

Stock code

2457

# **Phihong Technology Co., Ltd.**

## **2018 Annual Shareholders' Meeting**

### **Meeting Agenda**

Date: 9:00am Wednesday, June 13, 2018

Location: No. 27, Wenming Road, Guishan District, Taoyuan City  
(4/F, Taipower Linkou Nuclear Training Center)

## TABLE OF CONTENTS

<b>I. Meeting Procedures</b> .....	1
<b>II. Meeting Agenda</b> .....	3
<b>1. Reports</b>	
(1) The 2017 Operating Status Review & 2018 Business Outlook Report .....	5
(2) The Audit Committee Report on the Review of the 2017 Financial Statements .....	5
(3) The Amended “Rules and Procedures of Board of Directors Meeting” .....	5
<b>2. Acknowledgements</b>	
(1) The 2017 Financial Statements .....	6
(2) The 2017 Surplus Earning Distribution / Loss Off-Setting Proposal.....	6
<b>3. Discussions</b>	
The Amended “Articles of Incorporation” .....	7
<b>4. Extraordinary Motions</b> .....	8
<b>III. Appendix</b> .....	9
1. 2017 Business Report.....	10~13
2. 2017 Individual Financial Statement and Independent Auditors’ Report .....	14~23
3. 2017 Consolidated Financial Statements and Independent Auditors’ Report .....	24~33
4. Comparison Table for the Amended “Rules and Procedures of Board of Directors Meeting” .....	34~39
5. 2017 Surplus Earning Distribution / Loss Off-Setting Proposal.....	40
6. Comparison Table for the Amended “Articles of Incorporation” .....	41~44
<b>IV. Annex</b> .....	45
1. Rules and Procedures of Shareholders’ meeting.....	46~47
2. Articles of Incorporation .....	48~52
3. Rules and Procedures of Board of Directors Meeting.....	53~56
4. Relevant information on the Board-authorized profit distribution proposal and the employee compensation & directors’ remuneration proposal pending for resolution on Shareholders’ meeting.....	57
5. The impact of the stock grants on the company's business performance, earnings per share and shareholder’s return on investment to be proposed in this shareholders’ meeting.....	58
6. Status of the Number of Shares Held by Directors.....	59

# **Meeting Procedures**

# **PHIHONG TECHNOLOGY CO., LTD.**

## **2018 Annual General Shareholders' Meeting Procedures**

1. Commence Meeting (to be announced upon quorum)
2. Arrival of the Chairman
3. Chairman's Speech
4. Reports
5. Acknowledgements
6. Discussions
7. Extraordinary motions
8. Meeting Adjourned

# **Meeting Agenda**

# **PHIHONG TECHNOLOGY CO., LTD.**

## **2018 Annual General Shareholders' Meeting Agendas**

- 1. Time:** 9:00am Wednesday, June 13, 2018
- 2. Venue:** No. 27, Wenming Road, Guishan District, Taoyuan City (4/F, Taipower Linkou Nuclear Training Center)
- 3. Chairman's Speech**
- 4. Reports:**
  - (1) The 2017 Operating Status Review & 2018 Business Outlook Report
  - (2) The Audit Committee Report on the Review of the 2017 Financial Statements
  - (3) The Amended “Rules and Procedures of Board of Directors Meeting”
- 5. Acknowledgements:**
  - (1) The 2017 Financial Statements
  - (2) The 2017 Surplus Earning Distribution / Loss Off-Setting Proposal
- 6. Discussions:**

The Amended “Articles of Incorporation”
- 7. Extraordinary Motions**
- 8. Meeting Adjourned**

## Reports

1. **The 2017 Operating Status Review & 2018 Business Outlook Report enclosed herewith.**  
(Please refer to Appendix 1, p.10 ~13 hereof).
2. **The Audit Committee Report on the Review of the 2017 Financial Statements enclosed herewith.**

**PHIHONG TECHNOLOGY CO., LTD.**  
**Audit Committee's Report**

The Board of Directors has prepared the Company's 2017 Business Report, 2017 Individual and Consolidated Financial Statements and Profit Distribution Proposal. The CPA firm of Deloitte & Touche has completed the audit on the 2017 Individual and Consolidated Financial Statements and has issued an audit report accordingly. The 2017 Business Report, 2017 Individual and Consolidated Financial Statements and Profit Distribution Proposal have been reviewed and determined to be adequate and accurate by the Audit Committee. Therefore, we hereby submit this report pursuant to relevant provisions of the Securities and Exchange Act and Company Act.

Yours sincerely,

2018 Annual General Shareholders' Meeting, PHIHONG TECHNOLOGY CO., LTD.

Convener of the Audit Committee: HUNG, YU-YUAN  
March 16, 2018

3. **The amended "Rules and Procedures of Board of Directors Meeting" enclosed herewith.**  
**Explanations:** (1) The Company's "Rules and Procedures of Board of Directors Meeting" was partially amended pursuant to the regulations prescribed in Order FSC-Certificate-Issuance No. 1060027112 issued by Financial Supervisory Commission on 28 July 2017 in order to be in compliance with the laws & regulations and the Company's practices.  
(2) Enclosed the Company's Comparison Table for the Amended "Rules and Procedures of Board of Directors Meeting" (Please refer to Appendix 4, p.34~39 hereof).

## Acknowledgements

**1. Subject: Please acknowledge the 2017 Financial Statements (by the Board of Director).**

- Explanations:**
- (1) The Company's 2017 Financial Statements have been audited by accountant WU, KER-CHANG and accountant HUANG, YI-MIN of the CPA firm of Deloitte & Touche and authorized by the board of directors on March 16, 2018.
  - (2) Various reports and statements have been reviewed and determined to be adequate and accurate by the Audit Committee.
  - (3) Enclosed the following reports and statements:
    - (i) Business Report (please refer to Appendix 1, p.10~13 hereof).
    - (ii) 2017 Individual Financial Statement and Consolidated Financial Statements (please refer to Appendix 2 ~ 3, p.14~33 hereof).

**Resolutions:**

**2. Subject: Please acknowledge the 2017 Surplus Earning Distribution / Loss Off-Setting Proposal (by the Board of Director)**

- Explanations:**
- (1) The Company's 2017 net profit after tax was NT\$6,655,539, but after making up for the accumulated loss (NT\$128,792,972) from the opening balance at the beginning of the period and recognizing the deduction of defined benefit plans reassessment value of the period (NT\$6,860,375) in retained earnings, the accumulated loss carried forward at the end of the period is NT\$128,997,808. Therefore, there will be no distribution of dividends.
  - (2) The Company incurred accumulated loss at the end of 2017; therefore, there will be no distribution of employee compensation and Directors' remuneration.
  - (3) Enclosed the "2017 Surplus Earning Distribution / Loss Off-Setting Proposal" (Please refer to Appendix 5, p.40 hereof).

**Resolution:**



## Discussions

**Subject: Please discuss and vote for the amended “Articles of Incorporation” (by the Board of Directors).**

**Explanations:**(1)Some of the provisions of the Articles of Incorporation were amended in line with the Company’s practices.

(2)Enclosed Comparison Table for Amended “Articles of Incorporation” (please refer to Appendix 6, p.41 ~44 hereof).

**Resolution:**

## **Extraordinary Motions**

# Appendix



# PHIHONG TECHNOLOGY CO., LTD.

## 2017 Business Report

In 2017, the Company faced the challenges of the instability of the world's major economies and the continuous rise in the prices of components. The operating conditions of the year were better than that of the year 2016. We hereby present the Company's 2017 operating status and 2018 business plan as follows:

### 1. 2017 Business Report

#### (1) The result of business plan and budget implementation

The net operating income of the Company in 2017 was NT\$11,283,520,000, which was decreased by approximately 0.61% comparing with the net operating income of NT\$11,352,243,000 in 2016. The net profit after tax in 2017 was NT\$6,656,000, which was increased by approximately 102.21% comparing with the net loss after tax of NT\$301,299,000 in 2016.

The overall revenue and profit failed to achieve the internal goals.

#### (2) Revenues, Expenses, and Profitability Analysis

##### (i) Revenues and Expenses Analysis

Items	Year		
	2016	2017	Variation %
non-operating income and expenses	46,556	287,463	517.46

The Company's non-operating income and expenses in 2017 has increased compared with 2016, which mainly due to the increase in the disposal of investment property and disposal of equity directly associated with non-current assets held for sale in 2017.

##### (ii) Profitability Analysis

Items	Year			
	2016	2017		
Profitability	Return on Asset (%)	(2.37)	0.33	
	Return on Equity (%)	(5.67)	0.13	
	Proportion to the paid-in capital (%)	operating income	(11.11)	(6.10)
		net profit before tax	(9.43)	2.41
	Net Profit Margin (%)	(2.65)	0.06	
Earnings per share (NT\$) (Note)	(1.08)	0.02		

Note: Earnings per share have been adjusted retrospectively with the consideration of the stock grants in the past years.

#### (3) Research and Development

##### (i) Focus on development and design of green performance products

With the continuous discussion on global warming issues, the Company has, in response to environmental protection, continued to regard the environmental protection as its top priority for many years. From conforming with the RoHS / REACH requirements on the use of lead-free, halogen-free, red phosphorus-free and banned toxic and hazardous raw materials to the current energy-saving product developments such as electric car charging solutions, etc., and from improving efficiency of the charger from the design side to focusing on research and development that is in line with the new energy-saving regulations, the 2016 U.S. Department of Energy (DoE) Level VI energy efficiency specifications and European Union's Code of Conduct (CoC) V5T2 energy efficiency requirements, the Company has been devoted in environmental protection to fulfill our Corporate Social Responsibility (CSR) from the source (R&D) by the implementation of environmental protection policies in line with the global trend.

In addition, the nuclear disaster triggered by the 311-tsunami in Japan highlights the need to improve the source of electricity consumption. The Company engaged in the research and development of Home Energy Management System (HEMS) to monitor and manage electricity consumption for the purpose of saving energy and reduce the demand for investment in nuclear power plants. Therefore, the research and development on power manage products and improvement on product efficiency will not only reduce the electricity consumption but also reduce carbon emissions and promote environmental protection as a member of the Earth.

##### (ii) Improve the capability to develop new technologies

The Company has, in addition to continuously recruiting of Taiwanese high-tech talents and promoting brain-storming among talents from different R&D and design backgrounds, inspired more innovative products and focused on related new R&D and design technologies for lightweight, energy saving, carbon reduction and better design products. Each product is further optimized by simulation, and 3D printing technology is introduced into the sample production process to shorten the design time, improve the development capability, and quickly provide optimized products required by the customers.

- (iii) Creative & Innovative Technologies
  - (a) Internationalization of talents to integrate different ideas and inspire common innovation;
  - (b) Focus on product innovation to create products with the highest performance by optimized designs;
  - (c) Strengthen design speed by introducing 3D printing technology and design simulation to accelerate design speed and achieve mass production;
  - (d) Increase the proportion of automated production by introducing innovative automation technology since the beginning of design and investing in automation equipment to reduce costs through the transfer of automated production methods into the factory;
  - (e) The wide band gap semiconductor in high power density and high efficiency applications can further increase the efficiency of power supply products to achieve better energy saving effects and size down the volume to facilitate reduction in raw material consumption;
  - (f) The development of USB PD technology. Designing a power supply product that can automatically adjust the output voltage and current in response to the demand of various 3C products such as mobile phones, tablets, notebook computers and monitors to reduce the number of power products and further reduce raw materials consumption;
- (iv) Professional research and development capabilities
  - (a) Internationalization of talents to improve communication efficiency with customers, and quickly meet customers' needs;
  - (b) Focus on environmental protection start from design;
  - (c) Actively invest in high-efficiency IC integration technologies to develop high-efficiency light-weight products that meets DoE Level IV;
  - (d) Continuous learning and improvement to provide multifunctional and high value-added products to be cost-effective;
  - (e) Invest in ID design talents to enhance the appearance of products in respond to the global trends.

## 2. Abstract of the 2018 business plan

### (1) Operating strategy

- (i) Improve the competitiveness in quality, price, and delivery, to pursue profits as the operational goal, and to reward investment shareholders;
- (ii) Formulate sales strategy and plan for product business group and review the implementation status regularly;
- (iii) Invest in automated production, improve production efficiency, streamline the number of direct employees and develop toward sophisticated manufacturing processes in a progressive manner;
- (iv) Adopt KPI system to concentrate the actions of various departments in achieving the Company's operational goals;
- (v) Improve the superiority of various products while reducing design costs and increasing profits;
- (vi) Strengthen systematization to increase work efficiency and accuracy;
- (vii) Internal control head office's operating costs and the factory's five major expenses;
- (viii) Set the delivery L/T of strategic products and strengthen delivery time as the goal for all divisions in terms of customer services.

