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**Confirmation of Your Representation:** You have accessed the attached Offering Circular on the basis that you have confirmed your representation to Citigroup Global Markets Limited and UBS AG, Hong Kong Branch (each an “**Initial Purchasers**” and collectively the “**Initial Purchasers**”) that (1) (i) you are not resident in the United States and, to the extent you purchase the securities described in the attached Offering Circular, you will be doing so in an offshore transaction pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) or (ii) you are acting on behalf of, or you are, a qualified institutional buyer, as defined in Rule 144A under the Securities Act, and (2) that you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

The attached Offering Circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Initial Purchasers, their affiliates and directors, officers, employees, representatives and agents or any other person controlling the Initial Purchasers, or any of their affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the Offering Circular distributed to you in electronic format and the hard copy version. The Company will provide a hard copy version of this Offering Circular to you upon request.

**Restrictions:** The attached Offering Circular is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described therein. You are reminded that the information in the attached Offering Circular is not complete and may be changed.

**THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES UNLESS REGISTERED UNDER THE SECURITIES ACT OR PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION.**

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The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer, and the sole bookrunner or any affiliate of the sole bookrunner is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the Company in such jurisdiction.

You are reminded that you have accessed the attached Offering Circular on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

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## OFFERING CIRCULAR



### YAGEO Corporation

*(incorporated as a company limited by shares in Taiwan, the Republic of China)*

## 12,680,000 Global Depositary Shares representing 63,400,000 Common Shares, par value NT\$10 per share

We are offering 12,680,000 Global Depositary Shares (the “GDSs”), representing 63,400,000 new common shares, par value NT\$10.00 per common share, of our company (the “Shares” or “Common Shares”) through the Initial Purchasers. Each GDS represents five Shares.

Subject to certain restrictions described in this Offering Circular (the “Offering Circular”), on or after the Share Listing Date (as defined herein), which is expected to be no later than the fourth business day in the Republic of China (the “ROC”) following the closing date of this offering, you may surrender GDSs and withdraw and hold the underlying Shares or request the Depositary to sell or cause to be sold on your behalf the underlying Shares.

The Shares are currently listed under the trading code “2327” on the Taiwan Stock Exchange (the “TWSE”) in the ROC. The closing sale price per Share on the TWSE on April 14, 2020 was NT\$338.00 (equivalent to US\$11.24 at the exchange rate of NT\$30.059 to US\$1.00 based on the Taipei Forex Inc. Taiwan Dollar 11:00 Fixing rate on April 14, 2020).

**Investing in and holding the GDSs involve a high degree of risk. See “Risk Factors” beginning on page 19 for a discussion of certain factors to be considered in connection with an investment in, and the holding of, the GDSs. The GDSs are of a specialist nature and should only be bought and traded by investors particularly knowledgeable in investment matters.**

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### Offering Price: US\$51.25 per GDS

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The GDSs and the Shares underlying the GDSs have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”). Prospective purchasers are hereby notified that sellers of the GDSs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act (“Rule 144A”). Outside the United States, the offering is being made in reliance on Regulation S under the Securities Act (“Regulation S”). The GDSs are not being directly or indirectly offered in the ROC. See “Transfer Restrictions” and “Plan of Distribution.”

Application has been made to admit the GDSs, which consist of the Rule 144A GDSs and Regulation S GDSs, to the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market of the Luxembourg Stock Exchange.

Delivery of the GDSs is expected to be made in book-entry form through the facilities of The Depositary Trust Company, Euroclear Bank, S.A./N.V., as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream”) through their participant accounts on or about April 20, 2020 (the “Closing Date”).

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*Sole Global Coordinator*



*Joint Bookrunners*



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Offering Circular dated April 14, 2020.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this Offering Circular. You must not rely on any unauthorized information or representations. This Offering Circular is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. You should not assume that the information contained in this Offering Circular is accurate as of any date other than the date of this Offering Circular. Our business, financial condition, results of operations and prospects may have changed since that date.

No United States federal, state or foreign securities commission or regulatory authority has recommended the GDSs or reviewed, passed on, determined or confirmed the accuracy or adequacy of this Offering Circular. Any representation to the contrary may be a criminal offense.

Except as described below, we accept responsibility for the information contained in this Offering Circular. We, having made all reasonable enquiries, confirm that this Offering Circular contains all information with respect to us, our subsidiaries, the GDSs and our Common Shares that is material in the context of the issue and offering of the GDSs, that the information contained in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the GDSs, make this Offering Circular as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respects and that all reasonable enquiries have been made by us to verify the accuracy of such information and that this Offering Circular does not contain any untrue statement of a material fact or omit to state a material fact required to be stated or necessary in order to make the statements, in the light of the circumstances under which they are made, not misleading. We accept responsibility for and confirm that the information contained in each of the sections entitled “Appendix A: The Securities Markets of the ROC” and “Appendix B: Foreign Investment and Exchange Controls in the ROC” has been accurately extracted from the TWSE Monthly Review and the laws and regulations of the ROC. However, such information has not been verified by us, the Initial Purchasers or any of our or the Initial Purchasers’ affiliates or advisors in connection with this offering.

The distribution of this Offering Circular and the offering and sale of the GDSs in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the GDSs and distribution of this Offering Circular, see “Plan of Distribution” and “Transfer Restrictions.” This Offering Circular does not constitute an offer of, or an invitation by or on behalf of us or the Initial Purchasers to subscribe for or purchase any of the GDSs in any jurisdiction in which such offer or invitation would be unlawful. This Offering Circular may be used only for the purposes for which it has been published.

### **Available Information**

If, at any time, we are neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (the “**Exchange Act**”) nor exempt from reporting pursuant to Rule 12g3-2(b) of the Exchange Act, we will furnish, upon request, to any person in whose name GDSs are registered on the books of the Depositary (as defined herein), any holder of any beneficial interest in GDSs or any prospective purchaser designated by a holder, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. Alternatively, a holder may obtain such information at the specified office in Luxembourg, so long as the GDSs are listed on the Luxembourg Stock Exchange.

### **Incorporation of Documents by Reference**

KEMET is subject to the information and reporting requirements of the Exchange Act and files periodic reports and other information with the SEC. These periodic reports and other information are available for inspection and copying at the SEC’s public reference room and by accessing the website of the SEC at [www.sec.gov](http://www.sec.gov).

The SEC allows us to “incorporate by reference” the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this Offering Circular. We incorporate by reference the audited consolidated financial statements of KEMET included in its annual report on Form 10-K for the fiscal year ended March 31, 2019 filed with the SEC on May 30, 2019. We incorporate by reference the unaudited consolidated financial statements of KEMET included in Item 1 in its quarterly report on Form 10-Q for the nine months ended December 31, 2019 filed with the SEC on February 6, 2020.

The information incorporated by reference is considered to be a part of this Offering Circular, and you should read it with the same care that you read this offering circular. Any statement in a document incorporated by reference into this Offering Circular will be deemed to be modified or superseded to the extent that a statement contained in this Offering Circular or in a document that is subsequently filed with the SEC and incorporated by reference into this offering circular modifies or supersedes that previous statement.

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## PRESENTATION OF INFORMATION

The references to “the Company” in this Offering Circular refer to YAGEO Corporation, and references to “we,” “us” and “our” in this Offering Circular refer to YAGEO Corporation or YAGEO Corporation and its subsidiaries, as the context requires, unless specifically indicated. The references to “Shares” refer to the common shares of the Company, par value NT\$10 per common share. The references to “Taiwan” and “ROC” refer to Taiwan, the Republic of China. The references to “PRC” and “China” refer to the People’s Republic of China. The references to “the ROC Company Law” refer to the Company Law of the ROC. The references to “FSC” refer to the Financial Supervisory Commission of the ROC. The references to “TWSE” refer to the Taiwan Stock Exchange Corporation.

Unless expressly stated otherwise, all financial information, description and other information regarding our financial condition and results of operations as of and for the years ended December 31, 2017, 2018 and 2019 included in this Offering Circular are presented on a consolidated basis. We prepared our consolidated financial statements as of and for the years ended December 2017, 2018 and 2019 in accordance with the International Financial Reporting Standards, International Accounting Standards, and relevant interpretations and interpretative bulletins endorsed by the Financial Supervisory Commission, ROC (the “FSC”) (the “T-IFRSs”), which differs from U.S. GAAP, IFRS or the generally accepted accounting principles of certain other countries. Our consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019 have been audited.

The financial statements of the Company are published in New Taiwan dollars, the lawful currency of the ROC. All references to “United States dollars,” “US dollars” and “US\$” are to United States dollars, all references to “New Taiwan dollars,” “NT dollars” and “NT\$” are to New Taiwan dollars and all references to “HK\$” are to Hong Kong dollars. Unless otherwise noted, all translations from NT dollars to US dollars were made at the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board (the “Noon Buying Rate”) as of December 31, 2019, which was NT\$29.91 = US\$1.00. All amounts translated into US dollars in this Offering Circular are provided solely for your convenience and no representation is made that the NT dollar or US dollar amounts referred to herein could have been or could be converted into US dollars or NT dollars, as the case may be, at any particular rate or at all.

In this Offering Circular, where information has been presented in thousands, millions or billions of units, amounts may have been rounded up or down. Accordingly, the total of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

We have compiled all industry and market information and statistics contained in this Offering Circular from various published and private sources, which may be inconsistent with other information compiled elsewhere. Unless otherwise indicated, all industry and market information and statistics contained in this Offering Circular relate to Taiwan. We have reproduced such information correctly in this Offering Circular but neither we, nor the Initial Purchasers, have independently verified the accuracy of any of such information.

## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

We have made forward-looking statements in this Offering Circular. The words “believe,” “expect,” “anticipate,” “estimate,” “project,” “intend,” “plan,” “seek” and similar words identify forward-looking statements. In addition, all statements other than statements of historical fact included in this Offering Circular are forward-looking statements. Our forward-looking statements contain information regarding:

- our future revenue and profitability;
- our business strategies;
- expected growth in consumer demand; the expected industry trends;
- our capital expenditure plans; and
- other matters discussed in this Offering Circular regarding matters that are not historical facts,

are only forecasts based on information currently available to us. We have based these forward-looking statements on our current expectations and projections about future events. Although we believe that these expectations and projections are reasonable, these forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, uncertainties and other factors include, among others:

- the intensely competitive industries in which we operate;
- general economic, political and social conditions and developments in Taiwan, the PRC and other jurisdictions in which we operate our business;
- the pending KEMET Acquisition;
- market acceptance of our products;
- risks associated with the introduction of new products;
- changes in market prices for our products;
- our rate of growth and ability to meet the demands in relation to our growth;
- changes in the availability and prices of raw materials and machinery and equipment we need to manufacture our products;
- our ability to meet financial and other covenants provided under our loan agreements;
- our continued ability to secure funding to meet our liquidity needs and investment objectives;
- legal proceedings; and
- other risks identified in the “Risk Factors” section of this Offering Circular.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give no assurance that such expectations will prove correct. We undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of the foregoing and the risks, uncertainties and assumptions in “Risk Factors” and elsewhere in this Offering Circular, the forward-looking events in this Offering Circular are not guarantees of future performance and might not occur and our actual results could differ materially from those anticipated in those forward-looking statements.



## ENFORCEABILITY OF FOREIGN JUDGMENTS

The Company is a company limited by shares and incorporated under the ROC Company Law. Substantially all of its directors and executive officers and certain of the experts named in this Offering Circular are residents of the ROC, and a significant portion of the Company's assets and these persons are located in the ROC. As a result, it may not be possible for you to effect service of process upon the Company or any of these persons outside of the ROC, or to enforce against any of them judgments obtained in courts outside of the ROC. The Company's ROC counsel has advised that any final judgment obtained against the Company or such persons in any court other than the courts of the ROC in respect of any legal suit or proceeding arising out of or relating to the GDSs or the Shares will be enforced by the courts of the ROC without further review of the merits only if the court of the ROC in which enforcement is sought is satisfied with the following:

- the court rendering the judgment has jurisdiction over the subject matter according to the laws of the ROC;
- the judgment and the court procedure resulting in the judgment are not contrary to the public order or good morals of the ROC;
- the judgment is a final judgment for which the period for appeal has expired or from which no appeal can be taken;
- if the judgment was rendered by default by the court rendering the judgment, (i) the Company or such persons were duly served within a reasonable period of time within the jurisdiction of such court in accordance with the laws and regulations of such jurisdiction, or (ii) process was served on the Company or such persons with judicial assistance of the ROC; and
- judgments of the courts of the ROC would be recognized and enforceable in the jurisdiction of the court rendering the judgment on a reciprocal basis.

A party seeking to enforce a foreign judgment in the ROC would, except under limited circumstances, be required to obtain foreign exchange approval from the Central Bank of the Republic of China (Taiwan), or CBC, for the remittance out of the ROC of any amounts recovered in respect of the judgment denominated in a currency other than NT dollars. See "Appendix B — Foreign Investment and Exchange Controls in the ROC".



## SUMMARY

*The following summary is qualified in its entirety by the more detailed information contained elsewhere in this Offering Circular. This summary may not contain all of the information you should consider before deciding to invest in the GDSs. We recommend that you read this Offering Circular carefully, including the financial statements and related notes which appear in the F-pages of this Offering Circular and “Risk Factors”.*

### Overview

We are a leading global electronic component company with capabilities on a global scale, including production and sales facilities in Asia, Europe and the Americas. We provide one-stop shop product portfolio of resistors, capacitors, wireless and circuit protection components to meet the diverse requirements of customers. According to Paumanok, we were ranked the fourth in the passive component market as measured by consumption value in 2019, and upon the completion of the KEMET Acquisition, we are expected to become the second largest supplier of passive components in the market by consumption value.

We have broad product offerings, primarily comprising multi-layer ceramic capacitors, chip resistors, wireless components and circuit protection components, strategically targeted at various key vertical markets, including applications for consumer electronics, industrial, telecommunications, power and energy, IoT and automotive and transportation. Going forward, the number of new applications in 5G, IoT, cloud computing and electric vehicles is expected to increase over time, and such favorable secular trends is expected to create significant new demand and drive additional growth.

We have an extensive global distribution network that mainly covers Greater China, the United States and Europe. Our customer base mainly includes electronic manufacturing service providers, original design manufacturing providers, original equipment manufacturing providers and distributors. Upon the completion of the KEMET Acquisition, our distribution network will further be enhanced in Asia to include Japan and Korea, and to cover the Americas. In addition, our customer base will further be expanded to include other leading global industrial, automotive and defense companies.

We have more than 25 years of experience in mergers and acquisitions. In addition to KEMET, we have acquired many prestigious passive and electronic component companies, including Vitrohm in 1996, the discrete ceramics and ferrite components businesses of Royal Philips Electronics in 2000, BrightKing Holdings in 2018 and Pulse Electronics in 2018. The consolidation efforts have transformed us from a small Taiwan-based player into a leading global passive component provider while creating shareholder value. Our management proactively undertake integration initiatives post acquisitions to achieve cost savings.

Our operating revenue increased from NT\$32,258.6 million in 2017 to NT\$77,155.6 million in 2018, and then decreased to NT\$41,306.6 million (US\$1,381.0 million) in 2019. Our net profit increased from NT\$6,681.0 million in 2017 to NT\$33,840.1 million in 2018, and then decreased to NT\$7,052.1 million (US\$235.8 million) in 2019.

### Our Competitive Strengths

- Well-positioned to capture attractive growth opportunities anchored by favorable secular trends
- Global leading passive component player with clear strategic focus
- Diversified blue-chip customer base and geographic coverage
- Proven track record in mergers and acquisitions and successful integration
- Visionary and experienced management team

## **Our Strategies**

- Delivering growth by positioning us to capture attractive market opportunities supplemented by selective bolt-on acquisitions
- Continuous improvement on operational efficiency
- Focus on post-deal integration and synergy maximization
- Prudent financial management while maximizing shareholder value

## **Corporate and Other Information**

We were founded by Mr. M.Y. Chen and was incorporated on July 10, 1977 under the name Yageo Company Limited, or YCL, under the Company Law of the Republic of China. YCL manufactured leaded resistors under contract for resistor producers and designed and built resistor factories for third parties on a turnkey basis. YCL merged with Taiwan Resistance Corporation, a manufacturer of leaded resistors in Kaohsiung, Taiwan in 1989 and adopted the name “Yageo Corporation”. Our registered office address is at 3F, 233-1, Baoqiao Rd. Xindian Dist., New Taipei City, Taiwan, Republic of China. On October 22, 1993, our Common Shares were listed on the TWSE under the trading code “2327”. On April 14, 2020, the closing price of our Common Shares on the TWSE was NT\$338.00 per share and our market capitalization was approximately NT\$145 billion.

Our website address is <https://www.yageo.com>. The information on our website is not part of this Offering Circular.

## **The KEMET Acquisition**

On November 11, 2019, we entered into an Agreement and Plan of Merger or the KEMET Merger Agreement, by and among YAGEO Corporation, Sky Merger Sub Inc. and KEMET Corporation, or KEMET. The consummation of the KEMET Acquisition is subject to regulatory and KEMET shareholder approvals and customary closing conditions. KEMET’s shareholders have approved it on February 20, 2020. We expect the KEMET Acquisition to close in the second half of 2020. There can be no assurance that we will be able to consummate the KEMET Acquisition on timely basis or at all.

The following summary of the KEMET Merger Agreement is not complete and is subject to, and is qualified in its entirety by reference to, all provisions of the KEMET Merger Agreement (including the definitions of terms used therein). You should read the KEMET Merger Agreement for provisions that may be important to you. A copy of the KEMET Merger Agreement was filed as Annex A to Definitive Proxy Statement on Schedule 14A filed with the SEC on January 14, 2020.

Upon the consummation of the KEMET Acquisition, each share of KEMET common stock issued and outstanding immediately prior to the Effective Time (other than (i) shares held by KEMET or held, directly or indirectly, by us or Sky Merger Sub Inc., which will be canceled for no consideration, and (ii) any shares owned by stockholders who are entitled to and who properly exercise appraisal rights under Delaware law) will be converted into the right to receive US\$27.20 in cash, without interest and less any applicable withholding taxes.

In the KEMET Merger Agreement, KEMET has made customary representations and warranties to us and Sky Merger Sub Inc. that are subject, in some cases, to specified exceptions and qualifications contained in the KEMET Merger Agreement or in KEMET’s disclosure letter to the KEMET Merger Agreement delivered in connection therewith. These representations and warranties relate to, among other things: (i) due organization, good standing and authority and qualification to conduct business with respect to KEMET and its subsidiaries; (ii) capital structure of KEMET, KEMET’s ownership of its subsidiaries, KEMET’s and its subsidiaries’ non-ownership of equity or debt interests other than of subsidiaries of KEMET and KEMET’s equity awards granted; (iii) KEMET’s corporate authority to enter into, perform its covenants and obligations under, and consummate the transactions contemplated by, the KEMET Merger Agreement and the enforceability of the KEMET Merger Agreement; (iv) subject to the ability to make an Adverse Recommendation Change, the approval of, and recommendation by, the board of directors in favour of the proposal to adopt the KEMET Merger Agreement; (v) the absence of conflicts with laws, KEMET’s organizational documents and KEMET’s

contracts; (vi) required consents and regulatory filings and approvals (including from CFIUS and pursuant to U.S. and foreign antitrust laws) in connection with the KEMET Merger Agreement; (vii) KEMET's possession of necessary permits and KEMET's compliance with laws (including, but not limited to, anti-corruption laws and international trade laws); (viii) the accuracy of KEMET's SEC filings and financial statements; (ix) the accuracy of the information supplied by or on behalf of KEMET or any of its subsidiaries for inclusion in the Definitive Proxy Statement; (x) KEMET's disclosure controls and procedures; (xi) the conduct of business of KEMET and its subsidiaries in the ordinary course; the absence of any change, event, occurrence, state of facts, condition, development or circumstance that has had or would be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect; and the absence of certain actions taken that would otherwise have been prohibited if taken between the date of the KEMET Merger Agreement and the closing, in each case, since April 1, 2019; and (xii) other representations and warranties set forth in the KEMET Merger Agreement.

The KEMET Merger Agreement may be terminated at any time prior to the Effective Time, whether before or after the KEMET stockholder approval: (i) by mutual written consent of us and KEMET; (ii) by either of us or KEMET if (a) the KEMET Acquisition has not been consummated by the Termination Date, subject to certain exceptions, (b) prior to the Effective Time, any governmental authority has, by law or order, permanently restrained, enjoined, rendered illegal or otherwise prohibited the transactions contemplated by the KEMET Merger Agreement and such law or order has become final or nonappealable, subject to certain conditions, (c) KEMET has failed to obtain the KEMET stockholder approval; (d) we have failed to obtain our stockholder approval, (e) a CFIUS turndown has occurred at any time or the parties have failed to obtain CFIUS approval before the Termination Date, or (f) the parties have failed to obtain the approvals of foreign investment and investment in mainland China for the purpose of the KEMET Acquisition and the other transactions contemplated by the KEMET Merger Agreement issued by the Taiwan Investment Commission before the Termination Date. In addition, the KEMET Merger Agreement can be terminated by KEMET under specified circumstances, including, among others, KEMET to enter into a definitive agreement for a superior proposal, and KEMET will be required to pay us a termination fee of US\$63.75 million.

The respective obligations of each party to consummate the KEMET Acquisition are subject to the satisfaction or (to the extent permitted by applicable law) waiver by KEMET and us, by the Effective Time, of the following conditions: (i) the KEMET stockholder approval having been obtained; (ii) the consummation of the KEMET Acquisition not being restrained, enjoined, rendered illegal or otherwise prohibited by any law or order of any governmental authority; (iii)(a) the expiration or early termination of any waiting periods (or any extensions thereof) applicable to the consummation of the KEMET Acquisition under the HSR Act and (b) the termination or expiration of any waiting periods (and any extensions thereof), and all related approvals or clearances of the KEMET Acquisition by the relevant antitrust authorities, pursuant to any antitrust laws in Austria, China, Germany, Mexico and Taiwan that are required to be terminated or expired prior to the consummation of the KEMET Acquisition; (iv) the CFIUS approval having been obtained; (v) approvals of foreign investment and investment in mainland China for the purpose of the KEMET Acquisition and the other transactions contemplated by the KEMET Merger Agreement issued by the Taiwan Investment Commission having been obtained; (vi) if required by applicable law, our stockholder approval having been obtained; and (vii) subject to certain exceptions, the accuracy of the representations and warranties in the KEMET Merger Agreement. The KEMET Acquisition remains subject to other customary closing conditions. On February 20, 2020, stockholders of KEMET approved the KEMET Acquisition. The KEMET Acquisition is expected to close in the second half of 2020.

There can be no assurance that we will be able to consummate the KEMET Acquisition on a timely basis or at all. See "Risk Factors — Risks Relating to the KEMET Acquisition." This offering is not contingent on the consummation of the KEMET Acquisition.

## **Information about KEMET**

The information below about KEMET has been derived from the Definitive Proxy Statement on Schedule 14A that KEMET has filed with the SEC on January 14, 2020.

KEMET is a leading global manufacturer of a wide variety of capacitors, and electro-magnetic compatible devices, sensors and actuators. With respect to capacitors, KEMET competes in the passive electronic component industry, specifically multilayer ceramic, tantalum, film and aluminum (solid & electrolytic) capacitors. While KEMET competes in the passive electronic component industry, its strategic focus is on growth markets, specialty products requiring high reliability, and within its ceramic product line, larger case size capacitors.

KEMET is organized into three reportable segments: Solid Capacitors, Film and Electrolytic, and Electro-magnetic, Sensors & Actuators. Each segment is responsible for the operations of certain manufacturing sites as well as all related research and development efforts. For the year ended March 31, 2019, approximately 67.7% of KEMET's net sales were derived from sales of Solid Capacitors, approximately 14.9% of KEMET's net sales were derived from sales of Film and Electrolytic products and approximately 17.4% of KEMET's net sales were derived from sales of Sensors & Actuators products. KEMET operates 21 production facilities in Europe, North America, and Asia, and employs approximately 12,800 employees worldwide. KEMET serves the needs of its global customer base through four geographic regions: the Americas, Europe, the Middle East and Africa, Asia and the Pacific Rim, and Japan and Korea. For the year ended March 31, 2019, approximately 38.6% of KEMET's net sales were derived from sales in Asia and the Pacific Rim, approximately 22.8% of KEMET's net sales were derived from sales in Middle East and Africa, approximately 24.4% of KEMET's net sales were derived from sales in the Americas and approximately 14.2% of KEMET's net sales were derived from sales in Japan and Korea.

KEMET common stock is currently listed on the NYSE under the symbol "KEM." On April 13, 2020, the closing price of KEMET common shares on the NYSE was US\$25.24 per share and KEMET's market capitalization was US\$1.47 billion.

## **Recent Developments**

As announced on the Market Observation Post System, or MOPS, our operating revenue for January, February and March 2020 were NT\$3,302 million, NT\$2,683 million and NT\$4,035 million, respectively. The financial data for January, February and March 2020 have not been audited nor reviewed by our auditor, and are subject to adjustments based upon, among other things, completion of applicable reporting processes. Actual results could differ materially from the financial data provided above. In addition, due to the COVID-19 outbreak, the utilization rate of our production facilities decreased in February 2020 as compared to January 2020. However, the utilization rate increased in March 2020 as compared to February 2020 as most of the factories have gradually resumed to work. In addition, the average selling prices of our products increased in the first quarter of 2020 because we ceased our discount program offered in 2019.

## SUMMARY FINANCIAL AND OTHER DATA OF YAGEO CORPORATION

The following tables present our summary financial information. The summary financial information as of and for the years ended December 31, 2017, 2018 and 2019 set forth below are qualified by reference to, and should be read in conjunction with, our consolidated financial statements included elsewhere in this Offering Circular. Our consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019 have been prepared and presented in accordance with the T-IFRSs, which differs from U.S. GAAP, IFRS or the generally accepted accounting principles of certain other countries. For information relating to the nature and effect of significant differences between IFRS and T-IFRSs as they relate to us, see note 3 to our consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019 included elsewhere in this Offering Circular.

|                                                                              | Year Ended December 31,                              |        |            |        |            |         |        |
|------------------------------------------------------------------------------|------------------------------------------------------|--------|------------|--------|------------|---------|--------|
|                                                                              | 2017                                                 |        | 2018       |        | 2019       |         |        |
|                                                                              | NT\$                                                 | %      | NT\$       | %      | NT\$       | US\$    | %      |
|                                                                              | (in millions, except percentages and per share data) |        |            |        |            |         |        |
| <b>Consolidated Statement of Income:</b>                                     |                                                      |        |            |        |            |         |        |
| Operating revenue . . . . .                                                  | 32,258.6                                             | 100.0  | 77,155.6   | 100.0  | 41,306.6   | 1,381.0 | 100.0  |
| Operating costs . . . . .                                                    | (21,760.5)                                           | (67.5) | (28,310.3) | (36.7) | (26,526.1) | (886.9) | (64.2) |
| Gross profit . . . . .                                                       | 10,498.1                                             | 32.5   | 48,845.3   | 63.3   | 14,780.5   | 494.1   | 35.8   |
| Operating expenses                                                           |                                                      |        |            |        |            |         |        |
| Selling and marketing . . . . .                                              | (1,462.7)                                            | (4.5)  | (6,496.6)  | (8.4)  | (3,792.4)  | (126.8) | (9.2)  |
| General and administration . . .                                             | (1,138.2)                                            | (3.5)  | (3,523.3)  | (4.6)  | (3,171.3)  | (106.0) | (7.7)  |
| Research and development . . . .                                             | (303.9)                                              | (1.0)  | (413.4)    | (0.5)  | (774.8)    | (25.9)  | (1.9)  |
| Expected credit (loss) gain . . .                                            | —                                                    | —      | (1,504.1)  | (2.0)  | 989.3      | 33.1    | 2.4    |
| Total operating expenses . . .                                               | (2,904.8)                                            | (9.0)  | (11,937.4) | (15.5) | (6,749.2)  | (225.6) | (16.4) |
| Profit from operations . . . . .                                             | 7,593.3                                              | 23.5   | 36,907.9   | 47.8   | 8,031.3    | 268.5   | 19.4   |
| Non-operating income (expenses)                                              |                                                      |        |            |        |            |         |        |
| Finance costs . . . . .                                                      | (299.5)                                              | (0.9)  | (547.0)    | (0.7)  | (524.8)    | (17.5)  | (1.3)  |
| Share of profit of associates . . .                                          | 299.8                                                | 0.9    | 635.5      | 0.8    | 154.1      | 5.1     | 0.4    |
| Interest income . . . . .                                                    | 507.9                                                | 1.5    | 1,091.5    | 1.4    | 1,142.2    | 38.2    | 2.8    |
| Rental income . . . . .                                                      | 22.2                                                 | 0.1    | 41.7       | 0.1    | 34.4       | 1.1     | 0.1    |
| Gain on financial instruments at fair value through profit or loss . . . . . | 152.8                                                | 0.5    | 1,288.5    | 1.7    | 620.7      | 20.8    | 1.5    |
| Loss on financial instruments at fair value through profit or loss . . . . . | (412.2)                                              | (1.3)  | (974.2)    | (1.3)  | (1,324.9)  | (44.3)  | (3.2)  |
| Other gains and losses . . . . .                                             | (42.1)                                               | (0.1)  | 1,451.4    | 1.9    | 890.1      | 29.8    | 2.1    |
| Total non-operating income (expenses) . . . . .                              | 228.9                                                | 0.7    | 2,987.4    | 3.9    | 991.8      | 33.2    | 2.4    |
| Profit before income tax . . . . .                                           | 7,822.2                                              | 24.2   | 39,895.3   | 51.7   | 9,023.1    | 301.7   | 21.8   |
| Income tax expense . . . . .                                                 | (1,141.2)                                            | (3.5)  | (6,055.2)  | (7.8)  | (1,971.0)  | (65.9)  | (4.7)  |
| Net profit for the year . . . . .                                            | 6,681.0                                              | 20.7   | 33,840.1   | 43.9   | 7,052.1    | 235.8   | 17.1   |
| Other comprehensive income (loss) . . . . .                                  | 1,416.4                                              | 4.4    | (731.8)    | (1.0)  | (1,136.4)  | (38.0)  | (2.8)  |
| Total comprehensive income for the year . . . . .                            | 8,097.4                                              | 25.1   | 33,108.3   | 42.9   | 5,915.7    | 197.8   | 14.3   |

|                                                             | Year ended December 31, |           |          |         |
|-------------------------------------------------------------|-------------------------|-----------|----------|---------|
|                                                             | 2017                    | 2018      | 2019     |         |
|                                                             | NT\$                    | NT\$      | NT\$     | US\$    |
|                                                             | (in millions)           |           |          |         |
| Summary Consolidated Balance Sheet Data:                    |                         |           |          |         |
| Cash and cash equivalents . . . . .                         | 5,760.9                 | 20,388.7  | 16,153.3 | 540.1   |
| Trade receivables . . . . .                                 | 10,546.4                | 19,252.0  | 9,702.4  | 324.4   |
| Inventories . . . . .                                       | 4,872.0                 | 10,279.7  | 5,679.3  | 189.9   |
| Investments accounted for using the equity method . . . . . | 3,480.1                 | 6,205.9   | 6,040.5  | 202.0   |
| Property, plant and equipment . . . . .                     | 16,274.9                | 18,550.0  | 20,511.3 | 685.8   |
| Goodwill . . . . .                                          | 2,074.0                 | 21,464.3  | 21,377.8 | 714.7   |
| Total assets . . . . .                                      | 69,697.2                | 123,704.3 | 96,382.1 | 3,222.4 |
| Short-term borrowings . . . . .                             | 17,624.9                | 23,668.0  | 18,640.8 | 623.2   |
| Trade payables . . . . .                                    | 7,511.4                 | 10,347.3  | 6,059.8  | 202.6   |
| Other payables . . . . .                                    | 4,874.4                 | 12,013.0  | 7,080.8  | 236.7   |
| Long-term borrowings . . . . .                              | 5,500.0                 | 9,000.0   | 14,013.6 | 468.5   |
| Total liabilities . . . . .                                 | 38,363.8                | 64,266.0  | 50,135.4 | 1,676.2 |

|                                                        | Year ended December 31, |            |            |         |
|--------------------------------------------------------|-------------------------|------------|------------|---------|
|                                                        | 2017                    | 2018       | 2019       |         |
|                                                        | NT\$                    | NT\$       | NT\$       | US\$    |
|                                                        | (in millions)           |            |            |         |
| Summary Consolidated Cash Flow Data:                   |                         |            |            |         |
| Net cash generated from/(used in) operating activities | 8,027.3                 | 41,782.8   | 11,722.3   | 391.9   |
| Net cash generated from/(used in) investing activities | (11,447.8)              | (27,524.5) | 3,721.9    | 124.4   |
| Net cash provided by/(used in) financing activities    | 2,251.0                 | 396.0      | (19,352.3) | (647.0) |
| Cash and cash equivalents at the beginning of the year | 7,619.5                 | 5,760.9    | 20,388.7   | 681.7   |
| Cash and cash equivalents at the end of the year       | 5,760.9                 | 20,388.7   | 16,153.3   | 540.1   |



## SUMMARY FINANCIAL AND OTHER DATA OF KEMET

The following summary historical consolidated financial information as of March 31, 2017, 2018 and 2019 and for the three fiscal years ended March 31, 2019 has been derived from the audited consolidated financial statements of KEMET incorporated by reference into this Offering Circular. The following summary historical consolidated financial information as of and for each of the nine months ended December 31, 2018 and 2019 has been derived from the unaudited interim consolidated financial statements of KEMET incorporated by reference into this Offering Circular. KEMET's operating results for the nine months ended December 31, 2019 are not necessarily indicative of the results to be expected for any future periods.

This information is only a summary and should be read in conjunction with the historical consolidated financial statements of KEMET. See "Incorporation of Documents by Reference" in this Offering Circular.

|                                                                                          | Fiscal Year Ended March 31, |           |           | Nine Months Ended<br>December 31, |           |
|------------------------------------------------------------------------------------------|-----------------------------|-----------|-----------|-----------------------------------|-----------|
|                                                                                          | 2017                        | 2018      | 2019      | 2018                              | 2019      |
|                                                                                          | (in thousands of US\$)      |           |           |                                   |           |
| <b>Summary of Operations:</b>                                                            |                             |           |           |                                   |           |
| Net sales . . . . .                                                                      | 757,338                     | 1,200,181 | 1,382,818 | 1,027,024                         | 967,380   |
| Operating income . . . . .                                                               | 34,968                      | 112,852   | 200,849   | 146,792                           | 136,138   |
| Interest income . . . . .                                                                | (24)                        | (809)     | (2,035)   | (1,325)                           | (2,525)   |
| Interest expense . . . . .                                                               | 39,755                      | 32,882    | 21,239    | 18,803                            | 8,099     |
| Income (loss) from continuing<br>operations . . . . .                                    | 47,157                      | 254,127   | 206,587   | 113,167                           | 41,682    |
| Income from discontinued<br>operations, net of income tax<br>expense (benefit) . . . . . | —                           | —         | —         | —                                 | —         |
| Net income . . . . .                                                                     | 47,157                      | 254,127   | 206,587   | 113,167                           | 41,682    |
| <b>Balance Sheet Data:</b>                                                               |                             |           |           |                                   |           |
| Total assets . . . . .                                                                   | 739,439                     | 1,222,923 | 1,318,095 | 1,231,257                         | 1,412,332 |
| Working capital . . . . .                                                                | 248,252                     | 391,295   | 363,580   | 381,041                           | 380,153   |
| Long-term debt, less current portions                                                    | 386,211                     | 304,083   | 266,041   | 277,260                           | 282,746   |
| Other non-current obligations . . . . .                                                  | 60,707                      | 152,249   | 125,360   | 125,856                           | 153,025   |
| Stockholders' equity . . . . .                                                           | 155,569                     | 463,875   | 639,415   | 538,433                           | 687,313   |
| <b>Other Data:</b>                                                                       |                             |           |           |                                   |           |
| Cash flow provided by (used in)<br>operating activities . . . . .                        | 71,667                      | 120,761   | 131,731   | 82,727                            | 90,735    |
| Capital expenditures . . . . .                                                           | 25,617                      | 65,004    | 146,056   | 77,650                            | 104,129   |
| Research and development expenses                                                        | 26,693                      | 39,114    | 44,612    | 33,040                            | 37,073    |



## UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined balance sheet of the Company as of December 31, 2019 gives effect to the (i) the Equity Financing, (ii) the Debt Financing, and (iii) the KEMET Acquisition, each as more fully described below in Note 1, as if they each occurred as of December 31, 2019. The following unaudited pro forma condensed combined statements of income for the year ended December 31, 2019 similarly give effect to the Equity Financing, the Debt Financing and the KEMET Acquisition, as if they each occurred on January 1, 2019.

The unaudited pro forma condensed combined financial information has been derived from, and should be read in conjunction with, the Company's historical audited consolidated financial statements, including the notes thereto, included elsewhere in this Offering Circular, as well as KEMET's historical audited and interim unaudited consolidated financial statements, including the notes thereto. The financial statements of the Company for the year ended December 31, 2019 is included in the F-pages of this Offering Circular. The financial statements of KEMET for the year ended March 31, 2019 and for the nine months ended December 31, 2019 are included in KEMET's Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q filed with the SEC, respectively, and incorporated by reference herein. The historical financial information of KEMET for the year ended December 31, 2019 also was derived from KEMET's unaudited interim consolidated financial statements for the nine months ended December 31, 2018, which are not included or incorporated by reference herein. Note 2 describes the method of determining the statement of comprehensive income of KEMET for the year ended December 31, 2019.

The unaudited pro forma adjustments are based upon available information and certain assumptions that the Company's management believes are reasonable. The unaudited pro forma condensed combined financial information is presented for informational purposes only and is not necessarily indicative of the Company's financial position or results of operations that would have occurred had the events been consummated as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information is not necessarily indicative of the Company's future financial condition or operating results.

