 2018 and 2017, the fair value of plan assets is given in the 'Utilization Status of the Labor Funds' announced by the local government.

(d) The principal actuarial assumptions used were as follows:

	For the years ended December 31,	
	2018	2017
Discount rate	0.75%	0.75%
Rate of future salary increase	2.00%	2.00%
Rate of employee turnover	0.41%	0.39%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

The analysis of the present value of defined benefit obligation effect future due to the main actuarial assumption changes was as follows:

	Discount rate		Rate of future salary increases		Rate of employee turnover	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%	110% of expected rate	90% of expected rate
<u>December 31, 2018</u>						
Increase (decrease) in present value of defined benefit obligations	(\$ <u>65</u> )	<u>68</u>	<u>67</u>	(\$ <u>65</u> )	<u>-</u>	<u>-</u>
<u>December 31, 2017</u>						
Increase (decrease) in present value of defined benefit obligations	(\$ <u>44</u> )	<u>47</u>	<u>46</u>	(\$ <u>44</u> )	(\$ <u>1</u> )	<u>1</u>

The aforementioned sensitivity analysis was arrived at based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change simultaneously. The method of analysing sensitivity is the same as the calculating method of net pension assets in the balance sheet.

(e) Expected contributions to the defined benefit pension plans of the Group are \$15 for

the year ended December 31, 2019.

B. Defined contribution plan

- (a) Effective July 1, 2005, the Taiwan subsidiary of the Group has established a defined contribution pension plan (the 'New Plan') under the Labor Pension Act, covering all regular employees with R.O.C. nationality. Under the New Plan, the Taiwan subsidiaries of the Group contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The contribution plan accrued dividends from an employee's individual account is paid monthly or in lump sum upon retirement of an employee. The pension expenses recognised in accordance with the New Plan were \$24,991 and \$21,308 for the years ended December 31, 2018 and 2017, respectively.
- (b) The Mainland China subsidiaries of the Group have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China are based on certain percentage of employees' monthly salaries and wages with the contribution percentage of 10%~20%, and pension is contributed to the employees' individual pension accounts. Pension of each employee is managed by the government. Other than the monthly contributions, the Group has no further obligations. The pension expenses recognised in accordance with local regulations were \$962,727, and \$801,251 for the years ended December 31, 2018 and 2017, respectively.

(19) Share-based payment

The share-based payment arrangements of the Company's subsidiary, Avary Holding (Shenzhen) Co., Limited, are as follows:

Type of arrangements	Grant date	Quantity granted	Contract period	Vesting conditions
Restricted stocks to employees	2017.02.27	185,080 thousand shares	7 years	(A)(B)

- (A) The restricted stocks has not vested until an employee remains the employ in the Avary Holding (Shenzhen) Co., Limited for 7 years starting from the purchase date and achieves the performance goal. For an employee who does not satisfy the vesting conditions, the employee's investment would be refunded net by the Group at the lower of the investment amount or the carrying amount of assets. However, appropriated dividend in not required to be returned.
- (B) Until the achievement of the vesting conditions, the right and obligation: cannot sell, pledge, transfer, give to others, create a right in rem over it or any other disposal.

A. Employee restricted stocks

The numbers of employee restricted stocks are as follows (in thousand shares):

	For the years ended December 31,	
	2018	2017
Outstanding at January 1	185,080	-
Numbers granted for the years	-	185,080
Outstanding at December 31	<u>185,080</u>	<u>185,080</u>

B. Expenses incurred on share-based payment transactions are shown below:

	For the years ended December 31,	
	2018	2017
Expenses incurred on employee restricted stocks	<u>\$ 124,796</u>	<u>\$ 83,909</u>

(20) Share capital

As of December 31, 2018, the Company's authorised capital was \$16,000,000, and the issued capital is \$8,047,484, consisting of 804,748 thousand shares of ordinary share with a par value of \$10 (in New Taiwan dollars) per share.

(21) Capital surplus

	For the years ended December 31, 2018					
	Additional paid-in capital arising from ordinary	Additional paid-in capital arising from bond conversion	Share options	Expired share options	Changes in non-controlling interests	Total
At January 1	\$5,690,348	\$ 5,373,351	\$ 833,332	\$ 45,659	\$ 2,908,608	\$ 14,851,298
Employee restricted stocks	-	-	-	-	96,645	96,645
Changes in non- controlling interests	-	-	-	-	7,052,714	7,052,714
At December 31	<u>\$5,690,348</u>	<u>\$ 5,373,351</u>	<u>\$ 833,332</u>	<u>\$ 45,659</u>	<u>\$ 2,908,608</u>	<u>\$ 22,000,657</u>

	For the years ended December 31, 2017					
	Additional paid-in capital arising from ordinary	Additional paid-in capital arising from bond conversion	Share options	Expired share options	Changes in non-controlling interests	Total
At January 1	\$ 5,690,348	\$ 5,373,351	\$ 878,733	\$ 258	\$ -	\$ 11,942,690
Restricted stocks	-	-	-	-	70,767	70,767
Changes in non- controlling	-	-	-	-	2,837,841	2,837,841
Redemption of bonds payable	-	-	( 45,401)	45,401	-	-
At December 31	<u>\$ 5,690,348</u>	<u>\$ 5,373,351</u>	<u>\$ 833,332</u>	<u>\$ 45,659</u>	<u>\$ 2,908,608</u>	<u>\$ 14,851,298</u>

A. Capital surplus arising from paid-in capital in excess of par value on issuance of ordinary share is used to offset accumulated losses incurred in previous years or distribute dividends to shareholders.

B. Please refer to Note 6(16) for capital surplus - share options, capital surplus - expired share options and capital surplus - additional paid-in capital arising from bond conversion.

C. Please refer to Note 6(31) for the movement of capital surplus-changes in non-controlling interests.

(22) Retained earnings

A. In accordance with the Company's Articles of Incorporation, the Board of Directors shall set aside out of the current year's earnings sequentially as follows:

- (a) A reserve for payment of tax for the relevant financial year;
- (b) An amount to offset losses incurred in previous years;
- (c) Ten percent (10%) as a general reserve, and
- (d) A special surplus reserve as required by the applicable securities authority under the Applicable Public Company Rules or a reserve as determined by the Board of Directors.

The remainder shall be distributed pursuant to the proposal of the Board of Directors in accordance with Company's dividend policy and resolved by the shareholders' meeting.

B. The appropriations of 2017 and 2016 earnings have been approved by the shareholders meeting on June 4, 2018 and June 20, 2017, respectively. Details are summarised as follows:

	For the years ended of December 31,			
	2017		2016	
	Amount	Dividends per share (in New Taiwan dollars)	Amount	Dividends per share (in New Taiwan dollars)
General reserve	\$ 517,244		\$ 345,619	
Special reserve	29,559		1,688,354	
Cash dividends	<u>2,655,670</u>	3.30	<u>1,770,446</u>	2.20
Total	<u>\$ 3,202,473</u>		<u>\$ 3,804,419</u>	

On March 29, 2019, the Board of Directors proposed that cash dividends for the appropriations of 2018 earnings amounting to \$4,023,742 at \$5.00 in New Taiwan dollars per share.

Information on the appropriation of the Company's earnings as resolved at the shareholders' meeting is posted in the 'Market Observation Post System' at the website of the Taiwan Stock Exchange.

C. Regarding employees' remuneration and directors' remuneration, please refer to Note 6(25).

(23) Other equity interest

	Total Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Exchange differences on translation of foreign financial statements	Total
At January 1, 2018	\$ -	(\$ 1,717,913)	(\$ 1,717,913)
Valuation adjustment	( 68,671)	-	( 68,671)
Currency translation differences:			
–Group	-	( 1,161,722)	( 1,161,722)
At December 31, 2018	<u>(\$ 68,671)</u>	<u>(\$ 2,879,635)</u>	<u>(\$ 2,948,306)</u>

	Unrealised gains or losses on available-for- sale financial assets	Exchange differences on translation of foreign financial statements	Total
At January 1, 2017	(\$ 5,014)	(\$ 1,683,342)	(\$ 1,688,356)
Disposal of financial assets	5,014	-	5,014
Currency translation differences:			
–Group	-	( 34,571)	( 34,571)
At December 31, 2017	<u>\$ -</u>	<u>(\$ 1,717,913)</u>	<u>(\$ 1,717,913)</u>

(24) Expenses by nature

	For the years ended December 31,	
	2018	2017
Employee benefit expense	\$ 14,504,787	\$ 13,253,527
Depreciation	6,739,651	5,602,547
Amortisation	80,090	76,687
	<u>\$ 21,324,528</u>	<u>\$ 18,932,761</u>

The employee benefit expense includes pension gains of \$86 and \$69 which are shown within ‘other gains and losses’ for the years ended December 31, 2018 and 2017, respectively.

(25) Employee benefit expense

	For the years ended December 31,	
	2018	2017
Wages and salaries	\$ 11,627,893	\$ 10,565,734
Employees' remuneration	77,339	85,903
Labor and health insurance fees	510,151	474,794
Pension expenses	987,632	822,490
Other personnel expenses	1,301,772	1,304,606
	<u>\$ 14,504,787</u>	<u>\$ 13,253,527</u>

A. In accordance with the Company’s Articles of Incorporation, the Company shall distribute employee’s remuneration between zero point five percent (0.5%) and twenty



percent (20%) and distribute directors' remuneration no higher than zero point five percent (0.5%) of the distributed earnings covering accumulated losses.

- B. For the years ended December 31, 2018 and 2017, employees' remunerations were accrued both of \$77,339 and \$85,903, respectively; while directors' remunerations were accrued both of \$10,500.
- C. Employees' remuneration and directors' remuneration of the Board of Directors' resolution for the year ended December 31, 2017 were equal to the amount recognised in the financial statements for the year ended December 31, 2017.
- D. Information on employees' remuneration and directors' remuneration of the Company as resolved by the Board of Directors and shareholders is posted in the 'Market Observation Post System' at the website of the Taiwan Stock Exchange.

(26) Other income

	For the years ended December 31,	
	2018	2017
Interest income		
Interest income from bank deposits	\$ 467,294	\$ 707,494
Interest income from financial assets measured at amortised cost	593,416	-
Interest income from financial products	-	52,470
Interest income from held-to-maturity financial assets	-	2,855
Government grant revenue	531,158	387,321
Others	76,728	107,652
Total	<u>\$ 1,668,596</u>	<u>\$ 1,257,792</u>

(27) Other gains and losses

	For the years ended December 31,	
	2018	2017
Net currency exchange losses	(\$ 394,411)	(\$ 564,948)
Net gains (losses) on disposal of property, plant and equipment	( 165,887)	( 27,353)
Impairment loss on property, plant and equipment	( 299,536)	( 84,450)
Net gains on financial assets at fair value through profit or loss	15,139	58,755
Gains on disposal of investments	-	9,155
Others	( 76,686)	( 43,092)
Total	<u>(\$ 921,381)</u>	<u>(\$ 651,933)</u>

(28) Finance costs

	For the years ended December 31,	
	2018	2017
Interest expense		
Bank borrowings	\$ 724,371	\$ 564,576
Amortisation of convertible bond discounts	187,617	194,518
Amortisation of syndicated loan arrangement fees	14,283	10,011
Total	<u>\$ 926,271</u>	<u>\$ 769,105</u>

(29) Income tax

A. Components of income tax expense

	For the years ended December 31,	
	2018	2017
Current tax:		
Tax payable arising from the current period	\$ 2,984,413	\$ 2,157,212
Additional tax on unappropriated retained earnings	-	13,643
Adjustments in respect of prior years	( 74,541)	( 33,276)
Total current tax	<u>2,909,872</u>	<u>2,137,579</u>
Deferred tax:		
Origination and reversal of temporary differences	228,356	( 415,472)
Effect from tax rate change	( 8,161)	-
Income tax expense	<u>\$ 3,130,067</u>	<u>\$ 1,722,107</u>

B. Reconciliation between income tax expense and accounting profit

	For the years ended December 31,	
	2018	2017
Tax calculated based on profit before tax and statutory tax rate	\$ 2,305,962	\$ 957,266
Effects from items unrecognised by tax regulations	266,756	11,291
Additional 10% tax on unappropriated retained earnings	-	13,643
Effects from adjustments in respect of prior years	( 74,541)	( 33,276)
Effect from tax rate change	( 8,161)	-
Effects from re-evaluation of deferred tax liabilities	640,051	773,183
Income tax expense	<u>\$ 3,130,067</u>	<u>\$ 1,722,107</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

For the year ended December 31, 2018					
		Recognised	Recognised	Net	
	January 1	in profit or loss	in other comprehensive income	exchange differences	December 31
Temporary differences:					
- Deferred tax assets:					
Allowance for inventory valuation loss	\$ 67,295	\$ 5,328	\$ -	(\$ 1,504)	\$ 71,119
Wages and bonuses payable	120,672	51,345	-	( 3,516)	168,501
Impairment loss on property, plant and equipment	92,722	12,499	-	( 2,229)	102,992
Unrealised profits from sales in respect of inventory	226,241	85,016	-	5,697	316,954
Others	<u>318,981</u>	<u>53,397</u>	<u>-</u>	<u>( 7,453)</u>	<u>364,925</u>
Subtotal	<u>825,911</u>	<u>207,585</u>	<u>-</u>	<u>( 9,005)</u>	<u>1,024,491</u>
- Deferred tax liabilities:					
Taxable difference arising from property, plant and equipment	-	( 332,398)	-	6,259	( 326,139)
Remeasurement of defined benefit obligations	( 266)	124	( 260)	-	( 402)
Others	<u>( 422,941)</u>	<u>( 95,506)</u>	<u>-</u>	<u>( 12,656)</u>	<u>( 531,103)</u>
Subtotal	<u>( 423,207)</u>	<u>( 427,780)</u>	<u>( 260)</u>	<u>( 6,397)</u>	<u>( 857,644)</u>
Total	<u>\$ 402,704</u>	<u>(\$ 220,195)</u>	<u>(\$ 260)</u>	<u>(\$ 15,402)</u>	<u>\$ 166,847</u>

For the year ended December 31, 2017					
		Recognised	Recognised	Net	
	January 1	in profit	in other	exchange	December 31
		or loss	comprehensive	differences	
			income		
Temporary differences:					
- Deferred tax assets:					
Allowance for inventory valuation loss	\$ 88,347	(\$ 19,444)	\$ -	(\$ 1,608)	\$ 67,295
Wages and bonuses payable	132,845	( 10,041)	-	( 2,132)	120,672
Impairment loss on property, plant and equipment	105,112	( 10,653)	-	( 1,737)	92,722
Remeasurement of defined benefit obligations	200	( 200)	-	-	-
Unrealised profits from sales in respect of inventory	-	237,633	-	( 11,392)	226,241
Others	-	321,130	-	( 2,149)	318,981
Subtotal	<u>326,504</u>	<u>518,425</u>	<u>-</u>	<u>( 19,018)</u>	<u>825,911</u>
- Deferred tax liabilities:					
Remeasurement of defined benefit obligations	-	890	( 1,156)	-	( 266)
Others	( 363,111)	( 103,843)	-	44,013	( 422,941)
Subtotal	( 363,111)	( 102,953)	( 1,156)	44,013	( 423,207)
Total	<u>(\$ 36,607)</u>	<u>\$ 415,472</u>	<u>(\$ 1,156)</u>	<u>\$ 24,995</u>	<u>\$ 402,704</u>

D. The amounts of deductible temporary differences that were not recognised as deferred tax assets are as follows:

	December 31, 2018	December 31, 2017
Deductible temporary differences	<u>\$ 6,311,452</u>	<u>\$ 5,013,704</u>
Tax effect	<u>\$ 1,577,863</u>	<u>\$ 1,253,426</u>

E. The income tax returns of the Group's subsidiary, Zhen Ding Technology Co., Ltd., have been assessed and approved through 2016 by the Tax Authority.

F. The income tax returns of the Group's subsidiary, Garuda Technology Co., Ltd., have been assessed and approved through 2016 by the Tax Authority.

G. Under the amendments to the Income Tax Act of Taiwan issued into effect on 7 February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective

from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(30) Earnings per share

For the year ended December 31, 2018			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in New Taiwan dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 8,447,792	804,748	\$ 10.50
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 8,447,792	804,748	
Assumed conversion of all dilutive potential ordinary shares			
Overseas convertible bonds	187,617	99,119	
Employees' remuneration	-	1,217	
Profit attributable to ordinary shareholders of the parent considering assumed conversion of all dilutive potential ordinary shares	\$ 8,635,409	905,084	\$ 9.54
For the year ended December 31, 2017			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in New Taiwan dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 5,172,436	804,748	\$ 6.43
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 5,172,436	804,748	
Assumed conversion of all dilutive potential ordinary shares			
Overseas convertible bonds	194,518	94,125	
Employees' remuneration	-	2,637	
Profit attributable to ordinary shareholders of the parent considering assumed conversion of all dilutive potential ordinary shares	\$ 5,366,954	901,510	\$ 5.95

As employees' remuneration might be distributed in the form of shares, the diluted EPS is

calculated based on the assumption that all distribution will be in the form of shares in the calculation of the weighted-average number of ordinary shares outstanding during the reporting period, taking into account the dilutive effects of stock bonus on potential ordinary shares.

(31) Transactions with non-controlling interests

- A. The Company's subsidiary, Avary Holding (Shenzhen) Co., Limited, issued new shares on February 28, 2017, June 23, 2017 and September 11, 2018. The Group did not subscribe for the issuance of new shares in percentage of its ownership ratio, thus the Group decreased its ownership ratios by 9.91%, 9.18% and 8.09%, respectively. The transaction increased non-controlling interest by \$3,872,158, \$5,174,551 and \$9,102,166, respectively. Meanwhile the equity attributable to owners of parent decreased by \$173,009 and increased by \$2,837,841 and \$7,052,714, respectively.
- B. The effect of the equity attributable to owners of parent of the Group for the years ended December 31, 2018 and 2017 are shown below:

	For the years ended December 31,	
	2018	2017
Issuance of common stock by subsidiaries	\$ 16,154,880	\$ 11,711,541
Increase in the carrying amount of non-controlling interests	( 9,102,166)	( 9,046,709)
Effects of the equity attributable to owners of parent	\$ 7,052,714	\$ 2,664,832
Adjustments on the equity attributable to owners of parent		
Retained earnings	\$ -	(\$ 173,009)
Capital surplus-changes in non-controlling interests	\$ 7,052,714	\$ 2,837,841

- C. In the second quarter of 2017, the Group entered into the investment agreements with certain non-controlling interests, and recognised redeemed liabilities within 'other non-current liabilities' in accordance with the terms of the agreements.