### (2) Business goals

- (i) Concentrate willpower of all employees to achieve (exceed) annual operating sales budget and profit & loss budget;
- (ii) Optimize manpower system and product technology for the business group in order to facilitate the increase of new customers and the number of new projects;

- (iii) Continue the promotion of energy-saving and carbon-reducing products, such as electric vehicle charging products, into the European, American, Japan and Greater China markets and expand turnover and profit of the electric vehicle energy business group;
  - (iv) The 2019 business budget target will focus on emerging market such as wearable devices, drones, VR (virtual reality), AI, and Internet of Things to start early business activities, expand customer base and increase sales volume of new products;
  - (v) Eliminate the loss-making models in mass production;
  - (vi) Reduce product and material inventory;
  - (vii) Increase the turnover and customer base of high-power power products;
- (3) Important production and sales policies
- (i) Join hands with American, European, and Japanese businesses under common awareness to conduct intensive business activities in response to market competition;
  - (ii) Introduce automation gradually to increase production efficiency and reduce processing costs;
  - (iii) Set strategic L/T to shorten LT of parts and facilitate production plans and achieving of sales budget;
  - (iv) Reducing factory operating costs by internal control the 5 major costs of the factory in order to facilitate profit & loss forecast;
  - (v) Implement factory stability measures on direct operators to ensure stability of the production line personnel;
  - (vi) Establish production line response system for small orders from medical, AI, and UAV industries;
  - (vii) Establish business development system, expand product demand in emerging markets, and create more sources of income.
3. Future company development strategies
- (1) Set up R&D and design department to introduce new products to the market, increase revenue and profit as soon as possible;
  - (2) Introduce production automation to reduce the number of direct operators and the risk of labor shortage crisis in the mainland in order to facilitate stable production;
  - (3) Improve the competitiveness in quality, price and delivery;
  - (4) Avoid the risk of concentrating production in Dongguan and consider adding production bases in other regions;
  - (5) Enhance R&D technical strength and product superiority in order to increase the turnover and profits of existing customers and expand new customer base.
4. Impact from the external competitive environment, regulatory environment and overall economic environment
- (1) External competitive environment  
 In the face of fierce competition, the Company has remained its turnover without significant slide. The Company has also actively reduced the operating costs of the head office and the five major costs of the factory to facilitate its profit-seeking operating goal.  
 In addition, the Company has also actively invested in R&D and market development of new energy products for electric vehicle charging station in order to improve product superiority and attract supports from more internationally renowned manufacturers.
  - (2) Regulatory environment  
 In terms of environmental protection laws and regulations, the Company has introduced various laws and regulations to the R&D and design, so its products are all be in compliance with RoHS, Pb-free, Halogen-free, HSF and other regulations with minimal impact. In terms of safety regulations, the Company also complies with the ever-changing laws and regulations. In addition, the Company has passed ISO9001, ISO14001, ISO13485, OHSAS18000 certifications; its complete control over product quality, environmental protection, employee safety and health also meet the requirements of international customers. In the future, the Company will aim to develop patents for its development and design; in particular, new technologies and designs for energy-saving products must comply with various international energy conservation standards to upgrade the threshold in product competition.
  - (3) Overall economic environment  
 The Company's growth has slowed down due to impact from global economic environment. Although the power supply has a wide range of applications and the market demand is expected to

remain sustainable, but the increase in labor costs and the prolonged shortage in raw materials have created a precarious business environment. The Company will resist the severe external competition by business strategies such as improving competitiveness in quality, price and delivery, introducing production automation, reducing total operating costs, strengthening business activities and enhancing technical strength of the product. The Company will maintain its profit-seeking operational goals to provide benefits for the employees in order to enhance overall centripetal force and work efficiency to achieve profitability, while paying attention to the trend of new products in the market to develop high value-added superior products, increase revenue and improve overall profitability in order to progress toward the goal of business continuity against the overall environmental changes.

Looking ahead to the 2018 operation, the Company will continue to uphold its business philosophy of “outstanding design, excellent quality, on-time delivery, reasonable prices, and satisfactory service” to enhance growth momentum and fulfill its corporate social responsibility (CSR). We are convinced that, with the cooperation and efforts of all my colleagues, we will be able to generate greater shareholder value.

Best wishes to all shareholders.

Chairman:  
LIN, CHUNG-MING

President:  
LIN, CHUNG-MING

Principal Accounting Officer:  
CHEN, CHIU-CHIN



## 勤業眾信

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### INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Phihong Technology Co., Ltd.

#### Opinion

We have audited the accompanying financial statements of Phihong Technology Co., Ltd. (the Company), which comprise the balance sheets as of December 31, 2017 and 2016, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

#### Basis for Opinion

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Key audit matters for the Company's financial statements for the year ended December 31, 2017 are stated as follows:

#### Recognition of Revenue from Sale of Power Supply Products

Description of the key audit matter:

The Company's revenue is mainly contributed to from the sale of power supply products. For the year ended December 31, 2017, the revenues from the sale of power supply products was \$8,128,861 thousand, representing 98% of total revenues. Since the Company sold power supply products to clients in China, the Americas and Europe, the complexity in determining the timing of the transfer of the risks and rewards of ownership of the power supply products to the clients and whether the revenue are recorded appropriately has increased. Due to the complexity, the recognition of revenue from the sale of power supply products is defined as a key audit matter. Refer to Note 4 to the accompanying financial statements for the related disclosures.

Our audit procedures in respect of the key audit matter:

We performed the compliance tests to understand the Company's process for the recognition of revenue from the sale of power supply products and the design and implementation of its controls over the process. Moreover, we performed audit procedures as follows:

1. We performed the substantive analytical procedures on the revenue from the sale of power supply products.
2. We tested sample transactions of revenue from the sale of power supply products to determine whether the timing of the transfer of the risks and rewards of ownership of the power supply products matched the timing of revenue recognition.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Ker-Chang Wu and Yi-Min Huang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 16, 2018

Notice to Readers

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

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

**PHIHONG TECHNOLOGY CO., LTD.**

**BALANCE SHEETS**

**DECEMBER 31, 2017 AND 2016**

**(In Thousands of New Taiwan Dollars)**

ASSETS	2017		2016	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 1,346,875	16	\$ 621,575	7
Trade receivables (Notes 4 and 8)	795,314	10	827,648	9
Trade receivables from related parties (Notes 4, 8 and 23)	264,229	3	437,493	5
Other receivables	54,542	1	75,945	1
Other receivables from related parties (Note 23)	443,084	5	575,831	6
Inventories (Notes 4 and 9)	16,943	-	14,794	-
Other financial assets - current (Note 6)	-	-	583,292	6
Other current assets	14,174	-	14,424	-
Total current assets	<u>2,935,161</u>	<u>35</u>	<u>3,151,002</u>	<u>34</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets measured at cost - non-current (Notes 4 and 7)	28,536	-	29,359	-
Investments accounted for using equity method (Notes 4 and 10)	4,595,119	55	5,179,775	56
Property, plant and equipment (Notes 4 and 11)	750,749	9	810,743	9
Intangible assets (Notes 4 and 12)	18,654	-	22,910	-
Deferred tax assets (Notes 4 and 19)	46,465	1	50,700	1
Other financial assets - non-current (Notes 6 and 24)	25,450	-	25,450	-
Other non-current assets	11,230	-	10,907	-
Total non-current assets	<u>5,476,203</u>	<u>65</u>	<u>6,129,844</u>	<u>66</u>
<b>TOTAL</b>	<u>\$ 8,411,364</u>	<u>100</u>	<u>\$ 9,280,846</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 13)	\$ 100,000	1	\$ -	-
Trade payables	9,061	-	16,730	-
Trade payables to related parties (Note 23)	509	-	33,863	-
Other payables (Notes 15 and 23)	1,496,394	18	1,777,173	19
Current tax liabilities (Notes 4 and 19)	39,964	-	45,596	1
Current portion of long-term borrowings (Notes 13 and 14)	-	-	1,163,926	13
Other current liabilities	76,772	1	93,197	1
Total current liabilities	<u>1,722,700</u>	<u>20</u>	<u>3,130,485</u>	<u>34</u>
<b>NON-CURRENT LIABILITIES</b>				
Bonds payable (Note 14)	998,453	12	997,977	10
Long-term borrowings (Note 13)	130,000	2	-	-
Deferred tax liabilities (Notes 4 and 19)	79,832	1	79,832	1
Accrued pension liabilities (Notes 4 and 16)	95,614	1	87,953	1
Total non-current liabilities	<u>1,303,899</u>	<u>16</u>	<u>1,165,762</u>	<u>12</u>
Total liabilities	<u>3,026,599</u>	<u>36</u>	<u>4,296,247</u>	<u>46</u>
<b>EQUITY (Notes 4 and 17)</b>				
Common stock	3,376,884	40	2,776,884	30
Capital surplus	1,044,017	12	1,026,456	11
Retained earnings				
Legal reserve	1,113,185	13	1,113,185	12
Special reserve	230,859	3	230,859	2
Unappropriated earnings (accumulated deficits)	(128,997)	(1)	(128,792)	(1)
Total retained earnings	<u>1,215,047</u>	<u>15</u>	<u>1,215,252</u>	<u>13</u>
Other equity				
Exchange differences on translating foreign operations	(256,008)	(3)	(91,443)	(1)
Unrealized gain on available-for-sale financial assets	4,825	-	57,450	1
Total other equity	<u>(251,183)</u>	<u>(3)</u>	<u>(33,993)</u>	<u>-</u>
Total equity	<u>5,384,765</u>	<u>64</u>	<u>4,984,599</u>	<u>54</u>
<b>TOTAL</b>	<u>\$ 8,411,364</u>	<u>100</u>	<u>\$ 9,280,846</u>	<u>100</u>

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

# PHIHONG TECHNOLOGY CO., LTD.

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 23)	\$ 8,283,571	100	\$ 8,146,544	100
OPERATING COSTS (Notes 4, 9 and 23)	<u>7,183,090</u>	<u>87</u>	<u>7,143,262</u>	<u>88</u>
GROSS PROFIT	1,100,481	13	1,003,282	12
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES (Note 4)	<u>12,076</u>	<u>-</u>	<u>(28,042)</u>	<u>-</u>
GROSS PROFIT AND REALIZED GAIN FROM SUBSIDIARIES AND ASSOCIATES	<u>1,112,557</u>	<u>13</u>	<u>975,240</u>	<u>12</u>
OPERATING EXPENSES				
Sales and marketing expenses	217,826	3	272,743	3
General and administration expenses	194,652	2	173,818	2
Research and development expenses	<u>429,446</u>	<u>5</u>	<u>447,486</u>	<u>6</u>
Total operating expenses	<u>841,924</u>	<u>10</u>	<u>894,047</u>	<u>11</u>
INCOME FROM OPERATIONS	<u>270,633</u>	<u>3</u>	<u>81,193</u>	<u>1</u>
NONOPERATING INCOME (EXPENSES)				
Other income (Note 18)	84,346	1	69,733	1
Other gains and losses (Notes 14 and 18)	(96,880)	(1)	(51,547)	(1)
Finance costs	(31,272)	(1)	(29,208)	-
Share of the loss of subsidiaries and associates (Notes 4 and 10)	<u>(189,931)</u>	<u>(2)</u>	<u>(362,240)</u>	<u>(5)</u>
Total nonoperating expenses	<u>(233,737)</u>	<u>(3)</u>	<u>(373,262)</u>	<u>(5)</u>
PROFIT (LOSS) BEFORE INCOME TAX	36,896	-	(292,069)	(4)
INCOME TAX EXPENSE (Notes 4 and 19)	<u>(30,240)</u>	<u>-</u>	<u>(9,230)</u>	<u>-</u>
NET PROFIT (LOSS) FOR THE YEAR	<u>6,656</u>	<u>-</u>	<u>(301,299)</u>	<u>(4)</u>

(Continued)

# PHIHONG TECHNOLOGY CO., LTD.

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2017		2016	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 16)	\$ (8,266)	-	\$ (5,612)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 19)	1,405	-	954	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Note 17)	(164,565)	(2)	(386,201)	(4)
Share of the other comprehensive income (loss) of associates accounted for using the equity method (Note 17)	<u>(52,625)</u>	<u>(1)</u>	<u>10,099</u>	<u>-</u>
Total other comprehensive loss, net	<u>(224,051)</u>	<u>(3)</u>	<u>(380,760)</u>	<u>(4)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>\$ (217,395)</u>	<u>(3)</u>	<u>\$ (682,059)</u>	<u>(8)</u>
EARNINGS (LOSS) PER SHARE (Note 20)				
Basic	<u>\$ 0.02</u>		<u>\$ (1.09)</u>	
Diluted	<u>\$ 0.02</u>			

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

(Concluded)

**PHIHONG TECHNOLOGY CO., LTD.**

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(In Thousands of New Taiwan Dollars)**

	Retained Earnings				Other Equity			Total Equity
	Ordinary Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	
BALANCE, JANUARY 1, 2016	\$ 2,776,884	\$ 1,026,456	\$ 1,113,185	\$ 230,859	\$ 177,165	\$ 294,758	\$ 47,351	\$ 5,666,658
Net loss for the year ended December 31, 2016	-	-	-	-	(301,299)	-	-	(301,299)
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(4,658)	(386,201)	10,099	(380,760)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	(305,957)	(386,201)	10,099	(682,059)
BALANCE, DECEMBER 31, 2016	2,776,884	1,026,456	1,113,185	230,859	(128,792)	(91,443)	57,450	4,984,599
Net profit for the year ended December 31, 2017	-	-	-	-	6,656	-	-	6,656
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	(6,861)	(164,565)	(52,625)	(224,051)
Total comprehensive loss for the year ended December 31, 2017	-	-	-	-	(205)	(164,565)	(52,625)	(217,395)
Issuance of ordinary shares for cash (Note 17)	600,000	10,430	-	-	-	-	-	610,430
Issuance of ordinary shares under employee share options (Note 17)	-	7,131	-	-	-	-	-	7,131
BALANCE, DECEMBER 31, 2017	\$ 3,376,884	\$ 1,044,017	\$ 1,113,185	\$ 230,859	\$ (128,997)	\$ (256,008)	\$ 4,825	\$ 5,384,765

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

# PHIHONG TECHNOLOGY CO., LTD.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit (loss) before income tax	\$ 36,896	\$ (292,069)
Adjustments for:		
Depreciation expense	77,439	78,883
Amortization expense	18,801	11,757
Interest expense	31,272	29,208
Interest income	(12,004)	(27,779)
Dividend revenue	(1,957)	(5,435)
Compensation costs of employee share options	7,131	-
Share of loss of subsidiaries and associates	189,931	362,240
Gain on disposal of property, plant and equipment	(13,215)	(4,134)
Loss on disposal of intangible assets	116	-
Gain on disposal of investment	-	(11,173)
Gain on buy-back of bonds payable	(103)	(1,752)
(Realized) unrealized gain on transactions with subsidiaries	(12,076)	28,042
Net changes in operating assets and liabilities		
Trade receivables	32,334	113,042
Trade receivables from related parties	173,264	(336,995)
Other receivables	5,576	(14,176)
Other receivables from related parties	132,747	(156,923)
Inventories	(2,149)	231,651
Other current assets	730	4,749
Trade payables	(7,669)	(9,526)
Trade payables to related parties	(33,354)	(145,165)
Other payables	(288,697)	120,846
Other current liabilities	(16,425)	23,861
Reserve for retirement plan	(605)	(675)
Cash generated from (used in) operating activities	317,983	(1,523)
Interest paid	(15,614)	(8,645)
Interest received	27,831	15,075
Income tax paid	(30,232)	(15,613)
Net cash generated from (used in) operating activities	<u>299,968</u>	<u>(10,706)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets at fair value through profit or loss	-	(25,000)
Proceeds from sale financial assets at fair value through profit or loss	-	60,252
Net cash outflow on acquisition of subsidiaries	-	(342,059)
Payments for property, plant and equipment	(27,512)	(72,889)
Proceeds from disposal of property, plant and equipment	25,607	26,792
Payments for intangible assets	(13,532)	(9,524)
Increase in refundable deposits	(522)	-
Decrease in refundable deposits	-	133
Purchase of other financial assets	-	(233,019)
Decrease in other financial assets	583,292	-