The KEMET Acquisition will be accounted for as a business combination using the acquisition method of accounting in accordance with International Financial Reporting Standards 3, Business Combinations, which will establish a new basis of accounting for all identifiable assets acquired and liabilities assumed at fair value as of the date control is obtained. Generally, acquisition-related costs are charged to expense as incurred. The fair value of KEMET's identifiable tangible and intangible assets acquired and liabilities assumed are based on a preliminary estimate of fair value as of December 31, 2019. Any excess of the purchase price over the estimated fair value of the net assets acquired will be recorded as goodwill. The establishment of the fair value of consideration for acquisitions and related allocation to acquired assets and liabilities requires the extensive use of significant estimates and management's judgment. Since the KEMET Acquisition has not been consummated, our access to information to make such estimates is limited and therefore, all tangible assets acquired and liabilities assumed have been reflected preliminarily in the accompanying pro forma condensed combined balance sheet at their respective book values assuming their approximation to their respective fair values and the excess of the estimated purchase price over the estimated fair value of the net assets acquired of NT\$49,052 million (US\$1,640 million) has been preliminarily allocated to goodwill in the accompanying pro forma condensed combined balance sheet. The acquisition method of accounting is dependent upon certain valuations and other studies that will become available upon the completion of KEMET Acquisition. Accordingly, the pro forma adjustments are preliminary, have been made solely for the purpose of preparing the unaudited pro forma condensed combined financial information and are subject to revision based on a final determination of fair value as of the date of acquisition. Differences between these preliminary estimates and the final acquisition accounting may have a material impact on the accompanying unaudited pro forma condensed combined financial information and the Company's future results of operations and financial position.

For pro forma purposes only, the purchase price allocation discussed above was the total amount include (i) Merger Consideration, US\$27.20 per share of KEMET's outstanding common stock in cash on acquisition date; (ii) the settlement of KEMET's options, KEMET's Restricted Stock Units ("RSUs") and KEMET's Long-Term Incentive Plan Awards ("LTIPs"). We assume the acquisition date would be December 31, 2019. The final value of the consideration to be transferred for accounting purposes will ultimately be based on the number of outstanding common stock and outstanding

payment of KEMET's options, RSUs and LTIPs on closing date of the KEMET Acquisition. Accordingly, the purchase price and its related allocation to the underlying net assets of KEMET could change materially.

The consummation of the KEMET Acquisition remains subject to the satisfaction of customary closing conditions, including the receipt of regulatory approvals. See "Risks Relating to the KEMET Acquisition — Completion of the KEMET Acquisition is subject to conditions and if these conditions are not satisfied or waived, the KEMET Acquisition will not be completed." Our independent public accounting firm, Deloitte & Touche, has not audited or reviewed pro forma condensed combined financial information and does not express an opinion or any other form of assurance for the benefit of the holders of GDSs with respect thereto.

**Yageo Corporation and KEMET**  
**Unaudited Pro Forma Condensed Combined Balance Sheet December 31, 2019**

|                                                                                  | Historical<br>Company<br>(NT\$) | Unaudited<br>Historical<br>KEMET<br>(NT\$) | Equity<br>Financing<br>and Debt<br>Financing<br>(NT\$) | KEMET<br>Acquisition<br>(NT\$) | Total Pro<br>Forma<br>(NT\$) | Total Pro<br>Forma<br>(US\$) |
|----------------------------------------------------------------------------------|---------------------------------|--------------------------------------------|--------------------------------------------------------|--------------------------------|------------------------------|------------------------------|
|                                                                                  | (in millions)                   |                                            |                                                        |                                |                              |                              |
| <b>Assets:</b>                                                                   |                                 |                                            |                                                        |                                |                              |                              |
| <b>Current Assets:</b>                                                           |                                 |                                            |                                                        |                                |                              |                              |
| Cash and cash equivalents . . . . .                                              | 16,153                          | 6,235                                      | 73,936                                                 | (49,052)                       | 47,272                       | 1,580                        |
| Financial assets at fair value through<br>profit or loss                         |                                 |                                            |                                                        |                                |                              |                              |
| – current . . . . .                                                              | 373                             | —                                          | —                                                      | —                              | 373                          | 12                           |
| Financial assets at amortized cost                                               |                                 |                                            |                                                        |                                |                              |                              |
| – current . . . . .                                                              | 4,073                           | —                                          | —                                                      | —                              | 4,073                        | 136                          |
| Notes receivable . . . . .                                                       | 160                             | —                                          | —                                                      | —                              | 160                          | 5                            |
| Accounts receivable, net . . . . .                                               | 9,702                           | 4,248                                      | —                                                      | —                              | 13,950                       | 467                          |
| Other receivables . . . . .                                                      | 307                             | —                                          | —                                                      | —                              | 307                          | 10                           |
| Inventories, net . . . . .                                                       | 5,679                           | 7,382                                      | —                                                      | —                              | 13,061                       | 437                          |
| Prepaid expenses and other current<br>assets . . . . .                           | 700                             | 1,258                                      | —                                                      | —                              | 1,958                        | 66                           |
| <b>Total current assets . . . . .</b>                                            | <u>37,147</u>                   | <u>19,123</u>                              | <u>73,936</u>                                          | <u>(49,052)</u>                | <u>81,154</u>                | <u>2,713</u>                 |
| <b>Non-current assets:</b>                                                       |                                 |                                            |                                                        |                                |                              |                              |
| Financial assets at fair value through<br>profit or loss – non-current . . . . . | 88                              | —                                          | —                                                      | —                              | 88                           | 3                            |
| Financial assets at amortized cost –<br>non-current . . . . .                    | 4,042                           | —                                          | —                                                      | —                              | 4,042                        | 135                          |
| Property, plant and equipment . . . . .                                          | 20,511                          | 17,683                                     | —                                                      | —                              | 38,194                       | 1,277                        |
| Goodwill . . . . .                                                               | 21,378                          | 1,205                                      | —                                                      | 29,201                         | 51,784                       | 1,731                        |
| Intangible assets, net . . . . .                                                 | 4,536                           | 1,718                                      | —                                                      | —                              | 6,254                        | 209                          |
| Equity method investments . . . . .                                              | 6,040                           | 498                                        | —                                                      | —                              | 6,538                        | 219                          |
| Deferred income taxes . . . . .                                                  | 2,156                           | 1,385                                      | —                                                      | —                              | 3,541                        | 118                          |
| Other assets . . . . .                                                           | 484                             | 572                                        | —                                                      | —                              | 1,056                        | 35                           |
| <b>Total assets . . . . .</b>                                                    | <u>96,382</u>                   | <u>42,184</u>                              | <u>73,936</u>                                          | <u>(19,851)</u>                | <u>192,651</u>               | <u>6,440</u>                 |

Yageo Corporation and KEMET  
Unaudited Pro Forma Condensed Combined Balance Sheet December 31, 2019

|                                                                                      | Historical<br>Company<br>(NT\$) | Unaudited<br>Historical<br>KEMET<br>(NT\$) | Equity<br>Financing<br>and Debt<br>Financing<br>(NT\$) | KEMET<br>Acquisition<br>(NT\$) | Total Pro<br>Forma<br>(NT\$) | Total Pro<br>Forma<br>(US\$) |
|--------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------|--------------------------------------------------------|--------------------------------|------------------------------|------------------------------|
|                                                                                      | (in millions)                   |                                            |                                                        |                                |                              |                              |
| LIABILITIES AND STOCKHOLDERS' EQUITY                                                 |                                 |                                            |                                                        |                                |                              |                              |
| Current liabilities:                                                                 |                                 |                                            |                                                        |                                |                              |                              |
| Short-term borrowings . . . . .                                                      | 18,641                          | —                                          | —                                                      | —                              | 18,641                       | 623                          |
| Shot-term bills payable . . . . .                                                    | 300                             | —                                          | —                                                      | —                              | 300                          | 10                           |
| Financial liabilities at fair value<br>through profit or loss<br>– current . . . . . | 422                             | —                                          | —                                                      | —                              | 422                          | 14                           |
| Current portion of<br>long-term debt . . . . .                                       | —                               | 869                                        | —                                                      | —                              | 869                          | 29                           |
| Accounts payable . . . . .                                                           | 6,064                           | 3,334                                      | —                                                      | —                              | 9,398                        | 314                          |
| Other payables . . . . .                                                             | 7,081                           | 3,918                                      | —                                                      | 678                            | 11,677                       | 390                          |
| Income tax payable . . . . .                                                         | 1,827                           | 119                                        | —                                                      | —                              | 1,946                        | 65                           |
| Other current liabilities . . . . .                                                  | 409                             | —                                          | —                                                      | —                              | 409                          | 14                           |
| Total current liabilities . . . . .                                                  | 34,744                          | 8,240                                      | —                                                      | 678                            | 43,662                       | 1,459                        |
| Non-current liabilities:                                                             |                                 |                                            |                                                        |                                |                              |                              |
| Long-term debt . . . . .                                                             | 14,014                          | 8,457                                      | 44,865                                                 | —                              | 67,336                       | 2,251                        |
| Other non-current obligations . . . .                                                | 1,117                           | 4,546                                      | —                                                      | —                              | 5,663                        | 189                          |
| Deferred income taxes . . . . .                                                      | 260                             | 412                                        | —                                                      | —                              | 672                          | 22                           |
| Total liabilities . . . . .                                                          | 50,135                          | 21,655                                     | 44,865                                                 | 678                            | 117,333                      | 3,921                        |
| Stockholders' equity:                                                                |                                 |                                            |                                                        |                                |                              |                              |
| Common stock . . . . .                                                               | 4,303                           | 17                                         | 918                                                    | (17)                           | 5,221                        | 175                          |
| Capital surplus . . . . .                                                            | 5,394                           | 14,107                                     | 28,219                                                 | (14,107)                       | 33,613                       | 1,124                        |
| Retained earnings . . . . .                                                          | 41,480                          | 6,747                                      | (66)                                                   | (6,747)                        | 41,414                       | 1,385                        |
| Accumulated other comprehensive<br>income (loss) . . . . .                           | (2,508)                         | (342)                                      | —                                                      | 342                            | (2,508)                      | (84)                         |
| Treasury shares . . . . .                                                            | (2,422)                         | —                                          | —                                                      | —                              | (2,422)                      | (81)                         |
| Total stockholders' equity . . . . .                                                 | 46,247                          | 20,529                                     | 29,071                                                 | (20,529)                       | 75,318                       | 2,519                        |
| Total liabilities and stockholders'<br>equity . . . . .                              | 96,382                          | 42,184                                     | 73,936                                                 | (19,851)                       | 192,651                      | 6,440                        |

**Yageo Corporation and KEMET**  
**Unaudited Pro Forma Condensed Combined Statement of**  
**Comprehensive Income Year Ended December 31, 2019**

|                                                                                        | Historical<br>Company<br>(NT\$) | Unaudited<br>Historical<br>KEMET<br>(NT\$) | Equity<br>Financing<br>and Debt<br>Financing<br>(NT\$) | Total Pro<br>Forma<br>(NT\$) | Total Pro<br>Forma<br>(US\$) |
|----------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------|--------------------------------------------------------|------------------------------|------------------------------|
|                                                                                        |                                 |                                            | (in millions)                                          |                              |                              |
| <b>OPERATING REVENUE</b>                                                               |                                 |                                            |                                                        |                              |                              |
| Net sales . . . . .                                                                    | 41,307                          | 39,577                                     | —                                                      | 80,884                       | 2,704                        |
| Cost of sales . . . . .                                                                | 26,526                          | 25,902                                     | —                                                      | 52,428                       | 1,753                        |
| <b>GROSS PROFIT . . . . .</b>                                                          | <u>14,781</u>                   | <u>13,675</u>                              | <u>—</u>                                               | <u>28,456</u>                | <u>951</u>                   |
| <b>OPERATING EXPENSES</b>                                                              |                                 |                                            |                                                        |                              |                              |
| Selling, general and administrative<br>expenses . . . . .                              | 6,964                           | 6,057                                      | —                                                      | 13,021                       | 435                          |
| Research and development<br>expenses . . . . .                                         | 775                             | 1,451                                      | —                                                      | 2,226                        | 75                           |
| Expected credit (gain) loss . . . . .                                                  | (989)                           | —                                          | —                                                      | (989)                        | (33)                         |
| Restructuring charges . . . . .                                                        | —                               | 392                                        | —                                                      | 392                          | 13                           |
| (Gain) loss on write down and<br>disposal of long-lived assets . . . .                 | —                               | 66                                         | —                                                      | 66                           | 2                            |
| <b>Total operating expenses . . . . .</b>                                              | <u>6,750</u>                    | <u>7,966</u>                               | <u>—</u>                                               | <u>14,716</u>                | <u>492</u>                   |
| <b>Operating income . . . . .</b>                                                      | <u>8,031</u>                    | <u>5,709</u>                               | <u>—</u>                                               | <u>13,740</u>                | <u>459</u>                   |
| Non-operating (income) expense                                                         |                                 |                                            |                                                        |                              |                              |
| Interest income . . . . .                                                              | 1,142                           | 96                                         | —                                                      | 1,238                        | 42                           |
| Finance costs . . . . .                                                                | (525)                           | (359)                                      | (1,081)                                                | (1,965)                      | (66)                         |
| Antitrust class action settlements<br>and regulatory costs . . . . .                   | —                               | (2,001)                                    | —                                                      | (2,001)                      | (67)                         |
| Share of profit of associates . . . . .                                                | 154                             | (83)                                       | —                                                      | 71                           | 2                            |
| Net loss on financial instruments at<br>fair value through<br>profit or loss . . . . . | (704)                           | —                                          | —                                                      | (704)                        | (23)                         |
| Other income (expense), net . . . . .                                                  | 925                             | (114)                                      | —                                                      | 811                          | 27                           |
| Income before income taxes . . . . .                                                   | 9,023                           | 3,248                                      | (1,081)                                                | 11,190                       | 374                          |
| Income tax benefit (expense) . . . . .                                                 | (1,971)                         | 643                                        | —                                                      | (1,328)                      | (44)                         |
| <b>Net income . . . . .</b>                                                            | <u>7,052</u>                    | <u>3,891</u>                               | <u>(1,081)</u>                                         | <u>9,862</u>                 | <u>330</u>                   |

**Yageo Corporation and KEMET**  
**Unaudited Pro Forma Condensed Combined Statement of**  
**Comprehensive Income Year Ended December 31, 2019**

|                                                                                                                          | <b>Historical<br/>Company<br/>(NT\$)</b> | <b>Unaudited<br/>Historical<br/>KEMET<br/>(NT\$)</b> | <b>Equity<br/>Financing<br/>and Debt<br/>Financing<br/>(NT\$)</b> | <b>Total Pro<br/>Forma<br/>(NT\$)</b> | <b>Total Pro<br/>Forma<br/>(US\$)</b> |
|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------------------|-------------------------------------------------------------------|---------------------------------------|---------------------------------------|
|                                                                                                                          |                                          |                                                      | (in millions)                                                     |                                       |                                       |
| <b>OTHER COMPREHENSIVE<br/>INCOME (LOSS)</b>                                                                             |                                          |                                                      |                                                                   |                                       |                                       |
| <b>Items that will not be reclassified<br/>subsequently to profit or loss:</b>                                           |                                          |                                                      |                                                                   |                                       |                                       |
| Unrealized loss on investments in<br>equity instruments at fair value<br>through other comprehensive<br>income . . . . . | \$ (193)                                 | \$ —                                                 | \$ —                                                              | \$ (193)                              | \$ (6)                                |
| Defined benefit pension plans . . . . .                                                                                  | (47)                                     | 60                                                   | —                                                                 | 13                                    | 1                                     |
| Share of the other comprehensive<br>(loss) income of associates<br>accounted for using the<br>equity method . . . . .    | (153)                                    | —                                                    | —                                                                 | (153)                                 | (5)                                   |
| Income tax relating to items that will<br>not be reclassified subsequently to<br>profit or loss . . . . .                | 9                                        | —                                                    | —                                                                 | 9                                     | —                                     |
| <b>Items that may be reclassified<br/>subsequently to profit or loss:</b>                                                |                                          |                                                      |                                                                   |                                       |                                       |
| Exchange differences on translating<br>the financial statements of<br>foreign operations . . . . .                       | (861)                                    | 532                                                  | —                                                                 | (329)                                 | (11)                                  |
| Share of the other comprehensive<br>loss of associates accounted for<br>using the equity method . . . . .                | (76)                                     | —                                                    | —                                                                 | (76)                                  | (3)                                   |
| Cash flow hedges . . . . .                                                                                               | —                                        | (123)                                                | —                                                                 | (123)                                 | (4)                                   |
| Excluded component of<br>fair value hedges . . . . .                                                                     | —                                        | 27                                                   | —                                                                 | 27                                    | 1                                     |
| Income tax relating to items that<br>may be reclassified subsequently<br>to profit or loss . . . . .                     | 185                                      | —                                                    | —                                                                 | 185                                   | 6                                     |
| Other comprehensive income<br>(loss) . . . . .                                                                           | (1,136)                                  | 496                                                  | —                                                                 | (640)                                 | (21)                                  |
| <b>Total comprehensive income . . . . .</b>                                                                              | <b>5,916</b>                             | <b>4,387</b>                                         | <b>(1,081)</b>                                                    | <b>9,222</b>                          | <b>309</b>                            |

## THE OFFERING

*The following is only a summary and is qualified in its entirety by reference to the “Description of the Global Depositary Shares.”*

|                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Issuer . . . . .                                                 | YAGEO Corporation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| The GDS Offering . . . . .                                       | 12,680,000 GDSs representing 63,400,000 new common shares, or Shares, to qualified institutional buyers, or QIBs, in the United States in reliance on Rule 144A under the Securities Act, or the Rule 144A GDSs, and outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act, or the Regulation S GDSs.                                                                                                                                                                                                                                                               |
| Shares Outstanding Immediately Before the GDS Offering . . . . . | 430,257,056 Shares.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Shares Outstanding Immediately after the GDS Offering . . . . .  | Immediately after this offering, there will be 493,657,056 Shares issued and outstanding.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| The GDSs . . . . .                                               | Each GDS represents five Shares. The Rule 144A GDSs will be issued pursuant to an Amended and Restated Rule 144A deposit agreement, or the Rule 144A Deposit Agreement, and the Regulation S GDSs will be issued pursuant to an Amended and Restated Regulation S deposit agreement, or the Regulation S Deposit Agreement, and together with the Rule 144A Deposit Agreement, the Deposit Agreements.                                                                                                                                                                                                           |
| Offering Price . . . . .                                         | US\$ per GDS.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Closing Date . . . . .                                           | April 20, 2020                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Use of Proceeds . . . . .                                        | The net proceeds to be received by us from this offering of the GDSs will be approximately US\$647.5 million. The net proceeds are calculated after deducting underwriting discounts and commissions and related expenses of approximately US\$2.3 million. We will use the net proceeds for repayment of loans, procurement of raw materials overseas and capital expenditure.                                                                                                                                                                                                                                  |
| Lockup Agreements . . . . .                                      | We and each of Pierre T.M. Chen, Hsu Chang Investment Ltd. and Hsu Tai Investment Ltd. have agreed that, subject to certain exceptions, until 90 days after the date hereof, we will not, without the Initial Purchasers’ prior written consent, offer, sell, contract to sell or otherwise dispose of any securities of us that are substantially similar to the GDSs or the Shares, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, or the Shares or any such substantially similar securities. See “Plan of Distribution.” |

Form and ROC Share Issuance  
Procedure . . . . .

We will deliver a certificate of payment, or the Certificate of Payment evidencing the right to receive underlying common shares to Citibank Taiwan Limited as custodian, or the Custodian, for Citibank, N.A., as the depositary, or the Depositary, which in turn will deliver the GDSs. Upon receipt by the Custodian of the Certificate of Payment, the Depositary will deliver (i) a Rule 144A master global depositary receipt, or the Rule 144A Master GDR, evidencing the Rule 144A GDSs, to be registered in the name of Cede & Co., as nominee for The Depositary Trust Company, or DTC, and (ii) a Regulation S master global depositary receipt, or the Regulation S Master GDR, evidencing the Regulation S GDSs, to be registered in the name of Citivic Nominees Ltd., as nominee for the common depositary of Euroclear and Clearstream. As a result, the Regulation S GDSs will not be eligible for settlement through DTC.

On the closing date, or the Closing Date, we will deliver to the Custodian the Certificate of Payment, registered in the name of the Depositary, or its nominee. Following the Closing Date, we will apply to the TWSE for listing of certificates of payment in scripless form, or the Individual Scripless Certificates of Payment, in respect of the underlying shares. It is expected that the TWSE will approve the listing of the Individual Scripless Certificates of Payment approximately on the fourth ROC Business Day in the ROC following the Closing Date (such approval date being the “**Share Listing Date**”), although there is no assurance that such approval will be obtained by such date (if at all). Immediately upon such listing and the credit of the number of shares as represented by the Individual Scripless Certificates of Payment into the Depositary’s account with its Custodian through the book-entry system maintained by the Taiwan Depositary & Clearing Corporation, or the TDCC, the Certificate of Payment we delivered to the Custodian on the Closing Date will be replaced by the Individual Scripless Certificates of Payment. Except where the context otherwise requires, all references in this offering circular to the shares represented by the GDSs assume that we have received approval from the TWSE for the listing of the Individual Scripless Certificates of Payment, and during the period immediately prior to the Share Listing Date those references shall be deemed as references to the Certificate of Payment initially delivered to the Custodian.

We will issue and deliver the underlying shares (registered in the name of the Depositary or its nominee) to the Custodian in scripless form in respect of the Individual Scripless Certificates of Payment on or about 30 to 50 calendar days after the Closing Date, subject to obtaining approvals from relevant government authorities and the TWSE.



|                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Withdrawal of Common Shares . . .     | <p>From the Share Listing Date, subject to the listing approval from the TWSE and the provisions of the applicable Deposit Agreement, you may surrender GDSs for the purpose of withdrawal of the underlying common shares or interests in the underlying certificates of payment. Under ROC market practice, you will not be able to receive the underlying common shares until two ROC Business Days after the Share Listing Date. Interests in the certificates of payment, without physical certificates and maintained in the book entry settlement system, carry the same rights as those attaching to the common shares and are eligible for trading on the TWSE in the same manner as common shares. Delivery of the irrevocable right to receive the underlying withdrawn common shares, evidenced by the Individual Scripless Certificates of Payment will only be made by the custodian through the book-entry system maintained by the TDCC. See “Description of the Global Depositary Shares — Withdrawal of Common Shares Upon Cancellation of GDSs.”</p>                                                                                                                                                                                                                                                                                                |
| Issuance of Additional GDSs . . . . . | <p>Under current ROC law and as provided in the Deposit Agreements, after the Initial Deposit (as defined in “<b>Description of the Global Depositary Shares</b>”), no deposits of Shares may be made in the depositary receipt facility, and no GDSs may be issued against such deposits without specific approval of the FSC, except for the deposit of Shares and the issuance of additional GDSs in connection with (i) dividends on, or free distributions of, Shares, (ii) the exercise by holders of existing GDSs of their pre-emptive rights in the event of capital increases for cash, (iii) to the extent previously issued GDSs have been canceled and as permitted under the Deposit Agreements, the deposit of shares owned or purchased directly by a person or through the Depositary on the TWSE for the deposit in the deposit receipt facility, but such that the total number of GDSs outstanding after an issuance described in this clause does not exceed the number of GDSs issued and previously approved by the FSC in connection with this offering plus any GDSs created under clauses (i) and (ii) described above, and (iv) upon the exchange of Rule 144A GDSs for Regulation S GDSs and vice versa, subject to any adjustment to the number of shares represented by each GDS. See “Description of the Global Depositary Shares.”</p> |
| Voting Rights . . . . .               | <p>Holders of GDSs will not be able to exercise voting rights on an individual basis. If holders representing at least 51% of the GDSs outstanding at the relevant record date instruct the Depositary to vote in the same manner regarding a resolution, including the election of directors, the Depositary will cause all Shares represented by the GDSs to be voted in that manner. If the Depositary does not receive timely instructions representing at least 51% of the GDSs outstanding at the relevant record date to vote in the same manner for any resolution, including the election of directors, holders of GDSs will be deemed to have instructed the Depositary or its nominee to authorize all the Shares represented by the GDSs to be voted at the discretion of our chairman or his/her designee. See “Description of the Global Depositary Shares — Voting Rights”.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

Dividends . . . . . Subject to the terms of the Deposit Agreements, holders of GDSs will be entitled to receive dividends, to the same extent as the holders of the Shares, less the fees, costs and expenses payable under the Deposit Agreements and any ROC tax applicable to such dividends. See “Dividends and Dividend Policy.”

ROC Tax . . . . . Dividends (whether in cash or Common Shares) distributed by us out of retained earnings and distributed to non-ROC holders in respect of Common Shares represented by GDSs are subject to ROC withholding tax. The current rate of withholding tax for non-ROC holders is 21% of the amount of the distribution (in the case of cash dividends) or the par value of the Common Shares (in the case of stock dividends). Distributions of Common Shares declared by us out of capital surplus are not subject to ROC tax.

Under ROC law, capital gains derived from sales of Common Shares are exempt from ROC income tax. Capital gains derived from sales of GDSs are not subject to ROC income tax.

ROC securities transaction tax will apply to the sales of Common Shares at the rate of 0.3% of the gross sales proceeds. Transfers of GDSs are not subject to ROC securities transaction tax.

The Depositary is subject to a securities transaction tax on the gross amount received upon sale of statutory subscription rights evidenced by securities in a rights offering for cash. Holders of GDSs are responsible for such taxes and any fees, costs and expenses in connection therewith under the Deposit Agreements. See “Taxation — ROC Taxation.”

Exchange Controls . . . . . Under existing ROC laws and regulations relating to foreign exchange controls, the Depositary or a holder of GDSs is not required to obtain foreign exchange approval from the CBC, for the conversion into foreign currencies of (i) any net proceeds realized from the sale of any or all of the shares underlying the GDSs, (ii) the proceeds received from the sale of shares received as stock dividends in respect of such shares and deposited into the depositary receipt facility, or (iii) any cash dividend or cash distributions received. In addition, the Depositary may convert inward remittances of payments into NT dollars for purchase of shares for deposit in the depositary receipt facility against the issuance of additional GDSs without applying for any such approvals. A holder of GDSs, after becoming a holder of shares, may without obtaining further approval from the CBC convert NT dollars into other currencies, including US dollars, from proceeds from the sale of any underlying shares withdrawn from the depositary receipt facility or any cash dividends or distributions received and the subscription payment for rights offering. However, the Depositary or a holder of GDSs must obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT dollars into foreign currencies in respect of the sale of subscription rights for the Shares if the proceeds are in excess of US\$100,000 per remittance.

|                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Listing .....                                | <p>The Shares are listed on the TWSE under the trading code “2327.” See “Summary — Corporate and Other Information.” We have applied to list the GDSs, which consist of the Rule 144A GDSs and Regulation S GDSs, offered on the Official List of the Luxembourg Stock Exchange and to trade the GDSs on the Euro MTF Market of the Luxembourg Stock Exchange.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Rule 144A GDS Settlement Procedures .....    | <p>The Rule 144A GDSs will be accepted into DTC’s book-entry settlement system and represented by a single Master Rule 144A GDR certificate evidencing all Rule 144A GDSs. The Master Rule 144A GDR certificate will be registered in the name of Cede &amp; Co., as nominee of DTC. As long as any Rule 144A GDSs are held in book-entry form, Cede &amp; Co. will be the holder of record of all such Rule 144A GDSs. Accordingly, each person owning a beneficial interest in the Master Rule 144A GDR certificate must rely upon the procedures of DTC and institutions having accounts with DTC to exercise or to be entitled to any rights of a Rule 144A GDS holder. So long as any Rule 144A GDSs settle through DTC’s book-entry settlement system or unless otherwise required by law, ownership of beneficial interests in the Master Rule 144A GDR certificate will be shown on, and the transfer of such ownership will be effected only through, records maintained by (i) DTC or its nominee (with respect to DTC participants’ interests) or (ii) DTC participants. See “Description of Global Depositary Shares.”</p>                                                                                                                                                                                                                                                                                                                                                                                                             |
| Regulation S GDS Settlement Procedures ..... | <p>Each of Euroclear and Clearstream will accept the Regulation S GDSs into its book-entry settlement system. The Regulation S GDSs will be represented by a single Master Regulation S GDR certificate evidencing all of the Regulation S GDSs. The Master Regulation S GDR certificate will be registered by the Depositary in the name of a nominee for a common depository for Euroclear and Clearstream. Accordingly, each person owning a beneficial interest in the Master Regulation S GDR certificate must rely upon the procedures of the common depository, Euroclear and Clearstream and institutions having accounts with Euroclear or Clearstream to exercise or to be entitled to any rights of a Regulation S GDS holder. So long as any Regulation S GDSs settle through the book-entry settlement systems of Euroclear or Clearstream, or unless otherwise required by law, ownership of beneficial interests in the Master Regulation S GDR certificate will be shown on, and the transfer of such ownership will be effected only through, records maintained by (i) Euroclear, Clearstream and their common depository (and its nominee) with respect to Euroclear and Clearstream participants’ interests) or (ii) Euroclear and Clearstream participants. Settlement of the Regulation S GDSs will take place through Euroclear and Clearstream or the common depository in accordance with the settlement procedures applicable to equity securities in the Euromarket. See “Description of Global Depositary Shares.”</p> |
| Delivery of GDRs .....                       | <p>Delivery of the GDRs, against payment in same-day funds, is expected on or about April 20, 2020.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Transfer restrictions .....                  | <p>Neither the GDSs nor the Shares have been registered under the Securities Act, and those securities are subject to restrictions on transfer. See “Transfer Restrictions”.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

|                     |                                                                                                                     |
|---------------------|---------------------------------------------------------------------------------------------------------------------|
| Depository .....    | Citibank, N.A. (Legal Entity Identifier Code:<br>E57ODZWZ7FF32TWEFA76)                                              |
| Custodian .....     | Citibank Taiwan Limited                                                                                             |
| Governing Law ..... | Each Deposit Agreement will be governed by, and construed in<br>accordance with, the laws of the State of New York. |

## RISK FACTORS

*Investing in the GDSs and the Shares underlying GDSs involves risks. You should carefully consider the risks described below before making an investment decision. You should also carefully consider all of the information contained in this Offering Circular, including our financial statements and related notes. You should note that we are governed in the ROC by a legal and regulatory environment that in some material respects may be different from that prevailing in other countries.*

### **Risks Relating to Our Industry and Business**

#### ***Our operating results may fluctuate due to factors beyond our control.***

Our operating results are affected by a wide variety of factors beyond our control that could materially affect our sales revenues and profitability. These factors could also result in a significant variation in our quarterly or annual operating results. These factors include, but are not limited to:

- the industries and markets where we and our customers operate and compete;
- the pending KEMET Acquisition and the results of combining two companies after the KEMET Acquisition;
- breakdown, failure, or substandard performance of our products;
- new product introductions and delays in developing the capability to produce new products;
- shortage of raw material supply and raw material price fluctuations;
- market prices of our products;
- technological changes and changes in manufacturing processes;
- protection of intellectual property rights;
- timing of orders and delays in shipments to customers; and
- volume of orders relative to our production capacity.

The occurrence of any such or other problems could materially and adversely affect our business, financial condition, and results of operation. Thus it is possible that in some future period our operating results or growth rate may be below the expectations of investors.

#### ***We operate in a highly competitive industry and we may not be able to sustain our current market position.***

The markets for our products are highly competitive with intense pressure on prices and margins for our products. We compete against many passive component manufacturers, certain of which may have better research and development capabilities, greater global logistics, financial, marketing and other resources than us. Our current and prospective customers also evaluate our capabilities against the merits of manufacturing products internally. In outsourcing, customers seek, among other things, to reduce cost. The competitive nature of our industry has resulted in substantial price competition, leading to lower margins.

Accordingly, we typically compete with other major passive component manufacturers for orders from the same customers. We face competition from a number of sources, mainly from Taiwanese, Japanese and Chinese passive component manufacturers. We also face increasing challenges from the PRC and overseas competitors who relocate to the PRC to take advantage of the low labor costs of production in the PRC. We may lose our customers to our competitors if we fail to keep pace with technology changes, enhance product differentiation and improve our cost efficiency. Increased competition could result in significant price competition, reduced revenues, lower profit margins or loss of market share, any of which would have a material adverse effect on our business, financial condition and results of operations. We cannot be certain that we will be able to compete successfully

against either current or potential competitors in the future. In recent years, many participants in the industry have substantially expanded their manufacturing capacity. There can be no assurance that we will be able to competitively develop the technology and provide the services necessary to retain business or attract new customers.

***The COVID-19 pandemic could adversely affect our results of operations.***

During January 2020, a strain of coronavirus was reported to have surfaced in Wuhan, China and caused a pandemic later known as the COVID-19. In an effort to halt the outbreak, the PRC government placed significant restrictions on travel within China and closed certain businesses in the region, and governments and other parties outside of China have halted or sharply curtailed the movement of people, goods and services to and from China. Certain of our key suppliers and production facilities, including those for our MLCC and chip resistor product offerings, are located in China. As such, the utilization rate of our production facilities decreased in February 2020 as compared to January 2020. In addition, we view Greater China as a growth market for our product offering. The coronavirus outbreak is adversely impacting our operations. Moreover, due to the worldwide outbreak beginning March 2020, many countries have also placed the same restrictions, which would increase the adverse impact on our operations. As our customers and end-users of our products are located across the globe, and we source most of our raw materials from China and Japan, prolonged outbreak of the pandemic could materially adversely impact our supply chain and the growth of our revenues from Greater China and worldwide.

In addition, concerns about the coronavirus and its potential impact on the Chinese and global economy are creating uncertainty about the overall demand for consumer electronics, smart and automotive equipment, telecommunication devices and other electronic products, which could have negative implications for the demand of our passive component products. For example, smartphone manufacturers may delay the release of their new products which are expected to be equipped with 5G features, and in turn, the demand and orders for our products may delay as well. At this point, we cannot accurately predict what effects these conditions will have on our business, which will depend on, among other factors, the ultimate geographic spread of the virus, the duration of the outbreak and travel restrictions and business closures across the globe.

***The markets in which our customers compete are characterized by rapidly changing technology and innovation.***

The markets in which our customers compete are characterized by rapidly changing technology, evolving industry standards and continuous improvements in products and services. Additionally, severe industry-wide competition for market share results in aggressive pricing practices by our customers for their products. In addition, the automotive and industrial end-market sectors may require us to invest in product certification, research and development, and developing customer relationships, at costs that may be higher than our management currently expect. All of the above may adversely affect our own prices, which may lead to reduced revenues, lower profit margins or loss of market share, any of which would have a material adverse effect on our business, financial condition and results of operations.

Our products are applied in various consumer electronics, automotive electronics, smart manufacturing equipment, telecommunication devices and power and energy related products produced by OEMs, ODMs and EMS providers. Accordingly, our viability and success will depend on the success achieved by our OEM, ODM and EMS customers in developing and marketing their products to their consumers. If the technologies or standards supported by our customers become obsolete or fail to gain widespread commercial acceptance, we may experience a loss of certain key customers, a decline in sales, and a decline in operating margins. In addition, there are different product release cycles in different end markets, and if we or our customers fail to meet the ideal product launch dates, our business and operations will be adversely affected.

***If we are unable to manage our growth effectively, our business could be adversely affected.***

We have experienced, and are expected to continue to experience, growth in the scope and complexity of our operations. In particular, we plan to continue to expand our production capacity for MLCCs at our production facilities. The growth of our business has placed and will continue to place a strain on our management, personnel, systems and resources. If we are unable to manage our growth

effectively, we may not be able to take advantage of market opportunities, execute our business plan or respond to competitive pressures. Moreover, if our allocation of resources does not correspond with future demand for particular products, we could miss market opportunities, and our business, results of operations and financial condition could be materially and adversely affected. There can be no assurance that we will be able to manage our growth effectively in the future.

***We must continue to develop innovative products to maintain relationships with our customers and to offset potential price erosion in older products.***

While most of the fundamental technologies used in the passive component industry have been available for a long time, the market is nonetheless characterized by rapid changes in product designs and technological advances allowing for better performance, smaller size and/or lower cost. New applications are frequently found for existing technologies, and new technologies occasionally replace existing technologies for some applications or create new business opportunities in other areas of application. We believe successful innovation is critical for maintaining profitability to offset potential erosion of selling prices for existing products and to ensure the flow of new products and robust manufacturing processes that will keep us at the forefront of our customers' product designs. Non-customized products are especially vulnerable to price pressure, but customized products have also experienced price pressure in recent years. Developing and marketing new products requires start-up costs that may not be recouped if these products or production techniques are not successful. There are numerous risks inherent in product development, including the risks we will be unable to anticipate the direction of technological change or we will be unable to develop and market new products and applications in a timely fashion to satisfy customer demands. If this occurs, we could lose customers and experience adverse effects on our results of operations.

***If we fail to manufacture our products within the acceptable range of quality and at the optimal production yields, our reputation may suffer and our results of operation and financial condition may be adversely affected.***

The manufacturing process for our products is complex and involves a number of precise steps. Defective production can result from a number of factors, including:

- the level of contaminants in the manufacturing environment;
- equipment malfunction;
- process adjustments made to manufacture new products;
- use of substandard raw materials or component parts;
- interruption in the availability of utilities;
- inability of existing equipment to manufacture new products to certain specification;
- deficiencies in quality control;
- inadequate sample testing; and
- human error.

In particular, given the mission-critical nature of our products, especially more so in the markets such as automotive and industrial, we may have potential product liability more than we expected and therefore have adverse impact us. Moreover, from time to time, we have experienced, and may in the future experience, lower than anticipated production yields as a result of the above factors, particularly in connection with the expansion or reorientation of our capacity, a change in the manufacturing processes or the development of a new product. In general, the yield on new products will be lower than average as we develop the necessary expertise and experience to produce those products. If we fail to maintain high quality production standards, our utilization rate may decrease and our reputation may suffer and our customers may cancel their orders or return our products for reproduction, which will materially and adversely affect our results of operations and financial condition.



***If we fail to expand our production capacity and output, we may lose market share.***

Our future success depends on our ability to increase our production capacity and output to meet the expected growth in demands for our products. If we are unable to do so, we may be unable to meet customer needs and market demand, benefit from economies of scale to decrease our costs, apply capital efficiently, maintain our competitive position and improve our profitability. Our ability to increase our production capacity and output is subject to significant risks and uncertainties, including:

- the need to raise additional funds to purchase additional production equipment or to build additional factories, which we may be unable to obtain on commercially viable terms, if at all, especially due to the financing being less available due to the coronavirus outbreak;
- failure or inability to acquire necessary land use rights at suitable locations; failure to recruit quality workforce at a reasonable cost;
- cost overruns and delays as a result of a number of factors, many of which are beyond our control, such as problems with site construction or equipment delivery;
- delays or denial of required approvals by relevant government authorities;
- failure to obtain production inputs in sufficient quantities or at an acceptable cost; and
- failure to execute our expansion plans effectively, including insufficient managerial capacity or failure to obtain adequate resources, such as land or buildings that are suitable for our manufacturing facilities.