On November 3, 2017, the agreements were expired by the reason that the Mainland China Competent Authority had accepted the application for initial public offering of the RMB common stock issuance (the 'A shares') of Avary Holding (Shenzhen) Co., Limited.

(32) Additional information of cash flows

- A. Investing activities with partial cash payments

	For the years ended December 31,	
	2018	2017
Acquisition of property, plant and equipment	\$ 13,831,071	\$ 11,566,570
Add: opening balance of payable on machinery and equipment (within 'other payables')	3,066,678	1,656,187
Less: ending balance of payable on machinery and equipment (within 'other payables')	( 4,190,436)	( 3,066,678)
opening balance of other receivables	-	( 539,974)
Net exchange differences	( 82,192)	( 8,365)
Cash paid during the period	<u>\$ 12,625,121</u>	<u>\$ 9,607,740</u>

	For the years ended December 31,	
	2018	2017
Acquisition of land use right	\$ 3,897,344	\$ 3,139,590
Less: ending balance of payable on land use right (within 'other non-current assets, other')	( 292,776)	-
Net exchange differences	( 5,619)	-
Cash paid during the period	<u>\$ 3,598,949</u>	<u>\$ 3,139,590</u>

#### B. Changes in liabilities from financing activities

The change of the Group in liabilities from financing activities for the year ended December 31, 2018, the amortisation of discounts, repayment of borrowings and the effect of exchange rate changes amounting to \$201,900, \$6,584,316 and \$506,433, respectively.

Please refer to consolidated statements of cash flows.

### 7. RELATED PARTY TRANSACTIONS

#### (1) Names of related parties and relationship

Names of related parties	Relationship with the Company
Hon Hai Precision Industry Co., Ltd. and its subsidiaries	The entity has significant influence over
CyberTAN Technology Inc. and its subsidiaries	Other related parties
Foxconn Interconnect Technology Limited and its subsidiaries	Other related parties
General Interface Solution Holding Limited and its subsidiaries	Other related parties

#### (2) Significant related party transactions and balances

##### A. Sales

	For the years ended December 31,	
	2018	2017
Sales of goods:		
Entity with significant influence over the Company	\$ 6,494,871	\$ 5,861,388
Other related parties	<u>1,492,554</u>	<u>1,212,807</u>
	<u>\$ 7,987,425</u>	<u>\$ 7,074,195</u>
Sales of services:		
Entity with significant influence over the Company	\$ -	\$ 8,439

Unless the prices and terms were determined in accordance with mutual agreements due to no similar transactions, the sale prices and credit terms to related parties were similar to third parties. The normal credit term is around 1 to 4 months.

#### B. Purchases

	For the years ended December 31,	
	2018	2017
Purchases of goods:		
Entity with significant influence over the Company	\$ 829,169	\$ 1,866,009
Other related parties	<u>1,913,788</u>	<u>-</u>
	<u>\$ 2,742,957</u>	<u>\$ 1,866,009</u>

Unless the prices and terms were determined in accordance with mutual agreements due to no similar transactions, the purchase prices and payment terms to related parties were similar to third parties. The normal payment term is around 1 to 4 months.

#### C. Accounts receivable

	December 31, 2018	December 31, 2017
Accounts receivable - related parties:		
Entity with significant influence over the Company	\$ 2,409,295	\$ 2,000,005
Other related parties	<u>257,455</u>	<u>153,806</u>
	2,666,750	2,153,811
Allowance for bad debts	( <u>22,231</u> )	( <u>15,126</u> )
	<u>\$ 2,644,519</u>	<u>\$ 2,138,685</u>

#### D. Accounts payable

	December 31, 2018	December 31, 2017
Accounts payable - related parties:		
Entity with significant influence over the Company	\$ 139,496	\$ 704,783
Other related parties	<u>883,145</u>	<u>-</u>
	<u>\$ 1,022,641</u>	<u>\$ 704,783</u>

#### E. Transactions of property, plant and equipment



	For the years ended December 31,	
	2018	2017
Acquisition of property, plant and equipment:		
Entity with significant influence over the Company	\$ 14,944	\$ 156,820

(3) Key management remuneration

	For the years ended December 31,	
	2018	2017
Short-term employee benefits	\$ 187,757	\$ 50,261

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

A. Capital expenditure contracted for at the balance sheet date but not yet paid is as follows:

	December 31, 2018	December 31, 2017
Property, plant and equipment	\$ 2,817,011	\$ 443,821

B. Operating lease agreement

The Group entered into 5-year office and equipment contracts with third parties. Under the contracts, the Group's future minimum lease payments are as follows:

	December 31, 2018	December 31, 2017
Within one year	\$ 155,534	\$ 110,364
Between one and five year(s)	286,722	137,516
	\$ 442,256	\$ 247,880

C. The amount of unused letters of credit for the acquisition of property, plant and equipment is as follows:

	December 31, 2018	December 31, 2017
Unused letters of credit	\$ 1,152,059	\$ 2,124,770

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The appropriation of 2018 earnings was proposed by the Board of Directors on March 29, 2019.

Please refer to Note 6(22).

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue

new shares when convertible bonds are converted, or issue new shares for consideration to achieve optimal capital structure.

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
Financial assets at amortised cost	\$ 75,133,566	\$ 67,012,647
Financial assets at fair value through profit or loss	3,437	7,935
Financial assets at fair value through other comprehensive income	52,473	-
Held-to-maturity financial assets	-	151,064
Financial assets at cost	-	120,992
	<u>\$ 75,189,476</u>	<u>\$ 67,292,638</u>

Financial liabilities

Financial liabilities at amortised cost	<u>(\$ 58,615,242)</u>	<u>(\$ 66,639,946)</u>
-----------------------------------------	------------------------	------------------------

Note : Financial assets at amortised cost including cash and cash equivalents, accounts receivable (including to related parties), other receivables and other current assets; financial liabilities at amortised cost including short-term borrowings, accounts payable (including due from related parties), other payables, long-term liabilities current portion, long-term borrowings, bond payable and guarantee deposits received.

B. Risk management policies

(a) Risk categories:

The Group employs a comprehensive risk management and control system to clearly identify, measure, and control the various kinds of financial risk it faces, including market risk (including foreign exchange risk, interest rate risk and price risk), credit risk, and liquidity risk.

(b) Management objectives:

- i. Except for market risk, which is controlled by outside factors, the remainder of the foregoing types of risks can be eliminated through internal controls or operational procedures. Therefore, the goal in managing each of these risks is to reduce them to zero.
- ii. As for market risk, the goal is to optimise its overall position through strict analysis, suggestion, execution and audit processes, and proper consideration of trends in the external economic/financial environment, internal operating conditions and the actual effects of market fluctuations.
- iii. The Group's overall risk management policy focuses on the unpredictable item of financial markets and seeks to reduce the potential adverse effects on the Group's financial position and financial performance.
- iv. The Group uses derivative financial instruments. Please refer to Note 6 for details.

(c) Management system:

- i. Risk management is carried out by a central treasury department (the Group treasury) under policies approved by the Board of Directors. The Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units.
  - ii. The Board of Directors provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.
- C. Significant financial risks and degrees of financial risks
- (a) Market risk
- Foreign exchange risk
- i. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from (a) the timing of recognition for accounts receivable, accounts payable, borrowings, and payables on machinery and equipment denominated in non-functional currencies is different, (b) recognised assets and liabilities and (c) net investments in foreign operations. Since the transacting currencies are different from functional currencies, foreign exchange risks arise.
  - ii. Management has set up a policy to require all subsidiaries within the Group to manage their foreign exchange risk against their functional currency. However, the overall foreign exchange risk is managed by the Group treasury for hedging.
  - iii. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.
  - iv. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: USD; other certain subsidiaries' functional currency: RMB or NTD) so it is impacted by the exchange rate fluctuations. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

(Foreign currency: functional currency)	December 31, 2018			For the year ended December 31, 2018	
	Foreign currency amount	Exchange rate	Carrying amount (In thousands of NTD)	<u>Sensitivity analysis</u>	
	(In thousands)			Degree of variation	Effect on comprehensive income
<u>Financial assets</u>					
<u>Monetary items</u>					
USD:NTD	248,050	30.72	\$ 7,620,096	1%	\$ 76,201
USD:RMB	1,460,211	6.8632	44,825,149	1%	448,251
<u>Net effect in consolidated entities with foreign currency</u>					
USD:NTD	2,205,165	30.72	67,742,669	1%	677,427
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD:NTD	182,577	30.72	5,608,765	1%	56,088
USD:RMB	950,743	6.8632	29,185,642	1%	291,856
JPY:RMB	2,383,504	0.0619	659,774	1%	6,598
(Foreign currency: functional currency)	December 31, 2017			For the year ended December 31, 2017	
	Foreign currency amount	Exchange rate	Carrying amount (In thousands of NTD)	<u>Sensitivity analysis</u>	
	(In thousands)			Degree of variation	Effect on comprehensive income
<u>Financial assets</u>					
<u>Monetary items</u>					
USD:NTD	368,597	29.76	\$ 10,969,447	1%	\$ 109,694
USD:RMB	1,383,992	6.5342	41,337,742	1%	413,377
<u>Net effect in consolidated entities with foreign currency</u>					
USD:NTD	1,988,602	29.76	59,180,796	1%	591,808
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD:NTD	285,178	29.76	8,486,897	1%	84,869
USD:RMB	923,723	6.5342	27,590,204	1%	275,902
JPY:RMB	3,477,770	0.0579	920,181	1%	9,202

v. Please refer to Note 6(27) for the total exchange gain including realised and unrealised arising from significant foreign exchange variation on the monetary items

held by the Group for the years ended December 31, 2018 and 2017.

Interest rate risk for cash flow and fair value

The Group's interest rate risk arises from borrowings. Borrowings at floating rates expose the Group to interest rate risk of cash flow, which is partially offset by cash and cash equivalents held at floating rates.

Based on the simulations performed, the impact on after-tax profit of a quarter-point shift would be a maximum increase or decrease of \$46,000 and \$61,798 for the years ended December 31, 2018 and 2017, respectively. The simulation is based on a quarterly basis to ensure that the maximum potential loss is within the limit given by the management.

The financial assets at amortised cost held by the Group are fixed rate products, and their changes of fair value arise from changes in market interest rate. However, the Group would hold the financial assets to the maturity because of the return at the effective rates for the duration, thus, there are no gains or losses on disposal or valuation arising from change in fair value.

Price risk

The Group's investments in equity securities comprise domestic listed stocks which are classified as investments in financial assets at fair value through other comprehensive income. The price of equity securities would be affected by the uncertainty of the future value of underlying investment. However, the Group expects the price fluctuations do not have significant impact on the price of equity securities.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments.

According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors.

Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and other financial instruments, and is managed and monitored by the Group treasury. The clients and counterparties are government organisations, banks with high credit quality and financial institutions with investment grade; thus, there is no significant default risk and critical credit risk.

ii. The Group assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

(i) If the contract payments were an underlying more than 30 days past due based on the terms, there has been a significant increase in credit risk on that instrument

since initial recognition.

- (ii) If the credit rating grade of an underlying investment degrades two grades, there has been a significant increase in credit risk on that instrument since initial recognition.
- iii. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
  - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganisation due to their financial difficulties;
  - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
  - (iii) Default or delinquency in interest or principal repayments;
  - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.
- iv. The default occurs when the contract payments are more than 90 days past due.
- v. The credit quality information of financial assets that are neither overdue nor impaired is as follows:

#### Cash and cash equivalents

The Group transacts with a variety of financial institutions with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

#### Financial assets at amortised cost

The Group's investments in debt classified as financial assets at amortised cost are low credit risk on December 31, 2018, and the carrying amount is measured as the expected credit loss for the 12 months following the balance sheet date.

#### Financial assets at fair value through profit or loss

The counterparties are banks with high credit quality and financial institutions with investment grade, so it expects that the probability of counterparty default is remote. The Group's maximum exposure to credit risk at balance sheet date is the carrying amount of 'financial assets at fair value through profit or loss'.

#### Accounts receivable (including from related parties)

- (i) The Group applies the following approaches to assess the expected credit losses (the 'ECLs') of accounts receivable:
  1. Assess the ECLs on an individual basis if a significant default has been occurred to the certain customers.
  2. Classifies the other customers' accounts receivables based on the Group's credit rating standards and estimates the ECLs using loss rate methodology or provision matrix.
  3. Adjust the loss rates constructed from historical and recent information by taking into account the business cycle indicators of the National Development

Council and forecasts of the Basel Committee on Banking Supervision.

4.As of December 31, 2018, the individual provision for impairment of accounts receivable using loss rate methodology or provision matrix is as follows:

	Individual	Group 1	Group 2	Group 3	Group 4	Total
<u>As of December 31, 2018</u>						
Expected loss rate		0.03%	0.07%	0.10%~1.00%	1%~5%	
Total book value	\$ -	\$17,425,762	\$3,776,937	\$ -	\$3,143,584	\$24,346,283
Loss allowance	\$ -	(\$ 5,228)	(\$ 2,637)	\$ -	(\$ 54,039)	(\$ 61,904)

Group 1: Standard Poor's, Fitch Ratings or Moody's ratings in A category, or A category rated based on the Group's Credit Quality Control Policy for those that have no external credit ratings.

Group 2: Standard Poor's or Fitch Ratings in BBB category, Moody's ratings in Baa category, or in B or C category rated based on the Group's Credit Quality Control Policy for those that have no external credit ratings.

Group 3: Standard Poor's or Fitch Ratings in BB+ category or below, or Moody's ratings in Bal category or below.

Group 4: Having no external agency rating. Ratings other than A, B, or C based on the Group's Credit Quality Control Policy.

(ii) Movements on allowance for accounts receivable adopting the modified approach (including due from related parties) as follows:

	For the year ended December 31, 2018
Opening balance	\$ 49,182
Provision for impairment	11,873
Net exchange differences	849
Ending balance	<u>\$ 61,904</u>

#### Other receivables

The Group's subsidiaries incorporated in Mainland China are engaged in export sales. Under local regulations, the subsidiaries are entitled to tax benefits on VAT exemption, deduction and refund on the exports of goods. The subsidiaries calculate VAT refund and deductible amounts based on monthly sales by product types. The subsidiaries' counterparties and performing parties are mainly government organisations, so the possibility of default is remote.

#### Financial assets at fair value through other comprehensive income

The equity securities issuer has high credit quality and the Group controls its credit risk through transaction limits control and critical assessment of credit rating levels, so it expects that the probability of default is remote.

vi. Please refer to Note 12(4) for the information as of December 31, 2017.

#### (c) Liquidity risk

i. Cash flow forecasting is performed by each Group entity and aggregated by the Group treasury. The Group treasury monitors rolling forecasts of the Group's

liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient undrawn committed borrowing facilities (Note 6) at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and applicable external regulatory or legal requirements, such as foreign currency restrictions.

ii. The Group has the following undrawn borrowing facilities:

	December 31, 2018	December 31, 2017
Expiring within one year	\$ 35,316,650	\$ 21,243,102
Expiring beyond one year	5,233,200	3,156,849
	<u>\$ 40,549,850</u>	<u>\$ 24,399,951</u>

iii. The following table analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the following table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

December 31, 2018	Less one year	Over one year	Total
Bonds payable	\$ 8,794,901	\$ -	\$ 8,794,901
Long-term borrowings	-	9,216,000	9,216,000
Guarantee deposits received	-	110,990	110,990
	<u>\$ 8,794,901</u>	<u>\$ 9,326,990</u>	<u>\$ 18,121,891</u>

Non-derivative financial liabilities:

December 31, 2017	Less one year	Over one year	Total
Bonds payable	\$ -	\$ 8,520,060	\$ 8,520,060
Long-term borrowings	4,464,000	4,464,000	8,928,000
Guarantee deposits received	-	150,723	150,723
	<u>\$ 4,464,000</u>	<u>\$ 13,134,783</u>	<u>\$ 17,598,783</u>

iv. The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(d) Cash flow risk of changes from interest rate

For the Group's borrowings at floating rates, the effective interest rate changes according to market interest rates. However, the working capital of the Group is sufficient to hedge the cash flow risk due to changes in interest rate. Furthermore, the Group's borrowings as fixed rates and lease payable have no cash flow risk due to changes in market interest rate.



(3)Fair value estimation

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities. A market is regarded as active if it meets all the following conditions: the items traded in the market are homogeneous; willing buyers and sellers can normally be found at any time; and prices are available to the public. The fair value of the Group's investment in listed stocks is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (e.g., as prices) or indirectly (e.g., derived from prices). The fair value of the Group's investment in derivative instruments is included in Level 2.

Level 3: Inputs for the asset or liability that are not based on observable market data.