(Continued)



# PHIHONG TECHNOLOGY CO., LTD.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
Increase in prepayments for equipment	\$ (2,983)	\$ -
Dividends received	36,103	7,607
Return of capital from investments accounted for using equity method	155,465	27,309
Return of capital from investees of financial assets measured at cost	<u>823</u>	<u>777</u>
Net cash generated from (used in) investing activities	<u>756,741</u>	<u>(559,621)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	100,000	-
Proceeds from issue of convertible bonds	-	1,000,000
Repayments of convertible bonds	(1,171,839)	(121,401)
Payments for transaction costs attributable to issue of bonds payable	-	(2,380)
Proceeds from long-term borrowings	130,000	-
Repayments of long-term borrowings	-	(700,000)
Proceeds from issuance of ordinary shares	612,000	-
Payments for transaction costs attribute to issuance of ordinary shares	<u>(1,570)</u>	<u>-</u>
Net cash (used in) generated from financing activities	<u>(331,409)</u>	<u>176,219</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	725,300	(394,108)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>621,575</u>	<u>1,015,683</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 1,346,875</u>	<u>\$ 621,575</u>

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

(Concluded)

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Phihong Technology Co., Ltd.

**Opinion**

We have audited the accompanying consolidated financial statements of Phihong Technology Co., Ltd. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

**Basis for Opinion**

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

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2017 are stated as follows:

#### Recognition of Revenue from Sale of Power Supply Products

Description of the key audit matter:

The Group's revenue is mainly contributed to from the sale of power supply products. For the year ended December 31, 2017, the revenue from the sale of power supply products was \$11,082,236 thousand, representing 98% of total revenue. Since the Group sold power supply products to clients in China, the Americas and Europe, the complexity in determining the timing of the transfer of the risks and rewards of ownership of the power supply products to the clients and whether the revenue are recorded appropriately has increased. Due to the complexity, the recognition of revenue from the sale of power supply products is defined as a key audit matter. Refer to Notes 4 and 33 to the accompanying consolidated financial statements for the related disclosures.

Our audit procedures in respect of the key audit matter:

We carried out compliance tests to understand the Group's process for the recognition of revenue from the sale of power supply products and the design and implementation of its controls over the process. Moreover, we performed audit procedures as follows:

1. We performed substantive analytical procedures on the revenue from the sale of power supply products.
2. We tested sample transactions of revenue from the sale of power supply products to determine whether the timing of the transfer of the risks and rewards of ownership of the power supply products matched the timing of revenue recognition.

#### **Other Matter**

We have also audited the parent company only financial statements of the Company as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Ker-Chang Wu and Yi-Min Huang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 16, 2018

Notice to Readers

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

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

**PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2017 AND 2016**  
(In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 1,758,856	17	\$ 1,312,763	11
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	345,163	4	406,411	4
Trade receivables (Notes 4 and 9)	2,033,614	20	2,663,732	23
Trade receivables from related parties (Notes 4, 9 and 28)	9	-	-	-
Other receivables	123,733	1	93,657	1
Inventories (Notes 4 and 10)	1,557,917	15	1,503,403	13
Prepayment for lease (Notes 4 and 17)	2,778	-	3,530	-
Non-current assets held for sale (Notes 4 and 11)	962,236	9	11,471	-
Other financial assets - current (Note 6)	3,868	-	586,543	5
Other current assets	<u>125,296</u>	<u>1</u>	<u>123,668</u>	<u>1</u>
Total current assets	<u>6,913,470</u>	<u>67</u>	<u>6,705,178</u>	<u>58</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets measured at cost - non-current (Notes 4 and 8)	43,936	1	44,759	1
Investments accounted for using equity method (Notes 4 and 13)	188,171	2	262,337	2
Property, plant and equipment (Notes 4 and 14)	2,923,572	28	3,728,732	32
Investment properties (Notes 4 and 15)	-	-	581,307	5
Intangible assets (Notes 4 and 16)	28,416	-	32,166	-
Deferred tax assets (Notes 4 and 24)	46,465	1	50,700	1
Long-term prepayments for lease (Notes 4 and 17)	103,768	1	133,247	1
Other financial assets - non-current (Note 6)	25,450	-	25,450	-
Other non-current assets	<u>37,628</u>	<u>-</u>	<u>39,201</u>	<u>-</u>
Total non-current assets	<u>3,397,406</u>	<u>33</u>	<u>4,897,899</u>	<u>42</u>
<b>TOTAL</b>	<u>\$ 10,310,876</u>	<u>100</u>	<u>\$ 11,603,077</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 18)	\$ 100,000	1	\$ 96,840	1
Trade payables	2,377,151	23	2,960,386	25
Trade payables to related parties (Note 28)	59,806	1	71,883	1
Other payables (Note 20)	847,764	8	858,568	7
Current tax liabilities (Notes 4 and 24)	75,875	1	75,269	1
Current portion of long-term borrowings (Notes 18 and 19)	11,908	-	1,176,838	10
Other current liabilities	<u>146,114</u>	<u>1</u>	<u>193,291</u>	<u>2</u>
Total current liabilities	<u>3,618,618</u>	<u>35</u>	<u>5,433,075</u>	<u>47</u>
<b>NON-CURRENT LIABILITIES</b>				
Bonds payable (Notes 4 and 19)	998,453	10	997,977	8
Long-term borrowings (Note 18)	138,931	1	22,596	-
Deferred tax liabilities (Notes 4 and 24)	79,832	1	79,832	1
Accrued pension liabilities (Notes 4 and 21)	95,614	1	87,953	1
Other non-current liabilities	<u>3,918</u>	<u>-</u>	<u>7,061</u>	<u>-</u>
Total non-current liabilities	<u>1,316,748</u>	<u>13</u>	<u>1,195,419</u>	<u>10</u>
Total liabilities	<u>4,935,366</u>	<u>48</u>	<u>6,628,494</u>	<u>57</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 22)</b>				
Common stock	<u>3,376,884</u>	<u>33</u>	<u>2,776,884</u>	<u>24</u>
Capital surplus	<u>1,044,017</u>	<u>10</u>	<u>1,026,456</u>	<u>9</u>
Retained earnings				
Legal reserve	1,113,185	11	1,113,185	9
Special reserve	230,859	2	230,859	2
Unappropriated earnings (accumulated deficits)	<u>(128,997)</u>	<u>(1)</u>	<u>(128,792)</u>	<u>(1)</u>
Total retained earnings	<u>1,215,047</u>	<u>12</u>	<u>1,215,252</u>	<u>10</u>
Other equity				
Exchange differences on translating foreign operations	(256,008)	(3)	(91,443)	(1)
Unrealized (loss) gain on available-for-sale financial assets	<u>4,825</u>	<u>-</u>	<u>57,450</u>	<u>1</u>
Total other equity	<u>(251,183)</u>	<u>(3)</u>	<u>(33,993)</u>	<u>-</u>
Total equity attributable to owners of the Company	5,384,765	52	4,984,599	43
<b>NON-CONTROLLING INTEREST (Note 22)</b>	<u>(9,255)</u>	<u>-</u>	<u>(10,016)</u>	<u>-</u>
Total equity	<u>5,375,510</u>	<u>52</u>	<u>4,974,583</u>	<u>43</u>
<b>TOTAL</b>	<u>\$ 10,310,876</u>	<u>100</u>	<u>\$ 11,603,077</u>	<u>100</u>

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

# PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 28 and 33)	\$ 11,283,520	100	\$ 11,352,243	100
OPERATING COSTS (Notes 4, 10 and 28)	<u>9,969,733</u>	<u>88</u>	<u>9,984,005</u>	<u>88</u>
GROSS PROFIT	<u>1,313,787</u>	<u>12</u>	<u>1,368,238</u>	<u>12</u>
OPERATING EXPENSES				
Sales and marketing expenses	471,229	4	762,736	7
General and administration expenses	474,494	5	440,348	4
Research and development expenses	<u>574,023</u>	<u>5</u>	<u>473,677</u>	<u>4</u>
Total operating expenses	<u>1,519,746</u>	<u>14</u>	<u>1,676,761</u>	<u>15</u>
LOSS FROM OPERATIONS	<u>(205,959)</u>	<u>(2)</u>	<u>(308,523)</u>	<u>(3)</u>
NONOPERATING INCOME (EXPENSES)				
Other income (Note 23)	145,594	1	155,666	2
Other gains and losses (Notes 11, 15 and 23)	161,978	2	(79,730)	(1)
Finance costs	(34,964)	-	(34,360)	-
Share of the profit of associates (Notes 4 and 13)	<u>14,855</u>	<u>-</u>	<u>4,980</u>	<u>-</u>
Total nonoperating income	<u>287,463</u>	<u>3</u>	<u>46,556</u>	<u>1</u>
PROFIT (LOSS) BEFORE INCOME TAX	81,504	1	(261,967)	(2)
INCOME TAX EXPENSE (Notes 4 and 24)	<u>(74,866)</u>	<u>(1)</u>	<u>(39,360)</u>	<u>(1)</u>
NET PROFIT (LOSS) FOR THE YEAR	<u>6,638</u>	<u>-</u>	<u>(301,327)</u>	<u>(3)</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 21)	(8,266)	-	(5,612)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 24)	1,405	-	954	-

(Continued)



# PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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

	2017		2016	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Note 22)	\$ (163,786)	(1)	\$ (386,021)	(3)
Share of the other comprehensive income (loss) of associates accounted for using the equity method (Note 22)	<u>(52,625)</u>	<u>(1)</u>	<u>10,099</u>	<u>-</u>
Total other comprehensive loss	<u>(223,272)</u>	<u>(2)</u>	<u>(380,580)</u>	<u>(3)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>\$ (216,634)</u>	<u>(2)</u>	<u>\$ (681,907)</u>	<u>(6)</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ 6,656	-	\$ (301,299)	(3)
Non-controlling interests	<u>(18)</u>	<u>-</u>	<u>(28)</u>	<u>-</u>
	<u>\$ 6,638</u>	<u>-</u>	<u>\$ (301,327)</u>	<u>(3)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ (217,395)	(2)	\$ (682,059)	(6)
Non-controlling interests	<u>761</u>	<u>-</u>	<u>152</u>	<u>-</u>
	<u>\$ (216,634)</u>	<u>(2)</u>	<u>\$ (681,907)</u>	<u>(6)</u>
EARNINGS (LOSS) PER SHARE (Note 25)				
Basic	<u>\$ 0.02</u>		<u>\$ (1.09)</u>	
Diluted	<u>\$ 0.02</u>			

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

(Concluded)



**PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of the Company							Non-controlling Interests	Total Equity	
	Ordinary Shares	Retained Earnings			Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Other Equity			
		Capital Surplus	Legal Reserve	Special Reserve			Unrealized Gain (Loss) on Available- for-sale Financial Assets			Total
BALANCE, JANUARY 1, 2016	\$ 2,776,884	\$ 1,026,456	\$ 1,113,185	\$ 230,859	\$ 177,165	\$ 294,758	\$ 47,351	\$ 5,666,658	\$ 5,656,490	
Net loss for the year ended December 31, 2016	-	-	-	-	(301,299)	-	-	(301,299)	(28)	
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(4,658)	(386,201)	10,099	(380,760)	180	
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	(305,957)	(386,201)	10,099	(682,059)	152	
BALANCE, DECEMBER 31, 2016	2,776,884	1,026,456	1,113,185	230,859	(128,792)	(91,443)	57,450	4,984,599	(10,016)	
Net profit (loss) for the year ended December 31, 2017	-	-	-	-	6,656	-	-	6,656	(18)	
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(6,861)	(164,565)	(52,625)	(224,051)	779	
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	(205)	(164,565)	(52,625)	(217,395)	761	
Issuance of ordinary shares for cash (Note 22)	600,000	10,430	-	-	-	-	-	610,430	-	
Issuance of ordinary shares under employee share options (Note 22)	-	7,131	-	-	-	-	-	7,131	-	
BALANCE, DECEMBER 31, 2017	\$ 3,376,884	\$ 1,044,017	\$ 1,113,185	\$ 230,859	\$ (128,997)	\$ (256,008)	\$ 4,825	\$ 5,384,765	\$ (9,255)	