As we expand our production capacity, our choice of locations for new factories or decision to expand existing factories may become less advantageous to our business than we expect, economically or otherwise, due to changes in the market conditions, local government policies or other factors that may be beyond our control. We may need to halt the construction or to delay the commencement of production and may be unable to recover any costs that we may have already spent. At times, we may also need to relocate one or more of our factories to other locations, which will increase our operational costs and cause interruption to our production. In addition, if we fail to predict the market demand precisely and over-expand our production capacity, we may be unable to recover our investments.

***Inventory loss or inventory write-off may adversely affect our results of operations and financial condition.***

Our major inventory includes finished products and raw materials. We typically store our finished products and raw materials at our manufacturing facilities and we monitor and manage our inventory level closely. However, there might be unpredictable inventory loss due to natural disasters or warehouse management failure. In addition, there might be an inventory write-off if the market value dropped significantly due to the change in market demand. For example, we had excessive inventory in the last three quarters in 2019 and we had to offer discounts in order to sell off inventory, which led to lower average selling prices for our products in 2019. If we are not able to manage these risks, our results of operations and financial condition may be adversely affected.

***We may have capital requirements in connection with our business strategy and there is no assurance that we will be able to obtain the financing necessary to fund substantial capital expenditures.***

Our business and the nature of the industry in which we operate may require us to make substantial capital expenditures in the future, leading to a higher level of fixed costs. In particular, we are expanding our production capacity in certain of our existing production facilities to cater to an expected increase in demand for our products. These capital expenditures will be spent in advance of any additional sales to be generated by new or upgraded production facilities as a result of these expenditures. Given the fixed cost nature of our business, we may in the future incur operating losses if our operating revenue does not adequately recover our capital expenditures.

In connection with our business strategy, we have spent NT\$5,325 million (US\$175 million) on capital expenditure in 2019, primarily for maintenance of our equipment, expanding and upgrading our production facilities as well as improving our manufacturing quality. We anticipate funding our capital expenditures with proceeds from existing cash balances and credit lines, cash inflow from operations, together with the expected proceeds of this offering and existing and future bank borrowings. However, in the event of adverse market conditions in the future or changes in our growth plan, manufacturing process, product technologies, prices of machinery and equipment or interest rates, our actual expenditures may exceed our planned expenditures and we may not have sufficient sources of liquidity to affect our current operational plan and would need to secure additional financing from external sources. There can be no assurance that external sources of liquidity will be available to fund our ongoing operations or our product development. The failure to obtain financing would hinder our ability to make continued investments in product development, which could materially and adversely affect our business, results of operations and financial condition.

***The loss, shutdown or suspension of operations at any of our production facilities may have an adverse effect on our business, results of operations and financial condition.***

Our production facilities are subject to operational risks, such as industrial accidents, which could cause personal injury or loss of human life, the breakdown or failure of equipment, power supplies or processes, performance below expected levels of output or efficiency, obsolescence, labor disputes, natural disasters and the need to comply with relevant regulatory and requirements. From time to time, we need to carry out planned shutdowns of our various plants for routine maintenance, statutory inspections and testing, and may need to shut down various plants for capacity expansions and equipment upgrades. In addition, due to the nature of our business, and despite compliance with requisite safety requirements and standards, our production process is still subject to operational risks, including discharges or releases of hazardous substances, exposure to particulates and the operation of equipment and manufacturing machinery. These operational risks may cause personal injury or loss of human life and could result in the imposition of civil and criminal penalties. The occurrence of any of these events could have a material adverse effect on the productivity and profitability of a particular production facility and on our business, results of operations and financial condition. Although we have taken precautions to minimize the risk of any significant operational problems at our production facilities, there can be no assurance that our business, results of operations and financial condition may not be adversely affected by disruptions caused by operational hazards at our production facilities. Moreover, our production processes are complex, require advanced and costly equipment and are continuously being modified and updated. As a result of manufacturing process updates and difficulties in the manufacturing process, from time to time, we may experience production difficulties that could cause shutdowns, delivery delays and quality control problems.

***Our failure to protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights or defend against third-party allegations of infringement may be costly.***

We rely primarily on patent, trademark, trade secret, copyright law and other contractual restrictions to protect our intellectual property. As of December 31, 2019, we had obtained 81, 142 and 219 granted patents in Taiwan, the PRC and other jurisdictions in the world, respectively. In addition, we had 84 pending patent applications worldwide. As of December 31, 2019, we had obtained 32, 25, 7, 6 and 70 granted trademarks in Taiwan, the PRC, Hong Kong, Singapore and other jurisdictions in the world, respectively. In addition, we had 15 pending trademark applications worldwide. Nevertheless, these afford only limited protection and the actions we take to protect our intellectual property rights may not be adequate. Third parties may infringe or misappropriate our proprietary technologies or other intellectual property rights, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Policing unauthorized use of proprietary technology can be difficult and expensive. Also, litigation may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others. We cannot assure you that the outcome of such potential litigation will be in our favor. Such litigation may be costly and may divert management attention and other resources away from our business. An adverse determination in any such litigation will impair our intellectual property rights and may harm our business, prospects and reputation. In addition, we have no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent that we are unable to recover them from other

parties. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition, results of operations and prospects.

Moreover, some of our production activities take place in the PRC, and implementation of PRC intellectual property laws has historically been lacking, primarily because of ambiguities in the PRC laws and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in the PRC may not be as effective as in the United States or other countries.

***We may be involved in intellectual property disputes which, if determined adversely to us, could cause us to pay significant damage awards and interrupt our business and operations.***

Our success will depend in part on our ability to protect our proprietary right and to operate without infringing on the proprietary right of third parties. There can be no assurance that any of our or our subsidiaries' current or future patent applications will result in issued patents, that the scope of the claims in any patents currently held by or to be issued to us in the future will prevent competitors from introducing competitive products or that any patent currently held by us or to be issued to us in the future would be enforceable if challenged.

We have no means of knowing what patent applications have been filed in the United States or elsewhere in the world until they are published, as such information is not available until such time. In addition, there is a possibility that touch modules and other products designed and manufactured by us may inadvertently incorporate aspects of existing design patents. We may also use or develop components or technologies which infringe on patents or other intellectual property rights owned by our competitors or other third parties. If any third party were to make valid intellectual property infringement claims against us or our customers, we could be required to:

- discontinue using disputed components, technologies or products incorporating those components or featuring those technologies in certain regions;
- pay substantial monetary damages;
- seek to develop or license non-infringing component or technologies, which may not be feasible; or
- seek to acquire licenses to the component or technologies, which may not be available on commercially reasonable terms, if at all.

This could restrict us from making, using, selling or exporting some of our products, which could in turn materially and adversely affect our business, result of operations, and financial conditions.

The technology industry frequently features disputes over intellectual property. We may in the future be required to defend our intellectual property rights against infringement, duplication, discovery and misappropriation by third parties or to defend ourselves against third party claims of infringement. See “— Our failure to protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights or defend against third-party allegations of infringement may be costly.”

***We may be exposed to claims alleging product defects.***

Our business exposes us to claims alleging product defects or nonconformance with product specifications. We may be held liable for, or incur costs related to, such claims if any of our products, or products in which our products are incorporated, are found to have caused end market product application failures, product recalls, property damage or personal injury. Provisions in our customer and distributor agreements are designed to limit our exposure to potential material product defect claims, including warranty, indemnification, waiver and limitation of liability provisions, but such provisions may not be effective under the laws of some jurisdictions. If we cannot successfully defend ourselves against product defect claims, we may incur substantial liabilities. Regardless of the merits or eventual outcome, defect claims could entail substantial expense and require the time and attention of key management personnel.

Our insurance program may not be adequate to cover all liabilities arising out of product defect claims and, at any time, insurance coverage may not be available on commercially reasonable terms or at all. If liability coverage is insufficient, a product defect claim could result in liability to us, which could materially and adversely affect our results of operations or financial condition. Even if we have adequate insurance coverage, product defect claims, or recalls could result in negative publicity or force us to devote significant time and attention to those matters.

***Increases in costs for or shortage of supply of our raw materials from our suppliers could decrease our profitability.***

The costs of raw materials constitute the majority of our cost of sales. The major raw materials used in the production of our products include ceramic powder, porcelain rod, iron cap, lacquer, copper wire, substrate, conductive paste and resistor paste. We currently source our principal raw materials from a number of third-party suppliers located in China and Japan. Any increases in the costs of our raw materials would increase our cost of sales and we may not be able to pass on all or any of such increased costs to our customers. This may result in decreases in our gross margin and adversely affect our profitability.

We purchase certain of our raw materials from certain suppliers which we believe currently satisfy our quality standards and can meet our volume requirements. However, the capacity of certain of these suppliers may not be able to expand to cope with increases in orders by us. A shortage of any key raw materials could limit the number of units we are able to produce, and is likely to increase the costs of our products, thereby depressing the margins for our products to the extent that we are not able to pass on the increased costs to our customers. In 2018, we encountered a temporary shortage in material supply as the PRC government tightened its policies towards factories' wastewater treatment and certain of our suppliers located in China were subject to temporary interruption of production before they improved their wastewater treatment process. Although we have not experienced any other significant shortage in supply of raw materials and components, nor do we have significant concentration or reliance on a single supplier, there can be no assurance that a significant shortage will not take place in the future.

***If we fail to comply with environmental regulations, we may be subject to adverse publicity and potentially monetary damages and fines.***

Some of our manufacturing processes employ or create various hazardous substances, including chemicals and wastewater. We are subject to a variety of regulations in the relevant jurisdictions relating to the use, storage, discharge and disposal of chemicals and waste used in its manufacturing processes. Although for the years ended December 31, 2017, 2018 and 2019, no material administrative sanctions or penalties have been imposed upon us for the violation of environmental regulations, we cannot assure you that we will never fail to comply with these environmental regulations. Any failure to comply with present and future regulations or obtain the necessary certificates and permits could subject us to future fines and liabilities or other government sanctions. In addition, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. Any failure to control the use of or to restrict adequately the discharge of hazardous substances could subject us to monetary fines and liabilities or other government sanctions. If we are held liable for damages in the event of contamination or injury, it could have a material and adverse effect on our business, financial condition and results of operations.

In accordance with the environmental regulations, we are required to obtain relevant licenses and permits, including the wastewater disposal permit and emission permit. Our ability to obtain, maintain, or renew such licenses and permits on acceptable terms is subject to change, as, among other things, the regulations and policies of applicable governmental authorities may change. We cannot assure you that we will be successful and timely in obtaining the required approvals, licenses and permits. Failure to do so may subject us to monetary fines and liabilities or government sanctions.

***We rely on certain key personnel and failure to attract, retain or replace such personnel could adversely affect our business.***

Our success depends to a significant extent upon, among other factors, the continued services of our skilled technical, managerial, and sales personnel. Our success also depends on our ability to continue to attract, retain, and motivate said personnel. The loss of the services of any of these key

personnel without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on our business, financial condition, results of operations, and future prospects. We do not maintain insurance with respect to the loss of any of our key personnel.

***We may need additional capital, and financing may not be available on terms satisfactory to us, or at all.***

Since our inception, we have relied on the proceeds from bank borrowings and cash generated from operating activities, which have historically been sufficient to meet our working capital and substantially all of our capital expenditure requirements. As of December 31, 2019, we had cash and cash equivalents of approximately NT\$16,153.3 million (US\$540.1 million), while we had long-term and short-term borrowings of approximately NT\$32,654.4 million (US\$1,091.7 million). In addition to the committed bridge facility to fund the acquisition of KEMET, we may require additional cash resources due to the future growth and development of our business. Our future capital requirements may be substantial as we seek to expand our operations, diversify our product offering, and pursue acquisitions and equity investments. If our cash resources are insufficient to satisfy our cash requirements, we may seek to issue additional equity or debt securities or obtain new or expanded credit facilities or enter into additional factoring arrangements.

Our ability to obtain external financing in the future is subject to a variety of uncertainties, including our future financial condition, results of operations and cash flows and the overall condition of international capital and lending markets that is beyond our control. Any indebtedness that we may incur in the future may also contain operating and financial covenants that could further restrict our operations. There can be no assurance that financing will be available in a timely manner or in amounts or on terms acceptable to us, or at all. A large amount of bank borrowings and other debt may result in a significant increase in interest expense while at the same time exposing us to increased interest rate risks. Equity financings could result in dilution to our shareholders, and the securities issued in future financings may have rights, preferences and privileges that are senior to those of our ordinary shares or GDSs. Any failure to raise needed funds on terms favorable to us, or at all, could severely restrict our liquidity as well as have a material adverse effect on our business, financial condition and results of operations.

***Any global systemic economic and financial crisis could negatively affect our business, results of operations, and financial condition.***

The global financial markets have experienced significant disruptions since 2008 and the United States, Europe and other economies have experienced periods of recession. The recovery from the lows of 2008 and 2009 has been uneven and there are new challenges, including the escalation of the European sovereign debt crisis from 2011. Since then, the European countries have recently been or are currently in a recession and continue to exhibit weak economic trends. In 2020, due to the outbreak of coronavirus, the global financial markets also suffered from serious disruption. For example, in March 2020, the New York Stock Exchange's circuit breaker kicked in three times in less than two weeks as the market plunged over concerns about the pandemic of coronavirus. Such disruption, economic downturns, and potential recessions may have an adverse impact on the markets where we operate, and in turn, may lead to a decrease in our revenues and harm our results of operations.

Moreover, there is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies. There have also been concerns over the United Kingdom leaving the European Union as well as the significant potential changes to United States trade policies, treaties and tariffs, including trade policies and tariffs regarding the PRC. There have also been concerns about the economic effect of the tensions in the relationship between the PRC and surrounding Asian countries. There were and could be in the future a number of domino effects from such turmoil on our business, including significant decreases in orders from our customers; insolvency of key suppliers resulting in product delays; inability of customers to obtain credit to finance purchases of our products and/or customer insolvencies; and counterparty failures negatively impacting our operations. Any systemic economic or financial crisis could cause revenues for the passive component industry as a whole to decline dramatically and could materially and adversely affect our results of operations.



***Our multinational operations subject us to various business, economic, political, regulatory and legal risks.***

We have operations in Asia, Europe and Americas. As a result of our international operations, we are affected by economic and political conditions in foreign countries, including the imposition of government controls, political and economic instability, trade restrictions, changes in tariffs, laws and policies affecting trade and investment, the lack of development of local infrastructure, labor unrest and difficulties in staffing, coordinating communications among and managing international operations, fluctuations in currency exchange rates and earnings, expatriation restrictions, difficulties in obtaining export licenses, and misappropriation of intellectual property. If we cannot successfully manage the risks and challenges generally associated with multinational operations, we may have difficulty successfully completing orders, which might lead to customer dissatisfaction and loss of future orders.

***Foreign exchange fluctuations may adversely affect our results of operations and financial conditions.***

As the Shares are listed on the TWSE, our financial statements are required to be presented in NT Dollars, the lawful currency of the ROC. However, most of our sales are denominated in US Dollar, Renminbi and Euro, while the majority of our raw materials and component costs are paid for primarily in US Dollar, Renminbi and NT Dollar, with a substantial portion of our labor cost paid in US Dollar, Renminbi and Euro. Accordingly, our operations are exposed to fluctuations among US Dollar, Renminbi, Euro and NT Dollar exchange rates and, to a lesser extent, exchange rates between other currencies.

The value of the Renminbi is subject to changes in the PRC government's policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. Effective from July 21, 2005, the Renminbi is no longer pegged solely to the US Dollars. Instead, it is pegged against a basket of currencies, determined by the People's Bank of China, or PBOC, against which its value can rise or fall by as much as 0.3% each day. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed range in relation to a basket of specified foreign currencies. Since then, the PRC government has made, and may in the future make, further adjustments to the exchange rate system. On June 19, 2010, the PRC government announced its intention to further relax its currency policy, and the Renminbi slightly appreciated against US Dollars. We cannot assure you that the Renminbi will not experience significant appreciation against US Dollars again. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against US Dollars. Fluctuations in exchange rates may adversely affect the value, translated or converted into US Dollars, of our net assets or earnings.

In addition, under the current foreign exchange regime in the PRC, there can be no guarantee that sufficient foreign currency will be available at a given exchange rate to satisfy the demands of a particular enterprise in full. There can also be no assurance that shortages in the availability of foreign currency will not restrict our ability to obtain sufficient foreign currency to satisfy our foreign currency needs.

The impact of future exchange rate fluctuations among these currencies on our results of operations and financial condition cannot be accurately predicted, and there can be no assurance that our attempt to mitigate the adverse effects of exchange rate fluctuations will be successful or that such exchange rate fluctuations will not in the future have a material adverse effect on our results of operations, financial condition and prospects.

***Our insurance coverage may not adequately protect us against certain operating and other hazards which may have an adverse effect on our business.***

We believe that the coverage from our insurance policies for our production facilities is in line with industry norms, adequate for our present operations and include adequate coverage for risks relating to fires and public liability. However, there can be no assurance that any claim under the insurance policies maintained will be timely honored in full or at all. To the extent that we suffer loss or damage that is not covered by insurance or exceeds our insurance coverage, our business, results of operations and financial condition may be materially and adversely affected. There can also be no assurance that insurance will continue to be available to provide reasonable, or any, coverage on reasonable commercial terms.

***We face risks related to natural disasters, health epidemics and other outbreaks of contagious diseases.***

We are vulnerable to natural disasters and other calamities. Fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events may give rise to server interruptions, breakdowns, system failures or Internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide our services.

Our business could also be adversely affected by the effects of Ebola virus disease, H1N1 flu, H7N9 flu, avian flu, Severe Acute Respiratory Syndrome, or SARS, Zika, COVID-19 or other epidemics. Our business operations could be disrupted if any of our employees is suspected of having Ebola virus disease, H1N1 flu, H7N9 flu, avian flu, SARS, Zika, COVID-19 or another contagious disease or condition, since it could require our employees to be quarantined and/or our offices to be disinfected. In addition, our results of operations could be adversely affected to the extent that any of these epidemics harms the global economy in general. In particular, the COVID-19 has become a pandemic that adversely affected the global economy and can materially and adversely affect our results of operations. See “— The COVID-19 pandemic could adversely affect our results of operations.”

**Risks Relating to the KEMET Acquisition**

***Completion of the KEMET Acquisition is subject to conditions and if these conditions are not satisfied or waived, the KEMET Acquisition will not be completed.***

The obligations of us and KEMET to complete the KEMET Acquisition are subject to satisfaction or waiver of a number of conditions, including the receipt of any authorization or consent from certain other governmental authorities required to be obtained with respect to the merger under applicable laws, and the absence of an injunction prohibiting the KEMET Acquisition. Each party's obligation to complete the KEMET Acquisition is subject to the satisfaction or waiver (to the extent permitted under applicable law) of certain other customary conditions, the accuracy of the representations and warranties of the other party under the KEMET Merger Agreement (subject to the materiality standards set forth in the KEMET Merger Agreement), the performance by the other party of its respective obligations under the KEMET Merger Agreement in all material respects and delivery of officer certificates by the other party certifying satisfaction of the preceding conditions. We and KEMET may, subject to certain exceptions, terminate the KEMET Merger Agreement upon mutual consent.

The failure to satisfy all of the required conditions could delay the completion of the KEMET Acquisition for a significant period of time or prevent it from occurring. If the KEMET Acquisition is not completed, our ongoing business may be materially adversely affected and, without realizing any of the benefits of having completed the KEMET Acquisition, we will be subject to a number of risks, including the following:

- the market price of our common stock could decline;
- if the KEMET Merger Agreement is terminated and our board of directors seeks another business combination, we cannot be certain that we will be able to find a party willing to enter into a transaction on terms equivalent to or more attractive than the terms that KEMET has agreed to in the KEMET Merger Agreement;
- time and resources, financial and other, committed by our management to matters relating to the KEMET Acquisition could otherwise have been devoted to pursuing other beneficial opportunities for our company;
- we may experience negative reactions from the financial markets or from our customers or employees; and
- we will be required to pay our respective costs relating to the KEMET Acquisition, including legal, accounting, financial advisory, financing and printing fees, whether or not the KEMET Acquisition is completed; and
- we may be required to pay a termination fee if we terminate the KEMET Acquisition in specified circumstances.



In addition, if the KEMET Acquisition is not completed, we could be subject to litigation related to any failure to complete the KEMET Acquisition or related to any enforcement proceeding commenced against us to perform our obligations under the KEMET Merger Agreement. The materialization of any of these risks could materially and adversely impact our ongoing business.

Similarly, any delay in completing the KEMET Acquisition could, among other things, result in additional transaction costs, loss of revenue or other negative effects associated with uncertainty about completion of the KEMET Acquisition and cause us not to realize some or all of the benefits that we expect to achieve if the KEMET Acquisition is successfully completed within its expected timeframe. In particular, given the impact of COVID-19 outbreak, the schedule of the KEMET Acquisition may be delayed. There can be no assurance that the conditions to the closing of the KEMET Acquisition will be satisfied or waived or that the KEMET Acquisition will be consummated.

***In order to complete the KEMET Acquisition, we and KEMET must make certain governmental filings and obtain certain governmental authorizations, and if such filings and authorizations are not made or granted or are granted with conditions, completion of the KEMET Acquisition may be jeopardized or the anticipated benefits of the KEMET Acquisition could be reduced.***

Although we and KEMET have agreed in the KEMET Merger Agreement to use reasonable best efforts, subject to certain limitations, to make certain governmental filings, to obtain any authorization or consent from certain other governmental authorities required to be obtained with respect to the merger under applicable laws, there can be no assurance that such approvals will be obtained. As a condition to adoption of approvals of the KEMET Acquisition, governmental authorities may impose requirements, limitations or costs or require divestitures or place restrictions on the conduct of our business after completion of the KEMET Acquisition.

Under the terms of the KEMET Merger Agreement, subject to certain exceptions, we and our subsidiaries are required to accept certain conditions and take certain actions imposed by certain governmental authorities that would apply to, or affect, the businesses, assets or properties of us, our subsidiaries or KEMET and its subsidiaries. There can be no assurance that regulators will not impose conditions, terms, obligations or restrictions and that such conditions, terms, obligations or restrictions will not have the effect of (i) delaying completion of the KEMET Acquisition, (ii) imposing additional material costs on or materially limiting the revenues of the combined company following the KEMET Acquisition, or (iii) otherwise adversely affecting our businesses and results of operations after completion of the KEMET Acquisition. In addition, we can provide no assurance that these conditions, terms, obligations or restrictions will not result in the delay or abandonment of the KEMET Acquisition.

***Each party is subject to business uncertainties while the proposed merger is pending, which could adversely affect each party's or the combined company's business and operations.***

In connection with the pendency of the KEMET Acquisition, it is possible that some customers, suppliers and other persons with whom we or KEMET have a business relationship may delay or defer certain business decisions or might decide to seek to terminate, change or renegotiate their relationships with us or KEMET, as the case may be, as a result of the KEMET Acquisition, which could negatively affect our or KEMET's respective revenues, earnings and cash flows, regardless of whether the KEMET Acquisition is completed. If the KEMET Acquisition is completed, such terminations, changes or renegotiations could negatively affect the revenues, earnings and cash flows of the combined company. These risks may be exacerbated by delays or other adverse developments with respect to the completion of the KEMET Acquisition.

***Lawsuits may be filed against KEMET and its directors challenging the KEMET Acquisition, and an adverse ruling in such lawsuits may prevent the KEMET Acquisition from becoming effective or from becoming effective within the expected time frame.***

KEMET and its directors may be named as defendants in putative class action lawsuits brought by purported KEMET shareholders challenging the proposed KEMET Acquisition and seeking, among other things, equitable relief to enjoin consummation of the KEMET Acquisition, rescission of the merger and/or rescissory damages. Under the terms of the KEMET Merger Agreement, one of the conditions to the completion of the KEMET Acquisition is that the consummation of the KEMET Acquisition is not restrained, enjoined, rendered illegal or otherwise prohibited by any law or order of

any governmental authority. As such, if any such lawsuits are filed and any potential plaintiffs are successful in obtaining an injunction prohibiting the consummation of the KEMET Acquisition, then such injunction may prevent the KEMET Acquisition from becoming effective or from becoming effective within the expected time frame.

***Combining the two companies may be more difficult, costly or time consuming than expected and the anticipated benefits and cost savings of the KEMET Acquisition may not be realized.***

We and KEMET have operated and, until the completion of the KEMET Acquisition, will continue to operate, independently. The success of the KEMET Acquisition, including anticipated benefits and cost savings, will depend, in part, on our ability to successfully combine and integrate our business with the business of KEMET.

The KEMET Acquisition will involve the integration of KEMET's business with our existing business, which is a complex, costly and time-consuming process. It is possible that the pendency of the KEMET Acquisition and/or the integration process could result in material challenges, including, without limitation:

- the diversion of management's attention from ongoing business concerns and performance shortfalls at one or both of the companies as a result of the devotion of management's attention to the KEMET Acquisition;
- managing a larger combined company;
- maintaining employee morale and retaining key management and other employees;
- attracting and recruiting prospective employees;
- the possibility of faulty assumptions underlying expectations regarding the integration process;
- retaining existing business and operational relationships and attracting new business and operational relationships;
- consolidating corporate and administrative infrastructures and eliminating duplicative operations and inconsistencies in standards, controls, procedures and policies;
- coordinating geographically separate organizations;
- unanticipated issues in integrating information technology, communications and other systems;
- litigation challenging the KEMET Acquisition; and
- unforeseen expenses or delays associated with the KEMET Acquisition.

Many of these factors will be outside of the combined company's control and any one of them could result in delays, increased costs, decreases in revenues and diversion of management's time and energy from ongoing business concerns, which could materially affect the combined company's financial position, results of operations and cash flows.

If we experience difficulties with the integration process, the anticipated benefits of the KEMET Acquisition may not be realized fully or at all, or may take longer to realize than expected. These integration matters could have an adverse effect on (i) each of us and KEMET during this transition period and (ii) the combined company for an undetermined period after completion of the KEMET Acquisition. In addition, the actual cost savings of the KEMET Acquisition could be less than anticipated.

***The future results of the combined company may be adversely impacted if the combined company does not effectively manage its expanded operations following the completion of the KEMET Acquisition.***

Following the completion of the KEMET Acquisition, the size of the combined company's business will be significantly larger than the current size of either our or KEMET's respective

businesses. The combined company's ability to successfully manage this expanded business will depend, in part, upon management's ability to design and implement strategic initiatives that address not only the integration of two discrete companies, but also the increased scale and scope of the combined business with its associated increased costs and complexity. There can be no assurances that the combined company will be successful or that it will realize the expected operating efficiencies, cost savings and other benefits currently anticipated from the KEMET Acquisition.

***The combined company is expected to incur substantial expenses related to the completion of the KEMET Acquisition and the integration of KEMET.***

We and KEMET have incurred, and expect to continue to incur, a number of non-recurring costs associated with the KEMET Acquisition and combining the operations of the two companies. The substantial majority of non-recurring expenses will be comprised of transaction and regulatory costs related to the KEMET Acquisition.

We also will incur transaction fees and costs related to formulating and implementing integration plans, including facilities and systems consolidation costs and employment-related costs. We continue to assess the magnitude of these costs, and additional unanticipated costs may be incurred in the KEMET Acquisition and the integration of the two companies' businesses. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, should allow us to offset integration-related costs over time, this net benefit may not be achieved in the near term, or at all.

***In connection with the KEMET Acquisition, we will incur significant additional indebtedness, and certain of KEMET's indebtedness will remain outstanding, which could adversely affect us, including by decreasing our business flexibility, and will increase our interest expense.***

Our consolidated indebtedness as of December 31, 2019 was approximately NT\$32,654.4 million (US\$1,091.7 million). Our pro forma indebtedness as of December 31, 2019, after giving effect to the KEMET Acquisition and the other adjustments set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Unaudited Pro Forma Condensed Combined Financial Information," would have been approximately NT\$85,977 million (US\$2,874 million) on a consolidated basis. For a more complete description of the financial impact of the combined company's indebtedness, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Unaudited Pro Forma Condensed Combined Financial Information" and "Capitalization." We will have substantially increased indebtedness following completion of the KEMET Acquisition in comparison to our indebtedness on a recent historical basis, which could have the effect of, among other things, reducing our flexibility to respond to changing business and economic conditions and increasing our interest expense.

The amount of cash required to pay interest on our increased indebtedness levels following completion of the KEMET Acquisition, and thus the demands on our cash resources, will be greater than the amount of cash flows required to service our indebtedness prior to the KEMET Acquisition. The increased levels of indebtedness following completion of the KEMET Acquisition could also reduce funds available for working capital, capital expenditures, acquisitions, the repayment or refinancing of our indebtedness as it becomes due and other general corporate purposes and may create competitive disadvantages for us relative to other companies with lower debt levels. In addition, certain of the indebtedness to be incurred in connection with the KEMET Acquisition is expected to bear interest at variable interest rates. If interest rates increase, variable rate debt will create higher debt service requirements, which could further adversely affect our cash flows. If we do not achieve the expected benefits and cost savings from the KEMET Acquisition, or if the financial performance of the combined company does not meet current expectations, then our ability to service our indebtedness may be adversely impacted.

Moreover, in the future we may be required to raise substantial additional financing to fund working capital, capital expenditures, the repayment or refinancing of our indebtedness, acquisitions or other general corporate requirements. See "— We may need additional capital, and financing may not be available on terms satisfactory to us, or at all."

***We may not be able to service all of the combined company's indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful. Our failure to meet our debt service obligations could have a material adverse effect on our business, financial condition and results of operations.***

We depend on cash on hand and cash flows from operations to make scheduled debt payments. We expect to be able to meet the estimated cash interest payments on the combined company's debt following the KEMET Acquisition through a combination of the expected cash flows from operations of the combined company. However, our ability to generate sufficient cash flow from operations of the combined company and to utilize other methods to make scheduled payments will depend on a range of economic, competitive and business factors, many of which are outside of our control. There can be no assurance that these sources will be adequate. If we are unable to service our indebtedness and fund our operations, we will be forced to reduce or delay capital expenditures, seek additional capital, sell assets or refinance our indebtedness. Any such action may not be successful and we may be unable to service our indebtedness and fund our operations, which could have a material adverse effect on our business, financial condition or results of operations.

***Uncertainties associated with the KEMET Acquisition may cause a loss of management personnel and other key employees of KEMET or us, which could adversely affect the future business and operations of the combined company following the KEMET Acquisition.***

We and KEMET are dependent on the experience and industry knowledge of our respective officers and other key employees to execute our respective business plans. The combined company's success after the KEMET Acquisition will depend in part upon its ability to retain key management personnel and other key employees of us and KEMET. Current and prospective employees of us and KEMET may experience uncertainty about their future roles with the combined company following the KEMET Acquisition, which may materially adversely affect the ability of each of us and KEMET to attract and retain key personnel during the pendency of and after the KEMET Acquisition. Accordingly, no assurance can be given that the combined company will be able to retain key management personnel and other key employees of us and KEMET.

***The unaudited pro forma financial information included in this Offering Circular is preliminary and the actual financial condition and results of operations after the KEMET Acquisition may differ materially.***

The unaudited pro forma financial information included in this Offering Circular is presented for illustrative purposes only and is not necessarily indicative of what our actual financial condition or results of operations would have been had the KEMET Acquisition and the related financing transactions been completed on the dates indicated. The unaudited pro forma financial information reflects adjustments, which are based upon assumptions, preliminary estimates and accounting reclassifications, to record the KEMET identifiable assets acquired and liabilities assumed at respective book values assuming their approximation to the respective fair values and the resulting goodwill recognized. The purchase price allocation reflected in the unaudited pro forma financial information in this Offering Circular is preliminary, and final allocation of the purchase price will be based upon the actual purchase price and the fair value of the assets and liabilities of KEMET as of the date of the completion of the KEMET Acquisition. Accordingly, the final acquisition accounting adjustments may differ materially from the pro forma adjustments reflected in the unaudited pro forma financial information in this Offering Circular.

***Completion of the KEMET Acquisition will trigger change in control or other provisions in certain agreements to which KEMET or we are a party, which may have an adverse impact on the combined company's business and results of operations.***

The completion of the KEMET Acquisition will trigger change in control and other provisions in certain agreements to which KEMET is a party. If we and KEMET are unable to negotiate waivers of those provisions, the counterparties may exercise their rights and remedies under the agreements, potentially terminating the agreements or seeking monetary damages. Even if we and KEMET are able to negotiate waivers, the counterparties may require a fee for such waivers or seek to renegotiate the agreements on terms less favorable to KEMET or the combined company. Any of the foregoing or similar developments may have an adverse impact on the combined company's business and results of operations.

***Following the consummation of the KEMET Acquisition, the combined company will assume certain potential liabilities relating to KEMET.***

Following the consummation of the KEMET Acquisition, the combined company will have assumed certain potential liabilities relating to KEMET, including certain products liability and mass tort claims with respect to the design, manufacture and marketing of its products and related settlement agreements and judgements. Between December 27, 2019 and January 10, 2020, six lawsuits were filed against KEMET and the members of its board in the United States District Court for the District of Delaware and the United States District Court for the Southern District of New York under the following captions: Stein v. KEMET Corp., et al., Case No. 1:19-cv-02361 (D. Del.); Braunstein v. KEMET Corp., et al., Case No. 1:20-cv-00035 (S.D.N.Y.); Rosenblatt v. KEMET Corp., et al., Case No. 1:20-cv-00023 (D. Del.); Conrad v. KEMET Corp., et al., Case No. 1:20-cv-00139 (S.D.N.Y.); Landau v. KEMET Corp., et al., Case No. 1:20-cv-00219 (S.D.N.Y.); and Silverberg v. KEMET Corp., et al., Case No. 1:20-cv-00036 (D. Del.).

KEMET does not maintain or has limited remaining insurance coverage for certain of these claims and the combined company may not be able to obtain additional insurance on acceptable terms or at all that will provide adequate protection against potential liabilities related to these claims. In addition, reserves established by KEMET or the combined company for estimated losses, including with respect to these claims, do not represent an exact calculation of actual liability but instead represent estimates of the probable loss at the time the reserve is established. Due to the inherent uncertainty underlying loss reserve estimates, additional reserves may be established from time-to-time, and actual losses may be materially higher or lower than the related reserve. Any of the foregoing could have a material adverse effect on our business, financial condition or results of operations.

***We cannot guarantee that any strategic transactions to which we are or may become a party, including acquisitions, divestitures, investments or alliances, will be successful.***

We may seek to supplement our internal growth strategy through various strategic transactions, including acquisitions, divestitures, investments and alliances. The success of any acquisition, investment or alliance may be affected by a number of factors, including our ability to properly assess and value the potential business opportunity or to successfully integrate any business we may acquire into our existing business. From time to time we also receive third-party indications of interest with respect to the purchase of certain of our operations, which may be significant to our business, results of operations and financial condition. Any such divestitures could affect our value and the value of the combined company after the KEMET Acquisition. In addition, there may be influence on the fair value of goodwill such as potential impairment and write-off. Although we are not currently a party to any binding agreements or letters of intent with respect to any such transaction, we could enter into agreements or letters of intent with respect thereto at any time. These strategic transactions are inherently risky and may require significant effort and management attention. There can be no assurance as to the likelihood or terms of any future transactions or that any past or future transaction will be successful.

## **Risks Relating to the ROC**

***Disruptions in the ROC's political environment could seriously harm our business.***

Our principal executive office and a portion of our assets are located in Taiwan. Accordingly, our financial condition and results of operations and the market price of the Shares may be affected by changes in governmental policies, taxation, inflation, interest rates, social instability and other political, economic diplomatic or social developments in or affecting Taiwan which are outside of our control. In addition, Taiwan has a unique international political status. Relationships between the ROC and the PRC have at times been strained. Past developments in relationships between the ROC and the PRC have occasionally affected the market prices of the securities of companies in Taiwan. Any changes in the cross-border relationship could adversely affect our business, including our planned cross-border expansion, and the market value of the Shares.



***The value of the Shares may be adversely affected by the volatility of the Taiwan securities market.***

The Taiwan securities market is smaller and more volatile than the securities markets in the United States and in certain European and other countries. The TWSE has experienced substantial fluctuations in the prices and trading volumes of listed securities, and there are currently limits on the range of daily price movements on the TWSE. From time to time, the ROC regulatory agencies have intervened in the Taiwan stock market during periods of extreme volatility. In addition, the TWSE has experienced problems such as market manipulation, insider trading and payment defaults. The recurrence of these or similar problems could adversely affect the market price and liquidity of the securities of Taiwan companies, including the Shares, in both the domestic and the international markets.

***Foreign exchange approvals may be required.***

Under existing ROC law, foreign exchange approvals must be obtained from the CBC on a payment-by-payment basis for the conversion from NT dollars into foreign currencies in connection with the proceeds from the sale of subscription rights for newly issued Shares if the proceeds are in excess of US\$100,000 per remittance. Although such approvals have been routinely granted in the past, there can be no assurance that in the future any such approvals will be obtained in a timely manner, or at all. In addition, foreign persons may, subject to certain required documents, but without foreign exchange approval of the CBC, remit outside and into the ROC foreign currencies of up to US\$100,000 (or its equivalent) for each remittance. There can be no assurance that no requirement for approval of such remittance will continue being applicable in the future.

***Financial reporting requirements and accounting standards in the ROC differ from those of other countries.***

We are subject to financial reporting requirements in the ROC that differ in significant respects from those applicable to companies in certain other countries including the United States. In addition, our financial statements are prepared in accordance with the IFRS, which differs in certain material respects from U.S. GAAP. Potential investors should consult their own professional advisers for an understanding of such differences and how they might affect the financial information contained herein.