B. Financial instruments not measured at fair value

(a) Except those listed in the following table, the carrying amounts of the Group's financial instruments not measured at fair value approximate to their fair values, including cash and cash equivalents, financial assets at amortised cost—the deposits with maturity of over three month, financial assets at amortised cost—guaranteed income financial products, accounts receivable (including due from related parties), other receivables, other current assets (excluding equity securities in Note 12(3)), short-term borrowings, accounts payable (including to related parties), other payables, and long-term borrowings (including current portion). The fair value of financial assets measured at cost is not disclosed because it cannot be reliably measured:

	December 31, 2018			
	<u>Carrying value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Financial assets at amortised cost—corporate bond	<u>\$ 277,516</u>	<u>\$ 271,806</u>	<u>\$ -</u>	<u>\$ -</u>
Financial liabilities:				
Bonds payable	\$ 8,699,319	\$ -	\$ 8,752,891	\$ -
Guarantee deposits received	<u>110,990</u>	<u>-</u>	<u>110,757</u>	<u>-</u>
Total	<u>\$ 8,810,309</u>	<u>\$ -</u>	<u>\$ 8,863,648</u>	<u>\$ -</u>

	December 31, 2017			
		Fair value		
	<u>Carrying value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Held-to-maturity financial assets	<u>\$ 151,064</u>	<u>\$ 148,373</u>	<u>\$ -</u>	<u>\$ -</u>
Financial liabilities:				
Bonds payable	\$ 8,242,274	\$ -	\$8,378,750	\$ -
Guarantee deposits received	<u>150,723</u>	<u>-</u>	<u>150,407</u>	<u>-</u>
Total	\$ 8,392,997	\$ -	\$8,529,157	\$ -

(b) The methods and assumptions of fair value measurement are as follows:

- i. Bonds payable: Regarding the convertible bonds issued by Group, the fair value is estimated based on the expected cash flows using the present value and market rate.
- ii. Guarantee deposits received: The fair value is estimated using the present value of the expected cash flows. The discount rate refers to the fixed interest rate of postal savings for a one-year time deposit.
- iii. Held-to-maturity financial assets: The fair value is based on the quoted price in an active market.

#### C. Financial instruments measured at fair value

(a) The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2018 and 2017 are as follows:

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss	\$ -	\$ 3,437	\$ -	\$ 3,437
Financial assets at fair value through other comprehensive income	\$ -	\$ -	\$ 52,473	\$ 52,473
December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss	\$ -	\$ 7,935	\$ -	\$ 7,935

(b) The methods and assumptions that the Group used to measure fair value are as follows:

- i. The instruments the Group used market quoted prices as their fair values (i.e., Level 1).

- ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date.
- iii. When assessing non-standard and low-complexity financial instruments, for example, foreign exchange swap contracts, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- iv. The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate.
- v. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
- vi. The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

D. The movement on Level 3 for the year ended December 31, 2018 is as follows:

	<u>For the year ended December 31, 2018</u>	
	<u>Equity securities</u>	
Opening balance	\$	120,992
Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	(	68,671)
Net exchange differences		152
Ending balance	\$	<u>52,473</u>

- (a) External appraiser is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are

reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in accordance with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

- (b) The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value as of December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Equity securities:					
Unlisted shares	\$ 52,473	Market comparable companies	Enterprise value to EBIT multiple	8.69~14.68 (10.29)	The higher the EBIT, the higher the fair value
			Price to net value multiple	1.53	The higher the net value of shares, the higher the fair value

- (c) The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, the use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

		December 31, 2018		
		Recognised in other comprehensive income		
	Input	Change	Favourable change	Unfavourable change
Financial assets				
Equity instrument	\$ 52,473	±1%	\$ 525	(\$ 525)

E. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

F. For the years ended December 31, 2018 and 2017, there was no transfer into or out from Level 3.

#### (4) Effects on first-time adoption of IFRS 9

- A. Summary of significant accounting policies adopted for the year ended December 31, 2017, please refer to Note 4 in consolidated financial statements for the year ended December 31, 2017
- B. The reconciliations of carrying amount of financial assets under IAS 39 as of from December 31, 2017 transfer to those under IFRS 9 as of January 1, 2018 as follows:

- (a) Under IAS 39, the financial assets classified as other financial assets (within ‘other current assets’) and held-to-maturity financial assets, amounting to \$14,148,555 and \$151,064, respectively, met the condition that it is intended to settle the principal and interest on the principal amount outstanding, therefore, they were reclassified as ‘financial assets at amortised cost’ under the first-time adoption of IFRS 9.
- (b) Under IAS 39, the financial assets classified as financial assets at cost, amounting to \$120,992, were not held for the purpose of trading, there, they were reclassified as ‘financial assets at fair value through other comprehensive income (equity instruments)’.
- (c) The above adjustments have no impact to retained earnings and other equity based on the Group’s assessment.

C. Credit risk information for the year ended December 31, 2017 is as follows:

- (a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group’s credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. For banks and financial institutions, only independently rated counterparties with a minimum rating of 'A' are accepted.
- (b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) The credit quality information of financial assets that are neither past due nor impaired is as follows:

Accounts receivable (including from related parties)

The credit quality of accounts receivable (including from related parties) that were neither overdue nor impaired is shown below based on the Group’s Credit Quality Control Policy:

	December 31, 2017
Group 1	\$ 24,163,614
Group 2	3,315,730
Group 3	-
Group 4	2,834,982
	<u>\$ 30,314,326</u>

Group 1: Standard Poor's, Fitch Ratings or Moody's ratings in A category, or A category rated based on the Group's Credit Quality Control Policy for those that have no external credit ratings.

Group 2: Standard Poor's or Fitch Ratings in BBB category, Moody's ratings in Baa category, or in B or C category rated based on the Group's Credit Quality Control Policy for those that have no external credit ratings.

Group 3: Standard Poor's or Fitch Ratings in BB+ category or below, or Moody's ratings in Bal category or below.

Group 4: Having no external agency rating. Ratings other than A, B, or C based on the Group's Credit Quality Control Policy.

#### Other current assets

The counterparties of the Group's time deposits maturity of over three months, guaranteed income financial products and private fund are banks with good credit quality and financial institutions with investment-grade credit ratings or above, so it expects that the probability of counterparty default is remote.

#### Held-to-maturity financial assets

The debt issuers have high credit quality and the Group controls its credit risk through transaction limits and strict assessment of credit rating levels, so it expects that the probability of default is remote.

- (d) The aging analysis of accounts receivable that were overdue but not impaired is as follows:

	<u>December 31, 2017</u>
Within 30 days	\$ 295,625
Between 31 and 90 days	8,488
Between 91 and 180 days	539
Over 180 days	181
	<u>\$ 304,833</u>

The above aging analysis was based on the overdue days.

- (e) The movement analysis of impaired accounts receivable is as follows:

As of December 31, 2017, accounts receivable that had been impaired were \$16,066.

Movement in allowance for bad debts is as follows

	<u>December 31, 2017</u>
Opening balance	\$ 16,085
Provision for impairment	32,859
Net exchange differences	238
Ending balance	<u>\$ 49,182</u>

The aforementioned accounts receivable were individually assessed for impairment.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

(The portions of transaction information with the investees were based on the financial statements of the investees for the same period which were audited by independent accountants. All the transactions with subsidiaries disclosed below had been eliminated in the consolidated financial statements. The disclosure information below is for reference only.)

A. Loans to others: Please refer to table 1.

B. Provision of endorsements and guarantees to others: None.

C. Holding of marketable securities at the end of the period (excluding the investment in subsidiaries, associates and joint ventures): Please refer to table 2.

D. Acquisition or sale of the same security with the accumulated amount exceeding \$300 million or 20% of paid-in capital or more: Please refer to table 3.

E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 4.

H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 5.

I. Trading in derivative financial instruments: Please refer to Note 6(2).

J. The business relationship and significant transactions between the inter-companies: Please refer to table 6.

#### (2) Information on investees

(The portions of transaction information with the investees were based on the financial statements of the investees for the same period which were audited by independent accountants. All the transactions with subsidiaries disclosed below had been eliminated in the consolidated financial statements. The disclosure information below is for reference only.)

Names, locations and other information of investee companies (excluding the investees in Mainland China) : Please refer to table 7.

#### (3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

B. Significant transactions with the investees in Mainland China either directly or indirectly through other companies in the third areas: None.

### 14. SEGMENT INFORMATION

#### (1) General information

The Group is engaged in the manufacturing of various types of PCB products. The chief operating decision-maker considered the business and operations from the product perspective. Currently, the Group only discloses one reportable segment as all operating segments meet the aggregation criteria. In allocating resources and assessing performance of the Group, the chief operating decision-maker uses operating segments' revenue and net

income which reflects internal cost and expense allocation. Except for inter-segment charges which were determined based on the Group's internal policy, accounting policies of operating segments are in agreement with Note 4, 'Summary of significant accounting policies'.

**(2) Reportable segment information**

Information on reportable segment provided to the chief operating decision maker is as follows:

	For the years ended December 31,	
	2018	2017
Revenue from external customers	\$ 117,880,277	\$ 109,193,005
Inter-segment revenue	-	-
Segments' revenue	<u>\$ 117,880,277</u>	<u>\$ 109,193,005</u>
Measure of segment profit	<u>\$ 13,636,827</u>	<u>\$ 8,293,861</u>

**(3) Reconciliation of reportable segment's revenue and measure of profit and loss**

Sales between segments are carried out at fair value. The revenue from external parties reported to the chief operating decision-maker is measured in a manner consistent with that in the statement of comprehensive income.

The reconciliation from total reportable segment's revenue to the enterprise income and from segment profit from reportable segment to the net income for the period is as follows:

	For the years ended December 31,	
	2018	2017
Reportable segment's revenue	\$ 117,880,277	\$ 109,193,005
Other operating segments' revenue	<u>32,604</u>	<u>44,726</u>
Total segment revenue (i.e., the consolidated revenue)	<u>\$ 117,912,881</u>	<u>\$ 109,237,731</u>

	For the years ended December 31,	
	2018	2017
Reportable segment's profit	\$ 13,636,827	\$ 8,293,861
Other operating segments' profit	<u>4,049</u>	<u>(4,086)</u>
Total segment profit	13,640,876	8,289,775
Interest income and finance costs	134,439	(6,286)
Net foreign exchange losses	(394,411)	(564,948)
Net gains on financial assets at fair value through profit or loss	15,139	58,755
Others	<u>(1,859,548)</u>	<u>(1,005,513)</u>
Profit (losses)	<u>\$ 11,536,495</u>	<u>\$ 6,771,783</u>

**(4) Information on products and services**

Revenues from external customers are primarily from the manufacturing of PCB products as follows:



	For the years ended December 31,	
	2018	2017
Revenues from the manufacturing PCB products	\$ <u>117,912,881</u>	\$ <u>109,237,731</u>

(5) Geographical information

Geographical information for the years ended December 31, 2018 and 2017 is as follows:

	For the years ended December 31,			
	2018		2017	
	Revenue	Non-current assets	Revenue	Non-current assets
U.S.A	\$ 81,805,602	\$ -	\$ 68,428,524	\$ -
Mainland China	23,946,317	49,821,664	26,746,784	40,905,485
Taiwan	5,637,193	222,601	7,625,992	244,479
Singapore	1,040,406	-	365,674	-
Others	<u>5,483,363</u>	<u>91,721</u>	<u>6,070,757</u>	<u>100,512</u>
Total	<u>\$ 117,912,881</u>	<u>\$ 50,135,986</u>	<u>\$ 109,237,731</u>	<u>\$ 41,250,476</u>

The revenue by geography is based on the countries where customers are located. Non-current assets are property, plant, equipment, intangible assets and other non-current assets.

(6) Major customer information

Major customer information of the Group for the years ended December 31, 2018 and 2017 is as follows:

	For the years ended December 31,			
	2018		2017	
	Revenue	Segment	Revenue	Segment
Company B	\$ 81,779,622	Manufacturing of PCB products	\$ 68,417,479	Manufacturing of PCB products
Company A	<u>6,494,871</u>		<u>5,869,827</u>	
	<u>\$ 88,274,493</u>		<u>\$ 74,287,306</u>	

**ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES**  
**LOANS TO OTHERS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

Table 1

Expressed in thousands of NTD  
(Except as otherwise indicated)

No.	Lender	Borrower	General ledger account	Related party	Maximum outstanding balance during the year ended December 31, 2018 (Note 5)	Balance at December 31, 2018 (Note 6)	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Notes 3&4)	Limit on total lender's loans granted (Notes 1&4)	Footnote
													Item	Value			
0	The Company	Monterey Park Finance Limited	Other receivables	Yes	\$ 614,300	\$ 614,300	\$ -	-	Short-term financing	\$ -	Operation requirements	\$ -	None	\$ -	\$ 22,422,083	\$ 22,422,083	
0	The Company	Qi Ding Technology Qinhuangdao CO.,LTD.	Other receivables	Yes	\$ 307,150	\$ 307,150	\$ 307,150	2.23%	Short-term financing	-	Operation requirements	-	None	-	\$ 22,422,083	\$ 22,422,083	
1	FAT Holdings Limited	Monterey Park Finance Limited	Other receivables	Yes	737,160	737,160	734,089	2.83%	Short-term financing	-	Operation requirements	-	None	-	3,725,583	5,215,816	
1	FAT Holdings Limited	Henley International Limited	Other receivables	Yes	614,300	614,300	-	-	Short-term financing	-	Operation requirements	-	None	-	3,725,583	5,215,816	
2	Mayco Industrial Limited	The Company	Other receivables	Yes	5,037,260	5,037,260	982,880	2.70%	Short-term financing	-	Operation requirements	-	None	-	21,847,056	21,847,056	
3	Pacific Fair International Limited	The Company	Other receivables	Yes	2,764,350	2,764,350	2,417,271	2.70%	Short-term financing	-	Operation requirements	-	None	-	3,496,218	3,496,218	
4	Pacific Stand Enterprises Limited	Monterey Park Finance Limited	Other receivables	Yes	706,445	706,445	-	-	Short-term financing	-	Operation requirements	-	None	-	-	-	
5	Monterey Park Finance Limited	Qi Ding Technology Qinhuangdao CO.,LTD.	Other receivables	Yes	1,228,600	1,228,600	614,300	2.23%	Short-term financing	-	Operation requirements	-	None	-	328,830,893	460,363,250	



No.	Lender	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2018 (Note 5)	Balance at December 31, 2018 (Note 6)	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Notes 3&4)	Ceiling on total loans granted (Notes 1&4)	Footnote
													Item	Value			
6	Garuda International Limited	Hong Heng Sheng Electronical Technology	Other receivables	Yes	\$ 1,535,750	\$ 1,535,750	-	-	Short-term financing	\$ -	Operation requirements	-	None	-	\$ 10,375,146	\$ 14,525,204	
6	Garuda International Limited	Hong Qun Sheng Precision Electronics (Yingkou) Co., Ltd.	Other receivables	Yes	1,535,750	1,535,750	-	-	Short-term financing	-	Operation requirements	-	None	-	10,375,146	14,525,204	
7	Avary Holding (Shenzhen) Co., Limited	Hong Qun Sheng Precision Electronics (Yingkou) Co., Ltd.	Other receivables	Yes	3,577,683	3,577,683	1,118,026	4.35%~4.79%	Short-term financing	-	Operation requirements	-	None	-	405,698,650	567,978,110	
7	Avary Holding (Shenzhen) Co., Limited	Hong Qi Sheng Precision Electronics (Qinhuangdao) Co., Ltd.	Other receivables	Yes	17,888,416	17,888,416	5,388,886	4.35%	Short-term financing	-	Operation requirements	-	None	-	405,698,650	567,978,110	
7	Avary Holding (Shenzhen) Co., Limited	Hong Heng Sheng Electronical Technology (Huaian) Co., Ltd.	Other receivables	Yes	5,366,525	5,366,525	2,387,209	4.35%	Short-term financing	-	Operation requirements	-	None	-	405,698,650	567,978,110	
7	Avary Holding (Shenzhen) Co., Limited	Fu Bo Industrial (Shenzhen) Co., Ltd	Other receivables	Yes	894,421	894,421	371,185	4.35%	Short-term financing	-	Operation requirements	-	None	-	405,698,650	567,978,110	
7	Avary Holding (Shenzhen) Co., Limited	Qing Ding Precision Electronics (Huaian) Co., Ltd.	Other receivables	Yes	11,180,260	11,180,260	1,395,296	4.35%	Short-term financing	-	Operation requirements	-	None	-	405,698,650	567,978,110	

No.	Lender	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2018 (Note 5)	Balance at December 31, 2018 (Note 6)	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Notes 3&4)	Ceiling on total loans granted (Notes 1&4)	Footnote
													Item	Value			
7	Avary Holding (Shenzhen) Co., Limited	Yu Ding Precision Electronics (Huaian) Co., Ltd.	Other receivables	Yes	2,236,052	2,236,052	775,910	4.35%	Short-term financing	-	Operation requirements	-	None	-	405,698,650	567,978,110	
7	Avary Holding (Shenzhen) Co., Limited	Kui Sheng Technology (Shenzhen) Limited	Other receivables	Yes	\$ 357,768	\$ 357,768	-	-	Short-term financing	\$ -	Operation requirements	\$ -	None	\$ -	\$ 405,698,650	\$ 567,978,110	
<p>Note 1: Financial limit on total loans granted to others by the Group is 50% of the lent company's net assets based on their most recent audited or reviewed consolidated financial statements.</p> <p>Note 2: For parties having business relationship with the Group's subsidiaries, the financial limit on loans granted to a single party is the higher of the year-to-date purchased amount or sales amount.</p> <p>Note 3: For parties necessary for short-term financing, financial limit on loans granted to a single party is 40% of the lent company's net assets based on their most recent audited or reviewed consolidated financial statements.</p> <p>Note 4: The policy for loans granted mutually between subsidiaries (except for Zhen Ding Technology Holding Limited and Zhen Ding Technology Co., Ltd.) of which the Company directly or indirectly holds 100% of the voting shares is limited to 700% of the lending company's net assets based on the latest audited or reviewed consolidated financial statements; limit on loans granted by a subsidiary to a single subsidiary of which the Company directly or indirectly holds 100% of its voting shares is limited to 500% of the lending company's net assets based on the latest audited or reviewed consolidated financial statements.</p> <p>Note 5: Maximum amount for the period ended on the balance sheet date.</p> <p>Note 6: The amount of loans granted as resolved by the Company's Board of Directors.</p>																	

ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES

HOLDING OF MARKETABLE SECURITIES AT THE END OF THE PERIOD (EXCLUDING THE INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES)

DECEMBER 31, 2018

Table 2					Expressed in thousands of NTD			
					(Except as otherwise indicated)			
Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of December 31, 2018				Footnote (Note 4)
				Number of shares	Carrying amount (Note 3)	Ownership (%)	Fair value	
Zhen Ding Technology Co., Ltd.	SynPower Co., Ltd.	None	Non-current financial assets at fair value through other comprehensive income	2,200	\$ 52,473	9.02%	\$ 52,473	
The Company	GZINFU	None	Current financial assets at amortised cost, net	-	122,976	-	121,981	
The Company	BOND OF BABA	None	Current financial assets at amortised cost, net	-	30,821	-	30,550	
The Company	HUAHK	None	Current financial assets at amortised cost, net	-	92,706	-	89,662	
The Company	HACOMM	None	Current financial assets at amortised cost, net	-	31,013	-	29,613	
Note 1: In accordance with IAS 39, 'Financial instruments: recognition and measurement', marketable securities in the table refer to shares, bonds, beneficiary certificates and other related derivative securities.								
Note 2: Leave the column blank if the issuer of marketable securities is non-related party.								
Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.								
Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.								

ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES

ACQUISITION OR SALE OF THE SAME SECURITY WITH THE ACCUMULATED AMOUNT EXCEEDING \$300 MILLION OR 20% OF PAID-IN CAPITAL OR MORE

FOR THE YEAR ENDED DECEMBER 31, 2018

Table 3														
														Expressed in thousands of foreign currency
Investor	Marketable securities ( Note 1 )	General ledger account	Counterparty ( Note 2 )	Relationship ( Note 2 )	Balance at January 1, 2017		Addition ( Note 3 )		Disposal ( Note 3 )				Balance as at December 31, 2018	
					Number of shares	Amount	Number of shares	Amount	Number of shares	Selling price	Carrying amount	Gain (loss) on disposal	Number of shares	Amount
Avary Holding (Shenzhen) Co., Limited	RMB An Qi Kai Fang Financial Products	Financial assets at amortised cost	Bank of China Limited	None	-	RMB -	-	RMB 700,000	-	RMB 701,135	RMB 700,000	Note 4	-	RMB -
The Company	Excellent Navigation Trade Finance Notes Series 2018-1	Financial assets at amortised cost	FG Asset Backed Note SPC	None	-	RMB -	-	USD 30,000	-	-	-	-	-	USD 30,000
The Company	Advantage Trade Finance Notes Series 2018-1	Financial assets at amortised cost	FG Asset Backed Note SPC	None	-	RMB -	-	USD 30,000	-	-	-	-	-	USD 30,000
Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.														
Note 2: Fill in the columns the counterparty and relationship if securities are accounted for under the equity method; otherwise leave the columns blank.														
Note 3: Aggregate purchases or sales amounts should be calculated separately at their market values to verify whether they individually reach NT\$300 million or 20% of paid-in capital or more.														
Note 4: The gain on disposal of the financial assets at amortised cost is interest income.														
Note 5: Paid-in capital referred to herein is the paid-in capital of parent company.														

ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES											
PURCHASES OR SALES OF GOODS FROM OR TO RELATED PARTIES REACHING NT \$100 MILLION OR 20% OF PAID-IN CAPITAL OR MORE											
FOR THE YEAR ENDED DECEMBER 31, 2018											
Table 4										Expressed in thousands of NTD	
										(Except as otherwise indicated)	
Purchaser/seller	Counterparty	Relationship	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
Avary Holding (Shenzhen) Co., Limited	Garuda International Limited	An indirect wholly-owned subsidiary	Sales	\$ 49,942,518	117	60 days from the shipping date	Note 2	Note 2	\$ 16,085,385	76	
Avary Holding (Shenzhen) Co., Limited	Garuda Technology Co., Ltd.	An indirect wholly-owned subsidiary	Sales	11,315,210	27	60 days from the shipping date	Note 2	Note 2	4,595,264	22	
Hong Qun Sheng Precision Electronics (Yingkou) Co., Ltd.	Hong Heng Sheng Electronical Technology (Huaian) Co., Ltd.	An indirect wholly-owned subsidiary	Sales	713,769	45	60 days from the shipping date	Note 2	Note 2	189,100	57	
Hong Qun Sheng Precision Electronics (Yingkou) Co., Ltd.	Garuda International Limited	An indirect wholly-owned subsidiary	Sales	1,364,237	86	60 days from the shipping date	Note 2	Note 2	144,992	43	
Hong Qi Sheng Precision Electronics (Qinhuangdao) Co.,Ltd.	Garuda International Limited	An indirect wholly-owned subsidiary	Sales	29,318,856	134	60 days from the shipping date	Note 2	Note 2	8,193,835	91	
Hong Qi Sheng Precision Electronics (Qinhuangdao) Co.,Ltd.	Garuda Technology Co., Ltd.	An indirect wholly-owned subsidiary	Sales	3,165,880	14	90 days from invoice date	Note 2	Note 2	819,725	9	
Hong Heng Sheng ElectronicalTechnology (Huaian) Co., Ltd.	Garuda International Limited	An indirect wholly-owned subsidiary	Sales	3,480,213	127	30 days from the end of the transaction month	Note 2	Note 2	210,822	79	



Purchaser/seller	Counterparty	Relationship	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
Qing Ding Precision Electronics (Huaian) Co., Ltd.	Garuda International Limited	An indirect wholly-owned subsidiary	Sales	\$ 33,672,610	160	60 days from the shipping date	Note 2	Note 2	\$ 8,698,361	98	
Qing Ding Precision Electronics (Huaian) Co., Ltd.	Garuda Technology Co., Ltd.	An indirect wholly-owned subsidiary	Sales	481,812	2	60 days from the received date	Note 2	Note 2	25,083	-	
Qi Ding Technology Qinhuangdao Co., Ltd.	Henley International Limited	An indirect wholly-owned subsidiary	Sales	659,430	69	60 days from the received date	Note 2	Note 2	133,602	54	
Kui Sheng Technology (Shenzhen) Co., Ltd.	Avary Holding (Shenzhen) Co., Limited	An indirect wholly-owned subsidiary	Sales	1,516,109	137	60 days from the received date	Note 2	Note 2	310,092	100	
Henley International Limited	Zhen Ding Technology Co., Ltd.	An indirect wholly-owned subsidiary	Sales	683,794	126	90 days from the first day of next month of shipping	Note 2	Note 2	122,791	100	
Garuda International Limited	Avary Holding (Shenzhen) Co., Limited	An indirect wholly-owned subsidiary	Sales	13,874,374	17	90 days from the first day of next month of shipping	Note 2	Note 2	5,364,533	19	
Garuda International Limited	Hong Qi Sheng Precision Electronics (Qinhuangdao) Co.,Ltd.	An indirect wholly-owned subsidiary	Sales	740,425	1	90 days from the first day of next month of shipping	Note 2	Note 2	270,864	1	
Garuda International Limited	Hong Heng Sheng Electronical Technology (Huaian) Co., Ltd.	An indirect wholly-owned subsidiary	Sales	109,467	-	90 days from the first day of next month of shipping	Note 2	Note 2	45,558	-	
Garuda International Limited	Qing Ding Precision Electronics (Huaian) Co., Ltd.	An indirect wholly-owned subsidiary	Sales	4,615,645	6	90 days from the first day of next month of shipping	Note 2	Note 2	4,106,968	14	

Purchaser/seller	Counterparty	Relationship	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
Garuda International Limited	Foxconn (Far East) and subsidiaries	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	Sales	\$ 6,435,221	8	90 days from the first day of next month of shipping	Note 2	Note 2	\$ 2,397,986	8	
Garuda International Limited	Interface Technology (ChengDu) Co., Ltd.	An investee company accounted for the equity method of Hon Hai	Sales	987,234	1	90 days from the first day of next month of shipping	Note 2	Note 2	96,463	-	
Garuda International Limited	CyberTAN Technology, Inc.	An investee company accounted for the equity method of Hon Hai	Sales	140,196	-	90 days from the first day of next month of shipping	Note 2	Note 2	32,604	-	
Garuda International Limited	Foxconn Interconnect Technology Limited	An investee company accounted for the equity method of Hon Hai	Sales	294,405	-	90 days from the first day of next month of received	Note 2	Note 2	111,490	-	
Note 1: The opposite related party transactions are not disclosed.											
Note 2: Unless the transaction terms were determined in accordance with mutual agreements due to no similar transactions, the transaction terms to related parties were similar to third parties.											
Note 3: Advance sales receipts.											

ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES REACHING NT\$100 MILLION OR 20% OF PAID-IN CAPITAL OR MORE

DECEMBER 31, 2018

Table 5							Expressed in thousands of NTD	
							(Except as otherwise indicated)	
Creditor	Counterparty	Relationship	Receivables from related parties at December 31, 2018	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
Avary Holding (Shenzhen) Co., Limited	Garuda International Limited	An indirect wholly-owned subsidiary	\$ 16,085,385	3	\$ 4,601,798	Subsequent collection	\$ 12,961,432	\$ -
Avary Holding (Shenzhen) Co., Limited	Garuda Technology Co., Ltd.	An indirect wholly-owned subsidiary	4,595,264	2	2,345,920	Subsequent collection	3,213,107	-
Hong Qun Sheng Precision Electronics (Yingkou) Co., Ltd.	Hong Heng Sheng Electronical Technology (Huaian) Co., Ltd.	An indirect wholly-owned subsidiary	189,100	4	25,356	Subsequent collection	189,100	-
Hong Qun Sheng Precision Electronics (Yingkou) Co., Ltd.	Garuda International Limited	An indirect wholly-owned subsidiary	144,992	11	-	-	21,400	-
Hong Qi Sheng Precision Electronics (Qinhuangdao) Co.,Ltd.	Garuda International Limited	An indirect wholly-owned subsidiary	8,193,835	4	2,148,447	Subsequent collection	4,084,260	-
Hong Qi Sheng Precision Electronics (Qinhuangdao) Co.,Ltd.	Garuda Technology Co., Ltd.	An indirect wholly-owned subsidiary	819,725	3	66,519	Subsequent collection	552,598	-
Hong Heng Sheng Electronical Technology (Huaian) Co., Ltd.	Garuda International Limited	An indirect wholly-owned subsidiary	210,822	10	-	-	-	-
Qing Ding Precision Electronics (Huaian) Co., Ltd.	Garuda International Limited	An indirect wholly-owned subsidiary	8,698,361	5	-	-	7,203,733	-

Creditor	Counterparty	Relationship	Receivables from related parties at December 31, 2018	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
Qi Ding Technology Qinhuangdao Co.,Ltd.	Henley International Limited	An indirect wholly-owned subsidiary	\$ 133,602	6	45,547	Subsequent collection	\$ 45,547	\$ -
Henley International Limited	Zhen Ding Technology Co., Ltd.	An indirect wholly-owned subsidiary	122,791	6	-	-	-	-
Kui Sheng Technology (Shenzhen) Limited	Avary Holding (Shenzhen) Co., Limited	An indirect wholly-owned subsidiary	310,092	5	161,266	Subsequent collection	183,631	-
Garuda International Limited	Avary Holding (Shenzhen) Co., Limited	An indirect wholly-owned subsidiary	5,364,533	3	99,294	Subsequent collection	1,408,116	-
Garuda International Limited	Hong Qi Sheng Precision Electronics (Qinhuangdao) Co.,Ltd.	An indirect wholly-owned subsidiary	270,864	3	25,088	Intensify collection	-	-
Garuda International Limited	Qing Ding Precision Electronics (Huaian) Co., Ltd.	An indirect wholly-owned subsidiary	4,106,968	2	3,772,469	Subsequent collection	364,314	-
Garuda International Limited	Foxconn (Far East) and subsidiaries	An indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd.	2,397,986	3	85,258	Subsequent collection	85,258	-
Garuda International Limited	Foxconn Interconnect Technology Limited	An investee company accounted for the equity method of Hon Hai	111,490	0	-	-	-	-
As to receivables from loans to related parties exceeding NT\$100 million or 20% of issued capital, please refer to Table 1.								

ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES							
SIGNIFICANT INTER-COMPANY TRANSACTIONS DURING THE REPORTING PERIODS							
FOR THE YEAR ENDED DECEMBER 31, 2018							
Table 6							Expressed in thousands of NTD
							(Except as otherwise indicated)
Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			
				General ledger account	Amount (Note 3)	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 4)
0	The Company	Qi Ding Technology Qinhuangdao Co.,Ltd.	1	Other receivables	\$ 307,150	Note 5	-
1	Mayco Industrial Limited	The Company	2	Other receivables	982,880	"	1
2	Pacific Fair International Limited	The Company	2	Other receivables	2,417,271	"	2
4	FAT Holdings Limited	Monterey Park Finance Limited	3	Other receivables	734,089	"	1
5	Monterey Park Finance Limited	Qi Ding Technology Qinhuangdao Co.,Ltd.	3	Other receivables	614,300	"	-
6	Avary Holding (Shenzhen) Co., Limited	Fu Bo Industry (Shenzhen) Co., Ltd	3	Other receivables	371,185	"	-
6	Avary Holding (Shenzhen) Co., Limited	Hong Qun Sheng Precision Electronics (Yingkou) Co., Ltd.	3	Other receivables	1,118,026	"	1
6	Avary Holding (Shenzhen) Co., Limited	Hong Qi Sheng Precision Electronics (Qinhuangdao) Co., Ltd.	3	Other receivables	5,388,886	"	4
6	Avary Holding (Shenzhen) Co., Limited	Hong Heng Sheng Electronical Technology (Huaian) Co., Ltd.	3	Other receivables	2,387,209	"	2
6	Avary Holding (Shenzhen) Co., Limited	Qing Ding Precision Electronics (Huaian) Co., Ltd.	3	Other receivables	1,395,296	"	1
6	Avary Holding (Shenzhen) Co., Limited	Yu Ding Precision Electronics (Huaian) Co., Ltd.	3	Other receivables	775,910	"	1
6	Avary Holding (Shenzhen) Co., Limited	Garuda International Limited	3	Sales	49,942,518	Note 8	42
6	Avary Holding (Shenzhen) Co., Limited	Garuda International Limited	3	Accounts receivable	16,085,385	"	11
6	Avary Holding (Shenzhen) Co., Limited	Garuda Technology Co., Ltd.	3	Sales	11,315,210	"	10
6	Avary Holding (Shenzhen) Co., Limited	Garuda Technology Co., Ltd.	3	Accounts receivable	4,595,264	"	3
7	Hong Qun Sheng Precision Electronics (Yingkou) Co., Ltd.	Hong Heng Sheng Electronical Technology (Huaian) Co., Ltd.	3	Sales	713,769	"	1
7	Hong Qun Sheng Precision Electronics (Yingkou) Co., Ltd.	Hong Heng Sheng Electronical Technology (Huaian) Co., Ltd.	3	Accounts receivable	189,100	"	-

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			
				General ledger account	Amount (Note 3)	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 4)
7	Hong Qun Sheng Precision Electronics (Yingkou) Co.,	Garuda International Limited	3	Sales	\$ 1,364,237	Note 8	1
7	Hong Qun Sheng Precision Electronics (Yingkou) Co.,	Garuda International Limited	3	Accounts receivable	144,992	"	-
8	Hong Qi Sheng Precision Electronics (Qinhuangdao) Co.,Ltd.	Garuda International Limited	3	Sales	29,318,856	"	25
8	Hong Qi Sheng Precision Electronics (Qinhuangdao) Co.,Ltd.	Garuda International Limited	3	Accounts receivable	8,193,835	"	6
8	Hong Qi Sheng Precision Electronics (Qinhuangdao) Co.,Ltd.	Garuda Technology Co., Ltd.	3	Sales	3,165,880	Note 11	3
8	Hong Qi Sheng Precision Electronics (Qinhuangdao) Co.,Ltd.	Garuda Technology Co., Ltd.	3	Accounts receivable	819,725	"	1
9	Hong Heng Sheng Electronical Technology (Huaian) Co., Ltd.	Garuda International Limited	3	Sales	3,480,213	"	3
9	Hong Heng Sheng Electronical Technology (Huaian) Co., Ltd.	Garuda International Limited	3	Accounts receivable	210,822	"	-
10	Qing Ding Precision Electronics (Huaian) Co., Ltd.	Garuda International Limited	3	Sales	33,672,610	Note 8	29
10	Qing Ding Precision Electronics (Huaian) Co., Ltd.	Garuda International Limited	3	Accounts receivable	8,698,361	Note 8	6
10	Qing Ding Precision Electronics (Huaian) Co., Ltd.	Garuda Technology Co., Ltd.	3	Sales	481,812	Note 10	-
11	Qi Ding Technology Qinhuangdao Co.,Ltd.	Henley International Limited	3	Sales	659,430	"	1
11	Qi Ding Technology Qinhuangdao Co.,Ltd.	Henley International Limited	3	Accounts receivable	133,602	"	-
12	Kui Sheng Technology (Shenzhen) Co., Ltd.	Avary Holding (Shenzhen) Co., Limited	3	Sales	1,516,109	"	1
12	Kui Sheng Technology (Shenzhen) Co., Ltd.	Avary Holding (Shenzhen) Co., Limited	3	Accounts receivable	310,092	"	-
13	Henley International Limited	Zhen Ding Technology Co., Ltd.	3	Sales	683,794	Note 6	1
13	Henley International Limited	Zhen Ding Technology Co., Ltd.	3	Accounts receivable	122,791	"	-
14	Garuda International Limited	Avary Holding (Shenzhen) Co., Limited	3	Sales	13,874,374	"	12
14	Garuda International Limited	Avary Holding (Shenzhen) Co., Limited	3	Accounts receivable	5,364,533	"	4
14	Garuda International Limited	Hong Qi Sheng Precision Electronics (Qinhuangdao) Co.,Ltd.	3	Sales	740,425	"	1
14	Garuda International Limited	Hong Qi Sheng Precision Electronics (Qinhuangdao) Co.,Ltd.	3	Accounts receivable	270,864	"	-

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			
				General ledger account	Amount (Note 3)	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 4)
14	Garuda International Limited	Hong Heng Sheng Electronical Technology (Huaian) Co., Ltd.	3	Sales	109,467	Note 6	-
14	Garuda International Limited	Qing Ding Precision Electronics (Huaian) Co., Ltd.	3	Sales	4,615,645	"	4
14	Garuda International Limited	Qing Ding Precision Electronics (Huaian) Co., Ltd.	3	Accounts receivable	4,106,968	"	3
Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:							
(1) Parent company is '0'.							
(2) The subsidiaries are numbered in order starting from '1'.							
Note 2: Relationship between transaction company and counterparty is classified into the following three categories:							
(1) Parent company to subsidiary.							
(2) Subsidiary to parent company.							
(3) Subsidiary to subsidiary.							
Note 3: Only the related party transactions exceeding the amount of NT\$100 million or 20% paid-in capital are disclosed, and the opposite related party transactions are not disclosed.							
Note 4: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is calculated based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts. All the transactions had been eliminated in the consolidated financial statements.							
Note 5: Nature of other receivables and other payables are loans to (from) others. Please refer to Note 13(1) A for interest rate and limit on loans.							
Note 6: The prices and terms to related parties were similar to third parties. Credit term is 90 days from the first day of next month of shipping.							
Note 7: The prices and terms to related parties were similar to third parties. Credit term is 90 days from the shipping date.							
Note 8: The prices and terms to related parties were similar to third parties. Credit term is 60 days from the shipping date.							
Note 9: The prices and terms to related parties were similar to third parties. Credit term is 30 days from the received date.							
Note 10: The prices and terms to related parties were similar to third parties. Credit term is 60 days from the received date.							
Note 11: The prices and terms to related parties were similar to third parties. Credit term is 90 days from invoice date.							
Note 12: The prices and terms to related parties were similar to third parties. Credit term is 30 days from invoice date.							
Note 13: The prices and terms to related parties were similar to third parties. Credit term is advance sales receipts.							

ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES											
INFORMATION ON INVESTEESEXCLUDING THE INVESTEEES IN MAINLAND CHINA)											
FOR THE YEAR ENDED December 31, 2018											
Table 7									Expressed in thousands of NTD		
									(Except as otherwise indicated)		
Investor	Investee	Location	Main business activities	Initial investment amount		Shares held at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Footnote
				Balance at December 31, 2018	Balance at December 31, 2017	Number of shares	Ownership (%)	Carrying amount			
The Company	Monterey Park Finance Limited	British Virgin Islands	Investment holding	24,645,120	24,645,120	802,250,000	100	64,530,374	8,985,351	8,985,351	
The Company	Zhen Ding Technology Co., Ltd.	Taiwan	Trading	125,488	125,488	12,548,800	100	3,212,294	( 131,434)	( 131,434)	
Monterey Park Finance Limited	Pacific Stand Enterprises Limited	Hong Kong	Investment holding	-	921,600	-	100	-	11,026	11,026	
Monterey Park Finance Limited	Coppertone Enterprises Limited	British Virgin Islands	Investment holding	3,157,580	3,157,580	102,785,806	100	54,673,590	8,808,241	8,807,279	
Monterey Park Finance Limited	Light Flash International Limited	British Virgin Islands	Investment holding	-	30,720	-	100	-	8,214	8,214	
Monterey Park Finance Limited	Pacific Fair International Limited	Hong Kong	Investment holding	8,401,920	8,401,920	2,133,300,000	100	8,740,545	994,716	994,716	
Monterey Park Finance Limited	Henley International Limited	Hong Kong	Trading	-	-	1	100	14,322	15,232	15,232	
Coppertone Enterprises Limited	Mayco Industrial Limited	Hong Kong	Investment holding	36,713,716	36,713,716	9,321,841,932	100	54,617,639	8,808,552	8,808,552	
Zhen Ding Technology Co., Ltd.	FAT Holdings Limited	Cayman Islands	Investment holding	154	154	5,000	100	746,213	8,289	8,289	
Avary Holding (Shenzhen) Co., Limited	Garuda International Limited	Hong Kong	Trading	307,200	307,200	78,000,000	73	1,297,177	546,760	189,887	
Garuda International Limited	Garuda Technology Co., Ltd.	Taiwan	Trading	25,000	25,000	2,500,000	73	( 258,027)	( 399,289)	( 306,416)	





ZHEN DING TECHNOLOGY HOLDING LIMITED AND SUBSIDIARIES

INFORMATION ON THE INVESTMENTS IN MAINLAND CHINA

FOR THE YEAR ENDED December 31, 2018

Table 8													Expressed in thousands of NTD
													(Except as otherwise indicated)
Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 2)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net profit(loss) of investee for the year ended December 31, 2018	Ownership held directly or indirectly by the Company	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 3)	Carrying amount of investments as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
Hong Qun Sheng Precision Electronics (Yingkou) Co., Ltd.	Manufacture and sales of PCB	\$ 3,192,268	2	\$ -	\$ -	\$ -	\$ -	(\$ 560,612)	73	(\$ 430,216)	\$ 218,843	\$ -	
Hong Qi Sheng Precision Electronics (Qinhuangdao) Co., Ltd.	Manufacture and sales of PCB	7,770,328	2	-	-	-	-	4,474,266	73	3,407,376	11,670,354	-	
Hong Heng Sheng Electronical Technology (Huaian) Co., Ltd.	Manufacture and sales of PCB	4,144,021	2	-	-	-	-	( 552,576)	73	( 424,049)	627,918	-	
New Creation Electronics (Huaian) Co., Ltd.	Manufacture and sales of PCB	-	2	-	-	-	-	( 4,170)	73	( 3,200)	-	-	
Avary Holding (Shenzhen) Co., Limited	Manufacture and sales of PCB	10,338,642	2	-	-	-	-	13,279,273	73	10,190,570	59,086,357	-	

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 2)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net profit(loss) of investee for the year ended December 31, 2018	Ownership held directly or indirectly by the Company	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 3)	Carrying amount of investments as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Fu Bo Industrial (Shenzhen) Co., Ltd.	Manufacture and sales of PCB	492,325	2	-	-	-	-	29,696	73	22,789	442,240	-	
Yu Ding Precision Electronics (Huaian) Co., Ltd.	Manufacture and sales of PCB	\$ 1,077,685	2	\$ -	\$ -	\$ -	\$ -	(\$ 5,038)	73	(\$ 3,866)	\$ 702,859	\$ -	
Qing Ding Precision Electronics (Huaian) Co., Ltd.	Manufacture and sales of PCB	6,935,242	2	-	-	-	-	2,918,885	73	2,224,378	8,075,199	-	
Qi Ding Technology Qinhuangdao Co.,Ltd.	Development, manufacture and sales of electronic products	1,226,003	2	-	-	-	-	( 854,401)	100	( 854,401)	1,154,718	-	
Kui Sheng Technology (Shenzhen) Limited	Manufacture and sales of PCB	89,457	2	-	-	-	-	14,999	73	11,510	78,053	-	
Yun Ding Technology (Shenzhen) Limited	Manufacture and sales of PCB	22,364	2	-	-	-	-	68	73	52	16,008	-	
Note 1: The amounts in the table are shown in New Taiwan Dollars. Transactions denominated in foreign currencies are translated into New Taiwan Dollars at the spot exchange rates at the balance sheet date.													
Note 2: The methods of investments to PRC are as follows:													
(1) The Group remits its own funds directly to the investee companies located in PRC													
(2) Investee company, Monterey Park Finance Limited (B.V.I.), established by the Company that is located outside of Taiwan and PRC remits its own funds directly to the investee companies located in PRC.													
(3) Others													
Note 3: The columns investment income (loss) recognised by the Company for the year ended December 31,2018 were based on the audited financial statements of the investees in Mandland China for the same period.													



## Chapter 7 Review and Analysis of the Financial Conditions and Operating Performance and Risk Assessment

### I. Financial Conditions

Unit: NT\$1,000; %

Item \ Year	2017	2018	Difference	
			Amount	%
Current assets	81,368,070	88,894,203	7,526,133	9.25%
Property, plant and equipment	36,681,453	41,913,166	5,231,713	14.26%
Intangible assets	88,854	91,721	2,867	3.23%
Other non-current assets	5,578,136	9,208,063	3,629,927	65.07%
Total assets	123,716,513	140,107,153	16,390,640	13.25%
Current liabilities	55,181,109	51,835,059	-3,346,050	-6.06%
Non-current liabilities	13,274,085	10,163,514	-3,110,571	-23.43%
Total liabilities	68,455,194	61,998,573	-6,456,621	-9.43%
Capital	8,047,484	8,047,484	-	-
Capital reserve	14,851,298	22,000,657	7,149,359	48.14%
Retained earnings	23,163,165	28,955,372	5,792,207	25.01%
Other equity interest	-1,717,913	-2,948,306	-1,230,393	71.62%
Total equity	55,261,319	78,108,580	22,847,261	41.34%

Explanation of material changes: (changes in the amount of more than 10% and more than 1% of the total assets of the current year)

- (1) Property, plant, and equipment: Mainly attributed to the purchase of new equipment in response to demand for production capacity.
- (2) Other non-current assets: Mainly attributed to the acquisition of land use rights by the Company's subsidiary Avary Holding from the local government in 2018.
- (3) Non-current assets: Mainly attributed to payment of corporate bonds on the maturity date through reclassification to current liabilities and new syndicated long-term loans added in 2018.
- (4) Capital reserve: Mainly attributed to the issuance of new shares in the cash capital increase of the Company's subsidiary Avary Holding that caused non-controlling interests to increase.
- (5) Retained earnings: Mainly attributed to profits in the current period appropriated to retained earnings.

Source: CPA-audited consolidated financial report for 2017 to 2018.

## II. Financial performance

Units: in NT\$1,000; %

Item \ Year	2017	2018	Variation	
			Amount	Proportion of change (%)
Operating revenue	109,237,731	117,912,881	8,675,150	7.94%
Operating costs	-91,404,296	-91,851,933	-447,637	0.49%
Gross profit	17,833,435	26,060,948	8,227,513	46.14%
Operating expenses	-9,176,299	-11,215,330	-2,039,031	22.22%
Operating profit (loss)	8,657,136	14,845,618	6,188,482	71.48%
Non-operating income and expenses	-163,246	-179,056	-15,810	9.68%
Profit before tax	8,493,890	14,666,562	6,172,672	72.67%
Net profit of this period	6,771,783	11,536,495	4,764,712	70.36%
Comprehensive income or loss (net value after tax) in this period	234,175	-1,485,700	-1,719,875	-734.44%
Total combined income for this period	7,005,958	10,050,795	3,044,837	43.46%

Explanation of material changes: (changes in the amount of more than 10% and more than 1% of the total assets of the current year)

- (1) Gross profit: Mainly attributed to the increase in demand for consumer electronics products which increased operating revenue and optimization of product portfolio that decreased unit costs and operating costs.
- (2) Operating expenses: Mainly attributed to the increase in operating income and the increase in corresponding management and R&D expenses.
- (3) Operating profit (loss): Same as explanation for (1) gross profit and (2) operating expenses.
- (4) Net profit before tax: Same as explanation for (1) gross profit and (2) operating expenses.
- (5) Net profit of this period: Same as explanation for (1) gross profit and (2) operating expenses.
- (6) Comprehensive income or loss (net value after tax) in this period: Caused mainly by increased exchange differences in financial statements of overseas operations.
- (7) Total combined income for this period: Same as explanation for (1) profit of this period and (6) comprehensive income or loss (net value after tax) in this period.

Source: CPA-audited consolidated financial report for 2017 to 2018.

### III. Cash flow

#### (I) Analysis of cash flow changes over the most recent fiscal year

Units: NT\$1,000; %

Item \ Year	2017	2018	Increase (decrease) amount	Percentage of change (%)
Operating activities	2,210,274	26,900,321	24,690,047	1117.06%
Investing activities	-17,256,919	-9,526,856	7,730,063	-44.79%
Financing activities	12,797,664	5,386,879	-7,410,785	-57.91%

#### Analysis of changes:

1. Increase in net cash inflow from operating activities: Mainly attributed to growth in revenue and accounts receivable and returns from inventory at the end of the previous period.
2. Decrease in net cash outflow from investment activities: Mainly attributed to returns from term deposits, wealth management products, corporate bonds, and other financial assets with an investment period of more than three months.
3. Increase in net cash inflow from financing activities: Mainly attributed to the cash capital increase by the subsidiary Avary Holding which caused changes in non-controlling interests to increase and growth in revenue which increased repayment of short-term loans and increased cash dividends.

Source: CPA-audited consolidated financial report for 2017 to 2018.

#### (II) Cash liquidity analysis for the following year:

Unit: NT\$1,000

Cash balance at beginning of the period	Estimated net cash flow from operating activities in the entire year	Estimated net cash flow from financing and investing activities in the entire year	Cash surplus (inadequacy) amount	Remedial measures for cash inadequacy	
				Investment plan	Financial plan
40,652,973	13,736,285	-34,911,215	19,478,043	—	—

#### IV. Impact of major capital expenditures on corporate finances and business for the most recent year: none

#### V. Investment policy for the most recent fiscal year, the main reasons for the profits/losses generated thereby, the plan for improving profitability, and investment plans for the coming year: None

##### (I) The Company's investment policy

The Company currently focuses on investments in related PCB industries and does not engage in investment in other businesses. The Company's related departments execute investments based on the "investment cycle" in the internal control system and the "Procedures for the Acquisition or Disposal of Assets". The aforementioned regulations and procedures are discussed and passed by the Audit Committee, Board of Directors, and (or) the shareholders' meeting.

##### (II) Main reasons for gains or losses in the investments in other businesses in the most recent year:

Investments in other businesses	Profit or loss in the most recent period	Explanation
Monterey Park	8,985,351	Mainly attributed to recognition of profit or loss from investment in investees.
Zhen Ding Taiwan	-131,434	Mainly attributed to operating expenses derived from purchase orders in trading.
Coppertone	8,807,279	Mainly attributed to recognition of profit or loss from investment in investees.
Forever Growth	-1,598	Mainly attributed to routine management expenditures.
Pacific Stand	11,026	Mainly attributed to recognition of profit or loss from investment in investees.
Mayco	8,808,552	Mainly attributed to recognition of profit or loss from investment in investees.
Pacific Fair	994,716	Mainly attributed to recognition of profit or loss from investment in investees.
Light Flash	8,214	Mainly attributed to profits derived from purchase orders in trading.
FAT Holdings	8,289	Mainly attributed to profits from interest income.
Henley	15,232	Mainly attributed to profits derived from purchase orders in trading.
Garuda	189,887	Mainly attributed to profits derived from purchase orders in trading.
Garuda Technology Taiwan	-306,416	Mainly attributed to routine management expenditures.
Avary Holding (Shenzhen)	10,190,570	Mainly attributed to growth in revenue.
Fubo (Shenzhen)	22,789	Mainly attributed to profits from leases.
Hong Qun Sheng (Yingkou)	- 430,216	Mainly attributed to adjustment of product structure.
Hong Qi Sheng (Qinhuangdao)	3,407,376	Mainly attributed to growth in revenue.
Hong Heng Sheng (Huai'an Comprehensive Bonded Zone)	- 424,049	Mainly attributed to adjustment of product structure.
New Creation (Huai'an)	- 3,200	Mainly attributed to routine management expenditures.
Yu Ding (Huai'an)	- 3,866	Mainly attributed to routine management expenditures.
Qing Ding (Huai'an)	2,224,378	Mainly attributed to growth in revenue.
Ji Ding (Qinhuangdao)	- 854,401	Mainly attributed to adjustment of product structure.
Kui Sheng Technology (Shenzhen)	11,510	Mainly attributed to growth in revenue.
Yun Ding Technology (Shenzhen)	52	Mainly attributed to growth in revenue.

Note: The procedures for the dissolution and liquidation of Light Flash Internationals Limited (including its branch company in Taiwan) and overseas subsidiary companies of New



Creation Electronics (Huai'an) Co., Ltd. have been completed by the end of December 2018 in accordance with the resolutions of board meetings of the Company and subsidiaries. Procedures for Pacific Stand Enterprises Limited remains underway.

(III) Investment plans for the next year:

The Company shall investment plans for the next year shall consist of investment in subsidiaries in China or other regions. They shall be processed based on customers' orders and demands in accordance with related investment evaluation and decision-making procedures.

**VI. Risk Analysis and Assessment of the Most Recent Year as of the Publication Date of This Report**

(I) The Impacts of interest rates, exchange rate fluctuation and inflation situation on the Company's profit and loss, and the future response measures:

1. Changes to interest rates and resulting impact to the Company's gain or loss as well as future response measures:

The US economy grew as expected in 2018 and the new Chairman of the Federal Reserve Jerome Powell maintained the consistency of the interest rate increase policy by raising interest rates four times and reducing balance sheet continuously. The Federal Reserve maintained a monetary policy that increased the yield rate of US treasury bonds, thus increasing overall financing costs. The US is expected to maintain 1 to 2 interest rate increases while maintaining the progress of balance sheet reduction. Future debt costs will continue its slow increase.

Taiwan's economy in 2018 was affected by the trade disputes between China and the United States as well as the interest rate hikes and tight monetary policy. The performance was good in the first half of the year but the economy took a conservative turn in the second half of the year as the stock market dropped below 10,000 points. The newly appointed Governor of the Central Bank of Taiwan maintained a tenth quarter of freeze on interest rates in Taiwan. As market forecasts on future economy remain conservative, we expect the interest rate in Taiwan to remain low for a long period.

The trade disputes between China and the United States continued this year and may cause long-term economic impact. The People's Bank of China reduced the deposit reserve interest rate twice in 2018 and launched tax and fee reduction policies in an attempt to create a loose economic environment in both monetary and financial policies. China is expected to maintain a loose interest rate policy as growth in China's economy slows down and external uncertainties remain.

(1) Impact on the Company's profit/loss:

The Company's net interest expenses in 2018 amounted to NT\$134,439 thousand. The interest of main loans is calculated based on the USD floating interest rates. Therefore, the increase in USD interest rate will increase the Company's future financing cost. The US benchmark interest rate is expected to increase gradually in 2019 and the Company's overall interest expenses will also rise as interest rates increase. However, it should not cause material impact on the Company's overall profits.