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

# PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit (loss) before income tax	\$ 81,504	\$ (261,967)
Adjustments for:		
Reversal of impairment loss on trade receivables	-	(2,028)
Depreciation expense	310,246	367,435
Amortization expense	23,322	17,301
Net gain on fair value change of financial assets and financial liabilities designated as at fair value through profit or loss	(3,707)	(2,307)
Finance costs	34,964	34,360
Interest income	(15,966)	(32,541)
Dividend revenue	(5,874)	(16,932)
Compensation costs of employee share options	7,131	-
Share of loss of associates	(14,855)	(4,980)
Gain on disposal of property, plant and equipment	(11,258)	(5,650)
Gain on disposal of non-current assets held for sale	(113,218)	-
Gain on disposal of investment properties	(129,588)	-
Loss on disposal of intangible assets	180	523
Gain on disposal of investment	(16,966)	(30,845)
Gain on buy-back of bonds payable	(103)	(1,752)
Amortization of prepayments for leases	3,368	3,786
Net changes in operating assets and liabilities		
Trade receivables	630,118	(398,851)
Trade receivable from related parties	(9)	-
Other receivables	(45,899)	(23,420)
Inventories	(54,514)	52,183
Other current assets	8,166	6,968
Trade payables	(583,235)	554,557
Trade payables to related parties	(12,077)	10,651
Other payables	(71,798)	5,237
Other current liabilities	(47,177)	104,757
Reserve for retirement plan	(605)	(675)
Cash (used in) generated from operating activities	(27,850)	375,810
Interest paid	(20,690)	(13,232)
Interest received	31,789	19,824
Income tax paid	(68,620)	(39,897)
Net cash (used in) generated from operating activities	<u>(85,371)</u>	<u>342,505</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets at fair value through profit or loss	-	(250,239)
Proceeds from sale of financial assets at fair value through profit or loss	72,485	-
Purchase of financial assets measured at cost	-	(25,000)
Proceeds from sale of financial assets measured at cost	-	60,252
Proceeds from disposal of non-current assets held for sale	124,213	-

(Continued)

# PHIHONG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
Payments for property, plant and equipment	\$ (153,230)	\$ (231,530)
Proceeds from disposal of property, plant and equipment	26,971	37,588
Payments for intangible assets	(14,158)	(10,523)
Proceeds from disposal of intangible assets	-	121
Decrease in refundable deposits	454	17,074
Proceeds from disposal of investment properties	394,386	-
Purchase of other financial assets	-	(236,270)
Decrease in other financial assets	582,675	-
Increase in prepayments for equipment	(29,815)	(17,573)
Dividends received	19,685	21,490
Return of capital from investments accounted for using equity method	22,585	26,687
Return of capital from investees of financial assets measured at cost	<u>10,258</u>	<u>14,106</u>
Net cash generated from (used in) investing activities	<u>1,056,509</u>	<u>(593,817)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	3,160	-
Proceeds from issue of convertible bonds	-	1,000,000
Repayments of convertible bonds	(1,171,839)	(121,401)
Proceeds from long-term borrowings	115,331	-
Repayments of long-term borrowings	-	(743,356)
Increase in guarantee deposits received	-	3,013
Decrease in guarantee deposits received	(3,143)	-
Proceeds from issuance of ordinary shares	612,000	-
Payments for transaction costs attributable to issue of bonds payable	-	(2,380)
Payments for transaction costs attribute to issuance of ordinary shares	<u>(1,570)</u>	<u>-</u>
Net cash (used in) generated from financing activities	<u>(446,061)</u>	<u>135,876</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>(78,984)</u>	<u>(61,735)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>446,093</b>	<b>(177,171)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>1,312,763</u>	<u>1,489,934</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>\$ 1,758,856</u>	<u>\$ 1,312,763</u>

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

(Concluded)

# PHIHONG TECHNOLOGY CO., LTD.

## Comparison Table for Amended “Rules and Procedures of Board of Directors Meeting”

Pre-amendment	Post-amendment	Explanation
<p>Article 3 (Convening and Notice of the BOD Meetings) The BOD meetings shall be held at least quarterly. A notice with reasons for convening a BOD meeting shall be delivered to each director <u>and supervisor</u> at least 7 days prior to the meeting. In case of emergency, however, a BOD meeting can be called on shorter notice. The notice can be delivered by means of electronic transmission with the prior consent of the directors. Any matter set forth under Paragraph 1, Article 12 herein, shall be specified in the notice of the meeting and shall not be raised by an extraordinary motion, with the exceptions of emergency or for a legitimate reason.</p>	<p>Article 3 (Convening and Notice of the BOD Meetings) The BOD meetings shall be held at least quarterly. A notice with reasons for convening a BOD meeting shall be delivered to each director <del>and supervisor</del> at least 7 days prior to the meeting. In case of emergency, however, a BOD meeting can be called on shorter notice. The notice can be delivered by means of electronic transmission with the prior consent of the directors. Any matter set forth under Paragraph 1, Article 12 herein, shall be specified in the notice of the meeting and shall not be raised by an extraordinary motion, with the exceptions of emergency or for a legitimate reason.</p>	Amended in line with the Company’s practices
<p>Article 9 (Audio or Video Recordings of the BOD meeting Retained as Evidence) Proceedings of a BOD meeting shall be recorded in their entirety in audio or video, and the recording shall be retained for a minimum of 5 years. The record may be retained in electronic form. If any litigation arises with respect to a resolution of a BOD meeting before the end of the retention period of the preceding paragraph, the relevant audio or video record shall be retained indefinitely despite the preceding provision. Where a BOD meeting is held by videoconference, the audio or video documentation of the meeting constitutes part of the meeting minutes and shall be <u>permanently</u> retained for the <u>duration</u> of the existence of this Company.</p>	<p>Article 9 (Audio or Video Recordings of the BOD meeting Retained as Evidence) Proceedings of a BOD meeting shall be recorded in their entirety in audio or video, and the recording shall be retained for a minimum of 5 years. The record may be retained in electronic form. If any litigation arises with respect to a resolution of a BOD meeting before the end of the retention period of the preceding paragraph, the relevant audio or video record shall be retained indefinitely despite the preceding provision. Where a BOD meeting is held by videoconference, the audio or video documentation of the meeting constitutes part of the meeting minutes and subject to be retained <del>permanently</del> properly <u>during the company's existence</u>.</p>	Amended in line with laws and regulations
<p>Article 12 (Matters to be Discussed at the BOD meeting) The matters listed below shall be raised for discussion at a BOD meeting: 1. The Company’s operating plan; 2. Annual and semi-annual financial reports, with the exception of semi-annual financial reports that are not required under relevant laws and regulations to be audited and attested by a CPA;</p>	<p>Article 12 (Matters to be Discussed at the BOD meeting) The matters listed below shall be raised for discussion at a BOD meeting: 1. The Company’s operating plan; 2. Annual and semi-annual financial reports, with the exception of semi-annual financial reports that are not required under relevant laws and regulations to be audited and attested by a CPA;</p>	Amended in line with laws and regulations

Pre-amendment	Post-amendment	Explanation
<p>3. Adoption or amendment of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act (hereinafter referred to as the SEA);</p> <p>4. Adoption or amendment, pursuant to Article 36-1 of SEA, of any handling procedures for material financial or business transactions, such as the acquisition or disposal of assets, derivatives trading, loans of funds to others, and endorsements or guarantees for others;</p> <p>5. The offering, issuance, or private placement of equity-type securities;</p> <p>6. The appointment or discharge of a financial, accounting, or internal audit officer;</p> <p>7. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation for disaster relief for a major natural disaster may be submitted to the next BOD meeting for retroactive recognition; and</p> <p>8. Any matter that, under Article 14-3 of SEA or any other law, regulation, or bylaw, must be approved by a resolution of a shareholders meeting or BOD meeting, or any material matter as may be prescribed by the competent authority.</p> <p>The term "<b>related party</b>" in subparagraph 7 of the preceding paragraph means a related party as defined in the "Regulations Governing the Preparation of Financial Reports by Securities Issuers". The term "major donation to a non-related party" means an individual donation, or cumulative donations within a 1-year period to a single recipient, at an amount of NTD100 million or more, or at an amount equal to or greater than 1 percent of net operating revenue or 5 percent of paid-in capital as stated in the CPA-audited financial statements of the most recent year. (In the case of a foreign issuer whose shares have no par value or a par value other than NT\$10, 2.5 percent of shareholders' equity shall be substituted for the amount equal to 5 percent of paid-in capital required under this paragraph.). The term "within a 1-year period" in the preceding paragraph means a period of 1 year calculated</p>	<p>3. Enacted pursuant to the provisions of Article 14-1, Securities and Exchange Act (hereinafter referred to as the SEA) or amended internal control system, <a href="#">the assessment on the effectiveness of the internal control system.</a></p> <p>4. Adoption or amendment, pursuant to Article 36-1 of SEA, of any handling procedures for material financial or business transactions, such as the acquisition or disposal of assets, derivatives trading, loans of funds to others, and endorsements or guarantees for others;</p> <p>5. The offering, issuance, or private placement of equity-type securities;</p> <p>6. The appointment or discharge of a financial, accounting, or internal audit officer;</p> <p>7. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation for disaster relief for a major natural disaster may be submitted to the next BOD meeting for retroactive recognition; and</p> <p>8. Any matter that, under Article 14-3 of SEA or any other law, regulation, or bylaw, must be approved by a resolution of a shareholders meeting or BOD meeting, or any material matter as may be prescribed by the competent authority.</p> <p>The term "<b>related party</b>" in subparagraph 7 of the preceding paragraph means a related party as defined in the "Regulations Governing the Preparation of Financial Reports by Securities Issuers". The term "major donation to a non-related party" means an individual donation, or cumulative donations within a 1-year period to a single recipient, at an amount of NTD100 million or more, or at an amount equal to or greater than 1 percent of net operating revenue or 5 percent of paid-in capital as stated in the CPA-audited financial statements of the most recent year. (In the case of a foreign issuer whose shares have no par value or a par value other than NT\$10, 2.5 percent of shareholders' equity shall be substituted for the calculation of the amount equal to 5 percent of paid-in capital required</p>	

Pre-amendment	Post-amendment	Explanation
<p>retroactively from the date on which the current BOD meeting is convened. Amounts already submitted to and passed by a resolution of the board are exempted from inclusion in the calculation.</p> <p>With respect to a matter that, under <a href="#">Article 14-3 of SEA</a>, must be approved by resolution at a BOD meeting, any and all independent directors of the Company shall attend the meeting in person or <del>shall not</del> appoint another <del>non</del>-independent director to attend the meeting as proxy. If an independent director objects to or expresses reservations on such a matter, it shall be recorded in the meeting minutes. If an independent director intends to express an objection or reservation but is unable to attend the meeting in person, unless there is a legitimate reason to do otherwise, that director shall issue a written opinion in advance, which shall be recorded in the meeting minutes.</p>	<p>under this paragraph.).</p> <p>The term "within a 1-year period" in the preceding paragraph means a period of 1 year calculated retroactively from the date on which the current BOD meeting is convened. Amounts already submitted to and passed by a resolution of the board are exempted from inclusion in the calculation.</p> <p><a href="#">At least one of the independent directors shall attend the board of directors in person.</a> Resolution for the matter relating to <a href="#">Paragraph 1 of Article 14-2 of SEA</a> herein proposed in the board of directors shall be reached <a href="#">upon the attendance of all independent directors.</a> Any independent director who cannot attend in person shall <del>not</del> <del>non-independent director</del> entrust other independent director to <a href="#">attend</a> on his/her behalf. If an independent director objects to or expresses reservations on such a matter, it shall be recorded in the meeting minutes. If an independent director intends to express an objection or reservation but is unable to attend the meeting in person, unless there is a legitimate reason to do otherwise, that director shall issue a written opinion in advance, which shall be recorded in the meeting minutes.</p>	
<p>Article 13 (Voting (1))</p> <p>When the chairperson at a BOD meeting is of the opinion that a proposal has been discussed sufficiently to put it to a vote, the chairperson may announce the discussion closed and call for a vote. When a proposal comes to a vote, if no attending director voices an objection following an inquiry by the chairperson, the proposal will be deemed as approved. If there is an objection following an inquiry by the chairperson, the proposal shall be brought to a vote.</p> <p>Voting method for proposals at a BOD meeting shall be selected by the chairperson from below, provided that when an attending director has an objection, the chairperson shall seek the opinion of the majority to make a decision:</p> <ol style="list-style-type: none"> <li>1. A show of hands or a vote by voting machine.</li> <li>2. A roll call vote.</li> <li>3. A vote by ballot.</li> <li>4. A vote by a method selected at the Company's discretion.</li> </ol>	<p>Article 13 (Voting (1))</p> <p>When the chairperson at a BOD meeting is of the opinion that a proposal has been discussed sufficiently to put it to a vote, the chairperson may announce the discussion closed and call for a vote. When a proposal comes to a vote, if no attending director voices an objection following an inquiry by the chairperson, the proposal will be deemed as approved. If there is an objection following an inquiry by the chairperson, the proposal shall be brought to a vote.</p> <p>Voting method for proposals at a BOD meeting shall be selected by the chairperson from below, provided that when an attending director has an objection, the chairperson shall seek the opinion of the majority to make a decision:</p> <ol style="list-style-type: none"> <li>1. A show of hands or a vote by voting machine.</li> <li>2. A roll call vote.</li> <li>3. A vote by ballot.</li> </ol> <p>A vote by a method selected at the Company's discretion.</p>	<p>Amended in line with laws and regulations</p>