***We publish monthly operating revenue information as part of our ongoing reporting obligations and such information is subject to change due to normal quarter-end closing procedures and excludes certain expenses and other information necessary to be indicative of actual financial results.***

We post monthly sales information on the MOPS, as part of our ongoing reporting obligation as a listed company on the TWSE. Such information is preliminary, and is subject to change, upon adjustments and after the completion of our normal quarter-end closing process. Actual sales could differ materially from the preliminary information posted on MOPS. Furthermore, our preliminary operating revenue only reflects sales information up to January, February and March 2020 and may not be indicative of our net profit/loss for the months of January, February and March 2020. As a result, you should not place undue reliance on such information.

***Taiwan is susceptible to natural disasters that could disrupt the normal operations of our business and adversely affect earnings.***

We maintain our headquarters and manufacturing facilities in Taiwan. Taiwan is susceptible to natural disasters and in particular, earthquakes and typhoons. On September 21 and October 22, 1999 and June 11, 2000, Taiwan experienced severe earthquakes that caused significant property damage and loss of life, particularly in the central part of Taiwan. These earthquakes caused damage to manufacturing facilities and adversely affected the operations of many companies. Taiwan is also susceptible to typhoons, which may cause damage and business interruptions to operations in Taiwan. In August 2009, Taiwan experienced severe damage from Typhoon Morakot, which caused over 600 deaths, severe flooding and extensive damage to properties and businesses. Although we did not experience major structural damage to our Taiwan facilities from such earthquakes or typhoons, there can be no assurance that future natural disasters will not occur and result in major damages to our Taiwan facilities, which could have a materially adverse effect on our results of operations and financial condition.

***You may not be able to enforce a judgment of a foreign court in the ROC.***

We are a company limited by shares and incorporated under the ROC Company Law. Substantially all of our directors and executive officers, and some of the experts named herein, are residents of the ROC. As a result, it may be difficult for holders of the Shares or GDSs to enforce against us the judgments obtained outside the ROC, including those predicated upon the civil liability provisions of the federal securities laws of the United States. It is also not certain that an action for civil liabilities predicated solely on the United States federal securities laws could be brought in the ROC court.

***Our future tax obligations may adversely affect our profitability.***

The ROC government enacted the ROC Income Basic Tax Act, also known as the “Alternative Minimum Tax Act”, or the AMT Act, which became effective on January 1, 2006 to impose an alternative minimum tax and to remedy the then excessive tax incentives for individuals and businesses. Alternative minimum tax, or AMT, is a supplemental tax which is payable if the income tax payable pursuant to the ROC Income Tax Act is below the minimum amount prescribed under the AMT Act. For the purpose of calculating the AMT, the taxable income defined under the AMT Act includes most income that is exempted from income tax under various legislations, such as those providing tax holidays and investment tax credits.

For businesses, the income that previously enjoyed tax-exemption privileges under relevant tax regulations, such as the Act for the Establishment and Administration of the Science Parks and Statute for Upgrading Industries, will be subject to the AMT system for the calculation of business taxpayers’ aggregate incomes. The AMT rate for business entities was 10% prior to 2013 and has increased to 12% since 2013. Under the AMT Act, a company will be subject to a 12% AMT if its annual taxable income under the statute exceeds NT\$0.5 million. However, the AMT Act grandfathered certain tax exemptions granted prior to the enactment of the AMT. As the tax exemption periods expire or in the event of an increase in other taxable income subject to the AMT Act, it may adversely impact our net income after tax.

**Risks Relating to the PRC**

***We are subject to the political and economic environment in the PRC.***

Currently, some of our manufacturing facilities are located in the PRC and we may make further investments in the PRC in the future. Accordingly, our results of operations, financial condition and future prospects are subject, to a significant degree, on the political and economic environment and legal developments in the PRC. There can be no assurance that our investments in the PRC and our production operations in the PRC will not be adversely affected if relations between the PRC and the ROC are further strained.

Prior to 1978, the PRC had adopted a central economic planning system. All production and economic activities in the country were governed by the economic goals set out in the five-year plans and annual plans adopted by central authorities. Since 1978, the PRC government has permitted foreign investment and implemented economic reforms, gradually changing from a planned economy towards a market-oriented economy. However, many of the reforms and economic policies adopted or to be adopted by the PRC government are unprecedented or experimental in nature and may have unforeseen results, which may have an adverse effect on enterprises with substantial business in the PRC, including us.

The PRC government has broad discretion and authority to regulate the technology industry in the PRC, and the government has implemented policies from time to time to regulate economic expansion in the PRC. Although in recent years the PRC government has implemented measures emphasizing the use of market forces for economic reform, it continues to play a significant role in regulating industrial development. It also exercises significant control over the PRC’s economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.



While the PRC's economy has experienced significant growth in the past decades, growth has been uneven both geographically and among various sectors in the economy. The PRC government has implemented various measures to encourage economic growth and guided the allocation of resources. Some of these measures benefit the overall economy of the PRC, but may have a negative effect on us. For example, our business, results of operations and financial condition may be adversely affected by governmental control over capital investments or changes in tax regulations.

***Changes in international trade policies and international barriers to trade, or the emergence of a trade war, may have an adverse effect on our business and results of operations.***

Our business operations involve cross-border transactions, including the manufacturing of products in China and sales of products across the globe. Changes to trade policies, treaties and tariffs in or affecting the jurisdictions in which we operate and to which we sell our products, or the perception that these changes could occur, could adversely affect the financial and economic conditions in those jurisdictions, as well as our international sales, financial condition and results of operations. In 2018, the U.S. administration under President Donald Trump had advocated greater restrictions on trade generally and significant increases on tariffs on goods imported into the United States, particularly from China, and has recently taken steps toward restricting trade in certain goods. In response to the additional tariffs by the United States, China had imposed retaliatory tariffs on various goods imported from the United States. In late 2019, the United States and China have tentatively agreed to a truce in their trade war in order to resume talks. In the event that the United States or China adopts further retaliatory measures against each other or any adverse trade policies of other countries that affect the importation of equipment, tools and materials required in the manufacturing process of our products, there may be an increase in our costs or significant delays in our product releases.

***Uncertainties in the PRC legal system could adversely affect our business and result of operations.***

Since 1979, many new laws and regulations covering general economic matters have been promulgated in the PRC. However, since the PRC legal system continues to rapidly evolve, interpretations of laws, regulations and rules are not always uniform and enforcement involves uncertainties. Despite the development of the legal system, the PRC's system of laws is not yet complete. Even where laws and regulations exist in the PRC, there may be laws and regulations at the national level or local level, which may impose additional procedural or compliance requirements on those subject to such laws and regulations. Furthermore, the recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedural Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedural Law based either on treaty between the PRC and the country where the judgment is made or on reciprocity between jurisdictions, provided that the foreign judgments do not violate the basic principles of laws of the PRC or its sovereignty, security or social and public interest.

Therefore, in the case a foreign judgment is rendered by a foreign court where the country and the PRC do not have any treaties or other agreements that provide for the reciprocal recognition and enforcement of foreign judgments, such a judgment may not be enforced by a PRC court. In addition, interpretation of laws and regulations of the PRC may be subject to government policies reflecting domestic political changes.

Our activities in the PRC will be subject to administrative review and approval by various national and local agencies of the PRC government. Due to the changes occurring in the legal and regulatory structure of the PRC, we may not be able to secure the required governmental approval for our activities. In addition, local government authorities may adopt their own policies and practices. Failure to obtain the requisite governmental approval or to comply with the local government's policies or practices for any of our activities could adversely affect our business and operating results.

We cannot predict the effects of future developments of the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the pre-emption of local regulations by national laws or the overturn of local governments' decisions by the central government. These uncertainties may limit the legal protections available to us. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of our resources and management's attention.

***Changes in the preferential tax treatment of our PRC subsidiary may adversely affect our profitability.***

We have PRC subsidiaries registered in Suzhou, Dongguan, Zhuhai, Mianyang, Suining and Shenzhen, and most of them are categorized as high and new technology enterprises in China, which are subject to a 15% preferential tax rate, as compared with the unified enterprise income tax rate of 25%. Such preferential tax treatment is renewable every three years. There can be no assurance that such preferential tax treatment will continue in the future. If such preferential tax treatment discontinues in the future, the resulting increase in our tax liability would have an adverse effect on our net profits and cash flow.

***Profits from our PRC operating subsidiaries available for distribution are determined under PRC GAAP.***

We derive a portion of our profits from operating subsidiary companies established in the PRC. The profits available for distribution are therefore dependent on, to a significant extent, the profit available for distribution by the PRC subsidiaries to us which is determined in accordance with generally accepted accounting principles and financial regulations in the PRC, or PRC GAAP, which differ in certain significant respects from generally accepted accounting principles in certain other countries, such as US GAAP and IFRS. In addition, under the Company Law of the PRC, profit available for distribution is determined after offsetting losses in previous years and setting aside a legal capital reserve equal to 10% of the remaining profits.

***Our manufacturing facilities in the PRC are subject to risks of power shortages.***

Many cities and provinces in the PRC have historically suffered serious power shortages. Many of the regional grids do not have sufficient power generating capacity to fully satisfy the increased demand for electricity driven by continual economic growth and persistent hot weather. Many local governments in the PRC have a history of requiring local factories to temporarily shut down their operations or reduce their daily operational hours in order to reduce local power consumption levels. In such event, our business, results of operations and financial conditions could be materially and adversely affected.

**Risks Relating to the GDSs and the Shares**

***For a period of four ROC business days after the closing, and potentially longer, you will not be able to withdraw the underlying Shares from our GDS facility.***

Following the closing date of the GDS offering, we will apply to the TWSE for listing of the underlying Shares. It is expected that the TWSE will approve the listing of the Shares on the fourth ROC business day following the closing date of the GDS offering although we cannot assure you that such approval will be obtained by such date (if at all). Immediately upon such listing, the number of Shares will be delivered to the account of the Depositary's nominee with the Custodian for the GDS facility through the book-entry system maintained by the Taiwan Depositary & Clearing Corporation, or the TDCC. As a result, subject to the approval of the TWSE, for a period of four ROC business days after the closing date of the GDS offering, holders of GDSs offered in this offering will not be able to withdraw the underlying Shares from our GDS facility.

***Holders of GDSs will not have the same voting rights as our shareholders, which may affect the value of their GDSs.***

The voting rights of a holder of GDSs as to Shares represented by its GDSs are governed by the applicable deposit agreement. Holders of GDSs will not be able to exercise voting rights on an individual basis. If holders representing at least 51% of the GDSs outstanding at the relevant record date instruct the Depositary to vote in the same manner regarding a resolution, including the election of directors, the Depositary will cause all Shares represented by the GDSs to be voted in that manner. If the Depositary does not receive timely instructions representing at least 51% of the GDSs outstanding at the relevant record date to vote in the same manner for any resolution, including the election of directors, holders of GDSs will be deemed to have instructed the Depositary or its nominee to authorize all the Shares represented by the GDSs to be voted at the discretion of our chairman or his/her designee, which may not be in the interest of holders of GDSs. Moreover, while shareholders

who own 1% or more of our outstanding shares are entitled to submit one proposal to be considered at our annual general meetings of shareholders, only holders representing at least 51% of our GDSs outstanding at the relevant record date are entitled to submit one proposal to be considered at our annual general meetings of shareholders. Hence, only one proposal may be submitted on behalf of all GDS holders.

***The value of a GDS holder's investment may be reduced by possible future sales of GDSs or Shares by us or our shareholders.***

As of the date of this Offering Circular, we had 430,257,056 Shares issued and outstanding. While we are not aware of any other plans by any major shareholders to dispose of significant numbers of Shares, we cannot assure you that one or more existing shareholders will not dispose of significant numbers of Shares or GDSs. We cannot predict the effect, if any, that future sales of GDSs or Shares, or the availability of GDSs or Shares for future sale, will have on the market price of GDSs or Shares prevailing from time to time. Sales of substantial amounts of GDSs or Shares in the public market, or the perception that such sales may occur, could depress the prevailing market prices of our GDSs or Shares.

***Restrictions on the ability to deposit our Shares into our global depositary receipt facilities may adversely affect the liquidity and price of the GDSs.***

The ability to deposit the Shares into our global depositary receipt facilities is restricted by ROC law. As a result, the prevailing market price of the GDSs may differ from the prevailing market price of our Shares on the TWSE. Under current ROC law and the Deposit Agreements, no person or entity, including the holders of GDSs and us, may deposit our Shares in our global depositary receipt facilities without specific approval of the FSC unless:

- (1) we pay stock dividends on, or make a free distribution of, our Shares;
- (2) the GDS holder exercises pre-emptive rights in the event of capital increases for cash; or
- (3) investors purchase our Shares, directly or through the Depositary, on the TWSE, and deliver our Shares to the Custodian for deposit into our GDS facility, or our existing shareholders deliver our Shares to the Custodian for deposit into our GDS facility; or
- (4) upon exchange of Rule 144A GDSs for Regulation S GDSs and vice versa.

With respect to (3) above, the Depositary may deliver GDSs against the deposit of those Shares only if the total number of GDSs outstanding following the deposit will not exceed the number of GDSs previously approved by the FSC, plus any GDSs issued pursuant to the events described in items (1) and (2) above. Issuance of additional GDSs under item (3) above will be permitted to the extent that previously GDSs have been cancelled. As a result of the limitations and restrictions on the deposit of Shares into our GDS facility, the liquidity of our GDSs may be reduced if a significant number of withdrawal transactions are effected and no additional GDSs are issued against corresponding deposits of the Shares.

***A holder of GDSs or its designee requesting the withdrawal of the Shares represented by the GDSs may be required to provide certain information to us, and failure to provide such information may result in a delay of the withdrawal.***

A holder of GDSs or its designee requesting the withdrawal of the Shares represented by the GDSs may be required to provide certain information to us, including the name and nationality of the person to be registered as the shareholder and the number of the Shares to be acquired by such person and the number of Shares acquired by such person in the past through the date of the withdrawal of the Shares underlying the GDSs. Under applicable ROC laws, we are required to report to the FSC if the person to be registered as a shareholder (1) is a "related party" of ours as defined in the Guidelines Governing the Preparation of Financial Reports by Securities Issuer or (2) will hold, immediately following such withdrawal, more than 10% of the Shares represented by GDSs. Failure to provide such information may cause the delay of such withdrawal of the Shares represented by the GDSs.

***Changes in exchange controls that restrict a GDS holder's ability to convert proceeds received from ownership of GDSs may have an adverse effect on the value of the holder's investment.***

The imposition of foreign exchange controls may undermine a GDS holder's ability to convert proceeds received from the holder's ownership of GDSs. Under current ROC law, the Depositary, without obtaining further approval from the CBC or any other governmental authority or agency of the ROC, may convert NT dollars into other currencies, including U.S. dollars, for:

- the proceeds of the sale of Shares represented by GDSs or the proceeds of the sale of Shares received as stock dividends which have been deposited into the global depositary receipt facilities; and
- any cash dividends or distributions received on the Shares.

In addition, the Depositary may also convert into NT dollars incoming payments for purchases of Shares for deposit in the global depositary receipt facilities against the issuance of additional GDSs. The Depositary is required to obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights for new Shares. Although it is expected that CBC will grant this approval as a routine matter, we cannot assure you that in the future any approval will be obtained in a timely manner, or at all.

Under current ROC law, a GDS holder, after becoming a holder of Shares upon presentation of GDSs to the Depositary for cancellation and withdrawal of the deposited securities, without obtaining further approval from CBC, may convert from NT dollars into other currencies, including U.S. dollars, for:

- the proceeds of the sale of any underlying Shares withdrawn from the global depositary receipt facilities or the proceeds of the sale of any Shares received as stock dividends; and
- any cash dividends or distributions received.

However, such holder may be required to obtain foreign exchange approval from CBC on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights for new Shares. In addition, under the ROC Foreign Exchange Control Law, the Executive Yuan of the ROC government may, without prior notice but subject to subsequent legislative approval, impose foreign exchange controls for certain periods of time in the event of, among other things, a material change in international economic conditions. We cannot assure you that foreign exchange controls or other restrictions will not be introduced in the future.

***Fluctuations in the exchange rate between the NT dollar and the US dollar may have a material adverse effect on the value of the GDSs or the Shares in US dollar terms.***

The Shares are listed on the TWSE, where shares are quoted and traded in NT dollars. If there are any cash dividends on the Shares represented by GDSs, these dividends will be paid to the Depositary in NT dollars and then converted into US dollars by the Depositary, subject to certain conditions. Fluctuations in the exchange rate between the NT dollar and the US dollar will affect, among other things, the amount a holder of GDSs will receive from the Depositary for dividends paid by us, the US dollar value of the proceeds that a holder receives upon a sale in Taiwan of the Shares represented by the GDSs and the secondary market price of the GDSs.

***We cannot assure that capital gains from the sale or disposition of the Common Shares or GDSs will continue to be exempt from ROC income tax.***

As used in this section, a "Non-ROC Resident Individual" is a foreign national individual who owns the Common Shares or GDSs and is not physically present in the ROC for 183 days or more during any calendar year, and a "Non-ROC Resident Entity" is a corporation or a non-corporate body that owns the Common Shares or GDSs and is organized under the laws of a jurisdiction other than the ROC and has no fixed place of business or business agent in the ROC. "Non-ROC Resident Individuals" and "Non-ROC Resident Entities" are jointly referred to as "Non-ROC Holders."

Under Article 4-1 of the ROC Income Tax Act, capital gains from the sale or disposition of the Shares (including Common Shares withdrawn from the depositary receipts facility) are exempt from ROC income tax. Sales or disposal of the GDSs are not regarded as sales of ROC securities and thus any gain generated therefrom by Non-ROC Holders is not subject to ROC income tax. However, we cannot assure that Non-ROC Holders will continue to be exempted from ROC income tax in the future.

***A liquid market for the GDSs may not develop and there are restrictions on the transfer of the GDSs.***

Prior to this offering, there has been no market for the GDSs being offered. The Initial Purchasers have advised us that they currently intend to make a market for the GDSs. However, the Initial Purchasers are not obligated to make a market and may discontinue this market-making activity at any time without notice. Such market-making activity is limited by the anti-manipulation rules under the Securities Act and the Exchange Act. The GDSs are being offered pursuant to an exemption from registration under the Securities Act and, as a result, you will only be able to resell your GDSs in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. Similarly, neither the GDSs nor the Shares underlying the GDSs are registered under the Exchange Act. Application has been made to list the GDSs on the Official List of the Luxembourg Stock Exchange and to trade on the Euro MTF Market. However, there can be no assurance that we will obtain or be able to maintain such listings or that, if listed, a trading market will develop on such exchanges.

In connection with any withdrawal of any Shares represented by GDSs, the GDSs will be surrendered to the Depositary. Unless additional GDSs are issued, the effect of such transactions will be to reduce the number of outstanding GDSs and, if, a significant number of transactions are effected, to reduce the liquidity of the GDSs. See “Description of the Global Depositary Shares — Deposits.” The GDSs or the Shares may not be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where registration may be required. The Shares underlying the GDSs may only be publicly traded on the TWSE.

***Preemptive rights and other rights offerings, may not be available to holders of GDSs in certain circumstances.***

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. For example, the ROC Company Law, with some exceptions, requires us to offer our shareholders the right to subscribe for new shares in proportion to our existing ownership percentage whenever new shares are issued. If registration is required in any jurisdiction with respect to the offer of rights to GDS holders or the sale by the Depositary of such rights or the securities or other relevant property to which such rights relate, the Depositary will not affect such offer or sale with respect to the relevant tranche of GDSs unless we have obtained an exemption from or effected a registration in accordance with the requirements of such jurisdiction. However, under the Deposit Agreements, we are under no obligation to register such rights, securities or other property. Accordingly, GDS holders may be unable to participate in our rights offerings and may experience dilution of their holdings as a result. If the Depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case you will receive no value for these rights.

***Further issuance of our Shares, including pursuant to stock dividends and employee stock bonuses, could dilute your holdings and associated rights with respect to the Shares.***

Our Articles of Incorporation provide that, after deducting prior year’s losses, paying outstanding taxes and setting aside legal reserves and special reserves (if any), the remaining portion of our income after tax, together with the retained earnings of previous years, shall be distributed to our shareholders as dividends, to our directors and supervisors as remuneration and to our employees as bonuses in the manner and percentages prescribed in our Articles of Incorporation, unless a part of such remaining portion is reserved for future distribution due to business conditions. See “Description of Our Share Capital” and “Dividends and Dividend Policy”.

Such distributions to our shareholders and employees may be made in the form of cash or stock. Such distributions, if in the form of new Shares, or further issuances of new Shares, will effectively dilute the holdings and associated rights of holders of our Shares.



***Non-ROC holders of GDSs who withdraw the Shares will be required to register with the Taiwan Stock Exchange and appoint a local custodian and agent and a tax guarantor in the ROC.***

Under current ROC law, if a GDS holder is a non-ROC person (other than a PRC person) and wishes to withdraw and hold underlying Shares from a depositary receipt facility, the holder will be required to obtain a foreign investor investment identification issued by the TWSE. The holder will also be required to appoint an eligible agent in the ROC to open a securities trading account, a Taiwan Depositary & Clearing Corporation book-entry account and a bank account, to pay ROC taxes, remit funds, exercise shareholders' rights and perform such other functions as the holder of GDSs may designate upon such withdrawal. In addition, such holder will be required to appoint a custodian bank to hold the securities in safekeeping, make confirmation and settle trades and report all relevant information. Without meeting these requirements, the non-ROC withdrawing holder would be unable to hold or subsequently sell the underlying Shares withdrawn from the depositary receipt facility on the TWSE or otherwise. There can be no assurance that such withdrawing holder will be able to obtain a foreign investor investment identification issued by the TWSE and open such accounts in a timely manner.

Non-ROC holders of GDSs (other than a PRC person) withdrawing the Shares represented by GDSs are also required under current ROC law and regulations to appoint an agent in the ROC for filing tax returns and making tax payments. Such agent must meet certain qualifications set by the ROC Ministry of Finance and, upon appointment, becomes a guarantor of such withdrawing holder's ROC tax obligations. Generally, evidence of the appointment of such agent and the approval of such appointment by the ROC tax authorities may be required as conditions to such withdrawing holder's repatriation of the proceeds from the sale of the withdrawn Shares. There can be no assurance that such withdrawing holder will be able to appoint and obtain approval for such agent in a timely manner.

***There are legal restrictions on a PRC investor's ability to withdraw and hold the underlying Shares represented by the GDSs***

Pursuant to the Regulations Governing Mainland China Investor's Securities Investment and Futures Trading in Taiwan, a qualified domestic institutional investor, or QDII, which has been approved by the competent authority in the PRC is permitted to make securities investments or trade futures in the ROC. The total investment amount allowed to be remitted into the ROC by all QDIIs cannot exceed US\$500 million, and by each QDII cannot exceed US\$100 million. A custodian shall be appointed by each QDII to apply with the TWSE for the remittance. In addition, for a QDI to make investment in a financial institution, such as us, each PRC investor (including a QDII) shall not hold 5% or more of the issued shares of the Company and all PRC investors, in aggregate, shall not hold 10% or more of the issued shares of the Company. Subject to the compliance with the foregoing applicable laws and regulations of the ROC, a QDII may request withdrawal of, and holds the Shares represented by the GDSs.

***We may be classified as a passive foreign investment company, or PFIC, which could result in adverse U.S. federal income tax consequences to U.S. investors.***

Based upon the projected composition of our income and assets and the valuation of our assets, including goodwill, we do not expect to be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ending December 31, 2020, and we do not expect to become one in the future. However, given that the determination of PFIC status with respect to both 2020 and future years depends on future facts and circumstances, including the nature of our income and the composition and value of our assets in each year, we cannot provide assurance with respect to our expectation regarding our PFIC status.

If we were or were to become a PFIC, such characterization could result in adverse U.S. federal income tax consequences to you if you are a U.S. investor. For example, if we are a PFIC, our U.S. investors may become subject to increased tax liabilities under U.S. federal income tax laws and regulations and will become subject to burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, we will be classified as a PFIC for U.S. federal income tax purposes if either (i) 75% or more of our gross income in a taxable year is passive income or (ii) 50% or more of the value of our assets in a taxable year (based on an average of the quarterly values) is attributable to assets that produce or are held for the production of passive income (which



includes cash). The calculation of the value of our assets will be based, in part, on the market price of our Shares and our GDSs, which is likely to fluctuate after this offering (and may fluctuate considerably given that the global capital markets have been experiencing extreme volatility). Accordingly, fluctuations in the market price of our Shares and GDSs may result in our becoming a PFIC in the current or any future taxable year. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in this offering. See “Taxation — United States Federal Income Tax Considerations — Passive Foreign Investment Company.

***We are incorporated in the ROC and because the rights of shareholders under ROC law differ from those under the laws of some other jurisdictions, you may have more difficulties protecting your shareholder rights than shareholders in some other jurisdictions.***

Our corporate affairs are governed by our Articles of Incorporation and by the laws governing corporations incorporated in the ROC. The rights of shareholders and the responsibilities of management and the members of the board of directors under ROC law are different from those applicable to a corporation incorporated in some other jurisdictions. Directors of ROC companies are required to conduct business faithfully and to act with the care of a good administrator. However, such duty of care as required of ROC companies’ directors may not be the same as the fiduciary duty of directors of non-ROC companies. Therefore, public shareholders of ROC companies may have more difficulty in protecting their interests in connection with actions taken by management or members of the board of directors than they would as public shareholders in some other jurisdictions.

## **USE OF PROCEEDS**

The net proceeds to be received by us from this offering of the GDSs will be approximately US\$647.5 million. The net proceeds are calculated after deducting underwriting discounts and commissions and related expenses of approximately US\$2.3 million. We will use the net proceeds for repayment of loans, procurement of raw materials overseas and capital expenditure.

## DIVIDENDS AND DIVIDEND POLICY

The following table sets forth the dividends per share declared in respect of each of the years of 2017, 2018 and 2019:

|            | Stock<br>Dividend Per<br>Share <sup>(1)</sup> | Cash<br>Dividend Per<br>Share <sup>(2)</sup> | Total<br>Number of<br>Shares<br>Issued as<br>Stock<br>Dividend <sup>(3)</sup> | Stock Dividend Amount |                     |
|------------|-----------------------------------------------|----------------------------------------------|-------------------------------------------------------------------------------|-----------------------|---------------------|
|            |                                               |                                              |                                                                               | NT\$ <sup>(4)</sup>   | US\$ <sup>(5)</sup> |
|            |                                               |                                              |                                                                               | (In thousands)        |                     |
| 2017 ..... | 2.0                                           | 15.0                                         | 70,141,276                                                                    | 701,413               | 23,451              |
| 2018 ..... | —                                             | 45.0                                         | —                                                                             | —                     | —                   |
| 2019 ..... | —                                             | 15.0                                         | —                                                                             | —                     | —                   |

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- (1) Our stock dividend is declared in New Taiwan dollar amount per share. A shareholder receives as a stock dividend based on the number of Shares equal to the New Taiwan dollar amount per Share of dividend declared multiplied by the number of Shares owned by the shareholder and divided by the par value of NT\$10 per Share.
- (2) Our cash dividend is declared in New Taiwan dollar amount per Share. A shareholder receives as a cash dividend equal to the New Taiwan dollar amount per Share of dividend declared multiplied by the number of Shares owned by the shareholder.
- (3) The total number of Shares issued as stock dividends include Shares issued from retained earnings and from capital reserve.
- (4) The New Taiwan dollar amount of stock dividends paid is calculated based upon NT\$10 per share times number of shares issued as stock dividend.
- (5) The US dollar amount of stock dividends paid is calculated based upon the Noon Buying Rate as set forth in the weekly H.10 statistical release of the Federal Reserve Board for December 31, 2019 of NT\$29.91 to US\$1.00.

We are generally not permitted under the ROC Company Law to distribute dividends or to make any other distributions to shareholders for any fiscal year in which we have not generated net income. In addition, before distributing a dividend or making any other distribution to shareholders, we must pay all outstanding taxes, recover any past losses, and set aside a legal reserve equal to 10% of our net income until the legal reserve reaches an amount equal to at least 100% of our paid-in share capital. Apart from the aforesaid legal reserve, we also set aside a special reserve in accordance with applicable laws and regulations when necessary. See “Description of Our Share Capital.”

Our Articles of Incorporation provide that, in principle, at least 10% of the remaining portion of the net income, less prior years’ losses, outstanding taxes, the legal reserve and any special reserve will be distributed as dividends to shareholders. In addition, pursuant to our Articles of Incorporation, prior to distributing any dividends to our shareholders, we were required to first distribute (i) not less than 2% of the distributable earnings to employees as bonuses and (ii) not more than 3% of the distributable earnings to directors as compensation. The employees’ bonuses may, subject to a resolution of the board of directors, be distributed to employees in way of cash or shares and the directors’ compensation should be distributed in way of cash. Pursuant to Articles of Incorporation, we are allowed to distribute dividends to our shareholders semiannually.

For information relating to ROC withholding taxes payable on dividends, see “Taxation — ROC Taxation”.

## CAPITALIZATION

The following table sets forth our actual consolidated capitalization as of December 31, 2019, and as adjusted to give effect to this offering. This table shall be read in conjunction with our consolidated financial statements as of December 31, 2019 and for the years ended December 31, 2019, including the notes thereto, included elsewhere in this Offering Circular. There has been no significant change in our financial condition, capitalization or prospects since December 31, 2019. The amounts in US dollars are provided solely for the convenience of the reader.

The as adjusted basis gives effect to the issuance of the GDSs before deducting underwriting discount and concession and other offering expenses.

|                                                          | As of December 31, 2019      |                     |                                       |                     |
|----------------------------------------------------------|------------------------------|---------------------|---------------------------------------|---------------------|
|                                                          | Actual                       |                     | As adjusted for the issue of the GDSs |                     |
|                                                          | NT\$                         | US\$                | NT\$                                  | US\$                |
|                                                          | (unaudited)<br>(in millions) |                     |                                       |                     |
| <b>Consolidated Capitalization</b>                       |                              |                     |                                       |                     |
| <b>Short-term borrowings</b>                             |                              |                     |                                       |                     |
| Short-term loans . . . . .                               | 18,641                       | 623                 | 18,641                                | 623                 |
| <b>Long-term borrowings</b>                              |                              |                     |                                       |                     |
| Long-term loans . . . . .                                | <u>14,014</u>                | <u>469</u>          | <u>14,014</u>                         | <u>469</u>          |
| <b>Equity</b>                                            |                              |                     |                                       |                     |
| Share capital . . . . .                                  | 4,303                        | 144                 | 4,937                                 | 165                 |
| Capital surplus . . . . .                                | 5,394                        | 180                 | 24,197                                | 809                 |
| Retained earnings . . . . .                              | 41,480                       | 1,387               | 41,480                                | 1,387               |
| Other equity . . . . .                                   | (2,508)                      | (84)                | (2,508)                               | (84)                |
| Treasury stocks . . . . .                                | <u>(2,422)</u>               | <u>(81)</u>         | <u>(2,422)</u>                        | <u>(81)</u>         |
| Equity attributable to owners of<br>the parent . . . . . | <u>46,247</u>                | <u>1,546</u>        | <u>65,684</u>                         | <u>2,196</u>        |
| Total equity . . . . .                                   | <u>46,247</u>                | <u>1,546</u>        | <u>65,684</u>                         | <u>2,196</u>        |
| <b>Total capitalization<sup>(1)</sup></b> . . . . .      | <u><u>60,261</u></u>         | <u><u>2,015</u></u> | <u><u>79,698</u></u>                  | <u><u>2,665</u></u> |

(1) Total capitalization includes total long-term borrowings and total shareholders' equity.

## DESCRIPTION OF THE KEMET ACQUISITION

On November 11, 2019, we entered into an Agreement and Plan of Merger by and among YAGEO Corporation, Sky Merger Sub Inc. and KEMET Corporation, or the KEMET Merger Agreement. The consummation of the KEMET Acquisition is subject to regulatory and KEMET shareholder approvals and customary closing conditions. KEMET's shareholders have approved it on February 20, 2020. We expect the KEMET Acquisition to close in the second half of 2020. There can be no assurance that we will be able to consummate the KEMET Acquisition on timely basis or at all.

### The KEMET Merger Agreement

The following summary of the KEMET Merger Agreement is not complete and is subject to, and is qualified in its entirety by reference to, all provisions of the KEMET Merger Agreement (including the definitions of terms used therein). You should read the KEMET Merger Agreement for provisions that may be important to you. A copy of the KEMET Merger Agreement was filed as Annex A to Definitive Proxy Statement on Schedule 14A filed with the SEC on January 14, 2020.

Upon the consummation of the KEMET Acquisition, each share of KEMET common stock issued and outstanding immediately prior to the Effective Time (other than (i) shares held by KEMET or held, directly or indirectly, by us or Sky Merger Sub Inc., which will be canceled for no consideration, and (ii) any shares owned by stockholders who are entitled to and who properly exercise appraisal rights under Delaware law) will be converted into the right to receive US\$27.20 in cash, without interest and less any applicable withholding taxes.

In the KEMET Merger Agreement, KEMET has made customary representations and warranties to us and Sky Merger Sub Inc. that are subject, in some cases, to specified exceptions and qualifications contained in the KEMET Merger Agreement or in KEMET's disclosure letter to the KEMET Merger Agreement delivered in connection therewith. These representations and warranties relate to, among other things: (i) due organization, good standing and authority and qualification to conduct business with respect to KEMET and its subsidiaries; (ii) capital structure of KEMET, KEMET's ownership of its subsidiaries, KEMET's and its subsidiaries' non-ownership of equity or debt interests other than of subsidiaries of KEMET and KEMET's equity awards granted; (iii) KEMET's corporate authority to enter into, perform its covenants and obligations under, and consummate the transactions contemplated by, the KEMET Merger Agreement and the enforceability of the KEMET Merger Agreement; (iv) subject to the ability to make an Adverse Recommendation Change, the approval of, and recommendation by, the board of directors in favor of the proposal to adopt the KEMET Merger Agreement; (v) the absence of conflicts with laws, KEMET's organizational documents and KEMET's contracts; (vi) required consents and regulatory filings and approvals (including from CFIUS and pursuant to U.S. and foreign antitrust laws) in connection with the KEMET Merger Agreement; (vii) KEMET's possession of necessary permits and KEMET's compliance with laws (including, but not limited to, anti-corruption laws and international trade laws); (viii) the accuracy of KEMET's SEC filings and financial statements; (ix) the accuracy of the information supplied by or on behalf of KEMET or any of its subsidiaries for inclusion in the Definitive Proxy Statement; (x) KEMET's disclosure controls and procedures; (xi) the conduct of business of KEMET and its subsidiaries in the ordinary course; the absence of any change, event, occurrence, state of facts, condition, development or circumstance that has had or would be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect; and the absence of certain actions taken that would otherwise have been prohibited if taken between the date of the KEMET Merger Agreement and the closing, in each case, since April 1, 2019; and (xii) other representations and warranties set forth in the KEMET Merger Agreement.

The KEMET Merger Agreement may be terminated at any time prior to the Effective Time, whether before or after the KEMET stockholder approval: (i) by mutual written consent of us and KEMET; (ii) by either of us or KEMET if (a) the KEMET Acquisition has not been consummated by the Termination Date, subject to certain exceptions, (b) prior to the Effective Time, any governmental authority has, by law or order, permanently restrained, enjoined, rendered illegal or otherwise prohibited the transactions contemplated by the KEMET Merger Agreement and such law or order has become final or nonappealable, subject to certain conditions, (c) KEMET has failed to obtain the KEMET stockholder approval; (d) we have failed to obtain our stockholder approval, (e) a CFIUS turnaround has occurred at any time or the parties have failed to obtain CFIUS approval before the Termination Date, or (f) the parties have failed to obtain the approvals of foreign investment and

investment in mainland China for the purpose of the KEMET Acquisition and the other transactions contemplated by the KEMET Merger Agreement issued by the Taiwan Investment Commission before the Termination Date. In addition, the KEMET Merger Agreement can be terminated by KEMET under specified circumstances, including, among others, KEMET to enter into a definitive agreement for a superior proposal, and KEMET will be required to pay us a termination fee of US\$63.75 million.

The respective obligations of each party to consummate the KEMET Acquisition are subject to the satisfaction or (to the extent permitted by applicable law) waiver by KEMET and us, by the Effective Time, of the following conditions: (i) the KEMET stockholder approval having been obtained; (ii) the consummation of the KEMET Acquisition not being restrained, enjoined, rendered illegal or otherwise prohibited by any law or order of any governmental authority; (iii)(a) the expiration or early termination of any waiting periods (or any extensions thereof) applicable to the consummation of the KEMET Acquisition under the HSR Act and (b) the termination or expiration of any waiting periods (and any extensions thereof), and all related approvals or clearances of the KEMET Acquisition by the relevant antitrust authorities, pursuant to any antitrust laws in Austria, China, Germany, Mexico and Taiwan that are required to be terminated or expired prior to the consummation of the KEMET Acquisition; (iv) the CFIUS approval having been obtained; (v) approvals of foreign investment and investment in mainland China for the purpose of the KEMET Acquisition and the other transactions contemplated by the KEMET Merger Agreement issued by the Taiwan Investment Commission having been obtained; (vi) if required by applicable law, our stockholder approval having been obtained; and (vii) subject to certain exceptions, the accuracy of the representations and warranties in the KEMET Merger Agreement. The KEMET Acquisition remains subject to other customary closing conditions. The KEMET Acquisition is expected to close in the second half of 2020.

There can be no assurance that we will be able to consummate the KEMET Acquisition on a timely basis or at all. See “Risk Factors — Risks Relating to the KEMET Acquisition.” This offering is not contingent on the consummation of the KEMET Acquisition.

### **Financing of KEMET Acquisition**

The total amount of funds necessary to consummate the KEMET Acquisition and related transactions, including payment of related fees and expenses, will be approximately US\$1,640 million. In connection with the KEMET Acquisition and related transactions, we have obtained the debt financing described below.

#### ***Commitment Letter***

We have obtained debt financing on the terms and conditions set forth in the Commitment Letter, from Citi, pursuant to which Citi has provided commitments in respect of a senior secured bridge loan facility in an aggregate principal amount of US\$1,100 million, or the Bridge Facility, the proceeds of which would be used, together with the proceeds of the Shareholder Loan Agreement or Standby Letter of Credit, as appropriate, and our cash and cash of our subsidiaries, for the purpose of financing the consummation of the KEMET Acquisition and paying fees and expenses incurred in connection with the KEMET Acquisition.