(2) Future response measures:

The Company has raised long-term loans in response to future interest rate hikes and locked financing costs in advance for future operating capital. We shall also continue to use our good operating performance to negotiate favorable interest rates from financial institutions to effectively reduce the overall funding cost.

2. The effects of exchange rate and inflation on company profits as well as the future response measures:

Economic development in countries around the world improved as the world economy continued to grow in 2018. However, the United States' continuously tighten monetary policies and the escalation of trade disputes between China and the United States have caused fluctuations and increase of US Dollar Index throughout the year. Due to uncertainties in international political and economic issues, recent forecasts on economic conditions in 2018 and 2019 from international institutions generally conclude that global economic growth will remain decline from the previous year and the US Federal Reserve also hinted that it would slow down interest rate increases. International USD exchange rates may continue to fluctuate in small range in 2019.

The NTD exchange rate was mainly affected by the international monetary market and the exchange rate against USD in 2018 rose first before falling. Faced with uncertainties in external political and economic conditions and possibility of a decline in economic growth, the Central Bank of Taiwan is expected to maintain stable financial and monetary policies and TWD exchange rate may maintain a steady rate of depreciation. The probability of severe fluctuations in exchange rates remains low.

The RMB exchange rate fluctuated extensively in 2018, particularly after the middle of the year when trade disputes between China and the United States gradually gained momentum. The RMB's gains against USD was reversed and approached the 7.00 threshold. Alarms of "exchange rate above 7" sounded on the market and the political and economic impact on exchange rates exacerbated. If the trade disputes between China and the United States are gradually resolved as they reach a consensus and if growth in the Chinese economy gradually slows, the RMB exchange rate is expected to increase over the medium to long-term based on market expectations.

In terms of inflation, the annual growth rate of the consumer price index (CPI) of countries around the world has increased slowly each year. However, central banks exerted management and control measures and there are no signs of excessive changes. We expect future inflation levels to be maintained at stable conditions.

- (1) Impact on the Company's profit/loss:

The main currencies used by the Company include USD and RMB and the payment periods of the both Company's assets and liabilities are at similar levels and can therefore offset market risks. We do not expect material market risks.

- (2) Future response measures:

To evade the risks of exchange rate fluctuations, the Company adopts hedging on the basis of receivable and payable foreign currency positions for its operations in derivative products. We also offset assets and liabilities to reduce exposure and the impact of exchange rate risks.

- (II) The policies to engage in high-risk, high-leverage investments, lending funds to others, endorsements and guarantees, and the transactions of derivative products, the main reasons for profits and losses, and future response measures:

The Company has established the "Procedures for Acquisition and Disposal of Assets", "Procedures for Lending to Others", "Procedures for Making Endorsements and Guarantees", and "Procedures for Engaging in Transactions of Derivative Products" as the basis for the Company and its subsidiaries' related actions.

Except for endorsements, guarantees, and loans between the Company and subsidiaries and between subsidiaries, there are no endorsements, guarantees, or loans between the Company and other companies. The aforementioned endorsements, guarantees, and loans have been processed in accordance with related operating procedures and do not affect consolidated profit and loss. The Company has always focused on operations in its main business and does not involve itself in other high-risk industries. We also base our finance policy on the principles of stability and conservatism and we do not engage in high-risk high-leverage investments or transactions. The level of related risks should be considered as limited.

The Company's profits in unrealized gains and losses in derivative products as of December 31, 2018 were mainly due to the appreciation of the RMB and our advanced lock on the exchange rate. As transactions in derivative products are based on hedging accounts receivable and payable, the unrealized gains and losses can be offset against foreign currency positions on the account. Therefore, there should be no material impact.

- (III) Future Research and Development (R&D) Plans and the R&D expenses expected to be invested:

The Company continues to expand investment in R&D resources to provide customers with top innovative technologies in the industry and assist customers develop future products. We adopt a centralized competitive leadership strategy and established unique core technologies to lead trends and develop high-end next-generation products. We also expand basic research and collaboration with industrial, government, academic, and research institutions and integrate resources to continue to accumulate and strengthen R&D energy and improve the Company's long-term competitiveness.

Future development plans include:

12 strategies for future PCB and semiconductor development plans: Light (light-weight), thin (thin design), short (short procedures), small (small footprint), high (high frequency/high speed/high heat dissipation), low (low pollution/low cost/low power consumption), multiple (multi-functional and multi-layer), fast (fast development and production), precision (low tolerance), accurate (no variation), refined (refined circuits), and beauty (aesthetically appealing). The main applications include high-end technologies for smart phones, tablet computers, wearable devices, communications, Internet, automotive electronics, servers, and base stations.

The Company's R&D expenditures in 2017 and 2018 amounted to NT\$4,725,194 thousand and NT\$5,637,557 thousand which accounted for 4% and 5% of the revenue in the current year. The amount in 2019 is approximately NT\$5.5 billion.

- (IV) The impacts of changes of the important domestic and foreign policies and laws on the Company's finance and business, and the response measures:

The Company is registered in the Cayman Islands and its main operations are in China, Hong Kong, British Virgin Islands, and Taiwan. Cayman Islands' economic activities consist mainly of financial services and China is now one of the largest economies in the world. The Company's business operations are carried out in accordance with important domestic and foreign policies, laws, and regulations. We also pay close attention to important domestic and foreign political development trends changes in laws to quickly respond to changes in the market environment and take appropriate response measures. In the most recent year and as of the date of Annual Report, the Company's finances have not been affected by major changes in policies and laws in the Cayman Islands, China, Hong Kong, British Virgin Islands, or Taiwan.

The Company's important customers and suppliers are mostly located in Asia. Due to special political conditions in certain Asian countries such as the divided Korea, special international political relations between China and Taiwan, and Hong Kong's status as a Special Administrative Region of China, the business operations of the Company's customers and the Company's own business operations may be affected by the political, economic, and legal environment in countries in Asia. In the most recent year and as of the publication date of the Annual Report, the Company's finances and businesses have not been affected by major changes in policies and laws of domestic or foreign governments. Any change in government policies, taxation, economic conditions, or interest rate in any region or any political, diplomatic, or social incident that affects the Company's customer may affect the business operations of the Company.

- (V) The impact of technology changes and industry changes on the Company's finance and business, and response measures:

As technical requirements for consumer electronics products continue to increase, the Company pays close attention to market trends and evaluates their impact on the Company's operations. The Company's important customers are mostly leading companies in global consumer electronics products and we maintain close partnerships. In the most recent year and as of the date of Annual Report, the Company's finances and businesses have not been negatively affected by changes in technologies or industries.

- (VI) The impacts of change of corporate image on the enterprise crisis management and the response measures:

The Company has adopted a people-oriented corporate philosophy and core values for integrity, responsibility, and excellence since its establishment. We actively strengthen internal management to improve quality and efficiency. We also continue to recruit outstanding talents into the Company and cultivate the capabilities of the management team. In the most recent year and as of the date of Annual Report, there has been no incident of changes in the corporate image that results in crisis management.

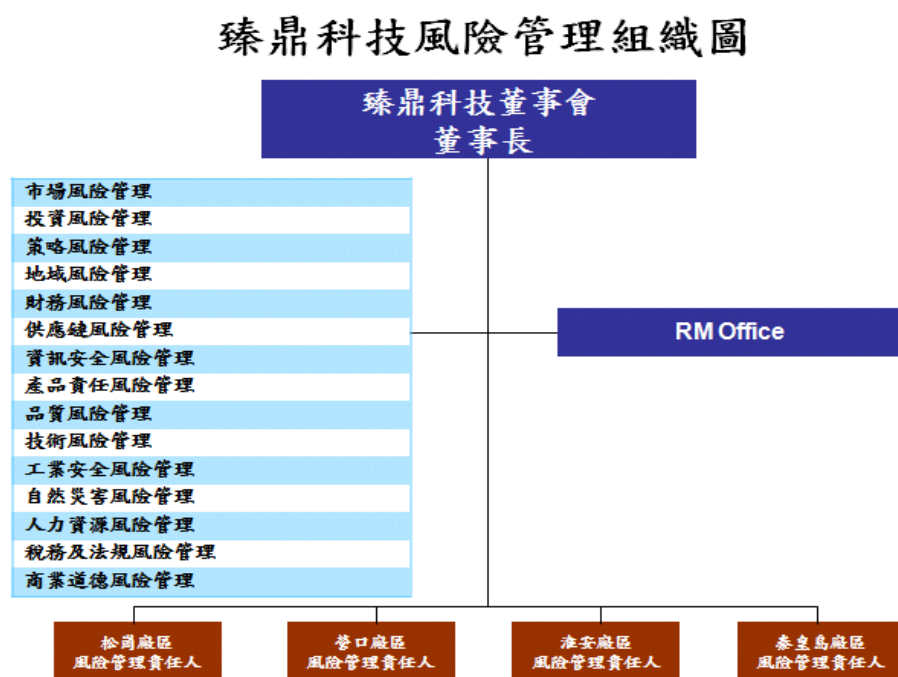
- (VII) The expected benefits and potential risks of mergers and acquisitions and response measures: We improve our independent process capacity and reduce cost in response to product transformation. There are currently no potential risks of mergers or acquisitions.

- (VIII) The expected benefits and potential risks of capacity expansion and response measures:
1. Expected benefits: Production began in expanded plants which have contributed to revenue.
  2. Possible risks and response measures: We continue to strengthen and improve the Company's management efficiency, optimize product structure, and maintain competitiveness. We also carefully and rigorously evaluate market supply and demand and future orders to reduce risks and lower the impact of future uncertainties.
- (IX) Risks associated with over-concentration in purchase or sale and response measures:
1. Concentrated purchases:  
The PCB industry is a mature industry with numerous upstream suppliers and abundant resource supply. The Company has dispersed sources of materials and there is currently no risk of concentrated purchases.
  2. Concentrated sales:  
The Company is a professional PCB manufacturer and PCBs are used in a wide range of applications. International brand customers are mainly concerned about the system assembly and manufacturing strategies for PCB supply. Our main customers include large-scale international electronic manufacturing services (EMS), original design/equipment manufacturer (ODM/OEM) designated by brand customers, and assembly plants of brand customers. The Company works closely with brand customers and we also maintain close partnerships with EMS and ODM/OEM manufacturers. However, more than 60% of our current operating revenue derives from designated production and manufacturing by international brand customers.  
  
International brand companies have increasingly delegated production to professional EMS. For instance, Company A and its subsidiaries are the largest companies in the world that adopted this operating model. The results were based on Company A's position in the global electronics industry supply chain, its scale of operations, and influence in procurement as well as the characteristics of its end customers who are renowned international communication, consumer electronics, and information and computer brand companies. Therefore, there are no risks of concentrated sales.
- (X) The impacts and risks arising from a major quantity of shares belonging to directors, supervisors, or shareholders holding greater than a 10 percent stake in the company is transferred or changes hands and the response measures: None.
- (XI) Impact of change of management rights on the Company, associated risk and response measures: None.
- (XII) Results of litigation or non-litigation events with material impact on the interests of shareholders or stock price: None.

(XIII) Other significant matters and response measures:

The Company's risk management policy is based on the establishment of a risk management system with risk identification, measurement, supervision, and control. We promote a model with an appropriate level of risk management to achieve operating goals and increase value for shareholders.

The risk management organizational chart and other critical risks and response measures are provided below:



1. Risks of fluctuations in materials prices

PCBs use copper foil, copper-clad laminates, and films as main materials. Despite the increase in copper price in the past year, we have maintained friendly long-term partnerships with suppliers and the prices of raw materials have remained stable. If copper price remains stable in the future without severe increase, materials are expected to remain at such levels and there should be no risks of price variation.

Response measures

The Company obtains stable sources of raw material supply and price negotiation powers by integrating the Company's resources. We also work hard to improve the production process and leverage our advantages for high quality and high efficiency to reduce unnecessary production cost.

2. Market competition risks

Numerous of suppliers in the industry resulted in intense competition. During times of general economic decline or downturn, companies suffer decrease in profit margins which leads to vicious competition and price wars. The Company's main competitors in various products include Mektron, TTM, Unimicron, Compeq, Tripod, SEMCO, Sumitomo, Fujikura, AT&S, Ibsiden, Meiko, and other major manufacturers. In addition to the aforementioned companies, the Company also faces competition from new competitors and competitors in emerging markets.

### Response measures

The Company leverages our advantages in finance, manufacturing, technology, marketing personnel, and marketing resources to enter the consumer electronics market and we focus on a wide range of products, services as well as partnerships with long-standing customers. We seek to differentiate ourselves from competitors and prevent price competition to establish, design, and launch new products that meet or foresee customers' demand for next-generation products and applications.

3. Rise of environmental protection awareness in China leads to increase in operators' green expenditures

In the 19th National Congress of the Communist Party of China in 2017, Mr. Xi Jinping listed ecological progress along with economic, political, cultural, and social progress, and poverty alleviation in China's national development strategies for the first time. The elevation of ecological progress marks China's transformation from GDP-centric growth as it becomes fully aware of the importance of protecting the environment and the ecology. The new generation of core leaders in China have repeatedly announced to the world their great plan for "Building a beautiful China" and listed environmental governance as a key issue in two National Congress sessions. The largest environmental protection system reform in the world is now rolled out with a top-down initiative.

China's Ministry of Environmental Protection rigorously reviewed environmental protection tasks in 2018. As of December, 20, 2017, 95,000 reports have been submitted and more than 43,000 units have been reformed. China used real actions to declare to the world its green national development philosophy of "Protecting green waters and mountains as though they are mountains of gold and silver and never use ecological deficits to gain economic development." China also proposed new environmental protection regulations, amendments, systems, and penal provisions and transformed the past "supervision of enterprises" to "supervision of the government" while elevating corporate environmental protection values from "I am required to comply with laws" to "I want to comply with laws." These actions demonstrate China's commitment for environmental protection.

The total pollutant emissions and concentration are important management and control indicators for corporate environmental management. Many advanced economies adopt administrative actions to apply increasingly rigorous management and control of total pollutant emissions and concentration and force companies to adjust or upgrade industrial structures to effectively improve the regional environment. The PCB industry is a resource-intensive industry with relatively higher volumes of pollutants. As future environmental protection policies become more rigid, operators must invest more capital to meet the government and customers' environmental protection requirements.

### Response measures

In response to the demands, the Company established a unit (Environment and Conservation Division) to develop independent pollution prevention, resource recycling, circular economy, and energy conservation and carbon emissions reduction technologies. We also pay attention to energy conservation and carbon emissions reduction trends and actively implement greenhouse gas inventory and clean production reviews to meet global trends and requirements

in Chinese environmental protection regulations. At the same time, the Company seeks to establish a green culture by advancing the "Zhen Ding Seven Greens" event including green innovation, green procurement, green production, green operations, green services, green renewable resources, and green life. We seek to create additional green value, establish friendly connections with the society, and fulfill corporate social responsibilities.

To ensure that the Company's operations and development remains unaffected by environmental protection issues, we seek to enhance internal environmental protection awareness and management capabilities and we also considered China's controls on total pollutant emissions in the environment. In 2007, we began dispersing production capacity from the Pearl Delta in China, where the environmental pollutant emissions volume exceeded the planned maximum volume, to Bohai Economic Rim and Northern Jiangsu. We also obtained sufficient wastewater and pollutant emissions volume required for future capacity expansion in the new plants to ensure favorable conditions for the Company's continuous growth.

4. Risks of changes in the demand for consumer electronics products

The demand for consumer electronics products is determined by the taste and preferences of consumers and government policies of different countries. The composition of product suppliers and their market share change rapidly. The integration of the Company's products and producers of consumer electronics products and the growth rate of the market share of the Company's products are determined by the ability of consumer electronics producers to predict consumer taste and preferences and the Company's capacity for the design, development, production, and sales of products to end customers. Related measures adopted by government authorities also affect the demand and sales of consumer electronics products.

Response measures

The Company would pay close attention to market demands and gain head starts on the market. We shall develop more innovative and advanced products to reduce the risks of changes in demand for consumer electronics products. We shall also pay close attention to changes in government policies and reduce the negative impact of changes in policies simultaneously.

5. Compliance with environmental protection, safety, and sanitation regulations

The Company strictly abides by environmental protection, safety, and sanitation regulations in the countries of operations (including BVI, China, and Taiwan). Failure to comply with such regulations may result in fines and/or suspension or revocation of the Company's business license or permit. As such regulations encompass a wide range of complicated issues, compliance with such regulations may be difficult and we may be required to invest large amounts of financial and other resources to establish effective compliance and monitoring systems for compliance.

In addition, such regulations may be amended and government authorities will continue to implement additional or more rigorous laws and regulations each year. Compliance with related regulations may increase the Company's cost. Furthermore, certain countries may implement certain technical, sanitary, or environmental regulations on the Company's products. If the Company fails to reach related standards currently adopted by such countries and regions or those adopted in the future, the Company may suffer negative impact in



business operations in these markets.

#### Response measures

The Company has strictly complied with the environmental protection, safety, and sanitation regulations in countries of operations (including BVI, China, and Taiwan) since its establishment. We also established dedicated environmental protection and safety and sanitation management units (Environment and Conservation Division and Industry Safety Division) to take charge of the Company's various environmental protection/energy conservation, and safety/sanitation/health management affairs. We also pay close attention to changes in environmental protection, energy conservation, safety/sanitation/health policies across the world and on all levels of government in China. We predict future regulatory trends and implement advanced analysis, response, plans, and execution to minimize risks of changes in policies.

#### 6. Risks of turnover of senior managerial officers and other important employees

The Company has succeeded in expanding business operations since its establishment due to the senior management's business strategies, vision, and their accumulated customer relationships. A significant part of the Company's future success will be determined by the continuous contribution of the current management team.

The Company's future success will also be determined by the Company's capacity for retaining, attracting, and encouraging employees (including management, sales, marketing, and finance personnel, particularly design and technical personnel) and training their successors. As the source of technology and product innovation, the Company's design and technical personnel are vital assets of the Company.