Pre-amendment	Post-amendment	Explanation
	<p><u>The “entire body of the attending directors” mentioned thereof does not include directors who are not allowed to exercise their voting power pursuant to first paragraph of Section 15 hereunder.</u></p>	
<p>Article 15 (Director’s Avoidance of Conflict of Interest)</p> <p>If a director or a juristic person that the director represents is an interested party in relation to an agenda item, the director shall state the important aspects of the interested party relationship at the respective meeting. When the relationship is likely to prejudice the interest of the Company, that director may not participate in discussion or voting on that agenda item and shall recuse himself or herself from the discussion or the voting on the item and may not exercise voting power as proxy for another director.</p> <p>Where a director is prohibited by the preceding paragraph from exercising voting power with respect to a resolution at a BOD meeting, the provisions of paragraph 2, Article 180 of the Company Act apply mutatis mutandis in accordance with <u>paragraph 2</u>, Article 206 of the same Act.</p>	<p>Article 15 (Director’s Avoidance of Conflict of Interest)</p> <p>If a director or a juristic person that the director represents is an interested party in relation to an agenda item, the director shall state the important aspects of the interested party relationship at the respective meeting. When the relationship is likely to prejudice the interest of the Company, that director may not participate in discussion or voting on that agenda item and shall recuse himself or herself from the discussion or the voting on the item and may not exercise voting power as proxy for another director.</p> <p>Where a director is prohibited by the preceding paragraph from exercising voting power with respect to a resolution at a BOD meeting, the provisions of paragraph 2, Article 180 of the Company Act apply mutatis mutandis in accordance with <u>paragraph 2-3</u>, Article 206 of the same Act.</p>	<p>Amended in line with laws and regulations</p>
<p>Article 16 (Meeting Minutes and Signature)</p> <p>Discussions at a BOD meeting shall be recorded in the meeting minutes, and the minutes shall fully and accurately state the matters listed below:</p> <ol style="list-style-type: none"> <li>1. The meeting session (or year) and the time and place of the meeting;</li> <li>2. The name of the chairman;</li> <li>3. The directors' attendance at the meeting, including the names and the number of directors in attendance, excused, and absent;</li> <li>4. The names and titles of those attending the meeting as non-voting participants;</li> <li>5. The name of the minute taker;</li> <li>6. The matters reported at the meeting;</li> <li>7. Agenda items: the method of resolution and the result for each proposal; a summary of the comments made by directors, <u>supervisors</u>, experts, or other persons; the name of any director that is an interested party as referred to in</li> </ol>	<p>Article 16 (Meeting Minutes and Signature)</p> <p>Discussions at a BOD meeting shall be recorded in the meeting minutes, and the minutes shall fully and accurately state the matters listed below:</p> <ol style="list-style-type: none"> <li>1. The meeting session (or year) and the time and place of the meeting;</li> <li>2. The name of the chairman;</li> <li>3. The directors' attendance at the meeting, including the names and the number of directors in attendance, excused, and absent;</li> <li>4. The names and titles of those attending the meeting as non-voting participants;</li> <li>5. The name of the minute taker;</li> <li>6. The matters reported at the meeting;</li> <li>7. Agenda items: the method of resolution and the result for each proposal; a summary of the comments made by directors, <del>supervisors</del>, experts, or other persons; the name of any director that is an interested party as referred to in</li> </ol>	<p>Amended in line with laws and regulations, the Company’s practices and amendments made by the competent authority</p>



Pre-amendment	Post-amendment	Explanation
<p>paragraph 1 of the preceding article, an explanation of the important aspects of the interest, the reasons why the director was required or not required to recuse, and the status of their recusal; opinions expressing objections or reservations at the meeting that were included in records or stated in writing; and any opinion issued in writing by an independent director pursuant to Paragraph 2, Article 12.</p> <p>8. Extraordinary motions: The name of the mover, the method of resolution and the result, a summary of the comments of any director, <u>supervisors</u>, expert, or other person; the name of any director that is an interested party as referred to in paragraph 1 of the preceding Section, an explanation of the important aspects of the interest, the reasons why the director was required or not required to recuse, and the status of their recusal; and their objections or reservations and any recorded or written statements.</p> <p>9. Other matters required to be recorded.</p> <p>The occurrence of any of the following circumstances, with respect to a resolution passed at a BOD meeting, shall be stated in the meeting minutes and shall be publicly announced and filed on the website of the Market Observation Post System designated by the Financial Supervisory Commission, <u>Executive Yuan</u>, within 2 days from the date of the meeting:</p> <p>(1) Any objection or reservations by an independent director in writing;</p> <p>(2) A resolution is adopted with the approval of two-thirds or more of all directors, without having been passed by the audit committee of the Company.</p> <p>The attendance book constitutes part of the minutes for each BOD meeting and shall be <u>permanently</u> retained for the duration of the existence of the Company.</p> <p>The minutes of a BOD meeting shall bear the signature or seal of both the chairperson and the minute taker, and a copy of the minutes shall be</p>	<p>paragraph 1 of the preceding article, an explanation of the important aspects of the interest, the reasons why the director was required or not required to recuse, and the status of their recusal; opinions expressing objections or reservations at the meeting that were included in records or stated in writing; and any opinion issued in writing by an independent director pursuant to Paragraph <del>2</del>4, Article 12.</p> <p>8. Extraordinary motions: The name of the mover, the method of resolution and the result, a summary of the comments of any director, <del>supervisors</del>, expert, or other person; the name of any director that is an interested party as referred to in paragraph 1 of the preceding Section, an explanation of the important aspects of the interest, the reasons why the director was required or not required to recuse, and the status of their recusal; and their objections or reservations and any recorded or written statements.</p> <p>9. Other matters required to be recorded.</p> <p>The occurrence of any of the following circumstances, with respect to a resolution passed at a BOD meeting, shall be stated in the meeting minutes and shall be publicly announced and filed on the website of the Market Observation Post System designated by the Financial Supervisory Commission, <del>Executive Yuan</del>, within 2 days from the date of the meeting:</p> <p>(1) Any objection or reservations by an independent director in writing;</p> <p>(2) Matters without the approval of the Audit Committee of the Company but received consent from more than two-thirds of all directors.</p> <p>The board of directors' attendance record shall be part of the minute and subject to be retained <del>permanently</del> properly <u>during the company's existence</u>.</p> <p>The minutes of a BOD meeting shall bear the signature or seal of both the chairperson and the minute taker, and a copy of the minutes shall be</p>	



Pre-amendment	Post-amendment	Explanation
<p>distributed to each director within 20 days after the meeting. The minutes shall be deemed important corporate records and permanently &amp; <del>permanently</del> &amp; appropriately preserved during the existence of the Company.</p> <p>The meeting minutes mentioned in paragraph 1 may be produced and distributed in electronic form.</p>	<p>distributed to each director within 20 days after the meeting. The minutes shall be deemed important corporate records and <del>permanently</del> &amp; appropriately preserved during the existence of the Company.</p> <p>The meeting minutes mentioned in paragraph 1 may be produced and distributed in electronic form.</p>	
<p>Article 18 (Supplementary Provisions) The Rules shall be adopted by the BOD and shall be reported to the shareholders' meeting. The Rules was enacted on June 14, 2005. The first amendment was made on June 13, 2007. The second amendment was made on June 14, 2013.</p>	<p>Article 18 (Supplementary Provisions) The Rules shall be adopted by the BOD and shall be reported to the shareholders' meeting. The Rules was enacted on June 14, 2005. The first amendment was made on June 13, 2007. The second amendment was made on June 14, 2013. <u><a href="#">The third amendment was made on June 13, 2018.</a></u></p>	<p>Add the medication dates</p>

# PHIHONG TECHNOLOGY CO., LTD.

## 2017 Surplus Earning Distribution / Loss Off-Setting Proposal

Unit: NT\$

Item	Amount
Accumulated Loss, beginning of year	(128,792,972)
less:	
Reassessment Value of the Defined Benefit Plans recognized in Retained Earnings	<u>(6,860,375)</u>
Undistributed Earnings after adjustment, beginning of year	(135,653,347)
Net Profit After Tax of the period	<u>6,655,539</u>
Loss carry forwards, end of year	(128,997,808)
Distributions:	
Dividends (Note)	<u>0</u>
Accumulated Loss, end of year	<u><u>(128,997,808)</u></u>

Note: The net profit after tax of period was used to off-set loss as may be lawful; therefore, there was no statutory surplus reserve listed and no distribution of dividends.

Chairman:  
LIN, CHUNG-MING

President:  
LIN, CHUNG-MING

Principal Accounting Officer:  
CHEN, CHIU-CHIN

# PHIHONG TECHNOLOGY CO., LTD.

## Comparison Table for Amended “Articles of Incorporation”

No.	Pre-amendment	Post-amendment	Explanation
Article 5:	The Company is headquartered in Taoyuan <del>County</del> , Taiwan. Branches, offices and business premises may be set up at home and abroad, if necessary.	The Company is headquartered in Taoyuan <del>County</del> <u>City</u> , Taiwan. Branches, offices and business premises may be set up at home and abroad, if necessary.	Amended in line with the Company’s practices.
Article 5-1:	The Company’s funds may be loaned to others under the following circumstances, provided that the financing amount must not exceed 40% of the company’s net worth: 1. For intercompany or inter-branch businesses; 2. Where intercompany or inter-branch short-term <del>financing</del> is necessary.	The Company’s funds may be loaned to others under the following circumstances, provided that the financing amount must not exceed 40% of the company’s net worth: 1. For intercompany or inter-branch businesses; 2. Where intercompany or inter-branch short-term <u>financing</u> is necessary.	Adjust wordings
Article 6:	The Company’s capital is rated at NT\$6 billion, which is divided into 600 million shares at NT\$10 per share; the Company authorizes the board of directors to issue the shares in batches when necessary. The Company may, within the range of total capital thereof, reserve 80 million shares to be issued as employee stock option certificates, bond with warrant and preferred shares with warrants.	The Company’s capital is rated at NT\$6 billion, which is divided into 600 million shares at NT\$10 per share; the Company authorizes the board of directors to issue the shares in batches when necessary. The Company may, within the range of total capital thereof, reserve 80 million shares to be issued as employee <u>stock option</u> certificates, bond with warrant and preferred shares with warrants.	Adjust wordings
Article 10:	A shareholder may, when unable to attend the shareholders’ meeting for any reason, appoint a proxy pursuant to the Company Act and the “Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies” announced by the competent authority to attend in his/her/its behalf by executing a power of attorney printed by the Company stating therein the scope of power authorized to the proxy with the shareholder’s signature and/or seal affixed thereto. The aforesaid power of attorney shall be delivered to the company five days prior to the shareholders’ meeting.	A shareholder may, when unable to attend the shareholders’ meeting for any reason, appoint a proxy pursuant to the Company Act and the “Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies” announced by the competent authority to attend in his/her/its behalf by executing a power of attorney printed by the Company stating therein the scope of power authorized to the proxy with the shareholder’s signature and/or seal affixed thereto. The aforesaid power of attorney shall be delivered to the company five days prior to the <u>shareholders’</u> meeting.	Adjust wordings

No.	Pre-amendment	Post-amendment	Explanation
Article 13:	The Company has established 7 ~11 directors and <u>3 supervisors</u> for a term of 3 years with disposing capacity and eligible for reelection. After the Company publicly issues shares, the percentage of total number of shares held by all of its directors <u>and supervisors</u> shall be subject to the regulations of the securities regulatory authority.	The Company has established 7 ~11 directors and <del>3 supervisors</del> for a term of 3 years with disposing capacity and eligible for reelection. After the Company publicly issues shares, the percentage of total number of shares held by all of its directors <del>and supervisors</del> shall <u>be subject to</u> the regulations of the securities regulatory authority.	Amended in line with the Company's practices.
Article 13-1:	<del>Since the 13th session</del> of the Board of Directors of the Company, at least 3 independent directors have been established and added to the aforesaid number of directors. The election of <u>independent</u> directors of the Company adopts the nomination system for candidates pursuant to Article 192-1 of the Company Act. The relevant matters concerning the acceptance and announcements of the nomination of <u>independent</u> director candidates shall be subject to the provisions of the Company Act, the Securities and Exchange Act and other relevant laws and regulations.	<del>Since the 13th session of</del> The Board of Directors of the Company, at least 3 independent directors have been established and added to the aforesaid number of directors. The election of <del>independent</del> directors of the Company adopts the nomination system for candidates pursuant to Article 192-1 of the Company Act. The relevant matters concerning the acceptance and announcements of the nomination of <del>independent</del> director candidates shall be subject to the provisions of the Company Act, the Securities and Exchange Act and other relevant laws and regulations.	A candidates nomination system is adopted for the election of all directors
Article 13-2:	The Company has, pursuant to Article 14-4 of the Securities and Exchange Act, established the Audit Committee to perform the duty of a supervisor prescribed by the Company Act, the Securities and Exchange Act and other relevant laws and regulations; <u>therefore, the supervisor was duly dismissed on the date the Audit Committee was established pursuant to Article 14-4 of the Securities and Exchange Act.</u>	The Company has, pursuant to Article 14-4 of the Securities and Exchange Act, established the Audit Committee to perform the duty of a supervisor prescribed by the Company Act, the Securities and Exchange Act and other relevant laws and regulations; <del>therefore, the supervisor was duly dismissed on the date the Audit Committee was established pursuant to Article 14-4 of the Securities and Exchange Act.</del>	Adjust wording and delete transitional provisions.
Article 15:	<del>Authority of the board of directors:</del> 1. <u>Convene shareholders' meeting and execute its resolution;</u> 2. <u>Determine business directions;</u> 3. <u>Review important internal regulations and external contracts;</u> 4. <u>Make decision on the selection of important candidates of the Company;</u> 5. <u>Establish or close down a branch office and sales office;</u> 6. <u>Review financial statements;</u> 7. <u>Decide on the mortgage, sale or other disposal of the</u>	<del>Authority of the board of directors:</del> <del>1. Convene shareholders' meeting and execute its resolution;</del> <del>2. Determine business directions;</del> <del>3. Review important internal regulations and external contracts;</del> <del>4. Make decision on the selection of important candidates of the Company;</del> <del>5. Establish or close down a branch office and sales office;</del> <del>6. Review financial statements;</del> <del>7. Decide on the mortgage, sale or other disposal of the</del>	This provision was deleted because the authority of the board of directors is resumed back to that of prescribed by the Company Act, the SEA and related laws and regulations.