The initial borrowing under the Bridge Facility is subject to the satisfaction (or waiver by Citi) of a number of limited conditions, including, without limitation: (i) consummation of the KEMET Acquisition in all material respects on the terms contemplated by the KEMET Merger Agreement (without giving effect to any amendment, waiver, consent or other modification that is materially adverse to the lenders unless it is approved by Citi); (ii) since November 11, 2019, there has not occurred any change, event, occurrence, state of facts, condition, development or circumstances that has had or would reasonably be expected to have a material adverse effect; (iii) delivery of certain financial statements of us and KEMET; (iv) delivery of customary closing documents; (v) certain representations being true and correct in all material respects as of the closing date; (vi) delivery of a customary certificate certifying as to the solvency of us on a consolidated basis after giving effect to the KEMET Acquisition and related transactions; (vii) delivery by us of definitive documentation with respect to the Bridge Facility, executed by us and each guarantor party thereto; (viii) subject to certain exceptions, delivery of all documents required to perfect the security interest granted to the agent under the Bridge Facility in the collateral provided thereunder; (ix) delivery of documentation with respect to us required by regulatory authorities under applicable “know your customer” and anti-money laundering rules and regulations; (x) and payment of required fees and expenses (together with those conditions contained in the Commitment Letter not expressly described above, collectively, or the Funding Conditions.



The Commitment Letter terminates in the event that (i) the Funding Conditions are not satisfied (or are waived by Citi) on or before the date that is five business days after the Termination Date, (ii) the KEMET Merger Agreement is terminated in accordance with its terms without consummation of the KEMET Acquisition having occurred, or (iii) the closing of the KEMET Acquisition occurs without use of the Bridge Facility.

#### ***Shareholder Loan Agreement***

We have obtained debt financing on the terms and conditions set forth in the Shareholder Loan Agreement with Pierre Chen, pursuant to which Pierre Chen has provided commitments in respect of the Shareholder Loan, the proceeds of which would be used, together with the proceeds of the Bridge Facility and our cash and cash of our subsidiaries, for the purpose of financing a portion of the KEMET Acquisition. Citicorp International Limited, in its capacity as administrative agent under the Bridge Facility, and Pierre Chen have entered a subordination agreement, the terms of which subordinate the Shareholder Loan in right and time of payment to our obligations under the Bridge Facility. The initial borrowing of the Shareholder Loan is subject to advance delivery of a utilization notice to Pierre Chen, satisfaction (or waiver) of all conditions to closing of the KEMET Acquisition set forth in the KEMET Merger Agreement five business days before closing of the KEMET Acquisition (except those conditions that, by their nature, are to be satisfied at the closing of the KEMET Acquisition) and it not being illegal or unlawful in any applicable jurisdiction for Pierre Chen to perform his funding obligations under the Shareholder Loan Agreement. The Shareholder Loan Agreement terminates upon (i) our failure to deliver a utilization notice on or before the date that is five business days after the Termination Date, (ii) valid termination of the KEMET Merger Agreement without consummation of the KEMET Acquisition, or (iii) closing of the KEMET Acquisition without use of the Shareholder Loan.

#### ***Standby Letter of Credit***

We have obtained debt financing on the terms and conditions set forth in the Standby Letter of Credit issued by Citibank, N.A., Hong Kong Branch, pursuant to which, in the event that Pierre Chen does not advance the Shareholder Loan to us, we will draw an aggregate amount of US\$195 million under the Standby Letter of Credit. The proceeds would be used for the purpose of financing a portion of the KEMET Acquisition. The availability of funds under the Standby Letter of Credit is subject to our presentation of the Standby Letter of Credit at the specified counter of Citibank, N.A., Hong Kong Branch, and delivery by us to the Citibank, N.A., Hong Kong Branch, of a written statement of demand certifying that (i) Pierre Chen has not advanced the Shareholder Loan to us and (ii) the amount of funds to be drawn by us is the same as the amount of funds not advanced by Pierre Chen. The Standby Letter of Credit terminates at the earlier of (x) the close of business at the specified counter of the Issuer on February 16, 2021 and (y) any date on or prior to February 16, 2021, subject to payment in full of the undrawn aggregate amount of the Standby Letter of Credit at such time by Citibank, N.A., Hong Kong Branch to us.

## SELECTED FINANCIAL AND OTHER DATA OF YAGEO CORPORATION

The following tables present our summary financial information. The summary financial information as of and for the years ended December 31, 2017, 2018 and 2019 set forth below are qualified by reference to, and should be read in conjunction with, our consolidated financial statements included elsewhere in this Offering Circular. Our consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019 have been prepared and presented in accordance with the T-IFRSs, which differs from U.S. GAAP, IFRS or the generally accepted accounting principles of certain other countries. For information relating to the nature and effect of significant differences between IFRS and T-IFRSs as they relate to us, see note 3 to our consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019 included elsewhere in this Offering Circular.

|                                                                              | Year Ended December 31, |        |            |        |            |         |        |
|------------------------------------------------------------------------------|-------------------------|--------|------------|--------|------------|---------|--------|
|                                                                              | 2017                    |        | 2018       |        | 2019       |         |        |
|                                                                              | NT\$                    | %      | NT\$       | %      | NT\$       | US\$    | %      |
| (in millions, except percentages and per share data)                         |                         |        |            |        |            |         |        |
| <b>Consolidated Statement of Income:</b>                                     |                         |        |            |        |            |         |        |
| Operating revenue . . . . .                                                  | 32,258.6                | 100.0  | 77,155.6   | 100.0  | 41,306.6   | 1,381.0 | 100.0  |
| Operating costs . . . . .                                                    | (21,760.5)              | (67.5) | (28,310.3) | (36.7) | (26,526.1) | (886.9) | (64.2) |
| Gross profit . . . . .                                                       | 10,498.1                | 32.5   | 48,845.3   | 63.3   | 14,780.5   | 494.1   | 35.8   |
| Operating expenses                                                           |                         |        |            |        |            |         |        |
| Selling and marketing . . . . .                                              | (1,462.7)               | (4.5)  | (6,496.6)  | (8.4)  | (3,792.4)  | (126.8) | (9.2)  |
| General and administration . . .                                             | (1,138.2)               | (3.5)  | (3,523.3)  | (4.6)  | (3,171.3)  | (106.0) | (7.7)  |
| Research and development . . . .                                             | (303.9)                 | (1.0)  | (413.4)    | (0.5)  | (774.8)    | (25.9)  | (1.9)  |
| Expected credit (loss) gain . . .                                            | —                       | —      | (1,504.1)  | (2.0)  | 989.3      | 33.1    | 2.4    |
| Total operating expenses . . . .                                             | (2,904.8)               | (9.0)  | (11,937.4) | (15.5) | (6,749.2)  | (225.6) | (16.4) |
| Profit from operations . . . . .                                             | 7,593.3                 | 23.5   | 36,907.9   | 47.8   | 8,031.3    | 268.5   | 19.4   |
| Non-operating income (expenses)                                              |                         |        |            |        |            |         |        |
| Finance costs . . . . .                                                      | (299.5)                 | (0.9)  | (547.0)    | (0.7)  | (524.8)    | (17.5)  | (1.3)  |
| Share of profit of associates . . .                                          | 299.8                   | 0.9    | 635.5      | 0.8    | 154.1      | 5.1     | 0.4    |
| Interest income . . . . .                                                    | 507.9                   | 1.5    | 1,091.5    | 1.4    | 1,142.2    | 38.2    | 2.8    |
| Rental income . . . . .                                                      | 22.2                    | 0.1    | 41.7       | 0.1    | 34.4       | 1.1     | 0.1    |
| Gain on financial instruments at fair value through profit or loss . . . . . | 152.8                   | 0.5    | 1,288.5    | 1.7    | 620.7      | 20.8    | 1.5    |
| Loss on financial instruments at fair value through profit or loss . . . . . | (412.2)                 | (1.3)  | (974.2)    | (1.3)  | (1,324.9)  | (44.3)  | (3.2)  |
| Other gains and losses . . . . .                                             | (42.1)                  | (0.1)  | 1,451.4    | 1.9    | 890.1      | 29.8    | 2.1    |
| Total non-operating income (expenses) . . . . .                              | 228.9                   | 0.7    | 2,987.4    | 3.9    | 991.8      | 33.2    | 2.4    |
| Profit before income tax . . . . .                                           | 7,822.2                 | 24.2   | 39,895.3   | 51.7   | 9,023.1    | 301.7   | 21.8   |
| Income tax expense . . . . .                                                 | (1,141.2)               | (3.5)  | (6,055.2)  | (7.8)  | (1,971.0)  | (65.9)  | (4.7)  |
| Net profit for the year . . . . .                                            | 6,681.0                 | 20.7   | 33,840.1   | 43.9   | 7,052.1    | 235.8   | 17.1   |
| Other comprehensive income (loss) . . . . .                                  | 1,416.4                 | 4.4    | (731.8)    | (1.0)  | (1,136.4)  | (38.0)  | (2.8)  |
| Total comprehensive income for the year . . . . .                            | 8,097.4                 | 25.1   | 33,108.3   | 42.9   | 5,915.7    | 197.8   | 14.3   |

|                                                             | Year ended December 31, |           |          |         |
|-------------------------------------------------------------|-------------------------|-----------|----------|---------|
|                                                             | 2017                    | 2018      | 2019     |         |
|                                                             | NT\$                    | NT\$      | NT\$     | US\$    |
|                                                             | (in millions)           |           |          |         |
| Summary Consolidated Balance Sheet Data:                    |                         |           |          |         |
| Cash and cash equivalents . . . . .                         | 5,760.9                 | 20,388.7  | 16,153.3 | 540.1   |
| Trade receivables . . . . .                                 | 10,546.4                | 19,252.0  | 9,702.4  | 324.4   |
| Inventories . . . . .                                       | 4,872.0                 | 10,279.7  | 5,679.3  | 189.9   |
| Investments accounted for using the equity method . . . . . | 3,480.1                 | 6,205.9   | 6,040.5  | 202.0   |
| Property, plant and equipment . . . . .                     | 16,274.9                | 18,550.0  | 20,511.3 | 685.8   |
| Goodwill . . . . .                                          | 2,074.0                 | 21,464.3  | 21,377.8 | 714.7   |
| Total assets . . . . .                                      | 69,697.2                | 123,704.3 | 96,382.1 | 3,222.4 |
| Short-term borrowings . . . . .                             | 17,624.9                | 23,668.0  | 18,640.8 | 623.2   |
| Trade payables . . . . .                                    | 7,511.4                 | 10,347.3  | 6,059.8  | 202.6   |
| Other payables . . . . .                                    | 4,874.4                 | 12,013.0  | 7,080.8  | 236.7   |
| Long-term borrowings . . . . .                              | 5,500.0                 | 9,000.0   | 14,013.6 | 468.5   |
| Total liabilities . . . . .                                 | 38,363.8                | 64,266.0  | 50,135.4 | 1,676.2 |

|                                            | Year ended December 31, |            |            |         |
|--------------------------------------------|-------------------------|------------|------------|---------|
|                                            | 2017                    | 2018       | 2019       |         |
|                                            | NT\$                    | NT\$       | NT\$       | US\$    |
|                                            | (in millions)           |            |            |         |
| Summary Consolidated Cash Flow Data:       |                         |            |            |         |
| Net cash generated from/(used in)          |                         |            |            |         |
| operating activities . . . . .             | 8,027.3                 | 41,782.8   | 11,722.3   | 391.9   |
| Net cash generated from/(used in)          |                         |            |            |         |
| investing activities . . . . .             | (11,447.8)              | (27,524.5) | 3,721.9    | 124.4   |
| Net cash provided by/(used in)             |                         |            |            |         |
| financing activities . . . . .             | 2,251.0                 | 396.0      | (19,352.3) | (647.0) |
| Cash and cash equivalents at the beginning |                         |            |            |         |
| of the year . . . . .                      | 7,619.5                 | 5,760.9    | 20,388.7   | 681.7   |
| Cash and cash equivalents at the end of    |                         |            |            |         |
| the year . . . . .                         | 5,760.9                 | 20,388.7   | 16,153.3   | 540.1   |

## SELECTED FINANCIAL DATA OF KEMET

The following summary historical consolidated financial information as of March 31, 2017, 2018 and 2019 and for the three fiscal years ended March 31, 2019 has been derived from the audited consolidated financial statements of KEMET incorporated by reference into this Offering Circular. The following summary historical consolidated financial information as of and for each of the nine months ended December 31, 2018 and 2019 has been derived from the unaudited interim consolidated financial statements of KEMET incorporated by reference into this Offering Circular. KEMET's operating results for the nine months ended December 31, 2019 are not necessarily indicative of the results to be expected for any future periods.

This information is only a summary and should be read in conjunction with the historical consolidated financial statements of KEMET. See "Incorporation of Documents by Reference" in this Offering Circular.

|                                                                                    | Fiscal Year Ended March 31, |           |           | Nine Months Ended December 31, |           |
|------------------------------------------------------------------------------------|-----------------------------|-----------|-----------|--------------------------------|-----------|
|                                                                                    | 2017                        | 2018      | 2019      | 2018                           | 2019      |
|                                                                                    | (in thousands of US\$)      |           |           |                                |           |
| Summary of Operations:                                                             |                             |           |           |                                |           |
| Net sales . . . . .                                                                | 757,338                     | 1,200,181 | 1,382,818 | 1,027,024                      | 967,380   |
| Operating income . . . . .                                                         | 34,968                      | 112,852   | 200,849   | 146,792                        | 136,138   |
| Interest income . . . . .                                                          | (24)                        | (809)     | (2,035)   | (1,325)                        | (2,525)   |
| Interest expense . . . . .                                                         | 39,755                      | 32,882    | 21,239    | 18,803                         | 8,099     |
| Income (loss) from continuing operations . . . . .                                 | 47,157                      | 254,127   | 206,587   | 113,167                        | 41,682    |
| Income from discontinued operations, net of income tax expense (benefit) . . . . . | —                           | —         | —         | —                              | —         |
| Net income . . . . .                                                               | 47,157                      | 254,127   | 206,587   | 113,167                        | 41,682    |
| Balance Sheet Data:                                                                |                             |           |           |                                |           |
| Total assets . . . . .                                                             | 739,439                     | 1,222,923 | 1,318,095 | 1,231,257                      | 1,412,332 |
| Working capital . . . . .                                                          | 248,252                     | 391,295   | 363,580   | 381,041                        | 380,153   |
| Long-term debt, less current portions                                              | 386,211                     | 304,083   | 266,041   | 277,260                        | 282,746   |
| Other non-current obligations . . . . .                                            | 60,707                      | 152,249   | 125,360   | 125,856                        | 153,025   |
| Stockholders' equity . . . . .                                                     | 155,569                     | 463,875   | 639,415   | 538,433                        | 687,313   |
| Other Data:                                                                        |                             |           |           |                                |           |
| Cash flow provided by (used in) operating activities . . . . .                     | 71,667                      | 120,761   | 131,731   | 82,727                         | 90,735    |
| Capital expenditures . . . . .                                                     | 25,617                      | 65,004    | 146,056   | 77,650                         | 104,129   |
| Research and development expenses                                                  | 26,693                      | 39,114    | 44,612    | 33,040                         | 37,073    |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the section entitled "Selected Financial and Other Data of Yageo Corporation" and our consolidated financial statements and the related notes included elsewhere in this offering circular. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this offering circular. See "Special Note Regarding Forward-Looking Statements."*

### Overview

We are a leading global electronic component company with capabilities on a global scale, including production and sales facilities in Asia, Europe and the Americas. We provide one-stop shop product portfolio of resistors, capacitors, wireless and circuit protection components to meet the diverse requirements of customers. According to Paumanok, we were ranked the fourth in the passive component market as measured by consumption value in 2019, and upon the completion of the KEMET Acquisition, we are expected to become the second largest supplier of passive components in the market by consumption value.

We have broad product offerings, primarily comprising multi-layer ceramic capacitors, chip resistors, wireless components and circuit protection components, strategically targeted at various key vertical markets, including applications for consumer electronics, industrial, telecommunications, power and energy, IoT and automotive and transportation. Going forward, the number of new applications in 5G, IoT, cloud computing and electric vehicles is expected to increase over time, and such favorable secular trends is expected to create significant new demand and drive additional growth.

We have an extensive global distribution network that mainly covers Greater China, the United States and Europe. Our customer base mainly includes electronic manufacturing service providers, original design manufacturing providers, original equipment manufacturing providers and distributors. Upon the completion of the KEMET Acquisition, our distribution network will further be enhanced in Asia to include Japan and Korea, and to cover the Americas. In addition, our customer base will further be expanded to include other leading global industrial, automotive and defense companies.

Our operating revenue increased from NT\$32,258.6 million in 2017 to NT\$77,155.6 million in 2018, and then decreased to NT\$41,306.6 million (US\$1,381.0 million) in 2019. Our net profit increased from NT\$6,681.0 million in 2017 to NT\$33,840.1 million in 2018, and then decreased to NT\$7,052.1 million (US\$235.8 million) in 2019.

### Key Factors Affecting Our Business and Results of Operations

#### *Industry demand*

The demand for our passive components is largely driven by demand for the end-products. We currently have broad product offerings strategically targeted at various key vertical markets, including applications for consumer electronics, industrial, telecommunications, power and energy, IoT and automotive and transportation. The passive component industry is expected to achieve a healthy growth rate due to content growth in applications such as mobile phones. According to Paumanok, the global consumption value of passive components has increased from US\$23,521 million for the year ended March 31, 2015 to US\$35,877 million for the year ended March 31, 2019. The global consumption volume of passive components has increased from 3,311 billion pieces for the year ended March 31, 2015 to 3,954 billion pieces for the year ended March 31, 2019, and is expected to further increase to 4,852 billion pieces for the year ending March 31, 2024. Going forward, the number of new applications in 5G, IoT, cloud computing and electric vehicles has consistently increased over time, and such favorable secular trends will create significant new demand and drive additional growth.

#### *Fluctuations of supply and demand, as well as the average selling price of passive components.*

In general, the smaller and the more technologically advanced the passive component and the greater the resistance or capacitance of a resistor or capacitor, respectively, the higher the gross

margin. We manage our product mix in order to maximize volume growth, capacity utilization and margins. Our product mix currently include MLCCs, chip resistors, wireless components, through-hole resistors, circuit protection components and other products, and the average selling prices generally decline over time, as more advanced products are developed and existing products become commoditized. According to Paumanok, after a temporary price increase in capacitors in the years ended March 31, 2018 and 2019, as demand for MLCCs exceeded supply, the average selling price of capacitors decreased. In addition, the average selling price of linear resistors has increased twice from US\$0.0019 to US\$0.022 per unit on a year over year basis. The price increases in the year ended March 31, 2019 were primarily due to the price increases in the raw material, ruthenium, which is used to produce chip resistors. The price of ruthenium has increased dramatically in the year ended March 31, 2019, and thus manufacturers had to shift to produce nickel based thin film resistors, but the capacity to produce there is limited as well.

***Our ability to reduce unit manufacturing costs of our passive component products.***

Our ability to reduce unit manufacturing costs is dependent on, among other things, increasing economies of scale through higher production volumes, improving production efficiency and yields and reducing costs. One of our management's strengths has been its ability to realize operational and production efficiency improvements and to manage its costs effectively. In addition, costs of raw materials accounted for 41.1%, 28.4% and 46.0% of our total operating costs in 2017, 2018 and 2019, respectively. As such, a change in the raw material prices would have a material impact on our operating costs. Nevertheless, the size of our business allows us to benefit from economies of scale and certain other synergies including combined raw material and equipment procurement, lower costs and production efficiency achieved by our research and development team.

***Life cycle of our end-customers' products***

Our products are applied in a wide range of electronic devices, including smartphones, tablets, notebooks and other consumer electronics and portable devices, which are all characterized by rapidly changing technology, including enhancements in hardware functionality and performance, and user preferences, evolving industry standards and the frequent introduction of new products and enhancements. As a result, the prices of our products tend to decline over the product life cycle, reflecting product obsolescence, decreased costs of input components, decreased demand, increased competition as more manufacturers are able to produce similar products in large quantities and improvement in production yield rate, which places downward pressure on prices. In addition, the life cycles of new products have shortened over time, reducing the time during which manufacturers can benefit from the higher prices typically associated with the early phases of a product life cycle.

***Changes in technologies***

Our success depends on our ability to keep pace with technological developments and evolving industry standards. Particularly, we rely on our ability to respond to evolving customer requirements by evolving our current products and developing and introducing new products. We have enjoyed rapid growth in recent years as we were at the forefront of the technology revolution, particularly automation technology in production and testing, are increasingly integrated into the manufacturing process of passive component products. However, new or alternative technologies may be adopted by our existing customers or increase the difficulty for us to broaden our customer base. There can be no assurance that we will be able to capitalize on the next round of technological change. In order to develop new products or adapt to new or alternative technologies, substantial expenditure on research and development as well as the upgrading or procurement of equipment may be required. Furthermore, if we offer new products or migrate to new or alternative technologies, our yield rate may be compromised. All of these factors may result in a decrease in our profitability.

***Fluctuations in exchange rates between NT Dollar and the currencies in which payments to or by us are made.***

As the Shares are listed on the TWSE, our financial statements are required to be presented in NT Dollars, the lawful currency of the ROC. However, most of our sales are denominated in US Dollar, Renminbi and Euro, while the majority of our raw materials and component costs are paid for primarily in US Dollar, Renminbi and NT Dollar, with a substantial portion of our labor cost paid in US Dollar, Renminbi and Euro. Accordingly, our operations are exposed to fluctuations among US Dollar,



Renminbi, Euro and NT Dollar exchange rates and, to a lesser extent, exchange rates between other currencies. See “Risk Factors — Risks Relating to Our Industry and Business — Foreign exchange fluctuations may adversely affect our results of operations and financial conditions.”

## Components of Results of Operations

### *Operating revenue*

We derive our operating revenue primarily from sales of our products, including MLCCs, chip resistors, wireless components, through-hole resistors, circuit protection components and other products. The table below sets forth the revenue contribution of our major products for the years indicated:

|                                           | Year ended December 31,           |              |                 |              |                 |                |              |
|-------------------------------------------|-----------------------------------|--------------|-----------------|--------------|-----------------|----------------|--------------|
|                                           | 2017                              |              | 2018            |              | 2019            |                |              |
|                                           | NT\$                              | %            | NT\$            | %            | NT\$            | US\$           | %            |
|                                           | (in millions, except percentages) |              |                 |              |                 |                |              |
| <b>Revenue by product:</b>                |                                   |              |                 |              |                 |                |              |
| MLCC . . . . .                            | 16,624.0                          | 51.5         | 46,609.3        | 60.4         | 13,417.5        | 448.6          | 32.5         |
| Chip Resistor . . . . .                   | 13,128.6                          | 40.7         | 26,032.1        | 33.7         | 11,602.5        | 387.9          | 28.1         |
| Wireless and Advanced Component . . . . . | 487.4                             | 1.5          | 1,586.4         | 2.1          | 12,916.7        | 431.9          | 31.3         |
| Through-hole Resistor . . . . .           | 932.9                             | 2.9          | 1,011.9         | 1.3          | 894.8           | 29.9           | 2.2          |
| Circuit Protection Component . . . . .    | 0.0                               | 0.0          | 1,442.3         | 1.9          | 2,324.6         | 77.7           | 5.6          |
| Other Product . . . . .                   | 1,085.7                           | 3.4          | 473.6           | 0.6          | 150.5           | 5.0            | 0.3          |
| <b>Total . . . . .</b>                    | <u>32,258.6</u>                   | <u>100.0</u> | <u>77,155.6</u> | <u>100.0</u> | <u>41,306.6</u> | <u>1,381.0</u> | <u>100.0</u> |

We primarily sell our products to electronic manufacturing service, or EMS, original design manufacturing, or ODM, original equipment manufacturing, or OEM, providers and distributors. As a result of our comprehensive product offerings, we are able to maintain a diversified customer base covering first-tier industry players based in Asia, Taiwan, Europe and Americas. The table below sets forth the breakdown of revenue contribution by geographic locations for the years indicated:

|                                         | Year ended December 31,           |              |                 |              |                 |                |              |
|-----------------------------------------|-----------------------------------|--------------|-----------------|--------------|-----------------|----------------|--------------|
|                                         | 2017                              |              | 2018            |              | 2019            |                |              |
|                                         | NT\$                              | %            | NT\$            | %            | NT\$            | US\$           | %            |
|                                         | (in millions, except percentages) |              |                 |              |                 |                |              |
| <b>Revenue by geographic locations:</b> |                                   |              |                 |              |                 |                |              |
| Asia (except Taiwan) . . . . .          | 25,267.6                          | 78.3         | 57,059.1        | 74.0         | 28,310.5        | 946.5          | 68.5         |
| Taiwan . . . . .                        | 3,070.9                           | 9.5          | 7,913.6         | 10.3         | 2,100.7         | 70.2           | 5.1          |
| Europe . . . . .                        | 3,221.5                           | 10.0         | 9,365.0         | 12.1         | 8,190.7         | 273.9          | 19.8         |
| Americas . . . . .                      | 698.6                             | 2.2          | 2,817.9         | 3.6          | 2,704.7         | 90.4           | 6.6          |
| <b>Total . . . . .</b>                  | <u>32,258.6</u>                   | <u>100.0</u> | <u>77,155.6</u> | <u>100.0</u> | <u>41,306.6</u> | <u>1,381.0</u> | <u>100.0</u> |

Going forward, we expect to continue to pursue our global sales strategies and maintain a balanced mix of sales in various geographical markets. Increased revenue contribution from Greater China can further drive up the average selling price of our products and improve our profitability.

### *Operating costs*

Operating costs primarily consist of costs of raw materials, direct labor costs, depreciation of our production plant and equipment and other manufacturing costs. The following table sets forth a breakdown of our operating costs by nature, expressed as an absolute amount and as a percentage of our total operating revenue, for the years indicated:

|                                   | Year ended December 31,           |       |          |       |          |       |       |
|-----------------------------------|-----------------------------------|-------|----------|-------|----------|-------|-------|
|                                   | 2017                              |       | 2018     |       | 2019     |       |       |
|                                   | NT\$                              | %     | NT\$     | %     | NT\$     | US\$  | %     |
|                                   | (in millions, except percentages) |       |          |       |          |       |       |
| Operating costs:                  |                                   |       |          |       |          |       |       |
| Raw materials . . . . .           | 8,935.5                           | 41.1  | 8,039.3  | 28.4  | 12,202.2 | 408.0 | 46.0  |
| Direct labor costs . . . . .      | 4,130.7                           | 19.0  | 3,893.1  | 13.8  | 5,073.5  | 169.6 | 19.1  |
| Depreciation . . . . .            | 2,381.3                           | 10.9  | 8,987.4  | 31.7  | 3,125.2  | 104.5 | 11.8  |
| Other manufacturing costs . . . . | 6,313.0                           | 29.0  | 7,390.5  | 26.1  | 6,125.2  | 204.8 | 23.1  |
| Total . . . . .                   | 21,760.5                          | 100.0 | 28,310.3 | 100.0 | 26,526.1 | 886.9 | 100.0 |

### *Gross profit and gross margin*

Gross margin for our MLCCs increased from 25.9% in 2017 to 72.0% in 2018, and decreased to 35.7% in 2019. Gross margin for our chip resistors increased from 41.1% in 2017 to 53.6% in 2018, and decreased to 42.2% in 2019. Gross margin for other products increased from 32.1% in 2017 to 29.1% in 2018 and further to 31.3% in 2019. As a result of the foregoing, our gross profit was NT\$10,498.1 million, NT\$48,845.3 million and NT\$14,780.5 million (US\$494.1 million) in 2017, 2018 and 2019, respectively. Our overall gross margin was 32.5%, 63.3% and 35.8%, respectively, in the same years.

### *Operating expenses*

Our operating expenses consist primarily of sales and marketing expenses, general and administrative expenses, research and development expenses and expected credit loss. Our sales and marketing expenses generally include salaries of sales personnel, commissions paid to distributors, distribution costs and advertising costs. Our general and administrative expenses generally include salaries of administrative personnel and professional service fees incurred for the merger and acquisition transactions. Our research and development expenses generally include salaries of research and development salaries and testing material costs. Our expected credit loss generally includes bad debt provision.

Our operating expenses fluctuated in 2017, 2018 and 2019. Our operating expenses as a percentage of total revenue was approximately 9.0%, 15.5% and 16.4% in the respective year.

### *Non-operating income*

The major components of our non-operating income are interest income, gain on financial instruments at fair value through profit or loss and other gains, such as net foreign exchange gains. In 2018, we recorded net foreign exchange gains of NT\$1,364.0 million and interest income of NT\$1,091.5 million, primarily because the U.S. dollars we held appreciated in 2018, and we also earned more interest income on this U.S. dollar saving. In 2019, we recorded net foreign exchange gains of NT\$731.5 million and interest income of NT\$1,142.2 million due to the same reason.

### *Non-operating expenses*

The major components of our non-operating expenses are finance costs and loss on financial instruments at fair value through profit or loss. Our finance costs mainly include interest on bank loans, interest of short-term bills and other finance costs. Our loss on financial instruments at fair value through profit or loss mainly includes the loss incurred by the fluctuation of our investment on financial derivatives.

## **Taxation**

We are incorporated in Taiwan, and our principal operating subsidiaries are located in Taiwan and the PRC.

### ***Taiwan***

Our subsidiaries in Taiwan were subject to income tax at rates of 17%, 20% and 20% for 2017, 2018 and 2019, respectively.

### ***PRC***

Our PRC subsidiaries conduct their businesses in the PRC and are subject to taxation in the PRC. Under the Enterprise Income Tax Law, which became effective on January 1, 2008, both domestically-owned enterprises and foreign-invested enterprises are subject to a uniform tax rate of 25%. We have PRC subsidiaries registered in Suzhou, Dongguan, Zhuhai, Mianyang, Suining and Shenzhen, and most of them are categorized as high and new technology enterprises in China, which are subject to a 15% preferential tax rate. In addition, dividend payments made by our PRC subsidiaries are subject to a withholding tax at a rate of 10%.

## **Critical Accounting Policies, Judgments and Estimates**

In the application of our accounting policies, management is required to make judgments, estimations, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates. For more information on our critical accounting judgments and key sources of estimation uncertainty, see Note 5 to our consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019, which appear in the F-pages of this Offering Circular. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Below is a summary of our significant accounting policies. For more information on our significant accounting policies, see Note 4 to our consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019, which appear in the F-pages of this Offering Circular.

### ***Revenue recognition***

We identify contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

Revenue from the sale of goods comes from sales of passive components and other electronic components. Sales of passive components and other electronic components are recognized as revenue when the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Trade receivables are recognized concurrently.

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

### ***Inventories***

Inventories consist of raw materials, supplies, finished goods and work in progress and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

### ***Property, plant and equipment***

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

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

Except for freehold land which is not depreciated, the depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

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

### ***Goodwill***

Goodwill arising from the acquisition of a business is measured at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of our cash-generating units or groups of cash-generating units (referred to as “**cash-generating units**”) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and we dispose of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## Results of Operations

The following tables set forth a summary of our consolidated results of operations for the periods presented, in absolute amount and as a percentage of our operating revenue. This information should be read together with our consolidated financial statements and related notes included elsewhere in this offering circular. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

|                                                                    | Year Ended December 31, |        |            |        |            |         |        |
|--------------------------------------------------------------------|-------------------------|--------|------------|--------|------------|---------|--------|
|                                                                    | 2017                    |        | 2018       |        | 2019       |         |        |
|                                                                    | NT\$                    | %      | NT\$       | %      | NT\$       | US\$    | %      |
| (in millions, except percentages and per share data)               |                         |        |            |        |            |         |        |
| <b>Consolidated Statement of Income:</b>                           |                         |        |            |        |            |         |        |
| Operating revenue                                                  | 32,258.6                | 100.0  | 77,155.6   | 100.0  | 41,306.6   | 1,381.0 | 100.0  |
| Operating costs                                                    | (21,760.5)              | (67.5) | (28,310.3) | (36.7) | (26,526.1) | (886.9) | (64.2) |
| Gross profit                                                       | 10,498.1                | 32.5   | 48,845.3   | 63.3   | 14,780.5   | 494.1   | 35.8   |
| Operating expenses                                                 |                         |        |            |        |            |         |        |
| Selling and marketing                                              | (1,462.7)               | (4.5)  | (6,496.6)  | (8.4)  | (3,792.4)  | (126.8) | (9.2)  |
| General and administration                                         | (1,138.2)               | (3.5)  | (3,523.3)  | (4.6)  | (3,171.3)  | (106.0) | (7.7)  |
| Research and development                                           | (303.9)                 | (1.0)  | (413.4)    | (0.5)  | (774.8)    | (25.9)  | (1.9)  |
| Expected credit (loss) gain                                        | —                       | —      | (1,504.1)  | (2.0)  | 989.3      | 33.1    | 2.4    |
| Total operating expenses                                           | (2,904.8)               | (9.0)  | (11,937.4) | (15.5) | (6,749.2)  | (225.6) | (16.4) |
| Profit from operations                                             | 7,593.3                 | 23.5   | 36,907.9   | 47.8   | 8,031.3    | 268.5   | 19.4   |
| Non-operating income (expenses)                                    |                         |        |            |        |            |         |        |
| Finance costs                                                      | (299.5)                 | (0.9)  | (547.0)    | (0.7)  | (524.8)    | (17.5)  | (1.3)  |
| Share of profit of associates                                      | 299.8                   | 0.9    | 635.5      | 0.8    | 154.1      | 5.1     | 0.4    |
| Interest income                                                    | 507.9                   | 1.5    | 1,091.5    | 1.4    | 1,142.2    | 38.2    | 2.8    |
| Rental income                                                      | 22.2                    | 0.1    | 41.7       | 0.1    | 34.4       | 1.1     | 0.1    |
| Gain on financial instruments at fair value through profit or loss | 152.8                   | 0.5    | 1,288.5    | 1.7    | 620.7      | 20.8    | 1.5    |
| Loss on financial instruments at fair value through profit or loss | (412.2)                 | (1.3)  | (974.2)    | (1.3)  | (1,324.9)  | (44.3)  | (3.2)  |
| Other gains and losses                                             | (42.1)                  | (0.1)  | 1,451.4    | 1.9    | 890.1      | 29.8    | 2.1    |
| Total non-operating income (expenses)                              | 228.9                   | 0.7    | 2,987.4    | 3.9    | 991.8      | 33.2    | 2.4    |
| Profit before income tax                                           | 7,822.2                 | 24.2   | 39,895.3   | 51.7   | 9,023.1    | 301.7   | 21.8   |
| Income tax expense                                                 | (1,141.2)               | (3.5)  | (6,055.2)  | (7.8)  | (1,971.0)  | (65.9)  | (4.7)  |
| Net profit for the year                                            | 6,681.0                 | 20.7   | 33,840.1   | 43.9   | 7,052.1    | 235.8   | 17.1   |
| Other comprehensive income (loss)                                  | 1,416.4                 | 4.4    | (731.8)    | (1.0)  | (1,136.4)  | (38.0)  | (2.8)  |
| Total comprehensive income for the year                            | 8,097.4                 | 25.1   | 33,108.3   | 42.9   | 5,915.7    | 197.8   | 14.3   |

### Year ended December 31, 2019 compared to year ended December 31, 2018

**Operating Revenue.** Our operating revenue decreased by 46.5% from NT\$77,155.6 million in 2018 to NT\$41,306.6 million (US\$1,381.0 million) in 2019.

- **MLCC.** Revenue derived from our MLCC decreased by 71.2% from NT\$46,609.3 million in 2018 to NT\$13,417.5 million (US\$448.6 million) in 2019, primarily due to the comparatively weak market demand in 2019, leading to oversupply in the market and a higher level of inventory at our customers, slowing down the momentum of placing new orders, and as a result, both the average selling price and sales volume decreased.

- *Chip resistors.* Revenue derived from our chip resistors decreased by 55.4% from NT\$26,032.1 million in 2018 to NT\$11,602.5 million (US\$387.9 million) in 2019, primarily due to the same reason mentioned above.
- *Others.* Revenue derived from others increased by 260.8% from NT\$4,514.2 million in 2018 to NT\$16,286.6 million (US\$544.5 million) in 2019, primarily because we acquired Pulse Electronics and thus our sales of wireless and advanced components significantly increased.

*Operating costs.* Our operating costs decreased by 6.3% from NT\$28,310.3 million in 2018 to NT\$26,526.1 million (US\$886.9 million) in 2019, primarily due to a decrease in the sales volume of our MLCCs and chip resistors. Our operating costs as a percentage of our total operating revenue increased from 36.7% in 2018 to 64.2% in 2019, primarily due to the decreased average selling price of our MLCCs and chip resistors as mentioned above.

*Gross profit.* As a result of the foregoing, our gross profit decreased by 69.7% from NT\$48,845.3 million in 2018 to NT\$14,780.5 million (US\$494.1 million) in 2019. Our overall gross margin decreased from 63.3% in 2018 to 35.8% in 2019, primarily due to the following.

- *MLCC.* Gross margin of our MLCC decreased from 72.0% in 2018 to 35.7% in 2019, primarily due to the decreased average selling price and sales volume as mentioned above.
- *Chip resistors.* Gross margin of our chip resistors decreased from 53.6% in 2018 to 42.2% in 2019, primarily due to the decreased average selling price and sales volume as mentioned above.
- *Others.* Gross margin of our other products increased from 29.1% in 2018 to 31.2% in 2019.

*Selling and marketing expenses.* Our selling and marketing expenses decreased by 41.6% from NT\$6,496.6 million in 2018 to NT\$3,792.4 million (US\$126.8 million) in 2019, which was in line with the decrease in our sales volume and operating revenue. Our selling and marketing expenses as a percentage of operating revenue increased from 8.4% to 9.2% during the same period.

*General and administration expenses.* Our general and administration expenses decreased by 10.0% from NT\$3,523.3 million in 2018 to NT\$3,171.3 million (US\$106.0 million) in 2019. Our general and administration expenses as a percentage of operating revenue increased from 4.6% to 7.7% during the same period, primarily because of the professional service fees incurred by the acquisitions of Pulse Electronics and KEMET as well as the decrease in our operating revenue in 2019.

*Research and development expenses.* Our research and development expenses increased by 87.4% from NT\$413.4 million in 2018 to NT\$774.8 million (US\$25.9 million) in 2019, and it as a percentage of operating revenue increased from 0.5% to 1.9% during the same period, primarily because we invested more resources in research and development projects, such as 5G technology and advanced MLCCs in ultra-small size with high voltage, frequency and reliability.