#### Response measures

The Company advances the successor training program and remains committed to improving the internal work environment. We provide reasonable remuneration and promotion system to strengthen the connection between the performance of senior management and the Company and reduce the risks of turnover of senior managerial officers and other important employees.

#### 7. Shareholder interest protection risks

There are several differences in the provisions of the Cayman Islands Companies Law and the Company Act of the Republic of China (ROC). Although the Company has revised its Articles of Incorporation according to the Checklist for the Protection of Shareholder Rights and Interests in the Registration Site of a Foreign Issuer, there are still a number of differences related to corporate operations in the laws of both countries. An investor is unable to adopt the concept of legal rights protection for investments in Taiwanese companies when investing in a Cayman Islands company. Investors should have proper understanding and consult professional advice to ensure that investments made in a company incorporated in the Cayman Islands are subject to protection of shareholders' interests.

#### 8. Public trading market risks

The Company's stocks were listed on the Taiwan Stock Exchange on December 26, 2011. However, stock prices may fluctuate quickly for several different reasons, and some of which may not be controlled by the Company.

The reasons are as follows:

- Changes in the results of operations of the Company and other similar companies;
- Investors' perception of changes in the value of companies similar to the Company;
- Economic development of the overall consumer electronics industry;
- Slow or negative growth in the overall economy and related markets;
- Political or economic conditions of the target markets for the Company's products;
- Changes in financial forecast or indicators including the Company's ability to achieve future income and forecast or indicators for operating profits or losses;
- Changes in profitability forecast or recommendations of securities analysts;
- Announcements of acquisitions, new products, material contracts or orders, business relationships, or other capital commitment from the Company or the Company's competitors;
- The Company's capacity for rapid research and development and launch of advanced new products;
- The Company's litigation or involvement in litigation;
- Suspension of operations;
- Material changes in the Board of Directors or management; and
- changes in laws and regulations.

For more information on the Company's key risks and response measures, please refer to favorable factors and unfavorable factors for the Company's development and response strategies. Although we have such response strategies, they may not be completely carried out due to force majeure factors during implementation. Related risks may still impact the Company's businesses, results of operations, and financial position.

9. Information security risks: Impact of damage to the information system on the Company's finance and business and the response measures

High-availability data backup systems are established in the information system framework in accordance with the risk level. We strengthen simulation tests and emergency response drills in server rooms and evaluate the operational risks and impact in terms of finance, regulations, and customers. We plan, design, and improve appropriate software/hardware equipment and resources and implement response measures to improve work procedures, reduce risks of system interruption caused by unforeseen natural disasters or human errors, and ensure that we meet the target of system recovery time.

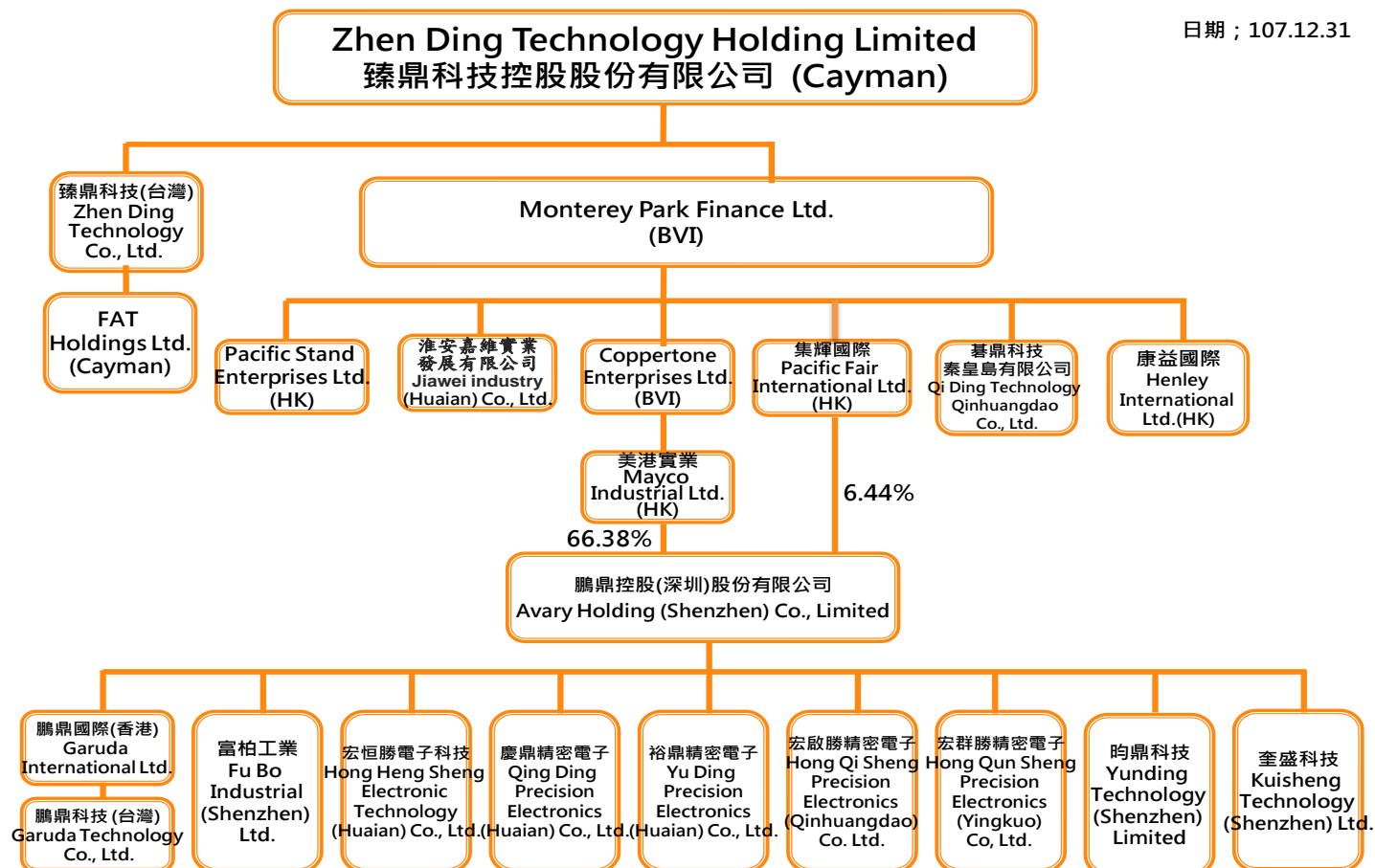
**VII. Other important issues: None.**

## Chapter 8 Special Notes

### I. Information on Affiliated Companies in the Most Recent Year

#### (I) Consolidated business report of affiliates

##### 1. Organization structure of affiliated companies



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2. Basic information of the various affiliated enterprises

December 31, 2018

Name of business	Date of establishment	Address	Capital	Principal business or core products
Monterey Park Finance Limited	1997.10.22	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	US\$ 802,250 thousand	Investment holding
ZHEN DING TECHNOLOGY CO., LTD.	1978.09.02	No.6, Lane 28, Sanho Road, Sanshi Village, Dayuan District, Taoyuan City, Taiwan, R.O.C.	NT\$ 125,488 thousand	Design, development, and sales of electronics products
Coppertone Enterprises Limited	1998.12.28	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	US\$ 102,786 thousand	Investment holding
Pacific Stand Enterprises Limited	2007.10.09	Suite 1222, 12/F., Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong	—	Investment holding
Mayco Industrial Limited	2007.11.14	Suite 1222, 12/F., Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong	HK\$ 9,321,842 thousand	Investment holding
Pacific Fair International Limited	2007.11.23	Suite 1222, 12/F., Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong	HK\$ 2,133,300 thousand	Investment holding
FAT Holdings Limited	1999.03.01	P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands	US\$ 5 thousand	Investment holding
Henley International Limited	2016.07.06	Flat/RM705-6, 7/F, China Insurance Group Building, 141 Des Voeux Road, Central, Hong Kong.	HK\$ 1	Sales of electronics products
Garuda International Limited	2019.08.30	Unit B,26/F.,CKK Commercial Centre,289 Hennessy Road, WanChai, Hong Kong	HK\$ 78,000 thousand	Sales of PCB products
Garuda Technology Co., Ltd.	2016.12.28	Building 4, No.156, Zhongshan Road Section 1, Banqiao, Xinbei, Taiwan, R.O.C.	NT\$ 25,000 thousand	Design, development, and sales of PCB products
Avary Holding (Shenzhen) Co., Ltd.	1999.04.29	AVARY Park, Songluo Road, Yanchuan Community, Yanluo Street, Bao'an Distict, Shenzhen, Guangdong Province, China	RMB 2,311,431 thousand	Design, development, manufacturing, and sales of PCB products
Fubo Industry (Shenzhen) Co., Ltd.	1998.08.03	AVARY Park, Songluo Road, Yanchuan Community, Yanluo Street, Bao'an Distict, Shenzhen, Guangdong Province, China	RMB 110,070 thousand	Design, development, manufacturing, and sales of PCB products
Yunding Technology (Shenzhen) Co., Ltd.	2015.12.15	AVARY Park, Songluo Road, Yanchuan Community, Yanluo Street, Bao'an Distict, Shenzhen, Guangdong Province, China	RMB 5,000 thousand	Design, development, and sales of PCB products
Kuisheng Technology (Shenzhen)	2017.03.28	AVARY Park, Songluo Road, Yanchuan Community, Yanluo	RMB 20,000	Design, development,

Name of business	Date of establishment	Address	Capital	Principal business or core products
Co., Ltd.		Street, Bao'an Distict, Shenzhen, Guangdong Province, China	thousand	manufacturing, and sales of PCB products
Hongqunsheng Precision Electronics (Yingkou) Co., Ltd.	2007.01.29	No.196, XinHai Street, Coastal Industrial Base, Yingkou, Liaoning Province, China	RMB 713,702 thousand	Design, development, manufacturing, and sales of PCB products
Hongqisheng Precision Electronics (Qinhuangdao) Co., Ltd.	2007.01.25	No.18, Tengfei Road, Qinhuangdao Economic and Technological Development Zone, Hebei Province, China	RMB 1,737,228 thousand	Design, development, manufacturing, and sales of PCB products
Honghengsheng Electronical Technology (Huai'an) Co., Ltd.	2006.12.06	No.168, Fushikang Road, Huai'an Economic and Technological Development Zone, Jiangsu Province, China (within the Comprehensive Bonded Zone)	RMB 926,487 thousand	Design, development, manufacturing, and sales of PCB products
Yuding Precision Electronics (Huai'an) Co., Ltd.	2014.06.23	No. 18, Pengding Road, Huai'an Economic and Technological Development Zone, Jiangsu Province, China	RMB 240,940 thousand	Design, development, manufacturing, and sales of PCB products
Qingding Precision Electronics (Huai'an) Co., Ltd.	2014.06.23	No. 8, Pengding Road, Huai'an Economic and Technological Development Zone, Jiangsu Province, China	RMB 1,550,526 thousand	Design, development, manufacturing, and sales of PCB products
Jiding Technology (Qinhuangdao) Co., Ltd.	2016.08.08	No.18-2, Tengfei Road, Qinhuangdao Economic and Technological Development Zone, Hebei, China	US\$ 40,000 thousand	Design, development, manufacturing, sales, and wholesale of electronics products, and import/export of related products
Huai'an Jiawei Industrial Development Co., Ltd.	2018.07.05	Room A306, Building 2, No. 111, Yingbin Avenue, Huai'an Economic and Technological Development Zone, Jiangsu Province, China	-	Manufacturing and sales of building materials, furniture, and hardware tools; Sales of decorative materials; Business information consultation; Catering management; Catering services

Note: Procedures for the dissolution and liquidation of Pacific Stand Enterprises Limited remains underway as of December 31, 2018.

3. Information of common shareholders who are presumed to have controlling and subordinate relationship: None

4. Status of operation for various affiliated companies:

December 31, 2018; Unit: various currencies

Name of business	Currency	Capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating income	Current profit and loss	Earnings per share
Monterey Park Finance Limited	USD	802,250,000	2,164,977,707	24,151,582	2,140,826,125	—	(16,117)	298,021,580	0.37
Zhen Ding Technology Co., Ltd.	NTD	125,488,000	3,397,283,271	189,711,180	3,207,572,091	641,596,206	(217,522,358)	(131,304,892)	(10.46)
Coppertone Enterprises Limited	USD	102,785,806	1,777,981,844	—	1,777,981,844	—	(10,343)	292,147,283	2.84
Pacific Stand Enterprises Limited	USD	—	—	—	—	—	—	365,701	—
Mayco Industrial Limited	USD	1,195,107,940	1,792,390,523	14,472,583	1,777,917,940	—	(9,668)	292,157,626	—
Pacific Fair International Limited	USD	273,500,000	285,928,042	1,405,083	284,522,959	—	(6,119)	32,992,247	—
Light Flash International Limited	USD	—	—	—	—	—	(4,976)	272,430	—
FAT Holdings Limited	USD	5,000	24,255,095	—	24,255,095	—	(3,945)	274,651	54.93
Henley International Limited	USD	—	10,541,373	10,075,151	466,222	22,679,744	507,609	505,193	—
Garuda International Limited	USD	10,000,000	1,267,643,608	1,200,097,085	67,546,523	3,914,264,107	40,347,252	18,134,653	—
Garuda Technology Co., Ltd.	NTD	25,000,000	5,779,302,478	6,133,115,577	(353,813,099)	16,190,819,579	(192,459,960)	(398,895,178)	(159.56)
Avary Holding (Shenzhen) Co., Ltd.	RMB	2,311,430,816	23,495,776,429	5,355,204,659	18,140,571,770	13,786,412,678	1,506,361,236	2,912,964,616	—
Fubo Industry (Shenzhen) Co., Ltd.	RMB	110,069,974	223,069,862	87,294,265	135,775,597	—	(1,511,019)	6,514,223	—
Yunding Technology (Shenzhen) Co., Ltd.	RMB	5,000,000	5,524,326	609,655	4,914,671	1,090,624	(20,064)	14,821	—
Kuisheng Technology (Shenzhen) Co., Ltd.	RMB	20,000,000	72,054,218	48,090,668	23,963,550	332,576,289	3,786,620	3,290,250	—
Hongqunsheng Precision Electronics (Yingkou) Co., Ltd.	RMB	713,701,800	478,396,854	411,208,126	67,188,728	458,729,746	(93,693,922)	(122,976,718)	—
Hongqisheng Precision Electronics (Qinhuangdao) Co., Ltd.	RMB	1,737,227,800	7,114,365,862	3,523,870,028	3,590,495,834	7,145,771,586	1,185,594,210	981,482,790	—
Honghengsheng Electronical Technology (Huai'an) Co., Ltd.	RMB	926,487,130	1,056,122,984	863,340,752	192,782,232	793,595,322	(70,097,022)	(121,214,035)	—
New Creation Electronics (Huaian) Co., Ltd.	RMB	—	—	—	—	—	(6,625)	(914,725)	—

Name of business	Currency	Capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating income	Current profit and loss	Earnings per share
Yuding Precision Electronics (Huai'an) Co., Ltd.	RMB	240,940,100	414,326,209	198,535,787	215,790,422	—	(40,981,422)	(1,105,218)	—
Qingding Precision Electronics (Huai'an) Co., Ltd.	RMB	1,550,525,900	5,875,874,369	3,392,188,048	2,483,686,321	7,554,692,581	823,416,868	640,291,684	—
Jiding Technology (Qinhuangdao) Co., Ltd.	RMB	274,100,000	583,004,213	324,841,574	258,162,639	255,424,180	(167,272,178)	(187,422,897)	—
Huai'an Jiawei Industrial Development Co., Ltd.	RMB	—	—	—	—	—	—	—	—

Note: Procedures for the dissolution and liquidation of Light Flash Internationals Limited (including its branch company in Taiwan) and overseas subsidiary companies of New Creation Electronics (Huaian) Co., Ltd. have been completed by the end of December 2018. Procedures for Pacific Stand Enterprises Limited remains underway.