No.	Pre-amendment	Post-amendment	Explanation
	<p><del>company's important assets;</del></p> <p>8. <del>Propose distribution of surplus or off-setting of loss in the shareholders' meeting;</del></p> <p>9. <del>Decide on other important matters.</del></p>	<p><del>company's important assets;</del></p> <p>8. <del>Propose distribution of surplus or off-setting of loss in the shareholders' meeting;</del></p> <p>9. <del>Decide on other important matters.</del></p> <p>(Deleted)</p>	
Article 16:	<p><u>Authority of the supervisor:</u></p> <p>1. <u>Review financial status of the company;</u></p> <p>2. <u>Audit accounting books and documents;</u></p> <p>3. <u>Other authorities vested by laws and regulations.</u></p>	<p><del>Authority of the supervisor:</del></p> <p>1. <del>Review financial status of the company;</del></p> <p>2. <del>Audit accounting books and documents;</del></p> <p>3. <del>Other authorities vested by laws and regulations.</del></p> <p>(Deleted)</p>	This provision was deleted because the company has established an Audit Committee to replace the supervisor's authority.
Article 18:	The remuneration of all directors <u>and supervisors</u> is subject to be authorized by the Board of Directors, which shall be determined based on the degree of participation and contributions of the directors <u>and supervisors</u> to the Company's operations as well as the level of remuneration normally paid among the industry.	The remuneration of all directors <del>and supervisors</del> is subject to be authorized by the Board of Directors, which shall be determined based on the degree of participation and contributions of the directors <del>and supervisors</del> to the Company's operations as well as the level of remuneration normally paid among the industry.	Amended in line with the Company's practices.
Article 18-1:	The Company will purchase liability insurance for the directors, <u>supervisors</u> and Remuneration Committee to cover the legally required compensation liability for their scope of business during their terms of office.	The Company will purchase liability insurance for the directors, <del>supervisors</del> and Remuneration Committee to cover the legally required compensation liability for their scope of business during their terms of office.	Amended in line with the Company's practices.
Article 20:	At the close of each fiscal year, the Company's board of directors shall prepare the following statements and records and shall forward the <u>same to supervisors for their auditing not later than 30 days prior to the meeting date of the annual general shareholders' meeting</u> for acknowledgement : 1. The business report; 2. The financial statements; and 3. The Surplus Earning Distribution or Loss Off-Setting Proposals.	At the close of each fiscal year, the Company's board of directors shall prepare the following statements and records and <del>shall forward the same to supervisors for their auditing not later than 30 days prior to the meeting date of a general meeting of shareholders</del> present in the annual general shareholders' meeting <del>for acknowledgement</del> <u>pursuant to the regulatory procedures.</u> 1. The business report; 2. The financial statements; and 3. The Surplus Earning Distribution or Loss Off-Setting Proposals.	Amended in line with the Company's practices.
Article 21:	The Company shall distribute no less than 10% of its profit for the year as employee compensation, which may be distributed by stock or cash upon resolution adopted by a majority vote at a meeting of	The Company shall distribute no less than 10% of its profit for the year as employee compensation, which may be distributed by stock or cash upon resolution adopted by a majority vote at a meeting of	Amended in line with the Company's practices.

No.	Pre-amendment	Post-amendment	Explanation
	<p>board of directors. The target of distribution includes employees of the Company's subordinate companies who meet certain conditions; the Company may, upon resolution adopted by a majority vote at a meeting of board of directors, distribute no more than 2% of its profit for the year as the directors <u>and supervisors</u>' remuneration. The distribution of employee compensation and the directors <u>and supervisors</u>' remuneration shall be proposed in the shareholders' meeting. However, the Company shall, if it still has accumulated losses, retain the off-setting amount first, before distribute the employee compensation and the directors <u>and supervisors</u>' remuneration according to the aforesaid ratio.</p>	<p>board of directors. The target of distribution includes employees of the Company's subordinate companies who meet certain conditions; the Company may, upon resolution adopted by a majority vote at a meeting of board of directors, distribute no more than 2% of its profit for the year as the directors <del>and supervisors</del>' remuneration. The distribution of employee compensation and the directors <del>and supervisors</del>' remuneration shall be proposed in the shareholders' meeting. However, the Company shall, if it still has accumulated losses, retain the off-setting amount first, before distribute the employee compensation and the directors <del>and supervisors</del>' remuneration according to the aforesaid ratio.</p>	
Article 23:	<p>The Articles of Incorporation was enacted on December 7, 1972. 1<sup>st</sup> amendment on May 1, 1973. . . 31<sup>st</sup> amendment on June 8, 2016. <u>The provisions of the Articles of Incorporation regarding the establishment and requirements of the Audit Committee shall, in line with the provisions of Article 14-4 of the Securities and Exchange Act, be applicable upon the expiration of the term of office of the current directors and supervisors and the election of new directors. On the date of the establishment of the Audit Committee, supervisor will be dismissed and the relevant provisions concerning the supervisor will be deleted accordingly.</u></p>	<p>The Articles of Incorporation was enacted on December 7, 1972. 1<sup>st</sup> amendment on May 1, 1973. . . 31<sup>st</sup> amendment on June 8, 2016. <del>The provisions of the Articles of Incorporation regarding the establishment and requirements of the Audit Committee shall, in line with the provisions of Article 14-4 of the Securities and Exchange Act, be applicable upon the expiration of the term of office of the current directors and supervisors and the election of new directors. On the date of the establishment of the Audit Committee, supervisor will be dismissed and the relevant provisions concerning the supervisor will be deleted accordingly.</del> <u>32<sup>st</sup> amendment on June 13, 2018.</u></p>	Add amendment date and delete transitional provisions

# Annex

# PHIHONG TECHNOLOGY CO., LTD.

## Rules and Procedures of Shareholders' Meeting

1. Unless relevant laws and regulations or the Company's Articles of Incorporation provide otherwise, the Company's Shareholders' Meeting (hereinafter referred to as the "Meeting") shall be conducted in accordance with the Rules and Procedures of Shareholders' Meetings.
2. The Company shall provide a sign-in book allowing attending Shareholders or their appointed proxies to sign in or require attending Shareholders to submit attendance cards in lieu of signing in. The number of shares represented by shareholders attending the Meeting shall be calculated in accordance with the signing booklet or the attendance cards submitted by the shareholders.
3. Voting at the Meeting shall be based on the number of Shares.
4. The Meeting shall be held at the head office of the Company or at any other appropriate place that is convenient for the shareholders to attend. The time for commencing the said meeting shall not be earlier than 9 o'clock in the morning or later than 3 o'clock local time in the afternoon.
5. The Chairman of the Board of Directors shall be the chairperson presiding at the Meeting in the case that the Meeting is convened by the Board of Directors. If, for any reason, the Chairman of the Board of Directors cannot preside at the Meeting, the Vice Chairman shall preside at the Meeting; if there is no Vice Chairman or the Vice Chairman is also absent or, for any reason, is unable to exercise his/her authority, the Chairman shall designate the Executive Directors to act on his/her behalf; if there is no Executive Director, one of the Directors shall be designated to act on his/her behalf; if the Chairman did not assign any proxy, the Executive Director or the Directors shall elect one person to act on his/her behalf.
6. The Company may appoint designated counsel, CPA or other related persons to attend the Meeting.
7. The process of the Meeting shall be tape-recorded or videotaped and these tapes shall be preserved for at least one year.
8. The chairperson shall call the Meeting to order at the time scheduled for the Meeting. If the number of shares represented by the shareholders present at the Meeting has not yet constituted the quorum at the time scheduled for the Meeting, the chairperson may postpone the time for the Meeting. The postponements shall be limited to two times at the most and Meeting shall not be postponed for longer than one hour in the aggregate. If after two postponements the number of shareholders present does not constitute the quorum, but those present represent one-third or more of the total number of issued shares, a tentative resolution may be passed pursuant to Article 175 (1) of the Company Act.

Before the end of such a meeting, if the number of Shares represented by the attending Shareholders has already constituted more than an aggregate of one-half (1/2) of all Shares in issue, the chairperson may put the tentative resolution(s) already passed to the Shareholders' resolution again in accordance with Article 174 of the Company Act.

9. The agenda of the Meeting shall be set by the Board of Directors if the Meeting is convened by the Board of Directors. Unless otherwise resolved at the Meeting, the Meeting shall proceed in accordance with the agenda.

The above provision applies mutatis mutandis to cases where the Meeting is convened by any person, other than the Board of Directors, entitled to convene such Meeting.

Unless otherwise resolved at the Meeting, the chairperson cannot announce adjournment of the Meeting before all the discussion items (including extraordinary motions) listed in the agenda are resolved. The shareholders cannot designate any other person as chairperson and continue the Meeting in the same or other place after the Meeting is adjourned. However, in the event that the chairperson adjourns the Meeting in violation of these Rules and Procedures, the shareholders may designate, by a



majority of votes represented by shareholders attending the Meeting, one person as chairperson to continue the Meeting.

10. When a shareholder present at the Meeting wishes to speak, a Speech Note should be filled out with summary of the speech, the shareholder's number (or the number of Attendance Card) and the name of the shareholder. The sequence of speeches by shareholders should be decided by the chairperson.

If any shareholder present at the Meeting submits a Speech Note but does not speak, no speech should be deemed to have been made by such shareholder. In case the contents of the speech of a shareholder are inconsistent with the contents of the Speech Note, the contents of actual speech shall prevail.

Unless otherwise permitted by the chairperson and the shareholder in speaking, no shareholder shall interrupt the speeches of the other shareholders; otherwise the chairperson shall stop such interruption.

11. Unless otherwise permitted by the chairperson, each shareholder shall not, for each discussion item, speak more than two times (each time not exceeding 5 minutes). In case the speech of any shareholder violates the above provision or exceeds the scope of the discussion item, the chairperson may stop the speech of such shareholder.

When a proxy attends the Meeting on behalf of a corporate shareholder, the said corporate may only assign one representative for attendance. If a corporate shareholder designates two or more representatives to attend the Meeting, only one representative can speak for each discussion item.

After the speech of a shareholder, the chairperson may respond himself/herself or appoint an appropriate person to respond.

12. The chairperson may announce to end the discussion of any resolution and go into voting if the chairperson deems it appropriate for voting.

The chairperson shall appoint person(s) to monitor the voting process and person(s) to count the ballots; and the person(s) appointed to monitor the voting process should be a shareholder. The result of voting shall be announced at the meeting and placed on record.

13. Except otherwise specified in relevant laws or in the Articles of Incorporation of the Company, a resolution shall be adopted by a majority of the votes represented by the shareholders present at the Meeting. Resolutions shall be deemed adopted if no objection is voiced by any of the attending shareholders after solicitation by the chairperson.

14. During the Meeting, the chairperson may, at his discretion, set time for intermission.

15. If there is amendment to or substitute for a discussion item, the chairperson shall decide the sequence of voting for such discussion item, the amendment or the substitute. If any one of them has been adopted, the others shall be deemed vetoed and no further voting is necessary.

The chairperson may conduct the disciplinary officers or the security guard to assist in keeping order of the Meeting place. Such disciplinary officers or security guards shall wear badges marked "Disciplinary Officers" for identification purpose.

16. These Rules and Procedures shall be effective from the date it is approved by the Shareholders' Meeting. The same applies in case of revision.

# PHIHONG TECHNOLOGY CO., LTD.

## Articles of Incorporation

### Chapter 1 – General Provisions

- Article 1 The Company, PHIHONG TECHNOLOGY CO., LTD., was incorporated pursuant to provisions of the Company Act.
- Article 2 The Company is engaged in the following business operations:
1. CC01010 Electric Power Supply, Electric Transmission and Power Distribution Machinery Manufacturing.
  2. CC01020 Electric Wires and Cables Manufacturing.
  3. CC01030 Electric Appliance and Audiovisual Electric Products Manufacturing.
  4. CC01060 Wired Communication Equipment and Apparatus Manufacturing.
  5. CC01080 Electronic Parts and Components Manufacturing.
  6. CC01110 Computers and Computing Peripheral Equipment Manufacturing.
  7. CC01990 Electrical Machinery, Supplies Manufacturing.
  8. CD01030 Automobiles and Parts Manufacturing.
  9. CD01040 Motor Vehicles and Parts Manufacturing.
  10. F108031 Wholesale of Drugs, Medical Goods.
  11. F113020 Wholesale of Household Appliance.
  12. F113070 Wholesale of Telecom Instruments.
  13. F114030 Wholesale of Motor Vehicle Parts and Supplies.
  14. F119010 Wholesale of Electronic Materials.
  15. F208031 Retail sale of Medical Equipment.
  16. F401010 International Trade.
  17. F401021 Restrained Telecom Radio Frequency Equipment and Materials Import.
  18. ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.
- Article 3 The Company is required to provide external guarantee due to the business needs.
- Article 4 The Company's means of announcement shall be in accordance with Article 28 of the Company Act.
- Article 5 The Company is headquartered in Taoyuan County, Taiwan. Branches, offices and business premises may be set up at home and abroad, if necessary.
- Article 5-1 The Company's funds may be loaned to others under the following circumstances, provided that the financing amount must not exceed 40% of the company's net worth:
1. For intercompany or inter-branch businesses;
  2. Where intercompany or inter-branch short-term financing is necessary.
- Article 5-2 The Company may invest in other business(es) for its business needs and may be authorized to be shareholder of a limited liability company upon resolution of the board of directors, and the investment amount shall not be subject to the constraint "not exceed 40 percent of the company's share capital" prescribed in Article 13 of the Company Act.

## **Chapter 2 – Shares**

- Article 6 The Company’s capital is rated at NT\$6 billion, which is divided into 600 million shares at NT\$10 per share; the Company authorizes the board of directors to issue the shares in batches when necessary.  
The Company may, within the range of total capital thereof, reserve 80 million shares to be issued as employee stock option certificates, bond with warrant and preferred shares with warrants.
- Article 6-1 The Company shall, when issuing employee stock option certificates with a subscription price that is lower than the closing price of the Company’s common stocks on the date of such issuance, apply for an approval by a resolution adopted, at a shareholders' meeting, by a majority of the shareholders present who represent two-thirds or more of the total number of its outstanding shares.  
The Company shall, when transferring the stocks to employees at a price lower than the average repurchase price, prior to the transfer, apply for an approval by a resolution adopted, at a shareholders' meeting, by a majority of the shareholders present who represent two-thirds or more of the total number of its outstanding shares.
- Article 7 The share certificates of the Company shall be in registered form, and before they are issued, shall be affixed with the signatures or personal seals of three or more directors of the issuing company, and shall be duly certified or authenticated by the competent authority or a certifying institution appointed by the competent authority before issuance thereof pursuant to the law. The Company is exempted from printing any share certificate for the shares to be issued to the public, provided that the Company shall appoint a centralized securities custody enterprise/institution to make recordation of the issue of such shares.
- Article 8 Registration for transfer of shares shall be suspended for a period of 60 days prior to the annual general meeting, thirty days before the convening date of a special shareholders meeting, or within five days before the date on which dividends, bonus, or other benefits are scheduled to be paid by the Company, pursuant to the relevant laws and regulations and the regulations of the competent authority.