*Expected credit (loss) gain.* In 2018, we recorded an expected credit loss of NT\$1,504.1 million because the inventory level at our distributors in China was high due to the China-U.S. trade war in 2018, and the risk of settling our accounts receivables with such distributors increased and was recorded as expected credit loss. In 2019, we recorded an expected credit gain of NT\$989.3 million (US\$33.1 million) because our distributors gradually reduced their inventory level and paid back accounts receivables as a result of a temporary truce of the trade war.

*Profit from operations.* As a result of the foregoing, our profit from operations decreased by 78.2% from NT\$36,907.9 million in 2018 to NT\$8,031.3 million (US\$268.5 million) in 2019.

*Non-operating income.* Our non-operating income decreased by 37.0% from NT\$4,508.6 million in 2018 to NT\$2,841.5 million (US\$95.0 million) in 2019, due to (i) a decrease in our gain on financial instruments at fair value through profit or loss from NT\$1,288.5 million in 2018 to NT\$620.7 million (US\$20.8 million) in 2019 as a result of a decrease in the stock price of a company that we invested in, (ii) a decrease in our share of profit of associates from NT\$635.5 million in 2018 to NT\$154.1 million (US\$5.1 million) in 2019 because our associates' profits decreased, (iii) a decrease in other gains from



NT\$1,451.4 million in 2018 to NT\$890.1 million (US\$29.8 million) in 2019, and (iv) our rental income decreased by 17.5% from NT\$41.7 million in 2018 to NT\$34.4 (US\$1.1 million) million in 2019, partially offset by an increase in our interest income from NT\$1,091.5 million in 2018 to NT\$1,142.2 million (US\$38.2 million) in 2019.

*Non-operating expenses.* Our non-operating expenses increased by 21.6% from NT\$1,521.2 million in 2018 to NT\$1,849.7 million (US\$61.8 million) in 2019, due to an increase in our loss on financial instruments at fair value through profit or loss from NT\$974.2 million in 2018 to NT\$1,324.9 million (US\$44.3 million) in 2019 as a result of a decrease in the stock price of the company that we invested in, partially offset by a decrease in our finance costs from NT\$547.0 million in 2018 to NT\$524.8 million (US\$17.5 million) in 2019.

*Profit before income tax.* As a result of the foregoing, our profit before income tax decreased by 77.4% from NT\$39,895.3 million in 2018 to NT\$9,023.1 million (US\$301.7 million) in 2019.

*Net profit for the year.* Our net profit for the year decreased by 79.2% from NT\$33,840.1 million in 2018 to NT\$7,052.1 million (US\$235.8 million) in 2019.

#### ***Year ended December 31, 2018 compared to year ended December 31, 2017***

*Operating Revenue.* Our operating revenue increased by 139.2% from NT\$32,258.6 million in 2017 to NT\$77,155.6 million in 2018.

- *MLCC.* Revenue derived from our MLCC increased by 180.4% from NT\$16,624.0 million in 2017 to NT\$46,609.3 million in 2018, primarily because our sales volume of MLCCs increased due to the increasing demand in the market as well as an increase in average selling prices.
- *Chip resistors.* Revenue derived from our chip resistors increased by 98.3% from NT\$13,128.6 million in 2017 to NT\$26,032.1 million in 2018, primarily because our sales volume of chip resistors increased due to the increasing demand in the market as well as an increase in average selling prices.
- *Others.* Revenue derived from others increased by 80.1% from NT\$2,506.0 million in 2017 to NT\$4,514.2 million in 2018, primarily because we acquired BrightKing Holdings and thus our sales of circuit protection components significantly increased.

*Operating costs.* Our operating costs increased by 30.1% from NT\$21,760.5 million in 2017 to NT\$28,310.3 million in 2018. Our operating costs as a percentage of our total operating revenue decreased from 67.5% in 2017 to 36.7% in 2018, primarily due to the continuous optimization of our product mix, the increased proportion of high-margin products, and the improved operating rate as well as an increase in average selling prices.

*Gross profit.* As a result of the foregoing, our gross profit increased by 365.3% from NT\$10,498.1 million in 2017 to NT\$48,845.3 million in 2018. Our overall gross margin increased from 32.5% in 2017 to 63.3% in 2018, primarily due to the following.

- *MLCC.* Gross margin of our MLCC increased from 25.9% in 2017 to 72.0% in 2018, primarily due to the continuous optimization of our product mix, the increased proportion of high-margin products, and the improved operating rate.
- *Chip resistors.* Gross margin of our chip resistors increased from 41.1% in 2017 to 53.6% in 2018, primarily due to the same reason mentioned above.
- *Others.* Gross margin of our other products decreased from 32.1% in 2017 to 29.1% in 2018.

*Selling and marketing expenses.* Our selling and marketing expenses increased by 344.2% from NT\$1,462.7 million in 2017 to NT\$6,496.6 million in 2018, which was in line with the increase in our sales volume and operating revenue. Our selling and marketing expenses as a percentage of operating revenue increased from 4.5% to 8.4% during the same period.

*General and administration expenses.* Our general and administration expenses increased by 209.6% from NT\$1,138.2 million in 2017 to NT\$3,523.3 million in 2018, and it as a percentage of operating revenue increased from 3.5% to 4.6% during the same period, primarily due to an increase in the professional service fees incurred by the acquisition of Pulse Electronics and BrightKing Holdings.

*Research and development expenses.* Our research and development expenses increased by 36% from NT\$303.9 million in 2017 to NT\$413.4 million in 2018, because we invested more resources in research and development projects after we acquired Pulse Electronics and BrightKing Holdings in 2018. Our research and development expenses as a percentage of operating revenue decreased from 1.0% to 0.5% during the same period.

*Expected credit loss.* In 2017, we did not record any expected credit loss because this item was recorded as selling and marketing expenses according to the old reporting standards. We recorded an expected credit loss of NT\$1,504.1 million in 2018, because of the reason mentioned above.

*Profit from operations.* As a result of the foregoing, our profit from operations increased by 386.1% from NT\$7,593.3 million in 2017 to NT\$36,907.9 million in 2018.

*Non-operating income.* Our non-operating income increased by 358.8% from NT\$982.7 million in 2017 to NT\$4,508.6 million in 2018, due to (i) an increase in our share of profit of associates from NT\$299.8 million in 2017 to NT\$635.5 million in 2018 because our associates' profits increased, (ii) an increase in our interest income from NT\$507.9 million in 2017 to NT\$1,091.5 million in 2018, (iii) an increase in our rental income from NT\$22.2 million in 2017 to NT\$41.7 million in 2018, (iv) an increase in our gain on financial instruments at fair value through profit or loss from NT\$152.8 million in 2017 to NT\$1,288.5 million in 2018 as a result of an increase in the stock price of a company that we invested in, and (v) other gains of NT\$1,451.4 million in 2018 as a result of an increase in foreign exchange gain as New Taiwan dollar appreciated.

*Non-operating expenses.* Our non-operating expenses increased by 101.8% from NT\$753.8 million in 2017 to NT\$1,521.2 million in 2018, due to (i) an increase in our finance costs from NT\$299.5 million in 2017 to NT\$547.0 million in 2018, (ii) an increase in our loss on financial instruments at fair value through profit or loss from NT\$412.2 million in 2017 to NT\$974.2 million in 2018 as a result of an increase in the stock price of a company that we invested in, and (iii) other losses of NT\$42.1 million in 2017.

*Profit before income tax.* As a result of the foregoing, our profit before income tax increased by 410.0% from NT\$7,822.2 million in 2017 to NT\$39,895.3 million in 2018.

*Net profit for the year.* Our net profit for the year increased by 406.5% from NT\$6,681.0 million in 2017 to NT\$33,840.1 million in 2018.

## **Liquidity and Capital Resources**

Our primary sources of liquidity have been through bank borrowings and cash generated from operating activities, which have historically been sufficient to meet our working capital and substantially all of our capital expenditure requirements. As of December 31, 2019, we had cash and cash equivalents of approximately NT\$16,153.3 million (US\$540.1 million), as compared to cash and cash equivalents of NT\$20,388.7 million as of December 31, 2018.

Historically, we raised capital from equity offerings and debt offerings. As of December 31, 2019, we had raised approximately NT\$4,290.5 million (US\$143.4 million) since our inception through equity offerings. In addition, we issued convertible notes in 2001, 2001, 2003 and 2007 for a total purchase price of US\$235 million, NT\$2,000 million, US\$150 million and US\$230 million, respectively.

As of December 31, 2017, we had short-term borrowings denominated in Renminbi, New Taiwan Dollar and U.S. Dollar from a number of commercial banks amounting to the equivalent of NT\$17,624.9 million. The interest rate was 1.51% per annum.

As of December 31, 2018, we had short-term borrowings denominated in Renminbi, New Taiwan Dollar, U.S. Dollar and Euro from a number of commercial banks amounting to the equivalent of NT\$23,668.0 million. The interest rate was 1.56% per annum.

As of December 31, 2019, we had short-term borrowings denominated in Renminbi, New Taiwan Dollar and Euro from a number of commercial banks amounting to the equivalent of NT\$18,640.8 million (US\$623.2 million). The interest rate was 1.30% per annum.

We believe that our existing cash and cash equivalents and anticipated cash flows from operating activities will be sufficient to meet our anticipated working capital requirements, including capital expenditures in the ordinary course of business for the next 12 months. We may, however, need additional cash resources in the future if we experience changes in business condition or other developments, or if we find and wish to pursue opportunities for investments, acquisitions, capital expenditures or similar actions. If we determine that our cash requirements exceed the amount of cash and cash equivalents we have on hand at the time, we may seek to issue equity or debt securities or obtain credit facilities. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Our ability to manage our working capital, including receivables and other assets and liabilities and accrued liabilities, may materially affect our financial condition and results of operations.

The following table sets forth a summary of our cash flows for the years presented:

|                                            | Year ended December 31, |            |            |         |
|--------------------------------------------|-------------------------|------------|------------|---------|
|                                            | 2017                    | 2018       | 2019       |         |
|                                            | NT\$                    | NT\$       | NT\$       | US\$    |
|                                            | (in millions)           |            |            |         |
| Summary Consolidated Cash Flow Data:       |                         |            |            |         |
| Net cash generated from/(used in)          |                         |            |            |         |
| operating activities                       | 8,027.3                 | 41,782.8   | 11,722.3   | 391.9   |
| Net cash generated from/(used in)          |                         |            |            |         |
| investing activities                       | (11,447.8)              | (27,524.5) | 3,721.9    | 124.4   |
| Net cash provided by/(used in)             |                         |            |            |         |
| financing activities                       | 2,251.0                 | 396.0      | (19,352.3) | (647.0) |
| Cash and cash equivalents at the beginning |                         |            |            |         |
| of the year                                | 7,619.5                 | 5,760.9    | 20,388.7   | 681.7   |
| Cash and cash equivalents at the end of    |                         |            |            |         |
| the year                                   | 5,760.9                 | 20,388.7   | 16,153.3   | 540.1   |

In 2019, net cash generated from operating activities was NT\$11,722.3 million (US\$391.9 million), consisting of income before income tax of NT\$9,023.1 million (US\$301.7 million), adjusted to add back depreciation expenses of NT\$2,719.1 million (US\$90.9 million), and adjusted to deduct expected credit gain recognized on trade receivables of NT\$989.3 million (US\$33.1 million) and interest income of NT\$1,142.2 million (US\$38.2 million). The amount was further adjusted by changes in itemized balances of operating assets and liabilities that have a negative effect on cash flow, including primarily (i) an decrease in other payables of NT\$4,624.3 million (US\$154.6 million) mainly due to a decrease in the payments payable to directors' and employees' compensation, salaries and bonuses, (ii) an decrease in accounts payable of NT\$4,237.1 million (US\$141.7 million) mainly due to a decrease in the procurement amount of raw materials as a result of the decreased demand and sales volume, and (iii) an increase in income tax paid of NT\$6,801.8 million (US\$227.4 million) as our income in 2018 was much higher and we paid income tax incurred for 2018 in 2019; as well as certain changes in itemized balances of operating assets and liabilities that have a positive effect on cash flow, including primarily (i) a decrease in accounts receivable of NT\$10,457.4 million (US\$349.6 million) due to the decreased sales volume, (ii) a decrease in inventories of NT\$4,112.4 million (US\$137.5 million) as we monitored our inventory level closely especially when the market demand was relatively lower, and (iii) and increase in interest received of NT\$1,160.7 million (US\$38.8 million).

In 2018, net cash generated from operating activities was NT\$41,782.8 million, consisting of income before income tax of NT\$39,895.3 million, adjusted to add back depreciation expenses of NT\$7,500.2 million and expected credit loss recognized on trade receivables of NT\$1,504.1 million, and adjusted to deduct interest income of NT\$1,091.5 million. The amount was further adjusted by

changes in itemized balances of operating assets and liabilities that have a negative effect on cash flow, including primarily (i) an increase in accounts receivable of NT\$6,544.3 million, which was in line with our increased sales volume, (ii) an increase in inventories of NT\$3,353.3 million as we adjusted our inventory level to satisfy the increased market demand, and (iii) an increase in income tax paid of NT\$2,161.0 million; as well as certain changes in itemized balances of operating assets and liabilities that have a positive effect on cash flow, including primarily (i) an increase in other payables of NT\$4,587.5 million mainly due to an increase in the payments payable to directors' and employees' compensation, salaries and bonuses and (ii) an increase in interest received of NT\$1,077.9 million.

In 2017, net cash generated from operating activities was NT\$8,027.3 million, consisting of income before income tax of NT\$7,822.2 million, adjusted to add back depreciation expenses of NT\$1,782.3 million, and adjusted to deduct interest income of NT\$507.9 million. The amount was partially further adjusted by changes in itemized balances of operating assets and liabilities that have a negative effect on cash flow, including primarily (i) an increase in accounts receivable of NT\$2,115.5 million, which was in line with our increased sales volume, and (ii) an increase in income tax paid of NT\$745.2 million; as well as certain changes in itemized balances of operating assets and liabilities that have a positive effect on cash flow, including primarily (i) an increase in accounts payables of NT\$1,298.5 million mainly due to an increase in the procurement amount of raw materials as a result of the increased demand and sales volume, and (ii) a decrease in other receivables of NT\$978.9 million.

### ***Investing activities***

Net cash generated from investing activities in 2019 was NT\$3,721.9 million (US\$124.4 million), which was primarily attributable to (i) proceeds from sale of financial assets at amortized cost of NT\$8,931.2 million (US\$298.6 million), and (ii) proceeds from sale of financial assets at fair value through other comprehensive income of NT\$2,031.1 million (US\$67.9 million); partially offset by (i) payments for property, plant and equipment of NT\$5,737.7 million (US\$191.8 million) as we expanded our production facilities, and (ii) purchase of financial assets at amortized cost of NT\$1,612.9 million (US\$53.9 million).

Net cash used in investing activities in 2018 was NT\$27,524.5 million, which was primarily attributable to (i) acquisition of subsidiaries of NT\$23,920.5 million as we acquired Pulse Electronics and BrightKing Holding, and (ii) payments for property, plant and equipment of NT\$9,074.9 million as we expanded our production facilities; partially offset by (i) proceeds from sale of financial assets at amortized cost of NT\$3,556.6 million, and (ii) proceeds from sale of financial assets at fair value through other comprehensive income of NT\$1,429.6 million.

Net cash used in investing activities in 2017 was NT\$11,447.8 million, which was primarily attributable to (i) purchase of held-to-maturity financial assets of NT\$7,243.3 million, (ii) payments for property, plant and equipment of NT\$4,949.8 million as we expanded our production facilities, (iii) purchase of debt investments with no active market of NT\$3,299.6 million, and (iv) purchase of held for trading financial assets of NT\$2,019.5 million; partially offset by (i) net cash inflow on disposal of subsidiaries of NT\$4,235.4 million as we disposed some subsidiaries in order to revitalize our assets to realize more investment benefits, and (ii) proceeds from sale of financial assets at fair value through profit or loss of NT\$1,873.2 million.

### ***Financing activities***

Net cash used in financing activities in 2019 was NT\$19,352.3 million (US\$647.0 million), which was attributable to (i) dividends paid to the owners of the Company of NT\$19,087.1 million (US\$638.2 million), (ii) repayments of long-term borrowings of NT\$7,500.0 million (US\$250.8 million), and (iii) repayments of short-term borrowings of NT\$5,027.0 million (US\$168.1 million); partially offset by (i) proceeds of long-term borrowings of NT\$12,513.6 million (US\$418.4 million) and (ii) proceeds from employee share options of NT\$141.0 million (US\$4.7 million).

Net cash provided by financing activities in 2018 was NT\$396.0 million, which was attributable to (i) proceeds of short-term borrowings of NT\$5,612.8 million and (ii) proceeds of long-term borrowings of NT\$3,500.0 million; partially offset by (i) dividends paid to the owners of the Company of NT\$5,262.7 million and (ii) payments for buyback of treasury shares of NT\$2,421.6 million.

Net cash provided by financing activities in 2017 was NT\$2,251.0 million, which was attributable to (i) proceeds of short-term borrowings of NT\$4,907.9 million and (ii) proceeds of long-term borrowings of NT\$4,100.0 million; partially offset by (i) repayments of long-term borrowings of NT\$2,200.0 million and (ii) payments for buyback of treasury shares of NT\$1,617.5 million.

### Capital Expenditures

We made capital expenditures of NT\$5,988 million, NT\$8,898 million and NT\$5,325 million (US\$175 million) in 2017, 2018 and 2019, respectively. In these years, our capital expenditures were used primarily for business expansion and maintenance. We will continue to make capital expenditures to meet the expected growth of our business.

### Commitments

We lease our offices and bandwidth under non-cancellable operating lease agreements. The following table set forth our future lease payment for non-cancellable operating leases as of December 31, 2019:

| Contractual obligations                 | Payments due by period |                     |               |           |                      |
|-----------------------------------------|------------------------|---------------------|---------------|-----------|----------------------|
|                                         | Total                  | Less than<br>1 year | 1-3 years     | 3-5 years | More than<br>5 years |
|                                         |                        |                     | (in millions) |           |                      |
| Purchase obligations . . . . .          | 970                    | 948                 | 20            | 2         | —                    |
| Operating lease obligations . . . . .   | 139                    | 75                  | 50            | 14        | —                    |
| Acquisition liability obligations . . . | 49,052                 | 49,052              | —             | —         | —                    |
| <b>Total . . . . .</b>                  | <u>50,161</u>          | <u>50,075</u>       | <u>70</u>     | <u>16</u> | <u>—</u>             |

### No Significant Interruptions

There has been no interruption in our business that has a material adverse effect on our financial position and results of operations in the 36 months period prior to the date of this Offering Circular.

### Unaudited Pro Forma Condensed Combined Financial Information

The following unaudited pro forma condensed combined balance sheet of the Company as of December 31, 2019 gives effect to the (i) the Equity Financing, (ii) the Debt Financing, and (iii) the KEMET Acquisition, each as more fully described below in Note 1, as if they each occurred as of December 31, 2019. The following unaudited pro forma condensed combined statements of income for the year ended December 31, 2019 similarly give effect to the Equity Financing, the Debt Financing and the KEMET Acquisition, as if they each occurred on January 1, 2019.

The unaudited pro forma condensed combined financial information has been derived from, and should be read in conjunction with, the Company's historical audited consolidated financial statements, including the notes thereto, included elsewhere in this Offering Circular, as well as KEMET's historical audited and interim unaudited consolidated financial statements, including the notes thereto. The financial statements of the Company for the year ended December 31, 2019 is included in the F-pages of this Offering Circular. The financial statements of KEMET for the year ended March 31, 2019 and for the nine months ended December 31, 2019 are included in KEMET's Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q filed with the SEC, respectively, and incorporated by reference herein. The historical financial information of KEMET for the year ended December 31, 2019 also was derived from KEMET's unaudited interim consolidated financial statements for the nine months ended December 31, 2018, which are not included or incorporated by reference herein. Note 2 describes the method of determining the statement of comprehensive income of KEMET for the year ended December 31, 2019.



The unaudited pro forma adjustments are based upon available information and certain assumptions that the Company's management believes are reasonable. The unaudited pro forma condensed combined financial information is presented for informational purposes only and is not necessarily indicative of the Company's financial position or results of operations that would have occurred had the events been consummated as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information is not necessarily indicative of the Company's future financial condition or operating results.

The KEMET Acquisition will be accounted for as a business combination using the acquisition method of accounting in accordance with International Financial Reporting Standards 3, Business Combinations, which will establish a new basis of accounting for all identifiable assets acquired and liabilities assumed at fair value as of the date control is obtained. Generally, acquisition-related costs are charged to expense as incurred. The fair value of KEMET's identifiable tangible and intangible assets acquired and liabilities assumed are based on a preliminary estimate of fair value as of December 31, 2019. Any excess of the purchase price over the estimated fair value of the net assets acquired will be recorded as goodwill. The establishment of the fair value of consideration for acquisitions and related allocation to acquired assets and liabilities requires the extensive use of significant estimates and management's judgment. Since the KEMET Acquisition has not been consummated, our access to information to make such estimates is limited and therefore, all tangible assets acquired and liabilities assumed have been reflected preliminarily in the accompanying pro forma condensed combined balance sheet at their respective book values assuming their approximation to their respective fair values and the excess of the estimated purchase price over the estimated fair value of the net assets acquired of NT\$49,052 million (US\$1,640 million) has been preliminarily allocated to goodwill in the accompanying pro forma condensed combined balance sheet. The acquisition method of accounting is dependent upon certain valuations and other studies that will become available upon the completion of KEMET Acquisition. Accordingly, the pro forma adjustments are preliminary, have been made solely for the purpose of preparing the unaudited pro forma condensed combined financial information and are subject to revision based on a final determination of fair value as of the date of acquisition. Differences between these preliminary estimates and the final acquisition accounting may have a material impact on the accompanying unaudited pro forma condensed combined financial information and the Company's future results of operations and financial position.

For pro forma purposes only, the purchase price allocation discussed above was the total amount include (i) Merger Consideration, US\$27.20 per share of KEMET's outstanding common stock in cash on acquisition date; (ii) the settlement of KEMET's options, KEMET's Restricted Stock Units ("RSUs") and KEMET's Long-Term Incentive Plan Awards ("LTIPs"). We assume the acquisition date would be December 31, 2019. The final value of the consideration to be transferred for accounting purposes will ultimately be based on the number of outstanding common stock and outstanding payment of KEMET's options, RSUs and LTIPs on closing date of the KEMET Acquisition. Accordingly, the purchase price and its related allocation to the underlying net assets of KEMET could change materially.



The consummation of the KEMET Acquisition remains subject to the satisfaction of customary closing conditions, including the receipt of regulatory approvals. See “Risks Relating to the KEMET Acquisition — Completion of the KEMET Acquisition is subject to conditions and if these conditions are not satisfied or waived, the KEMET Acquisition will not be completed.” Our independent public accounting firm, Deloitte & Touche, has not audited or reviewed pro forma condensed combined financial information and does not express an opinion or any other form of assurance for the benefit of the holders of GDSs with respect thereto.

**Yageo Corporation and KEMET Unaudited Pro Forma  
Condensed Combined Balance Sheet December 31, 2019**

|                                                                                     | Historical<br>Company<br>(NT\$) | Unaudited<br>Historical<br>KEMET<br>(NT\$) | Equity<br>Financing<br>and Debt<br>Financing<br>(NT\$) | KEMET<br>Acquisition<br>(NT\$) | Note Ref. | Total Pro<br>Forma<br>(NT\$) | Total Pro<br>Forma<br>(US\$) |
|-------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------|--------------------------------------------------------|--------------------------------|-----------|------------------------------|------------------------------|
| (in millions)                                                                       |                                 |                                            |                                                        |                                |           |                              |                              |
| <b>Assets:</b>                                                                      |                                 |                                            |                                                        |                                |           |                              |                              |
| <b>Current Assets:</b>                                                              |                                 |                                            |                                                        |                                |           |                              |                              |
| Cash and cash equivalents . . . . .                                                 | 16,153                          | 6,235                                      | 73,936                                                 | (49,052)                       | 5a, 5d    | 47,272                       | 1,580                        |
| Financial assets at fair value<br>through profit or loss – current                  | 373                             | —                                          | —                                                      | —                              |           | 373                          | 12                           |
| Financial assets at amortized cost<br>– current . . . . .                           | 4,073                           | —                                          | —                                                      | —                              |           | 4,073                        | 136                          |
| Notes receivable . . . . .                                                          | 160                             | —                                          | —                                                      | —                              |           | 160                          | 5                            |
| Accounts receivable, net . . . . .                                                  | 9,702                           | 4,248                                      | —                                                      | —                              |           | 13,950                       | 467                          |
| Other receivables . . . . .                                                         | 307                             | —                                          | —                                                      | —                              |           | 307                          | 10                           |
| Inventories, net . . . . .                                                          | 5,679                           | 7,382                                      | —                                                      | —                              |           | 13,061                       | 437                          |
| Prepaid expenses and other<br>current assets . . . . .                              | 700                             | 1,258                                      | —                                                      | —                              |           | 1,958                        | 66                           |
| <b>Total current assets . . . . .</b>                                               | <b>37,147</b>                   | <b>19,123</b>                              | <b>73,936</b>                                          | <b>(49,052)</b>                |           | <b>81,154</b>                | <b>2,713</b>                 |
| <b>Non-current assets:</b>                                                          |                                 |                                            |                                                        |                                |           |                              |                              |
| Financial assets at fair value<br>through profit or loss –<br>non-current . . . . . | 88                              | —                                          | —                                                      | —                              |           | 88                           | 3                            |
| Financial assets at amortized cost<br>– non-current . . . . .                       | 4,042                           | —                                          | —                                                      | —                              |           | 4,042                        | 135                          |
| Property, plant and equipment . .                                                   | 20,511                          | 17,683                                     | —                                                      | —                              |           | 38,194                       | 1,277                        |
| Goodwill . . . . .                                                                  | 21,378                          | 1,205                                      | —                                                      | 29,201                         | 5e        | 51,784                       | 1,731                        |
| Intangible assets, net . . . . .                                                    | 4,536                           | 1,718                                      | —                                                      | —                              |           | 6,254                        | 209                          |
| Equity method investments . . . .                                                   | 6,040                           | 498                                        | —                                                      | —                              |           | 6,538                        | 219                          |
| Deferred income taxes . . . . .                                                     | 2,156                           | 1,385                                      | —                                                      | —                              |           | 3,541                        | 118                          |
| Other assets . . . . .                                                              | 484                             | 572                                        | —                                                      | —                              |           | 1,056                        | 35                           |
| <b>Total assets . . . . .</b>                                                       | <b>96,382</b>                   | <b>42,184</b>                              | <b>73,936</b>                                          | <b>(19,851)</b>                |           | <b>192,651</b>               | <b>6,440</b>                 |

Yageo Corporation and KEMET Unaudited Pro Forma  
Condensed Combined Balance Sheet December 31, 2019

|                                                                         | Historical<br>Company<br>(NT\$) | Unaudited<br>Historical<br>KEMET<br>(NT\$) | Equity<br>Financing<br>and Debt<br>Financing<br>(NT\$) | KEMET<br>Acquisition<br>(NT\$) | Note Ref. | Total Pro<br>Forma<br>(NT\$) | Total Pro<br>Forma<br>(US\$) |
|-------------------------------------------------------------------------|---------------------------------|--------------------------------------------|--------------------------------------------------------|--------------------------------|-----------|------------------------------|------------------------------|
| (in millions)                                                           |                                 |                                            |                                                        |                                |           |                              |                              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                             |                                 |                                            |                                                        |                                |           |                              |                              |
| <b>Current liabilities:</b>                                             |                                 |                                            |                                                        |                                |           |                              |                              |
| Short-term borrowings . . . . .                                         | \$ 18,641                       | \$ —                                       | \$ —                                                   | \$ —                           |           | \$ 18,641                    | \$ 623                       |
| Shot-term bills payable . . . . .                                       | 300                             | —                                          | —                                                      | —                              |           | 300                          | 10                           |
| Financial liabilities at fair value<br>through profit or loss – current | 422                             | —                                          | —                                                      | —                              |           | 422                          | 14                           |
| Current portion of long-term debt                                       | —                               | 869                                        | —                                                      | —                              |           | 869                          | 29                           |
| Accounts payable . . . . .                                              | 6,064                           | 3,334                                      | —                                                      | —                              |           | 9,398                        | 314                          |
| Other payables . . . . .                                                | 7,081                           | 3,918                                      | —                                                      | 678                            | 5f        | 11,677                       | 390                          |
| Income tax payable . . . . .                                            | 1,827                           | 119                                        | —                                                      | —                              |           | 1,946                        | 65                           |
| Other current liabilities . . . . .                                     | 409                             | —                                          | —                                                      | —                              |           | 409                          | 14                           |
| <b>Total current liabilities . . . . .</b>                              | <b>34,744</b>                   | <b>8,240</b>                               | <b>—</b>                                               | <b>678</b>                     |           | <b>43,662</b>                | <b>1,459</b>                 |
| <b>Non-current liabilities:</b>                                         |                                 |                                            |                                                        |                                |           |                              |                              |
| Long-term debt . . . . .                                                | 14,014                          | 8,457                                      | 44,865                                                 | —                              | 5b        | 67,336                       | 2,251                        |
| Other non-current obligations . . .                                     | 1,117                           | 4,546                                      | —                                                      | —                              |           | 5,663                        | 189                          |
| Deferred income taxes . . . . .                                         | 260                             | 412                                        | —                                                      | —                              |           | 672                          | 22                           |
| <b>Total liabilities . . . . .</b>                                      | <b>50,135</b>                   | <b>21,655</b>                              | <b>44,865</b>                                          | <b>678</b>                     |           | <b>117,333</b>               | <b>3,921</b>                 |
| <b>Stockholders' equity:</b>                                            |                                 |                                            |                                                        |                                |           |                              |                              |
| Common stock . . . . .                                                  | 4,303                           | 17                                         | 918                                                    | (17)                           | 5c, 5g    | 5,221                        | 175                          |
| Capital surplus . . . . .                                               | 5,394                           | 14,107                                     | 28,219                                                 | (14,107)                       | 5c, 5g    | 33,613                       | 1,124                        |
| Retained earnings . . . . .                                             | 41,480                          | 6,747                                      | (66)                                                   | (6,747)                        | 5c, 5g    | 41,414                       | 1,385                        |
| Accumulated other<br>comprehensive income (loss) . .                    | (2,508)                         | (342)                                      | —                                                      | 342                            | 5g        | (2,508)                      | (84)                         |
| Treasury shares . . . . .                                               | (2,422)                         | —                                          | —                                                      | —                              |           | (2,422)                      | (81)                         |
| <b>Total stockholders' equity . . . . .</b>                             | <b>46,247</b>                   | <b>20,529</b>                              | <b>29,071</b>                                          | <b>(20,529)</b>                |           | <b>75,318</b>                | <b>2,519</b>                 |
| <b>Total liabilities and stockholders'<br/>equity . . . . .</b>         | <b>96,382</b>                   | <b>42,184</b>                              | <b>73,936</b>                                          | <b>(19,851)</b>                |           | <b>192,651</b>               | <b>6,440</b>                 |

| Historical Company (NT\$) | Unaudited Historical KEMET (NT\$) | Equity Financing and Debt Financing (NT\$) | Note Refer (NT\$) | Total Pro Forma (NT\$) | Total Pro Forma (US\$) |
|---------------------------|-----------------------------------|--------------------------------------------|-------------------|------------------------|------------------------|
| (in millions)             |                                   |                                            |                   |                        |                        |
| \$ 41,307                 | \$ 39,577                         | \$ —                                       |                   | \$ 80,884              | \$ 2,704               |
| 26,526                    | 25,902                            | —                                          |                   | 52,428                 | 1,753                  |
| 14,781                    | 13,675                            | —                                          |                   | 28,456                 | 951                    |
| 6,964                     | 6,057                             | —                                          |                   | 13,021                 | 435                    |
| 775                       | 1,451                             | —                                          |                   | 2,226                  | 75                     |
| (989)                     | —                                 | —                                          |                   | (989)                  | (33)                   |
| —                         | 392                               | —                                          |                   | 392                    | 13                     |
| —                         | 66                                | —                                          |                   | 66                     | 2                      |
| 6,750                     | 7,966                             | —                                          |                   | 14,716                 | 492                    |
| 8,031                     | 5,709                             | —                                          |                   | 13,740                 | 459                    |
| 1,142                     | 96                                | —                                          |                   | 1,238                  | 42                     |
| (525)                     | (359)                             | (1,081)                                    | 6                 | (1,965)                | (66)                   |
| —                         | (2,001)                           | —                                          |                   | (2,001)                | (67)                   |
| 154                       | (83)                              | —                                          |                   | 71                     | 2                      |
| (704)                     | —                                 | —                                          |                   | (704)                  | (23)                   |
| 925                       | (114)                             | —                                          |                   | 811                    | 27                     |
| 9,023                     | 3,248                             | (1,081)                                    |                   | 11,190                 | 374                    |
| (1,971)                   | 643                               | —                                          |                   | (1,328)                | (44)                   |
| 7,052                     | 3,891                             | (1,081)                                    |                   | 9,862                  | 330                    |

| Historical Company<br>(NT\$) | Unaudited Historical KEMET<br>(NT\$) | Equity Financing and Debt Financing<br>(NT\$) | Note Refer<br>(NT\$) | Total Pro Forma<br>(NT\$) | Total Pro Forma<br>(US\$) |
|------------------------------|--------------------------------------|-----------------------------------------------|----------------------|---------------------------|---------------------------|
|------------------------------|--------------------------------------|-----------------------------------------------|----------------------|---------------------------|---------------------------|

|                                                                                                                 |              |              |                |              |            |
|-----------------------------------------------------------------------------------------------------------------|--------------|--------------|----------------|--------------|------------|
| Unrealized loss on investments in equity instruments at fair value through other comprehensive income . . . . . | \$ (193)     | \$ —         | \$ —           | \$ (193)     | \$ (6)     |
| Defined benefit pension plans . . . . .                                                                         | (47)         | 60           | —              | 13           | 1          |
| Share of the other comprehensive (loss) income of associates accounted for using the equity method . . . . .    | (153)        | —            | —              | (153)        | (5)        |
| Income tax relating to items that will not be reclassified subsequently to profit or loss . . . .               | 9            | —            | —              | 9            | —          |
| Items that may be reclassified subsequently to profit or loss:                                                  |              |              |                |              |            |
| Exchange differences on translating the financial statements of foreign operations . . . . .                    | (861)        | 532          | —              | (329)        | (11)       |
| Share of the other comprehensive loss of associates accounted for using the equity method . . . . .             | (76)         | —            | —              | (76)         | (3)        |
| Cash flow hedges . . . . .                                                                                      | —            | (123)        | —              | (123)        | (4)        |
| Excluded component of fair value hedges . . . . .                                                               | —            | 27           | —              | 27           | 1          |
| Income tax relating to items that may be reclassified subsequently to profit or loss . . . . .                  | 185          | —            | —              | 185          | 6          |
| Other comprehensive income (loss) .                                                                             | (1,136)      | 496          | —              | (640)        | (21)       |
| <b>Total comprehensive income . . . . .</b>                                                                     | <b>5,916</b> | <b>4,387</b> | <b>(1,081)</b> | <b>9,222</b> | <b>309</b> |

will ultimately be based on the outstanding circumstance of common stock and stock compensation awards on the closing date of the acquisition, and could change materially.

The Cash Consideration is expected to be funded with approximately NT\$44,799 million (US\$1,498 million) of net proceeds raised in the Debt Financing and approximately NT\$4,253 million (US\$142 million) of the Company's available cash on hand. The mix of funding between cash on hand and debt financing could change based on the amount of cash on hand at the date of acquisition. The Company also will assume KEMET's indebtedness.

### ***The Equity Financing***

The Company is giving effect to the issuance of approximately 70 million Global Depositary Shares. The net proceeds raised in connection with the Equity Financing was approximately NT\$29,137 million (US\$974 million), based on the closing market price of the Company's common stock in effect as of March 2, 2020 (which was the trading day at the public announcement of offering the GDSs).

### ***The Debt Financing***

In addition to the net proceeds raised in connection with the Equity Financing, the Company expects to fund a substantial portion of the Cash Consideration and related transactions costs with proceeds raised in which is comprised of the Bridge Facilities and the Company's existing long-term loan as described below:

### ***The Bridge Facilities***

The Company has secured commitments for a bridge financing facility that provides for borrowings of up to US\$1,100 million of availability (the "**Bridge Facility**"). Borrowings under the Bridge Facility bear interest at the rate of LIBOR plus 0.6 percentage, assumed the interest rate of 2.6%. In addition, in order to secure commitments under the Bridge Facility, the Company agreed to pay certain one-time, upfront fees aggregating approximately NT\$24 million (US\$0.8 million). The bridge financing facility is intended to be used for purposes of financing the consummation of the KEMET Acquisition and paying fees and expenses incurred in connection with the KEMET Acquisition. For pro forma purposes, the recognition of these fees has no continuing impact on the combined entity. As such, the costs and associated tax benefits have not been reflected in the accompanying unaudited pro forma condensed combined statement of comprehensive income.

### ***The Existing Long-Term Loan Agreement***

The Company has existing secured long-term loan agreements with financial institutions and the Company expects to use the undrawn available credit lines to fund a portion of the Cash Consideration to be paid in connection with the KEMET Acquisition, as well as to pay related fees and transaction costs. Under the secured long-term borrowings, the average interest rate is 1.9%.