5. Information of directors, supervisors and general managers in all affiliated companies:

December 31, 2018

Name of business	Title	Name of representative	Number of shares held	
			Number of shares	Shareholding percentage (%)
Monterey Park Finance Limited	Director	Zhen Ding Technology Holding Limited - Chang-Fang Shen	802,250,000	100%
Zhen Ding Technology Co., Ltd.	Chairman	Zhen Ding Technology Holding Limited - Chang-Fang Shen	12,548,800	100%
	Director	Zhen Ding Technology Holding Limited - Te-Wang Hsiao		
	Director	Zhen Ding Technology Holding Limited - Wen-Chen Yang		
	Supervisor	Zhen Ding Technology Holding Limited - Che-Hung Yu		
Coppertone Enterprises Limited	Director	Monterey Park Finance Limited - Chang-Fang Shen	102,785,806	100%
Pacific Stand Enterprises Limited	Director	Monterey Park Finance Limited - Chang-Fang Shen	—	100%
Mayco Industrial Limited	Director	Coppertone Enterprises Limited - Chang-Fang Shen	9,321,841,932	100%
Pacific Fair International Limited	Director	Monterey Park Finance Limited - Chang-Fang Shen	2,133,300,000	100%
FAT Holdings Limited	Director	Zhen Ding Technology Co., Ltd. - Chang-Fang Shen	5,000	100%
Henley International Limited	Director	Monterey Park Finance Limited - Chun-Mei Chen	1	100%
Garuda International Limited	Director	Avary Holding (Shenzhen) Co., Ltd. - Te-Wang Hsiao	78,000,000	100%
Garuda Technology Co., Ltd.	Chairman	Garuda International Limited - Wei-Chen Yang	2,500,000	100%
	Director	Garuda International Limited - Te-Wang Hsiao		
	Director	Garuda International Limited - Tun Ling		
	Supervisor	Garuda International Limited - Che-Hung Yu		
Avary Holding (Shenzhen) Co., Ltd.	Chairman	Chang-Fang Shen	22,987,338	1.11%



Name of business	Title	Name of representative	Number of shares held	
			Number of shares	Shareholding percentage (%)
	Director	Che-Hung Yu	—	—
	Director	Ming-Chien Kuo	—	—
	Director	Kuang-Chieh Huang	—	—
	Director	Jen-Shou Hsu	—	—
	Director	Chung-Hsing Huang	—	—
	Director	Po Chang	—	—
	Supervisor	Cheng-En Ko	—	—
	Supervisor	Hsiu-Ching Tsang	—	—
	Supervisor	Chun-Na Miao	402,037	0.02%
Fubo Industry (Shenzhen) Co., Ltd.	Chairman	Jung-Hsien Hsueh	—	—
	Director	Ming-Tsan Kao	—	—
	Director	Chin-Sheng Lin	—	—
	Supervisor	Hao-Hsu Li	—	—
Yunding Technology (Shenzhen) Co., Ltd.	Executive Director	Te-Wang Hsiao	—	—
	Supervisor	Wei-Chen Yang	—	—
Kuisheng Technology (Shenzhen) Co., Ltd.	Executive Director	Chung Lin Fu	—	—
	Supervisor	Wen-Tai Tai	—	—
Honghengsheng Electronical Technology (Huai'an) Co., Ltd.	Chairman	I-Hung Lin	—	—
	Director	Chen-Kun Fan	—	—
	Director	Wei-Chung Lin	—	—
	Supervisor	Hsien-Chun Peng	—	—
Hongqunsheng Precision Electronics (Yingkou) Co., Ltd.	Chairman	Shih-Te Chou	—	—
	Director	Pang-Chi Liu	—	—
	Director	Wei-Chung Lin	—	—
	Supervisor	Meng-Chih Liu	—	—
Hongqisheng Precision Electronics (Qinhuangdao) Co., Ltd.	Chairman	Hsiao-Nung Tung	—	—
	Director	Meng-Chih Liu	—	—
	Director	Chen-Kun Fan	—	—

Name of business	Title	Name of representative	Number of shares held	
			Number of shares	Shareholding percentage (%)
	Supervisor	Kun-Hsing Chen	—	—
Yuding Precision Electronics (Huai'an) Co., Ltd.	Chairman	I-Hung Lin	—	—
	Director	Meng-Chih Liu	—	—
	Director	Hsien-Chun Peng	—	—
	Supervisor	Wei-Chung Lin	—	—
Qingding Precision Electronics (Huai'an) Co., Ltd.	Chairman	Chen-Kun Fan	—	—
	Director	I-Hung Lin	—	—
	Director	Wei-Chung Lin	—	—
	Supervisor	Hsien-Chun Peng	—	—
Jiding Technology (Qinhuangdao) Co., Ltd.	Executive Director	Chang-Fang Shen	—	—
	Supervisor	Pang-Chi Liu	—	—
Huai'an Jiawei Industrial Development Co., Ltd.	Executive Director	Jin-Ten Chang	—	—
	Supervisor	Wei-Ping Chen	—	—

Note: Procedures for the dissolution and liquidation of Pacific Stand Enterprises Limited remains underway.

(II) Consolidated Financial Statement of Affiliates: please refer to the annual report the Annual Report for more information..

(III) Affiliated Company Consolidated Financial Report Statement: Not applicable.

**II. Private Placement of Securities of the Most Recent Year as of the Publication Date of This Report: None.**

**III. Securities Acquired, Disposed of, or Held by Subsidiaries in the Most Recent Year as of the Publication Date of This Report None.**

**IV. Other Necessary Supplemental Information: None.**

**V. Events with Major Impacts on Shareholder Equity or Share Value Described in Subparagraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act in the Most Recent Year as of the Publication Date of This Report: None.**

**VI. Explanation of Material Differences Between the Company's Articles of Incorporation and Protection of Shareholders' Equity Required by the Laws of the Republic of China:**

(I) The Company has amended the Articles of Incorporation in accordance with the Checklist for Protection of Shareholders' Equity at Places of Registration of Foreign Issuers promulgated by Taiwan Stock Exchange Corporation on November 9, 2009. As the following Protection of Shareholders' Equity does not apply to the laws of the Cayman Islands, it is not amended in the Articles of Incorporation.

(II) As the Company does not propose the surplus earning distribution or loss off-setting proposal at the close of each quarter or each half fiscal year, the amendment to the Articles of Incorporation does not include any provision relating to the surplus earning distribution or loss off-setting proposal at the close of each quarter or each half fiscal year; however, the amendment to the Articles of Incorporation has included the Protection of Shareholders' Equity set forth in the Checklist for Protection of Shareholders' Equity at Places of Registration of Foreign Issuers amended by Taiwan Stock Exchange Corporation on November 30, 2018.

Protection of Shareholders' Equity	Provisions Contained in the Company Act or the Securities and Exchange Act	Provisions Contained in the Articles of Incorporation and Reasons for Differences
<b>II. Procedure for Convening a Shareholders' Meeting or Method of Adopting Resolutions</b>		
1. Shareholders' meetings shall be convened within the territory of the Republic of China. If a shareholders' meeting is convened outside the territory of the Republic of China, it shall be resolved by the Board of Directors or permitted by the	Paragraphs 1 and 2, Article 173 of the Company Act	As the Companies Law of the Cayman Islands does not stipulate that the approval of the authority in charge shall be obtained for such behavior, Article 17.2 of the Articles of Incorporation does not specify that shareholders shall obtain approval of the authority in charge before convening an extraordinary shareholders' meeting

<p>regulator and then reported to the stock exchange for approval within two days.</p> <p>2. Shareholders who have been continuously holding 3% of the total number of the outstanding shares for a period of one year or longer may request the Board of Directors to convene an extraordinary shareholders' meeting in writing, specifying the proposal and the reason. If the Board of Directors fails to send a notice of an extraordinary shareholders' meeting within 15 days after the request is made, the shareholders may convene the extraordinary shareholders' meeting with the regulator's permission.</p>		<p>independently. If shareholders convene an extraordinary shareholders' meeting independently outside the territory of the Republic of China, it requires no approval of the authority in charge in the Cayman Islands. Therefore, Article 18.5 of the Articles of Incorporation only specifies that prior approval of Taiwan Stock Exchange shall be obtained rather than that "it shall be permitted by the regulator and then reported to the stock exchange for approval within two days" as required in by the Protection of Shareholders' Equity.</p>
<p>When shareholders' meetings are convened, shareholders may exercise their voting rights by correspondence or electronic means. If shareholders' meetings are convened outside the territory of the Republic of China, shareholders shall be entitled to exercise their voting rights by correspondence or electronic means. When voting rights are exercised by correspondence or electronic means, the method of exercise shall be specified in the shareholders' meeting notice. A shareholder exercising voting rights by correspondence or electronic means will be deemed to have attended the meeting in person, but to have waived his/her rights with respect to the extraordinary motions and amendments to original proposals of that meeting. After shareholders exercised their voting rights via written or electronic methods, if such shareholders wish to attend the shareholders' meeting in person, they shall cancel the instruction for exercising their voting rights in the previous paragraph in the same manner adopted for exercising their voting rights at least one day before</p>	<ol style="list-style-type: none"> <li>1. Article 177-1 of the Company Act</li> <li>2. Article 177-2 of the Company Act</li> </ol>	<p>According to the lawyers in the Cayman Islands, the Companies Law of the Cayman Islands does not specify that a shareholder who exercises his/her/its voting power at a shareholders' meeting by correspondence or electronic means shall be deemed to have attended the said shareholders' meeting in person; in addition, lawyers in the Cayman Islands have not found any relevant cases. To make separate arrangements, the Articles of Incorporation specifies that a shareholder who exercises his/her/its voting power at a shareholders' meeting by correspondence or electronic means shall be deemed to have authorized the chairperson to exercise his/her/its voting power at the shareholders' meeting and that the voting power which the chairperson is authorized to exercise shall not be subject to the provision that the number of voting power represented shall not exceed 3% of the voting rights of the total shares issued. Article 24.4 of the Company's Articles of Incorporation stipulates that "When a shareholder exercises the voting right by correspondence or electronic means at a shareholders' meeting according to the aforesaid provision, he/she/it shall be deemed to appoint the chairperson as a proxy to exercise the voting right at the shareholders' meeting as instructed by the</p>

<p>the convening of the shareholders' meeting. For canceling made after the past due, the voting right exercised by correspondence or electronic means shall prevail.</p>		<p>shareholder by correspondence or electronic means. This is different from the provision that "A shareholder exercising voting rights by correspondence or electronic means will be deemed to have attended the meeting in person", as prescribed in the Protection of Shareholders' Equity. In addition, Article 25.3 of the Company's Articles of Incorporation stipulates that such a voting right which the chairperson of the shareholders' meeting has on behalf of the shareholder shall not be subject to the provision that the number of voting power represented shall not exceed 3% of the voting rights of the total shares issued.</p>
<p>For the following motions that relate to key rights of the shareholders, the resolution shall be adopted by a majority of the shareholders present who represent two-thirds or more of the total number of its outstanding shares. In the event the total number of shares represented by the shareholders present at a shareholders' meeting of the Company is not sufficient to meet the criteria specified in the preceding paragraph, the resolution to be made thereto may be adopted by two-thirds or more of the attending shareholders who represent a majority of the total outstanding shares of the Company.</p> <ol style="list-style-type: none"> <li>1. Enter into, amend or terminate any contract for lease of the Company's business in whole, or for entrusted business, or for regular joint operation with another party, transfer the whole or any essential part of its business or assets, or accept the transfer of the entirety of a business or asset from another party, in which the transfer has a great bearing on the business operation of the Company.</li> <li>2. Amend the Articles of Incorporation.</li> <li>3. Resolve at the preferred shareholders' meeting on an amendment to the Articles of</li> </ol>	<ol style="list-style-type: none"> <li>1. Article 185 of the Company Act</li> <li>2. Article 209 of the Company Act</li> <li>3. Article 227 of the Company Act</li> <li>4. Article 277 of the Company Act</li> <li>5. Paragraph 1, Article 240 of the Company Act</li> <li>6. Article 316 of the Company Act</li> <li>7. Article 43-6 of the Securities and Exchange Act</li> </ol>	<ol style="list-style-type: none"> <li>1 Regarding the resolutions at a shareholders' meeting, in addition to the ordinary resolution and supermajority resolution under the laws of the Republic of China, Article 1.1 of the Articles of Incorporation defines the special resolution under the Companies Law of the Cayman Islands. According to the definition, the special resolution means a resolution passed at a general meeting of the Company by a majority of at least two-thirds of the votes cast by shareholders who, being entitled to do so, vote in person or by their proxies, and the notice of the meeting has legally stated that the resolution will be passed through a special resolution; however, the Company's Articles of Incorporation may specify a higher percentage and stipulate that matters subject to a special resolution may be passed by different percentages (but not less than two-thirds). Some matters subject to a supermajority resolution in the Checklist for Protection of Shareholders' Equity at Places of Registration of Foreign Issuers are subject to a special resolution in the Articles of Incorporation under the Companies Law of the Cayman Islands (refer to Point 2 below). As these differences arise from the Companies Law of the Cayman Islands, and the Company's Articles of Incorporation have already listed matters subject to a</li> </ol>

<p>Incorporation that prejudices the rights of preferred shareholders.</p> <ol style="list-style-type: none"> <li>4. Resolve on the distribution of stock and cash dividends through the issuance of new shares, in all or in part.</li> <li>5. Resolve on the dissolution, consolidation or merger, or split-up of the Company.</li> <li>6. Private placement of securities.</li> </ol>		<p>supermajority resolution in the Checklist for Protection of Shareholders' Equity at Places of Registration of Foreign Issuers in matters subject to a supermajority resolution and those subject to a special resolution separately, this shall have a limited impact on the shareholders' equity.</p> <ol style="list-style-type: none"> <li>2 According to the Companies Law of the Cayman Islands, the following matters shall be passed by a special resolution: <ol style="list-style-type: none"> <li>(1) Amendment to the Articles of Incorporation <p>According to the laws of the Cayman Islands, any amendments to the Articles of Incorporation shall be passed by a special resolution prescribed in the Companies Law of the Cayman Islands. As a result, the threshold of a resolution on any amendments to the Articles of Incorporation as set forth in Article 11.3 of the Articles of Incorporation is not changed into a supermajority resolution in accordance with the Checklist for Protection of Shareholders' Equity at Places of Registration of Foreign Issuers. Furthermore, according to Article 12 of the Articles of Incorporation, if any amendments or changes to the Articles of Incorporation may prejudice the preferential rights of any class of shares, such amendments or changes shall be passed by a special resolution under the Companies Law of the Cayman Islands, and shall also be passed by a special resolution at a separate meeting of shareholders of that class of shares.</p> </li> <li>(2) Dissolution <p>According to the laws of the Cayman Islands, if a company is voluntarily liquidated and dissolved because it is unable to repay its debts due, its</p> </li> </ol> </li> </ol>
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		<p>dissolution shall be adopted by a resolution at a shareholders' meeting; however, if a company is voluntarily liquidated and dissolved for reasons other than the above, its dissolution shall be adopted by a special resolution in accordance with the Companies Law of the Cayman Islands. As a result, the threshold of a resolution on the voluntary liquidation and dissolution of the Company as set forth in Article 11.5 of the Articles of Incorporation is not changed into a supermajority resolution in accordance with the Checklist for Protection of Shareholders' Equity at Places of Registration of Foreign Issuers.</p> <p>(3) Mergers</p> <p>As the Companies Law of the Cayman Islands has a mandatory requirement for voting on the "mergers defined by the laws of the Cayman Islands", Subparagraph (b), Article 11.4 of the Articles of Incorporation specifies that "mergers" (except for "acquisitions and/or mergers under the Companies Law of the Cayman Islands that may be passed by a special resolution) shall be passed by a supermajority resolution.</p> <p>The above differences are caused by different regulations provided by the laws of the Cayman Islands. Although the Company only requires an ordinary resolution to proceed when "it is voluntarily liquidated and dissolved because it is unable to repay its debts due," this shall be regarded as more in favor of shareholders; moreover, this is only applicable in certain circumstances. This shall have a limited impact on the shareholders' equity.</p>
1. A company may explicitly provide for in its articles of incorporation that the surplus	Article 228-1 of the Company Act	According to the lawyers in the Cayman Islands, as the Company does not propose the surplus earning distribution or loss

<p>earning distribution or loss off-setting proposal may be proposed at the close of each quarter or each half fiscal year.</p> <p>2. The proposal of surplus earning distribution or loss off-setting for the first three quarters or half fiscal year, together with the business report and financial statements, shall be forwarded to supervisors for their auditing, and afterwards be submitted to the Board of Directors for approval.</p> <p>3. A company distributing surplus earning in accordance with the provision of the preceding paragraph shall estimate and reserve the taxes and dues to be paid, the losses to be covered and the legal reserve to be set aside. Where such legal reserve amounts to the total paid-in capital, this provision shall not apply.</p> <p>4. A company shall distribute surplus earning in the form of new shares to be issued by the company in accordance with the provision of Paragraph 2 by a resolution adopted by a majority of the shareholders present who represent two-thirds or more of the total number of its outstanding shares of the company. If the total number</p>		<p>off-setting proposal at the close of each quarter or each half fiscal year, the amendment to the Articles of Incorporation does not include any provision relating to the surplus earning distribution or loss off-setting proposal at the close of each quarter or each half fiscal year; however, the amendment to the Articles of Incorporation has included the Protection of Shareholders' Equity set forth in the Checklist for Protection of Shareholders' Equity at Places of Registration of Foreign Issuers amended by Taiwan Stock Exchange Corporation on November 30, 2018.</p>
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<p>of shares represented by the shareholders present at a meeting of shareholders is less than the aforesaid threshold, the resolution may be adopted by a majority (2/3 or more) vote of the shareholders present at that meeting of shareholders attended by the shareholders representing a majority of the total number of the outstanding shares of the company; if such surplus earning is distributed in the form of cash, it shall be approved by a meeting of the Board of Directors.</p> <p>5. Surplus earning distribution or loss off-setting proposal by a company in accordance with the provisions of the preceding four paragraphs shall be made based on the financial statements audited or reviewed by a certified public accountant.</p>		
<b>III. Authority and Responsibility of Directors</b>		
<ol style="list-style-type: none"> <li>Supervisors of a company shall be elected by a shareholders' meeting, among them at least one supervisor shall have a domicile within the territory of the Republic of China.</li> <li>The term of office of a supervisor shall not exceed three years. However, a supervisor may be eligible for re-election.</li> <li>In case all supervisors of a company are discharged, the Board of Directors shall, within 60 days, convene an extraordinary shareholders' meeting to elect new supervisors.</li> </ol>	<p>Articles 216~222 of the Company Act</p>	<p>The Companies Law of the Cayman Islands does not have the concept of supervisors. The Company has set up the Audit Committee; as a result, the Articles of Incorporation does not have any provisions relating to supervisors.</p>

<p>4. Supervisors shall supervise the execution of business operations of the company, and may at any time or from time to time investigate the business and financial conditions of the company, inspect the accounting books and documents, and request the Board of Directors or managerial personnel to make reports thereon.</p> <p>5. Supervisors shall audit the various statements and record prepared for submission to a shareholders' meeting by the Board of Directors, and shall make a report of their findings and opinions at the shareholders' meeting.</p> <p>6. In performing their functional duties, supervisors may appoint, on behalf of the company, a practicing lawyer and a certified public accountant to conduct the examination.</p> <p>7. Supervisors of a company may attend the meeting of the Board of Directors to express their opinions. In case the Board of Directors or any director commits any act, in carrying out the business operations of the company, in a manner in violation of the laws, regulations, the Articles of Incorporation or the resolutions of the shareholders' meeting, the supervisors shall forthwith advise, by a notice, to the board of directors or the director, as the case may be, to cease such act.</p> <p>8. Supervisor may each exercise the supervision power individually.</p> <p>9. A supervisor shall not be concurrently a director, a managerial officer or an employee of the company.</p>		
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# **Zhen Ding Technology Holding Limited**

**Chairman: Chang-Fang Shen**