## **Chapter 3 – Shareholders' Meeting**

- Article 9 Shareholders' meeting shall be of the following two kinds: regular meeting of shareholders and special meeting of shareholders. Regular meeting of shareholders, which shall be held at least once every year and convened by the board of directors within six months after close of each fiscal year, while special meeting of shareholders shall be held when necessary.
- Article 10 A shareholder may, when unable to attend the shareholders’ meeting for any reason, appoint a proxy pursuant to the Company Act and the “Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies” announced by the competent authority to attend in his/her/its behalf by executing a power of attorney printed by the Company stating therein the scope of power authorized to the proxy with the shareholder’s signature and/or seal affixed thereto.  
The aforesaid power of attorney shall be delivered to the company five days prior to the shareholders’ meeting.
- Article 11 A shareholder shall have one voting power in respect of each share in his/her/its possession, but the shares held by the Company itself in accordance with the laws have no voting power.
- Article 12 Resolutions at a shareholders' meeting shall, unless otherwise provided for in the Company Act and Securities and Exchange Act, be adopted by a majority vote of the shareholders present, who represent more than one-half of the total number of voting shares. And, pursuant to the competent authority’s regulations, the Company’s shareholders may exercise his/her/its voting power by way of electronic transmission. A shareholder who exercises his/her/its voting power

at a shareholders meeting by way of electronic transmission shall be deemed to have attended the said shareholders' meeting in person and processed pursuant to laws and regulations.

#### **Chapter 4 – Board of Directors**

Article 13 The Company has established 7 ~11 directors and 3 supervisors for a term of 3 years with disposing capacity and eligible for reelection. After the Company publicly issues shares, the percentage of total number of shares held by all of its directors and supervisors shall be subject to the regulations of the securities regulatory authority.

Article 13-1 Since the 13th session of the Board of Directors of the Company, at least 3 independent directors have been established and added to the aforesaid number of directors.

The election of independent directors of the Company adopts the nomination system for candidates pursuant to Article 192-1 of the Company Act. The relevant matters concerning the acceptance and announcements of the nomination of independent director candidates shall be subject to the provisions of the Company Act, the Securities and Exchange Act and other relevant laws and regulations.

Article 13-2 The Company has, pursuant to Article 14-4 of the Securities and Exchange Act, established the Audit Committee to perform the duty of a supervisor prescribed by the Company Act, the Securities and Exchange Act and other relevant laws and regulations; therefore, the supervisor was duly dismissed on the date the Audit Committee was established pursuant to Article 14-4 of the Securities and Exchange Act.

Article 14 The board of directors shall, pursuant to Article 208 of the Company Act, elect a chairman to externally represent the company.

Article 14-1 The Company shall, pursuant to Article 204 of the Company Act, calling a meeting of the board of directors.

The notice set forth in the preceding Paragraph may be effected by means of electronic transmission (E-mail), after obtaining a prior consent from the recipient(s) thereof.

Article 15 Authority of the board of directors:

1. Convene shareholders' meeting and execute its resolution;
2. Determine business directions;
3. Review important internal regulations and external contracts;
4. Make decision on the selection of important candidates of the Company;
5. Establish or close down a branch office and sales office;
6. Review financial statements;
7. Decide on the mortgage, sale or other disposal of the company's important assets;
8. Propose distribution of surplus or off-setting of loss in the shareholders' meeting;
9. Decide on other important matters.

Article 16 Authority of the supervisor:

1. Review financial status of the company;
2. Audit accounting books and documents;
3. Other authorities vested by laws and regulations.

Article 17 When the Chairman takes leave or fails to exercise his authority for any reason, his proxy shall deal with the situation pursuant to Article 208 of the Company Act.

Article 17-1 In case a director is unable to attend a meeting of the board of directors, he/she may appoint another director to attend the meeting in his/her behalf, where he/she shall, in each time, issue a written proxy and state therein the scope of authority with reference to the subjects to be discussed at the meeting.

A director may accept the appointment to act as the proxy referred to in the preceding Paragraph of one other director only.

Article 18 The remuneration of all directors and supervisors is subject to be authorized by the Board of Directors, which shall be determined based on the degree of participation and contributions of the directors and supervisors to the Company's operations as well as the level of remuneration normally paid among the industry.

Article 18-1 The Company will purchase liability insurance for the directors, supervisors and Remuneration Committee to cover the legally required compensation liability for their scope of business during their terms of office.

### **Chapter 5 – Managerial Personnel**

Article 19 The Company has established managerial personnel but its appointment is exempted from the provisions provided in Article 29 of the Company Act.

### **Chapter 6 – Accounting**

Article 20 At the close of each fiscal year, the Company's board of directors shall prepare the following statements and records and shall forward the same to supervisors for their auditing not later than 30 days prior to the meeting date of the annual general shareholders' meeting for acknowledgement:

1. The business report;
2. The financial statements; and
3. The Surplus Earning Distribution or Loss Off-Setting Proposals.

Article 21 The Company shall distribute no less than 10% of its profit for the year as employee compensation, which may be distributed by stock or cash upon resolution adopted by a majority vote at a meeting of board of directors. The target of distribution includes employees of the Company's subordinate companies who meet certain conditions; the Company may, upon resolution adopted by a majority vote at a meeting of board of directors, distribute no more than 2% of its profit for the year as the directors and supervisors' remuneration. The distribution of employee compensation and the directors and supervisors' remuneration shall be proposed in the shareholders' meeting.

However, the Company shall, if it still has accumulated losses, retain the off-setting amount first, before distribute the employee compensation and the directors and supervisors' remuneration according to the aforesaid ratio.

Article 21-1 The Company shall, if there is surplus earning upon annual closing, pay regulatory taxes and off-set accumulated losses before listing 10% to the statutory surplus reserve, provided that, the statutory surplus reserve will no longer need to be listed if it has reached the amount equal to that of the Company's paid-in capital, and the remaining balance shall be listed or reverse special reserve pursuant to law. The Board of Directors shall consolidate any remaining balance with the accumulated undistributed earnings into a Surplus Earning Distribution Proposal and present it in the shareholders' meeting for a resolution on the distribution of dividends.

The Company's dividend policy is based on the consideration of future cashflow requirements and long-term financial planning. The distribution of dividends will not be less than 50% of the after-tax surplus earning of the year, and cash dividend will not be less than 10% of the total amount of dividends distributed each year.

### **Chapter 7 – Supplemental Provisions**

Article 22 The matters that are not covered in the Articles of Incorporation shall be subject to the provisions of the Company Act and the Securities and Exchange Act.

Article 23 The Articles of Incorporation was enacted on December 7, 1972.  
1<sup>st</sup> amendment on May 1, 1973.  
2<sup>nd</sup> amendment on March 29, 1974.

3<sup>rd</sup> amendment on November 17, 1977.  
4<sup>th</sup> amendment on November 17, 1977.  
5<sup>th</sup> amendment on September 18, 1979.  
6<sup>th</sup> amendment on December 15, 1980.  
7<sup>th</sup> amendment on June 15, 1981.  
8<sup>th</sup> amendment on June 15, 1981.  
9<sup>th</sup> amendment on October 29, 1983.  
10<sup>th</sup> amendment on September 25, 1985.  
11<sup>th</sup> amendment on November 10, 1987.  
12<sup>th</sup> amendment on November 14, 1989.  
13<sup>th</sup> amendment on June 17, 1990.  
14<sup>th</sup> amendment on May 26, 1991.  
15<sup>th</sup> amendment on January 31, 1994.  
16<sup>th</sup> amendment on June 18, 1998.  
17<sup>th</sup> amendment on April 26, 2000.  
18<sup>th</sup> amendment on April 27, 2001.  
19<sup>th</sup> amendment on June 10, 2002.  
20<sup>th</sup> amendment on June 10, 2002.  
21<sup>st</sup> amendment on June 9, 2003.  
22<sup>nd</sup> amendment on June 9, 2003.  
23<sup>rd</sup> amendment on June 14, 2005.  
24<sup>th</sup> amendment on June 13, 2008.  
25<sup>th</sup> amendment on June 10, 2009.  
26<sup>th</sup> amendment on June 15, 2010.  
27<sup>th</sup> amendment on June 15, 2011.  
28<sup>th</sup> amendment on June 19, 2012.  
29<sup>th</sup> amendment on June 14, 2013.  
30<sup>th</sup> amendment on June 11, 2015.  
31<sup>st</sup> amendment on June 8, 2016.

The provisions of the Articles of Incorporation regarding the establishment and requirements of the Audit Committee shall, in line with the provisions of Article 14-4 of the Securities and Exchange Act, be applicable upon the expiration of the term of office of the current directors and supervisors and the election of new directors. On the date of the establishment of the Audit Committee, supervisor will be dismissed and the relevant provisions concerning the supervisor will be deleted accordingly.

# **PHIHONG TECHNOLOGY CO., LTD.**

## **Rules and Procedures of Board of Directors Meeting**

- Article 1 (Basis for Adoption of The Rules)  
To establish for the Board of Directors (“BOD”) of the Company a strong governance system, to equip the BOD with sound supervisory functions, and to strengthen management capabilities, these Rules and Procedures for Board of Directors Meetings (“Rules”) are adopted pursuant to Article 2 of the “Regulations Governing Procedure for Board of Directors Meetings of Public Companies”.
- Article 2 (Scope of the Rules)  
The Rules are intended to govern the BOD meetings’ main agenda coverage, working procedures, required content of meeting minutes, public disclosure, and other compliance requirements. The BOD meeting shall be conducted in accordance with the Rules.
- Article 3 (Convening and Notice of the BOD Meetings)  
The BOD meetings shall be held at least quarterly.  
A notice with reasons for convening a BOD meeting shall be delivered to each director and supervisor at least 7 days prior to the meeting. In case of emergency, however, a BOD meeting can be called on shorter notice.  
The notice can be delivered by means of electronic transmission with the prior consent of the directors.  
Any matter set forth under Paragraph 1, Article 12 herein, shall be specified in the notice of the meeting and shall not be raised by an extraordinary motion, with the exceptions of emergency or for a legitimate reason.
- Article 4 (Meeting Notification and Meeting Materials)  
The designated unit shall draft meeting agenda, prepare sufficient meeting materials, and deliver them together with the notice. If a director is of the opinion that the meeting materials are insufficient, the director may request supplemental information. If a director is of the opinion that materials concerning any proposal are insufficient, the deliberation of such proposal may be postponed by a resolution of the BOD.
- Article 5 (Preparation of Attendance Book and Other Documents and Director’s Attendance by Proxy)  
An attendance book shall be prepared for sign-in by attending directors, which shall be made available for future references.  
Directors shall attend BOD meetings in person. A director unable to attend in person may appoint another director to attend the meeting in his or her place in accordance with Articles of Incorporation of the Company. Attendance via videoconference shall be deemed as attendance in person.  
A Director may appoint another director to attend the meeting in his/her behalf, where he/she shall, in each time, issue a written proxy and state therein the scope of authority with reference to the subjects to be discussed at the meeting.  
A director may accept the appointment to act as the proxy referred to in the preceding 2 paragraphs of one other director only.
- Article 6 (Guidelines for Time and Place of a BOD Meeting)  
A BOD meeting shall be held at the premises and during the business hours of the Company, or at a place and time convenient for all directors to attend and suitable for holding BOD meetings.
- Article 7 (Chairperson of the BOD Meetings and its Proxy)  
BOD meetings shall be convened and presided by the Chairman. However, for the first meeting of each newly elected BOD, it shall be called and presided by the director who received votes receiving the most votes in the election. The meeting chairperson is served by the convener. If two or more directors are so entitled to convene the meeting, they shall elect among themselves one director to serve as chairperson.  
If, for any reason, the Chairman cannot exercise his/her authority, the Vice Chairman shall exercise on his/her behalf; if there is no Vice Chairman or the Vice Chairman is also absent or, for any reason, is unable to exercise his/her authority, the Chairman shall designate the Executive Directors to act on his/her behalf; if there is no Executive Director, one of the Directors shall be designated to act on his/her behalf;

if the Chairman did not assign any proxy, the Executive Director or the Directors shall elect one person to act on his/her behalf.