**Note 2 — Basis of Pro Forma Presentation**

The Company's pro forma condensed combined statement of comprehensive income for the year ended December 31, 2019 includes KEMET's annual operating results for its fiscal year ended March 31, 2019. However, in order for the interim period pro forma results to be comparable to the Company's, the KEMET's financial information for the year ended December 31, 2019 was determined as follows:

**KEMET Unaudited Historical Consolidated Statement of Income For the Year Ended December 31, 2019**

|                                                                                                | Amounts in US\$ millions |                                           |                                                 |                                          |                           |                                                                |
|------------------------------------------------------------------------------------------------|--------------------------|-------------------------------------------|-------------------------------------------------|------------------------------------------|---------------------------|----------------------------------------------------------------|
|                                                                                                | Year<br>Ended<br>3/31/19 | Less: Nine<br>Months<br>Ended<br>12/31/18 | Subtotal<br>Three<br>Months<br>Ended<br>3/31/19 | Add: Nine<br>Months<br>Ended<br>12/31/19 | Year<br>Ended<br>12/31/19 | Year<br>Ended<br>12/31/19<br>(in NT\$<br>millions)<br>(Note 7) |
| <b>Net sales</b> . . . . .                                                                     | 1,382.8                  | 1,027.0                                   | 355.8                                           | 967.4                                    | 1,323.2                   | 39,576                                                         |
| <b>Operating costs and expenses:</b>                                                           |                          |                                           |                                                 |                                          |                           |                                                                |
| Cost of sales . . . . .                                                                        | 924.3                    | 694.9                                     | 229.4                                           | 638.9                                    | 868.3                     | 25,971                                                         |
| Selling, general and<br>administrative expenses . . . . .                                      | 202.6                    | 149.1                                     | 53.5                                            | 147.2                                    | 200.7                     | 6,003                                                          |
| Research and development . . . . .                                                             | 44.6                     | 33.0                                      | 11.6                                            | 37.1                                     | 48.7                      | 1,457                                                          |
| Restructuring charges . . . . .                                                                | 8.8                      | 1.6                                       | 7.2                                             | 5.9                                      | 13.1                      | 392                                                            |
| (Gain) loss on write down and<br>disposal of long-lived assets . . .                           | 1.7                      | 1.6                                       | 0.1                                             | 2.1                                      | 2.2                       | 66                                                             |
| <b>Total operating costs and<br/>expenses</b> . . . . .                                        | <u>1,182.0</u>           | <u>880.2</u>                              | <u>301.8</u>                                    | <u>831.2</u>                             | <u>1,133.0</u>            | <u>33,888</u>                                                  |
| <b>Operating income</b> . . . . .                                                              | <u>200.8</u>             | <u>146.8</u>                              | <u>54.0</u>                                     | <u>136.2</u>                             | <u>190.2</u>              | <u>5,688</u>                                                   |
| Non-operating (income) expense .                                                               |                          |                                           |                                                 |                                          |                           |                                                                |
| Interest income . . . . .                                                                      | (2.0)                    | (1.3)                                     | (0.7)                                           | (2.5)                                    | (3.2)                     | (96)                                                           |
| Interest expense . . . . .                                                                     | 21.2                     | 18.8                                      | 2.4                                             | 8.1                                      | 10.5                      | 314                                                            |
| Antitrust class action settlements<br>and regulatory costs . . . . .                           | 6.7                      | 4.5                                       | 2.2                                             | 64.7                                     | 66.9                      | 2,001                                                          |
| Other (income) expense, net . . . .                                                            | <u>4.5</u>               | <u>2.1</u>                                | <u>2.4</u>                                      | <u>0.5</u>                               | <u>2.9</u>                | <u>87</u>                                                      |
| Income before income taxes and<br>equity income (loss) from<br>equity method investments . . . | <u>170.4</u>             | <u>122.7</u>                              | <u>47.7</u>                                     | <u>65.4</u>                              | <u>113.1</u>              | <u>3,382</u>                                                   |
| Income tax expense (benefit) . . .                                                             | <u>(39.5)</u>            | <u>9.2</u>                                | <u>(48.7)</u>                                   | <u>23.9</u>                              | <u>(24.8)</u>             | <u>(742)</u>                                                   |
| Income before equity income<br>(loss) from equity method<br>investments . . . . .              | <u>209.9</u>             | <u>113.5</u>                              | <u>96.4</u>                                     | <u>41.5</u>                              | <u>137.9</u>              | <u>4,124</u>                                                   |
| Equity income (loss) from equity<br>method investments . . . . .                               | <u>(3.3)</u>             | <u>(0.3)</u>                              | <u>(3.0)</u>                                    | <u>0.2</u>                               | <u>(2.8)</u>              | <u>(84)</u>                                                    |
| <b>Net income</b> . . . . .                                                                    | <u><u>206.6</u></u>      | <u><u>113.2</u></u>                       | <u><u>93.4</u></u>                              | <u><u>41.7</u></u>                       | <u><u>135.1</u></u>       | <u><u>4,040</u></u>                                            |



### ***Note 3 — Conforming Accounting Policies***

The Yageo Corporation's consolidated financial statements have been prepared in accordance with T-IFRSs and KEMET's consolidated financial statements have been prepared in accordance with U.S. GAAP. KEMET's management conducted a review of KEMET's accounting policies in an effort to determine if differences in accounting policies require adjustment of KEMET's results of operations or reclassification of assets or liabilities to conform to the Company's accounting policies and classifications. As a result of that review, KEMET's management identified differences between the accounting policies of the two companies, and KEMET management then prepared the converted consolidated balance sheet as of December 31, 2019 and consolidated statement of operations and consolidated statement of comprehensive income for the year ended December 31, 2019 converted from U.S. GAAP to IFRSs ("**Converted Financial Information**"). Refer to Note 4 for the financial information adjustments. The Company also conducted a review of differences between IFRSs and T-IFRSs for the Converted Financial Information. During the preparation of these unaudited pro forma condensed combined financial information, the Company was not aware of any material differences between IFRSs and T-IFRSs and accordingly, these unaudited pro forma condensed combined financial information do not assume any material differences between IFRSs and T-IFRSs.

### ***Note 4 — Adjustments***

Certain balances from the consolidated financial statements of KEMET were adjusted to conform their presentation to that of the Company's basis of presentation as indicated in the tables below (in millions).

**KEMET****Converted Condensed Consolidated Balance Sheet**

| As at December 31, 2019                                                     |         |                                         |         |        |        |
|-----------------------------------------------------------------------------|---------|-----------------------------------------|---------|--------|--------|
| US\$                                                                        |         |                                         | NT\$    |        |        |
| U.S. GAAP                                                                   | Note    | Adjustments<br>and<br>reclassifications | IFRS    | IFRS   |        |
| (Amounts in millions)<br>(Unaudited)                                        |         |                                         |         |        |        |
| <b>ASSETS</b>                                                               |         |                                         |         |        |        |
| Current assets:                                                             |         |                                         |         |        |        |
| Cash and cash equivalents . . . . .                                         | 208.5   | —                                       | 208.5   | 6,235  |        |
| Accounts receivable, net . . . . .                                          | 142.0   | —                                       | 142.0   | 4,248  |        |
| Inventories, net . . . . .                                                  | 263.1   | a                                       | (16.3)  | 246.8  | 7,382  |
| Prepaid expenses and other current assets . .                               | 42.0    | —                                       | 42.0    | 1,258  |        |
| Total current assets . . . . .                                              | 655.6   | (16.3)                                  | 639.3   | 19,123 |        |
| Non-current assets:                                                         |         |                                         |         |        |        |
| Property, plant and equipment, net of<br>accumulated depreciation . . . . . | 548.6   | a, c & d                                | 42.7    | 591.3  | 17,683 |
| Goodwill . . . . .                                                          | 40.3    | —                                       | 40.3    | 1,205  |        |
| Intangible assets, net . . . . .                                            | 55.1    | d                                       | 2.3     | 57.4   | 1,718  |
| Equity method investments . . . . .                                         | 16.6    | —                                       | 16.6    | 498    |        |
| Deferred income taxes . . . . .                                             | 47.9    | b                                       | (1.5)   | 46.4   | 1,385  |
| Other assets . . . . .                                                      | 48.2    | c                                       | (29.1)  | 19.1   | 572    |
| Total assets . . . . .                                                      | 1,412.3 | (1.9)                                   | 1,410.4 | 42,184 |        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                 |         |                                         |         |        |        |
| Current liabilities:                                                        |         |                                         |         |        |        |
| Current portion of long-term debt . . . . .                                 | 29.0    | —                                       | 29.0    | 869    |        |
| Accounts payable . . . . .                                                  | 111.5   | —                                       | 111.5   | 3,334  |        |
| Accrued expenses . . . . .                                                  | 131.0   | —                                       | 131.0   | 3,918  |        |
| Income taxes payable . . . . .                                              | 4.0     | —                                       | 4.0     | 119    |        |
| Total current liabilities . . . . .                                         | 275.5   | —                                       | 275.5   | 8,240  |        |
| Non-current liabilities:                                                    |         |                                         |         |        |        |
| Long-term debt . . . . .                                                    | 282.7   | —                                       | 282.7   | 8,457  |        |
| Other non-current obligations . . . . .                                     | 153.0   | e                                       | (1.0)   | 152.0  | 4,546  |
| Deferred income taxes . . . . .                                             | 13.8    | b                                       | —       | 13.8   | 412    |
| Total liabilities . . . . .                                                 | 725.0   | (1.0)                                   | 724.0   | 21,655 |        |
| Stockholders' equity:                                                       |         |                                         |         |        |        |
| Preferred stock . . . . .                                                   | —       | —                                       | —       | —      |        |
| Common stock . . . . .                                                      | 0.6     | —                                       | 0.6     | 17     |        |
| Additional paid-in capital . . . . .                                        | 471.6   | —                                       | 471.6   | 14,107 |        |
| Retained earnings . . . . .                                                 | 240.1   | b, c & e                                | (14.5)  | 225.6  | 6,747  |
| Accumulated other comprehensive income<br>(loss) . . . . .                  | (25.0)  | b & e                                   | 13.6    | (11.4) | (342)  |
| Total stockholders' equity . . . . .                                        | 687.3   | (0.9)                                   | 686.4   | 20,529 |        |
| Total liabilities and stockholders' equity . . .                            | 1,412.3 | (1.9)                                   | 1,410.4 | 42,184 |        |

**KEMET**
**Converted Condensed Consolidated Statement of Comprehensive Income**

| Year Ended December 31, 2019                                                                       |       |                                         |         |        |  |
|----------------------------------------------------------------------------------------------------|-------|-----------------------------------------|---------|--------|--|
| US\$                                                                                               |       |                                         | NT\$    |        |  |
| U.S. GAAP                                                                                          | Note  | Adjustments<br>and<br>reclassifications | IFRS    | IFRS   |  |
| (Amounts in millions)<br>(Unaudited)                                                               |       |                                         |         |        |  |
| Net sales . . . . .                                                                                |       | —                                       | 1,323.2 | 39,577 |  |
| Operating costs and expenses:                                                                      |       |                                         |         |        |  |
| Cost of sales . . . . .                                                                            | c     | (2.3)                                   | 866.0   | 25,902 |  |
| Selling, general and administrative expenses                                                       | c     | 1.8                                     | 202.5   | 6,057  |  |
| Research and development . . . . .                                                                 | c     | (0.2)                                   | 48.5    | 1,451  |  |
| Restructuring charges . . . . .                                                                    |       | —                                       | 13.1    | 392    |  |
| (Gain) loss on write down and disposal of<br>long-lived assets . . . . .                           |       |                                         | 2.2     | 66     |  |
| Total operating costs and expenses . . . . .                                                       |       | (0.7)                                   | 1,132.3 | 33,868 |  |
| Operating income . . . . .                                                                         |       | 0.7                                     | 190.9   | 5,709  |  |
| Non-operating (income) expense                                                                     |       |                                         |         |        |  |
| Interest income . . . . .                                                                          |       | —                                       | (3.2)   | (96)   |  |
| Interest expense . . . . .                                                                         | c     | 1.5                                     | 12.0    | 359    |  |
| Antitrust class action settlements and<br>regulatory costs . . . . .                               |       |                                         | 66.9    | 2,001  |  |
| Other (income) expense, net . . . . .                                                              | e     | 0.9                                     | 3.8     | 114    |  |
| Income before income taxes and equity<br>income (loss) from equity method<br>investments . . . . . |       | (1.7)                                   | 111.4   | 3,331  |  |
| Income tax (benefit) expense . . . . .                                                             | b     | 3.3                                     | (21.5)  | (643)  |  |
| Income before equity income (loss) from<br>equity method investments . . . . .                     |       | (5.0)                                   | 132.9   | 3,974  |  |
| Equity income (loss) from equity method<br>investments . . . . .                                   |       | —                                       | (2.8)   | (83)   |  |
| Net income . . . . .                                                                               |       | (5.0)                                   | 130.1   | 3,891  |  |
| Other comprehensive income (loss),<br>net of tax:                                                  |       |                                         |         |        |  |
| Foreign currency translation gains (losses)                                                        |       | —                                       | 17.8    | 532    |  |
| Defined benefit pension plans . . . . .                                                            | b & e | 2.9                                     | 2.0     | 60     |  |
| Equity interest in investee's other<br>comprehensive income (loss) . . . . .                       |       | —                                       | —       | —      |  |
| Cash flow hedges . . . . .                                                                         |       | —                                       | (4.1)   | (123)  |  |
| Excluded component of fair value hedges .                                                          |       | —                                       | 0.9     | 27     |  |
| Other comprehensive income (loss) . . . . .                                                        |       | 2.9                                     | 16.6    | 496    |  |
| Total comprehensive income . . . . .                                                               |       | (2.1)                                   | 146.7   | 4,387  |  |

The IFRS conversion adjustments included in the unaudited converted condensed balance sheet as of December 31, 2019 and the unaudited converted condensed statement of comprehensive income for the year ended December 31, 2019 are as follows:

**(a) Inventory**

Under U.S. GAAP, there is no specific guidance regarding the classification of major spare parts as inventories. KEMET's tool crib inventory includes regular tool crib inventory (spare machine parts, supplies for workers, and supplies for the plant) carried at average cost, as well as some items designated as no value, which are expensed at the time of purchase directly to the department that intends to use it.

Under IFRS, spare parts such as tool crib inventory specific to spare machine parts should be recorded as PP&E and depreciated if they meet the definition of PP&E under IAS 16.6. As KEMET's spare parts meet this definition, they have been reclassified as PP&E as of December 31, 2019, resulting in an increase to Property, plant and equipment, net of accumulated depreciation of US\$16.3 million (net of US\$5.5 million accumulated depreciation) and a decrease to Inventories, net of US\$16.3 million (net of US\$5.5 million reserve).

**(b) Taxes**

US GAAP prohibits the recognition of deferred taxes for temporary differences related to historical exchange rates over non-monetary assets and liabilities that are remeasured from the local currency to the functional currency. Under IFRS, KEMET is required to recognize deferred taxes for any temporary differences related to fluctuations in current and historical exchange rates. As a result, deferred tax assets and retained earnings have decreased by US\$2.8 million as of December 31, 2019.

Under US GAAP a deferred tax asset is recognized for the amount of future tax benefit corresponding to cumulative stock-based compensation expense over unvested or outstanding shares. Once vested or exercised, if the actual tax deduction exceeds the cumulative compensation expense, the excess benefit (known as a windfall tax benefit) is credited to the Consolidated Statement of Operations. Under IFRS, the same windfall tax benefit is recognized directly in equity over the vesting period, as opposed to the once vested or exercised. At December 31, 2019, share-based compensation deferred tax assets were remeasured using the intrinsic value as of the reporting date, representing a value equal to the estimated future deduction. As a result, deferred tax assets and retained earnings have increased by US\$1.5 million as of December 31, 2019. In addition, for vested restricted stock units \$1.6 million income tax benefit was removed from the line item Income tax (benefit) expense from the Consolidated Statement of Operations.

Under U.S. GAAP the tax effects of pension-related valuation allowances credited or charged directly to equity during the current year are required to be allocated directly to equity. However, U.S. GAAP requires subsequent changes in a valuation allowance related to a change in judgment about the realizability of deferred tax assets in future periods to be recognized in the current year's Consolidated Statement of Operations even if the valuation allowance was initially recorded in equity. Under IFRS tax effects of items credited or charged to Other Comprehensive Income (OCI) during the current year are required to be allocated directly to equity. IFRS also requires subsequent changes in deferred tax items that were recognized in equity to continue to be recognized in equity. This concept is known as backwards tracing and is generally prohibited under U.S. GAAP. As a result, US\$2.6 million of benefit was reclassified from the Consolidated Statement of Operations to Other Comprehensive Income for the December 31, 2019.

Additionally, KEMET decreased the deferred tax asset by US\$0.2 million of which US\$0.3 million decrease related to the tax effects of the pension actuarial revaluation and this was offset by a US\$0.1 million increase for lease IFRS adjustments (see notes (c) and (e) for further detail).

### (c) Leases

Certain reclassifications have been made to the Converted Condensed Consolidated Balance Sheet. Such reclassifications affect the presentation of certain items in the Consolidated Balance Sheet, and have little to no impact on net income or equity:

Under the U.S. GAAP, at lease commencement, a lessee classifies a lease as a finance lease or an operating lease (unless the short-term lease recognition exemption is elected).

Under IFRS, lessees do not classify leases and all leases are treated under a single model (unless the short-term lease or lease of low-value asset recognition exemption is elected).

KEMET's lease portfolio balance was primarily operating leases under U.S. GAAP. This population of operating leases has been reclassified within the balance sheet. Operating leases of US\$29.1 million have been reclassified from Other assets to Property, plant and equipment, net of accumulated depreciation in the amount of US\$28.7 million (net of accumulated depreciation of (US\$6.5 million)). The difference in the front loaded expense resulted in a total US\$0.8 million decline in the line item Income before income taxes and equity income (loss) from equity method investments within the Consolidated Statement of Comprehensive Income.

### (d) Intangibles

Under the U.S. GAAP, KEMET has recognized purchased computer software within the line item Property, plant & equipment, net of accumulated depreciation. In accordance with IFRS, purchased computer software is accounted for as an intangible asset unless the software is an integral part of the related hardware. Under IFRS, internal-use software is only accounted for as PP&E when machines cannot operate without it. KEMET's internal-use software can operate on their own, and therefore the US\$2.3 million costs of computer software have been reclassified to the line item Intangible assets, net resulting in a US\$2.3 million decrease in the line item Property, plant and equipment, net of accumulated depreciation and increase to the line item Intangible assets, net.

### (e) Retirement Benefit Plans

In accordance with U.S. GAAP, the plan obligations of KEMET have been discounted to present value based on expected future cash flows. The discount rate selected is based on the appropriate AA rated bond index with relevant duration adjustment. The objective of the duration adjustment is to select assumed discount rates using a method that is consistent with the manner in which KEMET expects to settle the benefit payments. Under IFRS the use of this approach in selecting a discount rate is prohibited. KEMET is required to revalue its pension obligations using actuarial assumptions that are unbiased. In addition, routine lump sum payments to plan participants are not considered settlements in accordance with IFRS, so prior settlements (in various countries) were treated as regular benefit payments. As a result of the changes above, as of December 31, 2019, the net defined benefit liability has decreased by US\$1.0 million, plan interest, service and other costs have increased by US\$0.9 million, Other Comprehensive Income have increased US\$0.3 million and retained earnings have increased US\$1.6 million.

Under U.S. GAAP, actuarial gains and losses recorded in Accumulated Other Comprehensive Income (AOCI) are recognized (recycled) in net income in subsequent reporting periods. Under this deferral approach, the minimum amount of actuarial gains and losses to be recognized in net periodic benefit cost is calculated as the amount of the net gain or loss that exceeds 10% of the greater of the benefit obligation or the market-related value of plan assets (known as the **corridor approach**) measured at the beginning of the year. Under IFRS, the corridor approach is prohibited and re-measurement gains and losses are immediately recognized in OCI without subsequent recognition (recycling) to net income. As a result, US\$13.5 million of AOCI losses related to pensions have been reclassified to retained earnings.

***Note 5 Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet as of December 31, 2019***

This note should be read in conjunction with Note 1 Description of The Transactions, Note 2 Basis of Pro Forma Presentation, Note 3 Conforming Accounting Policies, and Note 4 Adjustments. Adjustments included in the columns Equity Financing and Debt Financing and KEMET Acquisition to the accompanying unaudited pro forma condensed combined balance sheet as at December 31, 2019 are represented, in part, by the following considerations arising out of the allocation of the purchase price to KEMET's assets and liabilities (in millions, except per share amounts):

|                                                                                                 | Consideration     |                |
|-------------------------------------------------------------------------------------------------|-------------------|----------------|
|                                                                                                 | NT\$              | US\$           |
| Number of outstanding shares (in thousands) of KEMET common stock as of December 31, 2019 ..... | 58,267            | 58,267         |
| Purchase price consideration per share .....                                                    | NT\$813.55        | US\$27.20      |
| Subtotal .....                                                                                  | NT\$47,407        | US\$1,585      |
| Consideration issued to settle outstanding stock compensation awards .....                      | 1,645             | 55             |
| Total estimated purchase price consideration .....                                              | NT\$49,052        | US\$1,640      |
| Total consideration transferred .....                                                           | NT\$49,052        | US\$1,640      |
| <b>Recognized amounts of identifiable assets acquired and liabilities assumed</b>               |                   |                |
| Net book value of assets acquired .....                                                         | NT\$19,851        | US\$664        |
| <b>Total Goodwill</b> .....                                                                     | <b>NT\$29,201</b> | <b>US\$976</b> |

The pro forma purchase price allocation presented above has been developed based on preliminary estimates of fair value using the historical financial statements and information of KEMET as of December 31, 2019. In addition, the allocation of the purchase price to the identifiable assets to be acquired and liabilities to be assumed is based on a preliminary estimate of the value of the net assets to be acquired in order to prepare the unaudited pro forma condensed combined financial information.

The final allocation of the purchase price will be determined at a later date and is dependent on a number of factors, including the final valuation of the tangible and identifiable intangible assets acquired and liabilities assumed as of the closing date of the KEMET Acquisition. As such, the purchase price allocation will change upon the receipt of additional and more detailed information, and such changes could result in a material change to the unaudited pro forma condensed combined financial information.

***Equity Financing and Debt Financing***

- (a) The net cash increase to the unaudited pro forma condensed combined balance sheet in the amount of NT\$73,936 million (US\$2,472 million) as of December 31, 2019 relating to:
- an increase in cash and cash equivalents of NT\$29,137 million (US\$974 million) to reflect the proceeds raised from the GDSs, net of NT\$158 million (US\$5 million) of issuance costs; and
  - an increase in cash and cash equivalents of NT\$44,799 million (US\$1,498 million) to reflect the net proceeds expected to be raised from the Bridge Facilities and the Company's existing long-term loan agreement, net of NT\$66 million (US\$2.21 million) of borrowing costs.



- (b) A net increase in long-term debt of NT\$44,865 million (US\$1,500 million) representing of borrowings from financial institution in respect of a senior secured bridge loan facility and from the Company's existing credit lines of long-term loan used to fund a portion of the Cash Consideration.
- (c) A net increase in shareholders' equity of NT\$29,071 million (US\$971.94 million) consisting of:
  - an increase in shareholders' equity relating to the par value of depositary shares representing interests in shares of common stock of NT\$918 million (US\$30.69 million), based on the shares issued and the related par values per share of NT\$10;
  - an increase in shareholders' equity relating to the aggregate capital to be raised in excess of par value of NT\$28,219 million (US\$943.46 million), net of approximately NT\$158 million (US\$5 million) of transaction costs incurred in the Common Stock Offering; and
  - a decrease in shareholders' equity relating to a NT\$66 million (US\$2.21 million) decrease in retained earnings relating to expensing NT\$66 million (US\$2.21 million) of fees paid to enter into the Bridge Facility.

#### ***The KEMET Acquisition***

- (d) A decrease in cash and cash equivalents of NT\$49,052 million (US\$1,640 million), representing the payment by the Company of the Cash Consideration as part of the exchange for the outstanding shares of KEMET common stock as of December 31, 2019.
- (e) A net increase in goodwill of NT\$29,201 million (US\$976 million) consisting of:
  - a decrease relating to the write off of KEMET's historical goodwill of approximately NT\$1,205 million (US\$40 million); and
  - an increase representing the excess of the purchase price over the fair value of KEMET's net assets of NT\$30,406 million (US\$1,016 million).
- (f) A net decrease in other payables of NT\$678 million (US\$22.67 million) which KEMET should pay related to:
  - i. an increase of NT\$5 million (US\$0.17 million) due to the recognition the settlement charge for the original shareholders who voted against the KEMET Acquisition;
  - ii. an increase of NT\$667 million (US\$22.30 million) in acquisition-related transaction costs; and
  - iii. an increase of NT\$6 million (US\$0.20 million) relating to the recognition of stock compensation expenses for the senior executives of KEMET.

(g) A net decrease in shareholders' equity of NT\$20,529 million (US\$686.4 million) consisting of:

- a net decrease of NT\$17 million (US\$0.6 million) in eliminating the historical par value equity accounts of KEMET as of December 31, 2019.
- a net decrease of NT\$14,107 million (US\$471.65 million) in capital in excess of par value related to eliminate the historical equity accounts of KEMET as of December 31, 2019.
- a net decrease of NT\$6,747 million (US\$225.58 million) in retained earnings related to (i) a NT\$6,069 million (US\$202.91 million) decrease to eliminate the retained earnings of KEMET as of December 31, 2019, (ii) a NT\$667 million (US\$22.30 million) decrease to reflect the after-tax effect of acquisition-related transaction costs using an effective statutory tax rate of approximately 20% based on an estimate of tax deductibility of transaction costs, (iii) a NT\$5 million (US\$0.17 million) decrease relating to the payment to shareholders who voted against the KEMET Acquisition, and (iv) a NT\$6 million (US\$0.20 million) decrease relating to the compensation of the management of KEMET under the terms of acquisition transaction; and
- a net increase of NT\$342 million (US\$11.43 million) in accumulated other comprehensive loss to eliminate the historical equity accounts of KEMET as of December 31, 2019.

***Note 6 Adjustments to Unaudited Pro Forma Condensed Combined Statement of Comprehensive Income***

This note should be read in conjunction with Note 1 Description of The Transactions<sup>f</sup>, Note 2 Basis of Pro Forma Presentation<sup>f</sup>, Note 3 Conforming Accounting Policies<sup>f</sup>, and Note 4 Adjustments<sup>f</sup>.

Adjustments included in the columns Equity Financing and Debt Financing<sup>f</sup> and KEMET Acquisition<sup>f</sup> to the accompanying unaudited pro forma condensed combined income statements for the year ended December 31, 2019 is represented by the following:

**Interest Expense**

This adjustment represents the additional interest expense for the year ended December 31, 2019, taking into consideration the additional borrowings incurred by the Company for financing the KEMET Acquisition. Refer to the table below (in millions):

| Description                                      | For the Year<br>Ended December<br>31, 2019 |
|--------------------------------------------------|--------------------------------------------|
| Cash interest on additional borrowings . . . . . | <u>\$1,081</u>                             |

***For the year ended December 31, 2019***

An increase in interest expense of NT\$1,081 million (US\$36 million) consisting of:

- an increase of NT\$1,081 million (US\$36 million) related to (i) a NT\$854 million (US\$29 million) increase relating to assumed borrowings of NT\$32,901 million (US\$1,100 million) under the Bridge Facilities at an assumed interest rate of 2.6% and (ii) a NT\$227 million (US\$7 million) increase relating to assumed NT\$11,964 million (US\$400 million) of undrawn availability under the secured long-term borrowings at an average interest rate of 1.9%.

***Note 7   Exchange rate for the conversion***

The exchange rate we used in the unaudited pro forma condensed combined financial information for translation was NT\$29.91 = US\$1.00.

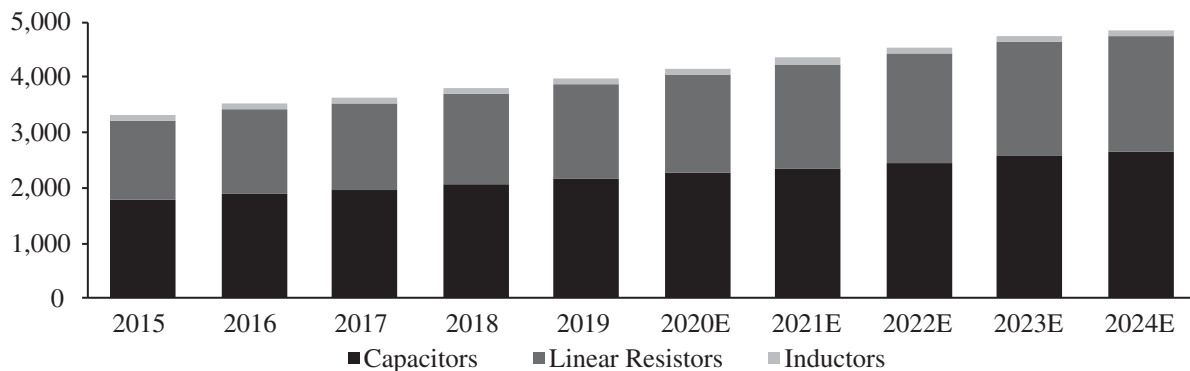
## INDUSTRY OVERVIEW

*Certain information, including statistics and estimates, set forth in this section and elsewhere in this Offering Circular have been derived from an industry report, namely the Paumanok Report, independently prepared by Paumanok Publications, Inc. In addition, statistics and estimates set forth in this section, unless otherwise specified, are presented in the years ended or ending March 31 of the given year.*

### Overview of Passive Components

#### *Introduction of Passive Components, Regional Markets and End-Use Markets*

According to Paumanok, the global consumption volume of passive components has increased from 3,311 billion pieces in 2015 to 3,954 billion pieces in 2019, and is expected to further increase to 4,852 billion pieces in 2024. The global passive component market consists of three major products, including capacitors, linear resistors and inductors, which accounted for 81%, 10% and 8%, respectively, of the global consumption value in 2019 according to Paumanok. The following table illustrates the global consumption volume of passive components by type from 2015 to 2024 (in billions of units):



Source: the Paumanok Report

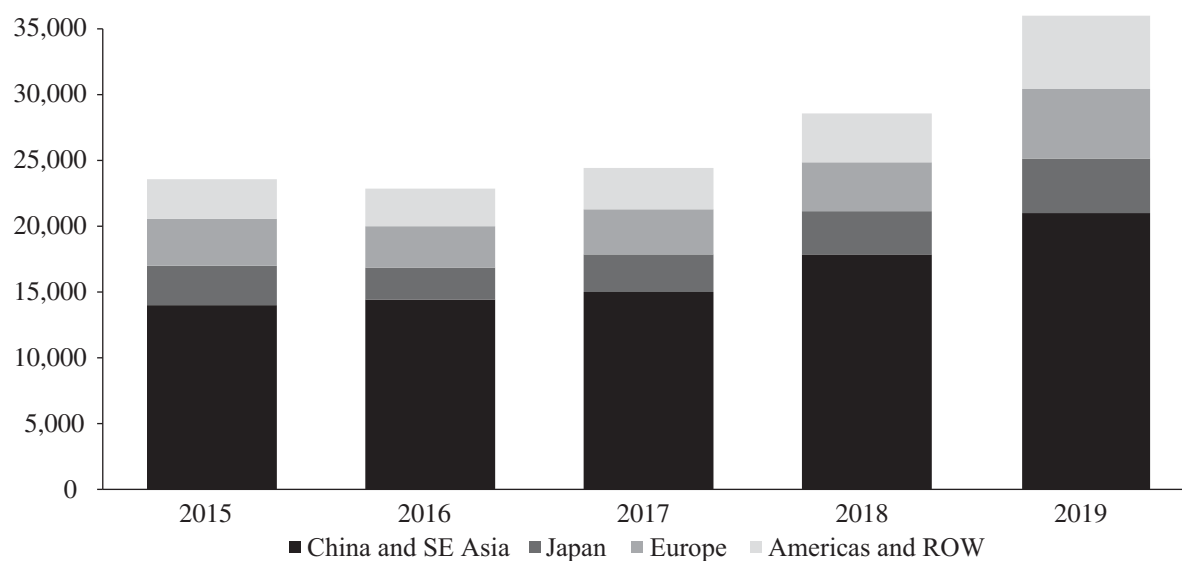
The global passive component market can be divided into three major regional markets, including (i) China, Japan and Southeast Asia, or SE Asia, (ii) Europe, and (iii) Americas and the rest of the world, or ROW, which accounted for 70%, 14% and 16%, respectively, of global consumption value in 2019 according to the same source.

*China, Japan and SE Asia.* China alone accounted for approximately 70% of the consumption value in this regional market in 2019, which made it the largest market in the world for passive components at approximately US\$14.3 billion in value.

*Europe.* Germany accounted for approximately 50% of the consumption value in this regional market in 2019, while countries such as the UK, France, Italy, the Netherlands and Finland are sizable markets as well and should not be underestimated.

*Americas and ROW.* The United States, Mexico, Canada, Brazil and the rest of the Americas accounted for approximately 45%, 35%, 10%, 7% and 3%, respectively, of the consumption value in this regional market in 2019.

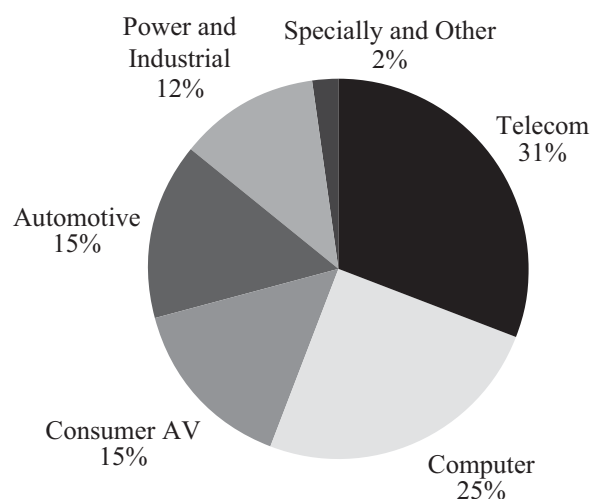
The following diagram illustrates the historical and forecasted passive component consumption by region from 2015 to 2019 (in millions of US\$):



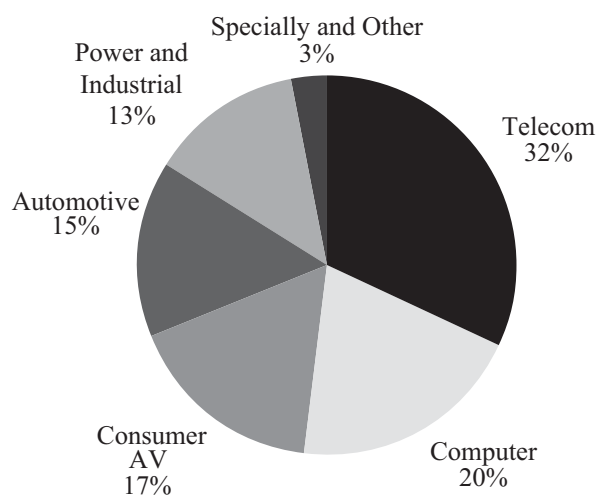
Source: the Paumanok Report

The end-use markets for passive components mainly include telecommunications, computer, consumer audio and video, or consumer AV, automotive, industrial and power and specialty (defense, medical, oil and gas, mining and others). The following diagram illustrates the historical and forecasted global consumption value of passive components by end-use market in 2019 and 2024 (in billions of US\$):

2019



2024



Source: the Paumanok Report

## Overview of Capacitors

### Overview of Capacitors, Regional Markets and End-Use Markets

The capacitor market consists of six major products, including MLCC, aluminum, tantalum, paper and plastic AC film, paper and plastic DC film and other capacitors, which accounted for 65%, 16%, 8%, 5%, 3% and 3%, respectively, of the total capacitor market as measured by consumption value in 2019. The global capacitor consumption can be divided into four regions, including China and SE Asia, Japan, Europe, and Americas and ROW, which accounted for 30%, 21%, 27%, and 37%, respectively, of the total capacitor consumption as measured by consumption value in 2019.

**China and SE Asia.** This regional market grew at a rate of 17% year-over-year to consumption value, and further grew at a rate of up to 30% year-over-year in 2019 based largely on price increases in MLCCs. MLCCs, aluminum, tantalum, plastic film and electrochemical double-layer capacitors, or EDLC, and other capacitors accounted for approximately 56%, 23%, 9%, 9% and 3%, respectively, of the consumption value in this region in 2018. Certain Japanese and Taiwanese vendors dominate the capacitor markets in China and SE Asia, primarily through sales of MLCCs. However, other vendors, such as KEMET and Yageo are major players in this region as well.

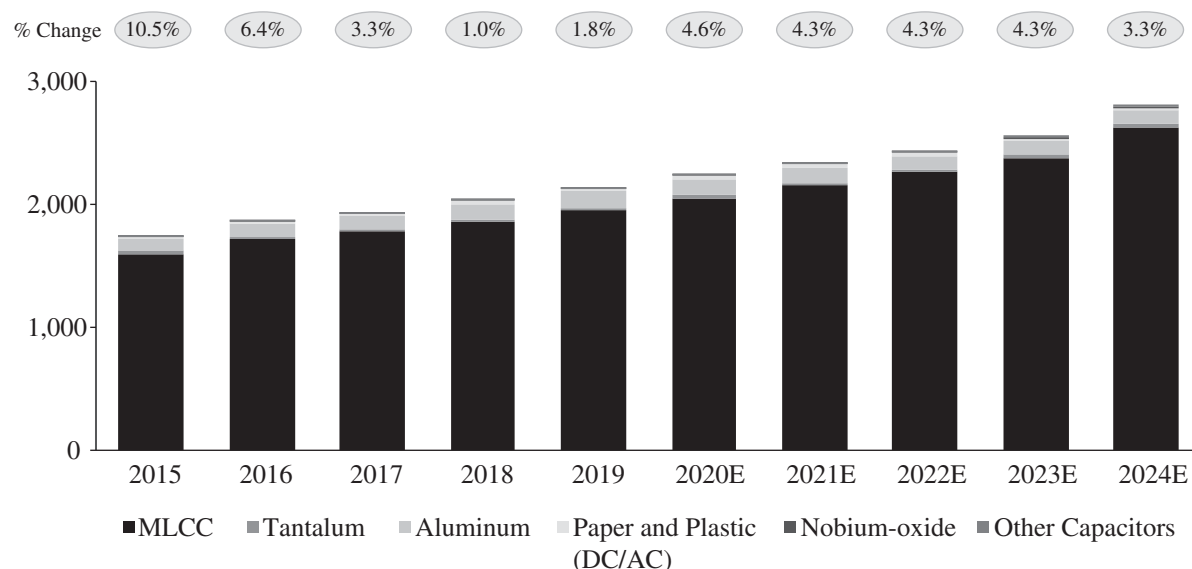
**Japan.** The consumption value in the Japanese market grew at a rate of 14% year-over-year, and further grew at a rate of 21% year-over-year in 2019 based largely on price increases in MLCC. MLCCs, aluminum, tantalum, plastic film and EDLC and other capacitors accounted for approximately 50%, 23%, 13%, 10% and 4%, respectively, of the consumption value in Japan in 2018.