- Article 8 (BOD Meeting Reference Materials, Guests to the Meeting and Convening the BOD Meeting)  
When a BOD meeting is held, the meeting administrative office shall furnish the attending directors with relevant materials for reference.  
As merited by the content of a proposal to be discussed in a BOD meeting, personnel from relevant departments or a subsidiary may be notified to attend as non-voting participants. When necessary, certified public accountants (“CPAs”), attorneys, or other professionals retained by the Company may also be invited to attend the meeting as non-voting participants to make explanatory statements, provided that they shall leave the meeting when deliberation or voting takes place and re-joining the meeting when further explanation is required.  
The Chairman shall call the BOD meeting to order at the pre-determined meeting time and when more than half of the directors are present. If half of all directors are not present at the pre-determined meeting time, the chairperson may announce to postpone the meeting g, provided that no more than two postponements and not more than 1 hour in total may be made. If the quorum is still not met after two postponements, the chairperson shall reconvene the meeting in accordance with the procedures prescribed in Paragraph 2 of Article 3 hereof.  
The “**all directors**” as used in the preceding paragraph and Subparagraph 2, Paragraph 2 of Article 16 hereof referred to the incumbent Directors at that time.
- Article 9 (Audio or Video Recordings of the BOD Meeting Retained as Evidence)  
Proceedings of a BOD meeting shall be recorded in their entirety in audio or video, and the recording shall be retained for a minimum of 5 years. The record may be retained in electronic form.  
If any litigation arises with respect to a resolution of a BOD meeting before the end of the retention period of the preceding paragraph, the relevant audio or video record shall be retained indefinitely despite the preceding provision.  
Where a BOD meeting is held by videoconference, the audio or video documentation of the meeting constitutes part of the meeting minutes and shall be retained for the duration of the existence of this Company.
- Article 10 (Meeting Agenda)  
Agenda for regular BOD meetings shall include at least the following:  
1. Matters to be reported:  
    (1) Minutes of the last meeting and action taken;  
    (2) Important financial and business reports;  
    (3) Internal audit reports; and  
    (4) Other important reports.  
2. Matters to be discussed:  
    (1) Items for continued discussion from the last meeting; and  
    (2) Items for discussion at this meeting.  
3. Extraordinary motions
- Article 11 (Proposal Discussion)  
A BOD meeting shall follow the agenda given in the meeting notice. However, the agenda may be changed with the approval of a majority vote by the directors attending.  
The chairperson may not dismiss meeting agenda and extraordinary motions without the consent of a majority of the Directors present at the meeting.  
At any time during the BOD meeting, if the number of directors sitting at the meeting does not constitute a majority of the attending directors, upon the motion by a director sitting at the meeting, the chairperson shall declare a suspension of the meeting, in which case Paragraph 3 of Article 8 hereof shall apply.
- Article 12 (Matters to be Discussed at the BOD Meeting)  
The matters listed below shall be raised for discussion at a BOD meeting:  
1. The Company’s operating plan;  
2. Annual and semi-annual financial reports, with the exception of semi-annual financial reports that are not required under relevant laws and regulations to be audited and attested by a CPA;  
3. Adoption or amendment of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act (hereinafter referred to as the SEA);  
4. Adoption or amendment, pursuant to Article 36-1 of SEA, of any handling procedures for material financial or business transactions, such as the acquisition or disposal of assets, derivatives trading, loans of funds to others, and endorsements or guarantees for others;  
5. The offering, issuance, or private placement of equity-type securities;



6. The appointment or discharge of a financial, accounting, or internal audit officer;
7. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation for disaster relief for a major natural disaster may be submitted to the next BOD meeting for retroactive recognition; and
8. Any matter that, under Article 14-3 of SEA or any other law, regulation, or bylaw, must be approved by a resolution of a shareholders meeting or BOD meeting, or any material matter as may be prescribed by the competent authority.

The term "**related party**" in subparagraph 7 of the preceding paragraph means a related party as defined in the "Regulations Governing the Preparation of Financial Reports by Securities Issuers". The term "**major donation to a non-related party**" means an individual donation, or cumulative donations within a 1-year period to a single recipient, at an amount of NTD100 million or more, or at an amount equal to or greater than 1 percent of net operating revenue or 5 percent of paid-in capital as stated in the CPA-audited financial statements of the most recent year. (In the case of a foreign issuer whose shares have no par value or a par value other than NT\$10, 2.5 percent of shareholders' equity shall be substituted for the calculation of the amount equal to 5 percent of paid-in capital required under this paragraph.).

The term "**within a 1-year period**" in the preceding paragraph means a period of 1 year calculated retroactively from the date on which the current BOD meeting is convened. Amounts already submitted to and passed by a resolution of the board are exempted from inclusion in the calculation.

With respect to a matter that, under Article 14-3 of SEA, must be approved by resolution at a BOD meeting, any and all independent directors of the Company shall attend the meeting in person or shall not appoint another non-independent director to attend the meeting as proxy. If an independent director objects to or expresses reservations on such a matter, it shall be recorded in the meeting minutes. If an independent director intends to express an objection or reservation but is unable to attend the meeting in person, unless there is a legitimate reason to do otherwise, that director shall issue a written opinion in advance, which shall be recorded in the meeting minutes.

#### Article 13 (Voting (1))

When the chairperson at a BOD meeting is of the opinion that a proposal has been discussed sufficiently to put it to a vote, the chairperson may announce the discussion closed and call for a vote. When a proposal comes to a vote, if no attending director voices an objection following an inquiry by the chairperson, the proposal will be deemed as approved. If there is an objection following an inquiry by the chairperson, the proposal shall be brought to a vote.

Voting method for proposals at a BOD meeting shall be selected by the chairperson from below, provided that when an attending director has an objection, the chairperson shall seek the opinion of the majority to make a decision:

1. A show of hands or a vote by voting machine.
2. A roll call vote.
3. A vote by ballot.
4. A vote by a method selected at the Company's discretion.

#### Article 14 (Voting (2), and Scrutinizing Ballots and How Ballots are Counted)

Except where otherwise provided by the Securities and Exchange Act and the Company Act, the passage of a proposal at a BOD meeting shall require the approval of a majority of the attending directors at a BOD meeting attended by a majority of all directors.

When there is an amendment or alternative proposal, the chairperson shall present the amended or alternative proposal together with the original proposal and decide on the order in which they will be put to a vote. If any one of them is passed, the other proposals shall then be deemed rejected, and no further voting on them shall be required.

If a vote on a proposal requires monitoring and counting personnel, the chairperson shall appoint such personnel, providing that all monitoring personnel shall be directors.

Voting results shall be made known on-site immediately and recorded in writing.

#### Article 15 (Director's Avoidance of Conflict of Interest)

If a director or a juristic person that the director represents is an interested party in relation to an agenda item, the director shall state the important aspects of the interested party relationship at the respective meeting. When the relationship is likely to prejudice the interest of the Company, that director may not participate in discussion or voting on that agenda item and shall recuse himself or herself from the discussion or the voting on the item and may not exercise voting power as proxy for another director.

Where a director is prohibited by the preceding paragraph from exercising voting power with respect to a resolution at a BOD meeting, the provisions of paragraph 2, Article 180 of the Company Act apply mutatis mutandis in accordance with paragraph 2, Article 206 of the same Act.

#### Article 16 (Meeting Minutes and Signature)

Discussions at a BOD meeting shall be recorded in the meeting minutes, and the minutes shall fully and accurately state the matters listed below:

1. The meeting session (or year) and the time and place of the meeting;
2. The name of the chairman;
3. The directors' attendance at the meeting, including the names and the number of directors in attendance, excused, and absent;
4. The names and titles of those attending the meeting as non-voting participants;
5. The name of the minute taker;
6. The matters reported at the meeting;
7. Agenda items: the method of resolution and the result for each proposal; a summary of the comments made by directors, supervisors, experts, or other persons; the name of any director that is an interested party as referred to in paragraph 1 of the preceding article, an explanation of the important aspects of the interest, the reasons why the director was required or not required to recuse, and the status of their recusal; opinions expressing objections or reservations at the meeting that were included in records or stated in writing; and any opinion issued in writing by an independent director pursuant to Paragraph 2, Article 12.
8. Extraordinary motions: The name of the mover, the method of resolution and the result, a summary of the comments of any director, supervisors, expert, or other person; the name of any director that is an interested party as referred to in paragraph 1 of the preceding Section, an explanation of the important aspects of the interest, the reasons why the director was required or not required to recuse, and the status of their recusal; and their objections or reservations and any recorded or written statements.
9. Other matters required to be recorded.

The occurrence of any of the following circumstances, with respect to a resolution passed at a BOD meeting, shall be stated in the meeting minutes and shall be publicly announced and filed on the website of the Market Observation Post System designated by the Financial Supervisory Commission, Executive Yuan, within 2 days from the date of the meeting:

1. Any objection or reservations by an independent director in writing;
2. A resolution is adopted with the approval of two-thirds or more of all directors, without having been passed by the audit committee of the Company.

The attendance book constitutes part of the minutes for each BOD meeting and shall be retained for the duration of the existence of the Company.

The minutes of a BOD meeting shall bear the signature or seal of both the chairperson and the minute taker, and a copy of the minutes shall be distributed to each director within 20 days after the meeting. The minutes shall be deemed important corporate records and permanently & appropriately preserved during the existence of the Company.

The meeting minutes mentioned in paragraph 1 may be produced and distributed in electronic form.

#### Article 17 (Guidelines for Authorization by the Board of Directors)

Except for the matters required to be submitted for board discussions under Paragraph 1 of Article 12, when the BOD appoints a party without a BOD meeting to exercise the powers of the board in accordance with applicable laws and regulations or the Company's Articles of Incorporation, the levels of such delegation and the content or matters it covers shall be definite and specific, and carried out in accordance with the following principle:

1. Examining the Company's accounting system, financial position and financial reporting procedures;
2. Communicating with the CPA of the Company;
3. Evaluating performance of the internal audit staff and their works;
4. Evaluating the internal control of the Company;
5. Evaluating, reviewing and supervising various existing or potential risks of the Company;
6. Reviewing the compliance of the Company;
7. Reviewing the transactions involving Director's avoidance of conflict of interest in the exercise of voting power as prescribed in Article 32 hereof, inter alia significant transactions with affiliated person, acquisition or disposition of assets, derivative products transactions, lending of capital, endorsement for third party, or provision of guarantee, and establishment of a company for purpose of investing, etc.;
8. Evaluating the qualification of CPA and nominate appropriate candidates.

#### Article 18 (Supplementary Provisions)

The Rules shall be adopted by the BOD and shall be reported to the shareholders' meeting.

The Rules was enacted on June 14, 2005.

The first amendment was made on June 13, 2007.

The second amendment on was made on June 14, 2013.

**Relevant information on the Board-authorized profit distribution proposal and the employee compensation & directors' remuneration proposal pending for resolution on Shareholders' meeting**

1. The Company shall distribute no less than 10% of its profit for the year as employee compensation, which may be distributed by stock or cash upon resolution adopted by a majority vote at a meeting of board of directors. The target of distribution includes employees of the Company's subordinate companies who meet certain conditions; the Company may, upon resolution adopted by a majority vote at a meeting of board of directors, distribute no more than 2% of its profit for the year as the directors and supervisors' remuneration. The distribution of employee compensation and the directors and supervisors' remuneration shall be proposed in the shareholders' meeting.

However, the Company shall, if it still has accumulated losses, retain the off-setting amount first, before distribute the employee compensation and the directors and supervisors' remuneration according to the aforesaid ratio.

The Company shall, if there is surplus earning upon annual closing, pay regulatory taxes and off-set accumulated losses before listing 10% to the statutory surplus reserve, provided that, the statutory surplus reserve will no longer need to be listed if it has reached the amount equal to that of the Company's paid-in capital, and the remaining balance shall be listed or reverse special reserve pursuant to law. The Board of Directors shall consolidate any remaining balance with the accumulated undistributed earnings into a Surplus Earning Distribution Proposal and present it in the shareholders' meeting for a resolution on the distribution of dividends.

The Company's dividend policy is based on the consideration of future cashflow requirements and long-term financial planning. The distribution of dividends will not be less than 50% of the after-tax surplus earning of the year, and cash dividend will not be less than 10% of the total amount of dividends distributed each year.

2. The Company's 2017 net profit after tax was NT\$6,655,539, but after making up for the accumulated loss (NT\$128,792,972) from the opening balance at the beginning of the period and recognizing the deduction of defined benefit plans reassessment value of the period (NT\$6,860,375) in retained earnings, the accumulated loss carried forward at the end of the period is NT\$128,997,808. Therefore, there will be no distribution of dividends.

**The impact of the stock grants on the company's business performance, earnings per share and shareholder's return on investment to be proposed in this shareholders' meeting**

Unit: NT\$

Item	Year	Year 2018 (estimated)
Paid-in capital, beginning of year		3,376,884,160
Share / divided allocation of the year	Cash dividend per share	Note 1
	Retained Earnings Transferred to common stock	Note 2
	Capital surplus transferred to common stock	Note 2
Changes in operating performance	Operating income	Note 3
	Changes in operating profit over the same periods	
	Net profit after tax	
	Changes in net profit after tax over the same periods	
	Earnings per share	
	Changes in earnings per share over the same periods	
	average annual return on investment (average annual P/E ratio)	
Proposed earnings per share and P/E ratio	If cash dividend is adopted in replacement of retained earnings transferred to common stock	Proposed earnings per share
		Proposed average annual return on investment
	If no capital surplus transferred to common stock is adopted (Note1)	Proposed earnings per share
		Proposed average annual return on investment
	If no capital surplus transferred to common stock is adopted and cash dividend is adopted in replacement of retained earnings transferred to common stock (Note1)	Proposed earnings per share
		Proposed average annual return on investment

- Note: 1. The 2017 net profit after tax of period was used to off-set loss as may be lawful; therefore, there was no statutory surplus reserve listed and no distribution of dividends.
- Note: 2. There are no retained earnings transferred to common stock or capital surplus transferred to common stock adopted for the period.
- Note: 3. This is not applicable because, according to “Regulations Governing the Publication of Financial Forecasts of Public Companies”, the Company did not submit 2018 Financial Forecast.

# PHIHONG TECHNOLOGY CO., LTD.

## Status of the Number of Shares Held by Directors

1. The Company's paid-in capital is NT\$3,376,884,160; total number of shares issued are 337,688,416 shares.
2. As of the suspended transferring date of this shareholders' meeting (April 15, 2018), each and all directors' shareholding status recorded in the shareholders' list are listed in the schedule below pursuant to the criteria prescribed in Article 26 of the Securities and Exchange Act.

Title	Name	Shareholding (shares)	Proportion to total number of shares issued (%)
Chairman	LIN, CHUNG-MING	51,702,063	15.31%
Director	CHIEN SU-NU	3,813,236	1.13%
Director	YANG, SHIH-HSIUNG	4,662	0.00%
Director	WANG, CHIA-KOUN	0	0.00%
Director	CHOU, MING-CHIH	0	0.00%
Director	CHIANG, WEI-FENG	0	0.00%
Director	CHOU, DAH-JEN	0	0.00%
Director	Kuan Feng Investment Ltd. Representative: LIN, YANG-HUNG	3,034,905	0.90%
Independent Director	HUNG, YU-YUAN	0	0.00%
Independent Director	LIN, KUEI-HUNG	20,578	0.01%
Independent Director	CHANG, HSIEN-TA	0	0.00%
<b>Total number of directors</b>		<b>58,575,444</b>	<b>17.35%</b>

Note: Since 14 June 2017, the Audit Committee has been responsible for the enforcement of the authority of the supervisor as required by relevant laws and regulations. Therefore, there are no applicable statutory shares held by the supervisor(s).