**Europe.** The European market grew at a rate of 11% year-over-year in 2018, and further grew at a rate of 27% year-over-year in 2019 based largely on price increases in MLCCs. MLCCs, aluminum, tantalum, plastic film and EDLC and other capacitors accounted for approximately 43%, 25%, 11%, 15% and 5%, respectively, of the consumption value in Europe in 2018.

**Americas and ROW.** The consumption value in this regional market grew at a rate of 17% year-over-year in 2018, and further grew at a rate of 37% year-over-year in 2019 based largely on price increases in MLCCs. MLCCs, aluminum, tantalum, plastic film and EDLC and other capacitors accounted for approximately 47%, 17%, 14%, 15% and 7%, respectively, of the consumption value in Europe in 2018. Certain Japanese vendors and KEMET are major suppliers in this region.

### Historical and Forecasted Volume

Global consumption volume of capacitors is expected to increase by approximately 2% from 2,043 billion pieces in 2018 to 2,144 billion pieces in 2019. Slow volume growth is expected going forward, but the capacitance signature per end-product is expected to rise and so is the capacitance value per capacitor. The forecast is that demand for capacitors will increase to 2,642 billion pieces by 2024. The following table illustrates the breakdown of global consumption for capacitors by type as measured by volume from 2015 to 2024 (in billions of pieces):



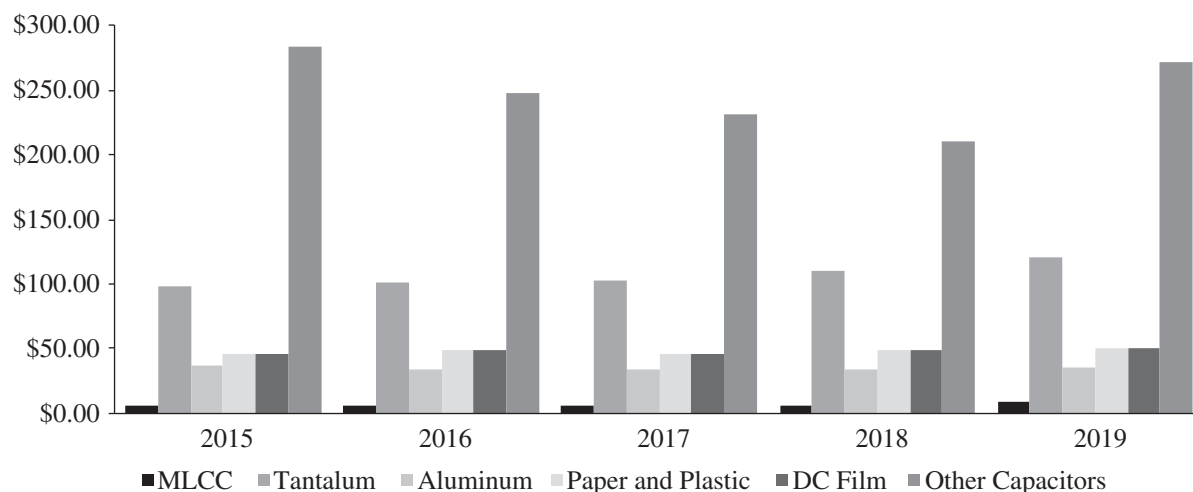
Source: the Paumanok Report

MLCCs accounted for 92% of global capacitor shipment volume in 2019. During this time period, high-capacitance MLCCs made significant inroads into other dielectrics, most notably into tantalum and DC film capacitors. Aluminum capacitors are the next largest in terms of volume with their massive output of radial leaded designs at 6% of global production volume. All other capacitor dielectrics are small in comparison to the massive volume of MLCC shipped worldwide.



### ***Historical and Forecasted ASP***

The price of capacitors increased by 24.2% to US\$13.61 per thousand pieces in 2019. While price decreases are usually the norm in the industry, in 2018 and 2019, there were price increases due to the MLCC shortage. Going forward, prices will be dependent on the ability for MLCCs to encroach further on electrolytic capacitor technology (which may increase the demand for MLCCs), as well as the shortage of key rare earth elements (tantalum, bauxite, palladium, nickel, neodymium and various oxide additives) consumed in the production of capacitors (which may increase the production cost of MLCCs). The following table illustrates the average selling price for capacitors by type from 2015 to 2019 (in US\$ per thousand pieces):



Source: the Paumanok Report

### ***Drivers of the price spike in late 2018 and subsequent decline***

Price erosion will continue over the long term due to low cost ceramics taking control over greater percentages of competing dielectrics as well as a broad number of vendors around the globe making for readjustments of market value to new levels, despite the shortages of key rare earth elements consumed in the production of dielectrics. Market supply and demand will be more balanced as existing producers are unlikely to be aggressively expanding capacity, and as a result, average selling price is expected to remain stable. In addition, market consolidations (e.g., Murata's exiting lower end product segments and Yageo's proposed acquisition of KEMET) will instill additional market discipline and create more favorable conditions for market leaders.

### ***Key Drivers for Future Growth***

**5G Roll-Out Impact on Capacitor Markets.** For 2020, we expect a growing demand for MLCCs for 5G base station at Nokia and Ericsson and Samsung. These MLCCs will be high voltage, high capacitance and high frequency designs and be somewhat expensive. This positive growth will get larger over 36 months. In addition, the market of data communications switches will also grow for internet communications. Other parts of the telecommunications sector will contract, especially those associated with POTs systems and switches for twisted pair, and the market moves more securely toward fiber optics for back bone and 5G wireless for internet, IOT and Intelligent Vehicle Highway Systems. All vendors with appropriate capacitance skillsets are enabling this technology. Many stations for 5G require 3,000, 5,000 or even 10,000 capacitors per base station and the number of base stations required will be in the tens of thousands per region.

**IoT and Impact on MLCCs.** Products associated with the IoT will continue driving growth, especially when more products are applied in home automation, featured with connectivity and are sensor intensive. As new market entrants in consumer AV, many new vendors of voice activated home devices (OK Google, Amazon Alexa) had to pay more for these "line voltage" related components. These new products place increasing demand for MLCCs.

*EV Impact on MLCCs.* The electric vehicle has had another tremendous impact on MLCC demand. For example, certain electric vehicle manufacturer has agreed to design its cars to use more of the ultra-small case size MLCC that would only be consumed in handsets before. Meanwhile, an electric vehicle typically consumes 10,000 MLCCs and has an incredible high capacitance signature compared to an internal combustion engine.

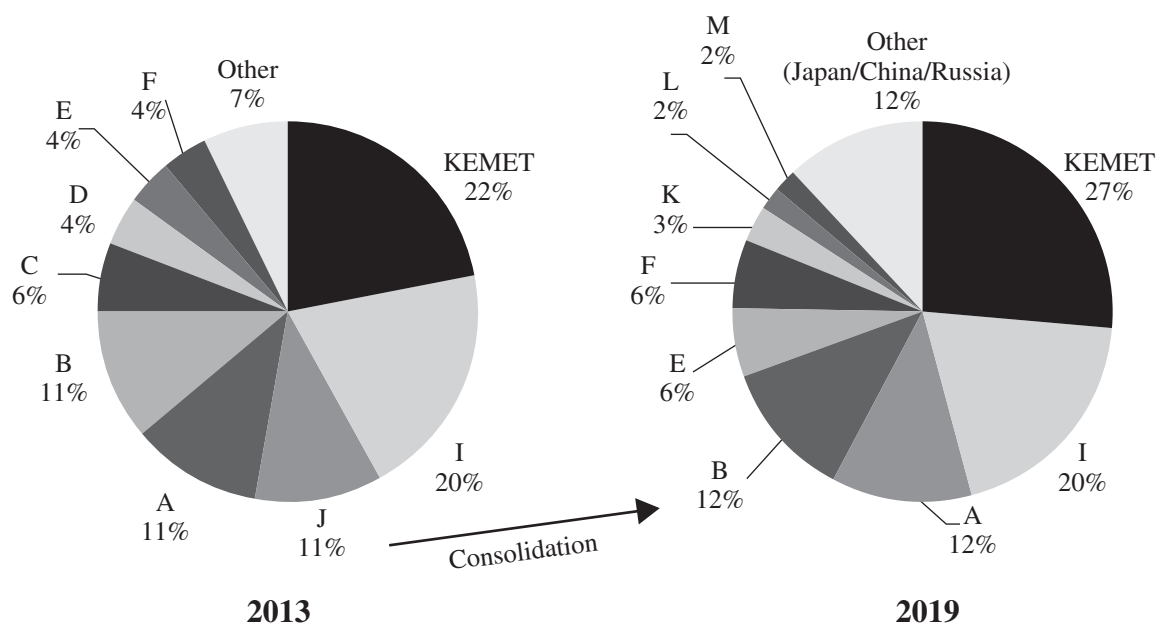
### ***Competitive Landscape***

According to Paumanok, there are approximately 300 capacitor manufacturers worldwide in 2018. However, there are only 13 tier one suppliers. The relationship between dielectric revenues and the number of suppliers by dielectric is interesting and implies barriers to entry. There are more suppliers of film capacitors and aluminum capacitors because the manufacturing technology is based upon winding of dielectrics, and equipment is readily available at comparatively low cost. Multilayered ceramic capacitor suppliers are fewer in number because the technology requires stacking of dielectric and metallization and firing. There are even fewer tantalum suppliers because this is difficult technology to master effectively, and involved the unique creation of tantalum anodes that require cathode baths or impregnation, which is a difficult process to master effectively. The following table summarizes the top 12 vendors of capacitors as measured by revenue from 2015 to 2019:

| Vendor                           | 2015            | 2016            | 2017            | 2018            | 2019            | % of Total   | % of Growth |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|-------------|
| Company A (capacitor only) . .   | \$ 2,918        | \$ 3,052        | \$ 3,487        | \$ 4,018        | \$ 5,223        | 14.6%        | 30%         |
| Company B . . . . .              | 1,727           | 1,750           | 1,637           | 2,308           | 3,277           | 9.1%         | 42%         |
| Company C . . . . .              | 1,221           | 1,196           | 1,333           | 1,559           | 1,781           | 5.0%         | 14%         |
| Company D . . . . .              | 1,126           | 985             | 1,064           | 1,209           | 1,560           | 4.3%         | 29%         |
| Company E (capacitor only) . .   | 1,332           | 1,242           | 1,264           | 1,345           | 1,533           | 4.3%         | 14%         |
| Company F . . . . .              | 999             | 1,030           | 1,115           | 1,363           | 1,485           | 4.1%         | 9%          |
| KEMET . . . . .                  | 834             | 734             | 752             | 1,200           | 1,357           | 3.8%         | 13%         |
| Yageo (MLCC only) . . . . .      | 435             | 400             | 444             | 565             | 1,271           | 3.5%         | 125%        |
| Company G . . . . .              | 835             | 788             | 965             | 1,072           | 1,160           | 3.2%         | 9%          |
| Company H . . . . .              | 550             | 735             | 800             | 860             | 937             | 2.6%         | 9%          |
| Company I . . . . .              | 763             | 670             | 650             | 750             | 825             | 2.3%         | 10%         |
| Company J . . . . .              | 420             | 349             | 330             | 403             | 487             | 1.4%         | 21%         |
| Company K . . . . .              | 226             | 262             | 261             | 350             | 455             | 1.3%         | 30%         |
| Others . . . . .                 | 4,830           | 4,623           | 4,820           | 5,549           | 7,829           | 21.8%        | 39%         |
| Total Passive Components . . . . | <u>\$18,216</u> | <u>\$17,816</u> | <u>\$18,922</u> | <u>\$22,551</u> | <u>\$29,180</u> | <u>81.3%</u> | <u>26%</u>  |

Source: the Paumanok Report

The following pie charts illustrate the global market share of major tantalum capacitor manufacturers in 2019, with KEMET being the largest player in the market. In particular, top three suppliers of tantalum capacitors include KEMET (production in the USA and Mexico), Company I (production in the Czech Republic, UK and El Salvador; and recent acquirer of tantalum capacitor production facilities in Japan and China), Company A (production in Israel, and the USA; it dominates the value added and application specific tantalum capacitor market segment).



Source: the Paumanok Report

## Overview of Linear Resistors

### Overview of Linear Resistors, Regional Markets and End-Use Markets

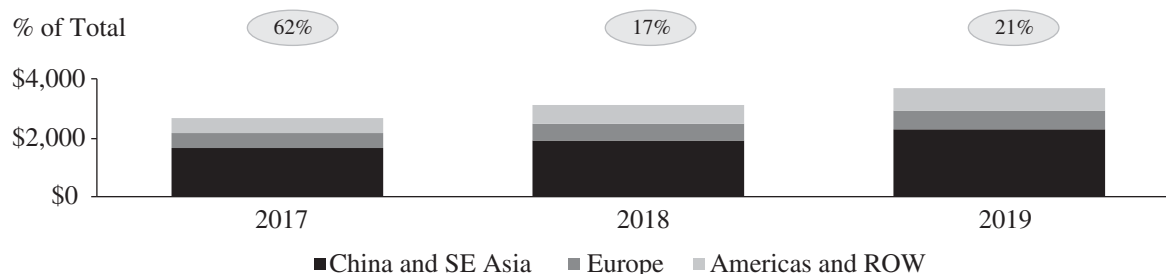
Global resistor markets can be broken down into two distinct categories, including linear resistors and non-linear resistors. Linear resistor markets, technologies and opportunities are electronic components found in all electronic devices in large numbers, especially in wireless handsets, computers, TV sets, automobiles and almost every other electronic device produced by mankind. Thus, linear resistor shipments are counted in trillions of pieces. The variable about resistors, is that the majority of units sold are thick film chip resistors that consist of an alumina ceramic substrate and a precious metal (ruthenium) based thick film ink to provide the required resistance.

This global resistor market amounted to US\$3.7 billion in 2019. It consists of five major products, including chip resistors, network/arrays, wirewound, film/oxide/foil and carbon film/comp, which accounted for 37%, 32%, 17%, 12% and 2%, respectively, of the total resistor market as measured by consumption value in 2019.

*Think film chip resistors.* The global market of thick film chip resistors as measured by consumption value increased by 23% from US\$1,135 million in 2018 to US\$1,392 million in 2019. The global consumption volume of thick film chip resistors increased by 2.8% from 1.587 trillion pieces in 2018 to 1.632 trillion pieces in 2019.

The global resistor market can be divided into three major regional markets, including China and SE Asia, Europe and Americas, which accounted for 62%, 17% and 21%, respectively, of the total resistor market as measured by consumption value in 2019. The following table illustrates the breakdown of consumption value by regional markets from 2017 to 2019 (in millions of US\$):

#### **World Region Trend**



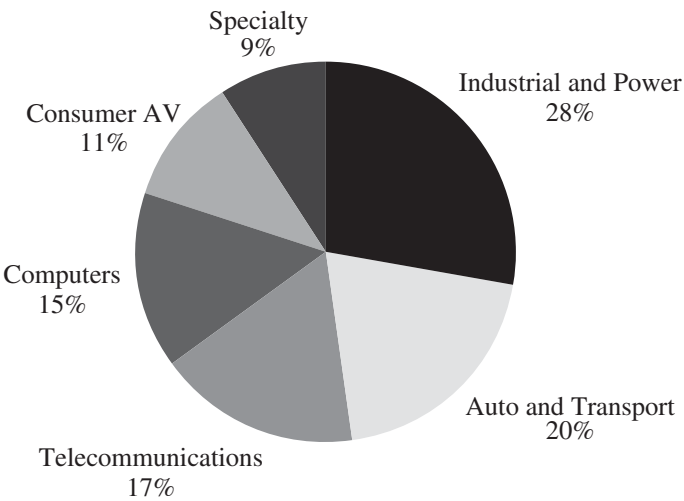
Source: the Paumanok Report

**China and SE Asia.** Taiwan companies have made significant inroads in the linear resistor markets. Companies, such as Yageo, are consistently among the top 15 linear resistor manufacturers in the world; however, the majority of their unit production is located in factories in China. “Greater China” represents about 36% of the world’s consumption of linear resistors. Greater China is also the largest region producing wireless handsets, notebook computers and tablets. Taiwan is also a key country for consumption of resistors for power supplies. Japan is the second largest market in Asia for linear resistors and accounts for 14% of global consumption. Japan consumed more advanced resistors and has a penchant toward thin film resistors, high voltage and high frequency designs. Other countries, such as Singapore, Korea, Thailand, Vietnam, Malaysia, India and the Philippines, are also major consumers of linear resistors.

**Europe.** The consumption value of linear resistors in Europe amounts to US\$623 million in 2019, increased by 11% in 2018. In particular, German linear resistor market amounted to US\$200 million in 2019, which accounted for 35% of linear resistor consumption value in Europe in 2019. The German market is dominated by the automotive electronics markets, whose linear resistor consumption, especially for higher priced nickel chromium parts, was significant over the years and remains so today. In 2018 and 2019, the linear resistor market got a boost due to an increasing demand in Germany for F4 type factory automation equipment.

**Americas and ROW.** The United States market for linear resistors is considerable in size given the small volume nature of the market. This is because the market demands a large percentage of value-added and application specific resistors that have higher average unit prices in comparison to resistors sold in China and SE Asia. The key end-use markets in the United States for linear resistors are automotive, defense and aerospace, telecom infrastructure, medical, oil and gas electronics, instrumentation and control equipment, laboratory test equipment and power transmission and distribution, lighting ballasts and large home appliances.

The following pie chart illustrates the breakdown of global consumption value for resistors by end-use market in 2019 (in millions of US\$):

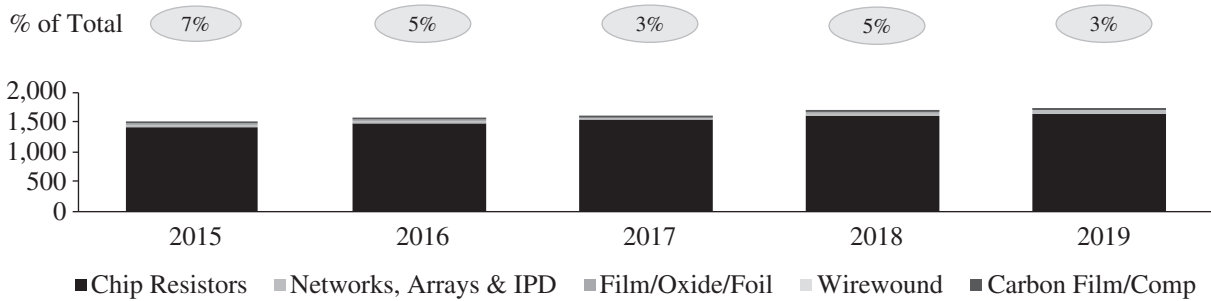


Source: the Paumanok Report

### Historical and Forecasted Volume

Global consumption volume of resistors increased by an estimated 3% to 1,704 billion pieces in 2019, following a growth rate of 5% in 2018 when the global consumption volume was 1,655 billion pieces.

### Linear Resistors



Source: the Paumanok Report

## Competitive Landscape

There are a number of linear resistor manufacturers worldwide, primarily including Company A, Yageo, Company B, Company C, Company D, Company E, Company F and others, which accounted for 26%, 15%, 11%, 7%, 6%, 6%, 5% and 24%, respectively, of the global market shares in 2019. The following table illustrates the global competitive environment by resistor type and sub-category in the linear and non-linear categories.

| Manufacturer        | Thick Film Chip R | SIPs, DIPs, and Arrays | Wirewound | Nichorome | Tin-Oxide | Thin Film | Other |
|---------------------|-------------------|------------------------|-----------|-----------|-----------|-----------|-------|
| Company A . . . . . | ✓                 | ✓                      | ✓         | ✓         | ✓         | ✓         | ✓     |
| Company B . . . . . | ✓                 | ✓                      |           | ✓         |           | ✓         |       |
| Yageo . . . . .     | ✓                 | ✓                      | ✓         | ✓         |           |           | ✓     |
| Company C . . . . . | ✓                 | ✓                      |           | ✓         | ✓         | ✓         |       |
| Company D . . . . . |                   |                        | ✓         | ✓         |           | ✓         |       |
| Company E . . . . . | ✓                 | ✓                      |           |           |           |           |       |
| Company F . . . . . | ✓                 |                        |           |           |           |           |       |
| Company G . . . . . | ✓                 | ✓                      |           |           |           | ✓         |       |
| Company H . . . . . | ✓                 |                        | ✓         | ✓         |           |           | ✓     |
| Company I . . . . . | ✓                 | ✓                      |           |           |           |           |       |
| Company J . . . . . | ✓                 | ✓                      | ✓         | ✓         | ✓         |           |       |
| Company K . . . . . | ✓                 |                        |           |           |           | ✓         |       |
| Company L . . . . . | ✓                 |                        |           | ✓         | ✓         |           |       |
| Company M . . . . . |                   |                        |           |           |           | ✓         |       |
| Company N . . . . . |                   |                        | ✓         | ✓         |           |           | ✓     |
| Company O . . . . . |                   |                        |           |           |           |           | ✓     |
| Company P . . . . . |                   | ✓                      |           |           | ✓         |           |       |
| Company Q . . . . . | ✓                 |                        |           |           |           |           |       |
| Company R . . . . . |                   |                        |           | ✓         | ✓         |           | ✓     |
| Company S . . . . . |                   |                        | ✓         | ✓         | ✓         |           | ✓     |
| Company T . . . . . |                   |                        | ✓         | ✓         |           |           |       |
| Company U . . . . . |                   |                        | ✓         | ✓         | ✓         |           |       |
| Company V . . . . . |                   |                        | ✓         | ✓         |           |           | ✓     |
| Company W . . . . . | ✓                 |                        |           |           |           |           |       |
| Others . . . . .    | ✓                 | ✓                      | ✓         | ✓         | ✓         | ✓         | ✓     |

Source: the Paumanok Report



## BUSINESS

### Overview

We are a leading global electronic component company with capabilities on a global scale, including production and sales facilities in Asia, Europe and the Americas. We provide one-stop shop product portfolio of resistors, capacitors, wireless and circuit protection components to meet the diverse requirements of customers. According to Paumanok, we were ranked the fourth in the passive component market as measured by consumption value in 2019, and upon the completion of the KEMET Acquisition, we are expected to become the second largest supplier of passive components in the market by consumption value.

We have broad product offerings, primarily comprising multi-layer ceramic capacitors, chip resistors, wireless components and circuit protection components, strategically targeted at various key vertical markets, including applications for consumer electronics, industrial, telecommunications, power and energy, IoT and automotive and transportation. Going forward, the number of new applications in 5G, IoT, cloud computing and electric vehicles is expected to increase over time, and such favorable secular trends is expected to create significant new demand and drive additional growth.

We have an extensive global distribution network that mainly covers Greater China, the United States and Europe. Our customer base mainly includes electronic manufacturing service providers, original design manufacturing providers, original equipment manufacturing providers and distributors. Upon the completion of the KEMET Acquisition, our distribution network will further be enhanced in Asia to include Japan and Korea, and to cover the Americas. In addition, our customer base will further be expanded to include other leading global industrial, automotive and defense companies.

We have more than 25 years of experience in mergers and acquisitions. In addition to KEMET, we have acquired many prestigious passive and electronic component companies, including Vitrohm in 1996, the discrete ceramics and ferrite components businesses of Royal Philips Electronics in 2000, BrightKing Holdings in 2018 and Pulse Electronics in 2018. The consolidation efforts have transformed us from a small Taiwan-based player into a leading global passive component provider while creating shareholder value. Our management proactively undertake integration initiatives post acquisitions to achieve cost savings.

Our operating revenue increased from NT\$32,258.6 million in 2017 to NT\$77,155.6 million in 2018, and then decreased to NT\$41,306.6 million (US\$1,381.0 million) in 2019. Our net profit increased from NT\$6,681.0 million in 2017 to NT\$33,840.1 million in 2018, and then decreased to NT\$7,052.1 million (US\$235.8 million) in 2019.

### Our Competitive Strengths

#### *Well-positioned to capture attractive growth opportunities anchored by favorable secular trends*

We have broad product offerings strategically targeted at various key vertical markets, including applications for consumer electronics, industrial, telecommunications, power and energy, IoT and automotive and transportation. The passive component industry is expected to achieve a healthy GDP growth rate due to content growth in applications such as smartphones. According to Paumanok, the global consumption value of passive components has increased from US\$23,521 million for the year ended March 31, 2015 to US\$35,877 million for the year ended March 31, 2019, and it is expected to amount to US\$32,528 million for the year ending March 31, 2024. The global consumption volume of passive components has increased from 3,311 billion pieces for the year ended March 31, 2015 to 3,954 billion pieces for the year ended March 31, 2019, and is expected to further increase to 4,852 billion pieces for the year ending March 31, 2024.

Going forward, the number of new applications in 5G, IoT, cloud computing and electric vehicles is expected to increase over time, and such favorable secular trends will create significant new demand and drive additional growth. These new applications will also increase component usage in products such as smartphones, and thus create more demand for our passive component products. In addition, further consolidation among existing players in the passive component industry, such as KEMET and us, and the exit of Murata in lower end MLCC segments will create additional market and pricing discipline. For example, we have a wide product offering that caters to fast-growing applications and

this is further enhanced by the KEMET Acquisition. As a result, we believe we are well-positioned to capture attractive growth opportunities.

***Global leading passive component player with clear strategic focus***

We are a leading global electronic component company with capabilities on a global scale, including production and sales facilities in Asia, Europe and the Americas. We provide one-stop shop product portfolio of resistors, capacitors, wireless and circuit protection components to meet the diverse requirements of customers. According to Paumanok, we were ranked the fourth in the passive component market as measured by consumption value in 2019. According to the same source, we and KEMET accounted for 7% and 4%, respectively, of the total passive component market share as measured by consumption value in 2019. As such, after the completion of the KEMET Acquisition, we are expected to become the second largest supplier of passive components in the market by consumption value.

We are increasingly focusing on non-commoditized automotive, industrial, and aerospace segments which will enable us to gain market share in the high-end and high-margin product segments. To this end, we leverage our strong global presence, including 19 manufacturing sites and eight research and development centers worldwide. In late 2019, we started to expand our production capacity of MLCCs and chip resistors, and by end of 2020, we expect the expansion rate of MLCC capacity and chip resistor capacity to grow at a rate of 21% and 76%, respectively. After we largely complete our capacity expansion, it will position us to quickly ramp up production to capture market opportunities with minimal additional costs.

***Diversified blue-chip customer base and geographic coverage***

We have an extensive global distribution network that mainly covers Greater China, the United States and Europe. Upon the completion of the KEMET Acquisition, our distribution network will further be enhanced in Asia to include Japan and Korea, and to cover the Americas.

Our customer base mainly includes electronic manufacturing service, or EMS, original design manufacturing, or ODM, original equipment manufacturing, or OEM, providers and distributors. Upon the completion of the KEMET Acquisition, our customer base will further be expanded to include other leading global industrial, automotive and defense companies.

In addition, after we successfully acquired Pulse Electronics, an American company focused on electronics and electrochemical products, our product offerings were further diversified to include magnetics, antennas, inductors, transformers, LAN components, modules and other components, which can be used in the telecommunications, power, automotive and other electronics industries.

***Proven track record in mergers and acquisitions and successful integration***

We have more than 25 years of experience in mergers and acquisitions. For example, in 1996, we acquired Vitrohm, a Danish company focused on film resistors and wirewound resistors; in 2000, we acquired the discrete ceramics and ferrite components businesses of Royal Philips Electronics, a Dutch electronics company; in 2018, we acquired Pulse Electronics, an American company focused on electronics and electrochemical products; in 2018, we also acquired BrightKing Holdings, a Cayman company with its main business in China manufacturing protective components.

The consolidation efforts have transformed us from a small Taiwan-based player into a leading global passive component provider while creating shareholder value. Our management proactively undertakes integration initiatives post acquisitions to achieve cost savings. For example, the integration of Pulse Electronics completed in 2018 has successfully reduced overhead costs by a material percentage. In addition, we are in the process of the KEMET Acquisition, and we believe it will further enable us to expand our product portfolio, enhance our global footprint, drive profitability with cost synergies and greater efficiencies, increase our market share in advanced product sectors, and on the other hand, scale up KEMET's business in Greater China and Asia through our regional presence.

***Visionary and experienced management team***

We have a passionate, visionary management team with proven international experience and complementary backgrounds. Our chairman and Chief Executive Officer, Mr. Pierre T.M. Chen, has

more than 40 years of experience in this industry and continues to be involved in the day-to-day operation. Mr. Chen is supported by a professional management team including our Chief Operating Officer, Mr. David Wang, and our Chief Technology Officer, Mr. Masayuki Fujimoto, who have in-depth knowledge and decades-long experience in the electronics component sector. Our management has successfully executed growth strategies both organically and through mergers and acquisitions to achieve stellar shareholder return.

## **Our Business Strategies**

### ***Delivering growth by positioning us to capture attractive market opportunities supplemented by selective bolt-on acquisitions***

We plan to place greater emphasis on more stable industrial, automotive and aerospace product segments to counter more cyclical consumer electronics and telecom applications. In addition, we intend to further develop high-margin, high-end and niche products, such as components used in autonomous driving and 5G infrastructure and connectivity, by leveraging the design and production capability of advanced capacitors, inductors and wireless components acquired from Pulse Electronics and KEMET.

In addition, we intend to invest in more research and development spending to target the more premium verticals, including those in electric vehicles and industrial sectors. To this end, we will cooperate with reliable partners to conduct research and development projects and leverage the know-how we acquired from other companies to improve our product offerings.

### ***Continuous improvement on operational efficiency***

We plan to achieve greater marginal benefit by targeting higher utilization with existing production capacity. To this end, we will optimize our production planning process that provides production targets and the corresponding resource allocations for each planning period. As part of the production planning process, we also regularly re-evaluate our existing production capacity to ensure that the right resources are available when they are needed.

We will also leverage effective inventory management to ensure shorter cash cycle and lower inventory level. To this end, we plan to upgrade our inventory management system to improve the accuracy of inventory tracking, and we will optimize our stock control to ensure a safety stock level. In addition, we will leverage information such as annual order quantity, ordering costs per order, annual usage of such order and annual carrying cost rate to find the order quantity that has the lowest total cost of carrying the inventory to reduce the carrying costs.

By leveraging the aforementioned production planning and inventory management, we are able to have strong cost control and efficiency to maintain high margin advantages and offset the industry-wise margin pressure.

### ***Focus on post-deal integration and synergy maximization***

Historically, we integrated acquisition targets after closing to achieve cost savings. As previously mentioned, the integration of Pulse Electronics completed in 2018 has successfully enhanced our cost structure. We will assess different situations and take advantage of such integration and synergy to simultaneously pursue both expansion of our global presence and localization based on tailored strategies for our global businesses.

Going forward, we plan to combine sales staff and distribution network worldwide to maximize cross-selling opportunities and reduce overhead costs. For example, upon the completion of the KEMET Acquisition, we will leverage KEMET's sales channel to sell our products to KEMET's existing customers and vice versa. In addition, we plan to leverage our strategic relationship with distributors to collect and create dynamic, high-resolution customer profiles, so as to understand how customers' reference has changed over time, how they have migrated among products according to technology or industry trends, and which triggers caused changes in their behavior. As such, we will be able to produce products that cater to customers' needs and maximize cross-selling opportunities.

### ***Prudent financial management while maximizing shareholder value***

We intend to keep the leverage ratios in check after major expansions and acquisitions to maintain a healthy balance sheet. To this end, we will continue to determine the size of our expansions based on

market and industry trends, selling patterns and product pipeline as well as working with our customers to identify future capacity requirements. We will also manage the timing and scale of our capital expenditure obligations by phasing our expansions. In addition, we will continue to manage our capital deployment and financial management decisions adhering to our target internal rate of return on new expansions and target leverage ratios. By implementing the aforementioned tactics, we believe we will be able to deliver strong shareholder return via dividends and share price appreciation.

## Products and Services

Our products include multi-layer ceramic capacitors, or MLCCs, chip resistors, wireless components, through-hole resistors, circuit protection components and other products. The table below sets forth the revenue contribution of our major products for the years indicated:

|                                        | Year ended December 31,           |       |          |       |          |         |       |
|----------------------------------------|-----------------------------------|-------|----------|-------|----------|---------|-------|
|                                        | 2017                              |       | 2018     |       | 2019     |         |       |
|                                        | NT\$                              | %     | NT\$     | %     | NT\$     | US\$    | %     |
|                                        | (in millions, except percentages) |       |          |       |          |         |       |
| Revenue by product:                    |                                   |       |          |       |          |         |       |
| MLCC . . . . .                         | 16,624.0                          | 51.5  | 46,609.3 | 60.4  | 13,417.5 | 448.6   | 32.5  |
| Chip Resistor . . . . .                | 13,128.6                          | 40.7  | 26,032.1 | 33.7  | 11,602.5 | 387.9   | 28.1  |
| Wireless and Advanced                  |                                   |       |          |       |          |         |       |
| Component . . . . .                    | 487.4                             | 1.5   | 1,586.4  | 2.1   | 12,916.7 | 431.9   | 31.3  |
| Through-hole Resistor . . . . .        | 932.9                             | 2.9   | 1,011.9  | 1.3   | 894.8    | 29.9    | 2.2   |
| Circuit Protection Component . . . . . | 0.0                               | 0.0   | 1,442.3  | 1.9   | 2,324.6  | 77.7    | 5.6   |
| Other Product . . . . .                | 1,085.7                           | 3.4   | 473.6    | 0.6   | 150.5    | 5.0     | 0.3   |
| Total . . . . .                        | 32,258.6                          | 100.0 | 77,155.6 | 100.0 | 41,306.6 | 1,381.0 | 100.0 |

### MLCC

Driven by the infinite desire for electronic devices to be more compact and reliable, MLCCs have become one of the most developed and highly competitive capacitors segments in the market. As a major MLCC provider, we continue to allocate research and development resources to product development, manufacturing refinement, and quality assurance. We are dedicated to offering a comprehensive MLCC product portfolio for diverse applications, including consumer electronics, industrial and heavy duty machinery, and automotive electronics systems. Our MLCC line-up includes general purpose, ultra-small size, high voltage, soft termination, high quality for high frequency communication, high reliability for automotive use, low inductance and others. The following table sets forth a list of our major MLCC products:

#### General Purpose



We devote to offer a broad selection of general purpose MLCC for meeting all requirements in electric devices. They all are no polarity and have good reliability with qualification of IEC60068. Thanks to the duty of environmental protection, our MLCC are RoHS and Halogen free compliant.

#### Automotive



As one of the world's major MLCC suppliers, we are pleased to bring our customers automotive grade MLCC, AC series. Compared to general purpose MLCC, AC series are qualified with AEC-Q200 criteria to make sure its reliability.

### High Frequency



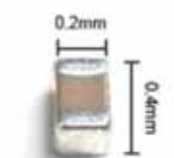
Our HiQ series can effectively reduce the power dissipation of wireless signal. With copper as inner electrode, HiQ series MLCC have extremely low ESR in VHF, UHF and microwave frequency bands.

### Soft Termination



Featured with flexible termination system, our CS series MLCC can resist at least 3mm boardflex. These MLCC have well performance in high flexure stress circuit boards, switch power supplies and Telecom base station.

### Miniaturization



Due to more functionalities in smart phone, wearable devices, and modules, the high density component mounting needs to be realized. Our small size MLCCs with accurate dimension control reveal effective pick and place implementation in addition to the required reliability.

### Array



Capacitor array, CA series, is a 4-in-1 capacitance. Our CA series allow space savings and enhanced manufacturing efficiency.

### Low Inductance



Our low inductance MLCC effectively suppresses HF noise and reduces ripple voltage on DC lines. The special reverse design improves the ESL of capacitor that become necessary feature for application in IC package.

The three major factors of MLCC product are raw materials, production process and manufacturing machinery. As we are capable of producing high-end ceramic powder and metal pastes and is able to design and develop the key manufacturing process and machinery, we can effectively control the production cost and quality and ensure the production efficiency and high yield rate. Through pursuing continuous optimization in manufacturing process, we maintain the leadership position among the MLCC suppliers in the Greater China region.

### *Chip Resistors*

We are one of the largest global suppliers of chip resistors and serve various applications in major market segments, including automotive, industrial, alternative energy, and consumer electronics. With the largest number of components in a circuit board, chip resistors can determine end product performance and reliability. We provide a complete range of chip resistors, covering automotive-grade metal current sensors, precision thin film, surge, sulfur-resistant, high power, high voltage, arrays, miniature types 01005 and 0075, and more. Our chip resistor applications include flagship smartphone and automotive and industrial use. For example, high-precision thick film resistors are not only for

small-size products, but also for the medium- and large-size products targeted at automotive and industrial markets. The following table sets forth a list of our major chip resistor products:

#### Automotive



Our automotive grade passive components conform to the AEC-Q200 automotive electronics industry standard. The available solutions include thick film, thin film, current sensors, and anti-FOS grade, applicable in infotainment, comfort and convenience, security, ECU, steering, power management and lighting systems applications for the automotive industry.

#### Current Sensing



Reliable current measurement is critical for the protection, control, and monitoring to keep circuits safe during operation in power and instrumentation systems. They are designed for low resistance values (down to 0.5mR), low TCR (metals with 50ppm/°C), and high power ratings (case size 2512 with 1-3W). Wide termination and 4 termination are also available.

#### Anti-Sulfurated



Our sulfur resistant chip resistors have superior resistance in sulfur-containing atmospheres. Resistive technology includes both thick film and thin film.

#### Thin Film



Using advanced sputtering technology, our thin film chip resistors provide high precision, high stability, a narrow tolerance of  $\pm 0.1\%$  and a low TCR of  $\pm 25\text{ppm}/^\circ\text{C}$ . The minimum available case size is 0201. The lowest TCR is  $\pm 5\text{ppm}/^\circ\text{C}$ .

#### Thick Film Precision and General Purpose



Our automotive grade thick film precision chip resistors are optimized through a highly reliable electrode construction. The series boasts a narrow tolerance of  $\pm 0.1\%$  and a low TCR  $\pm 50\text{ppm}/^\circ\text{C}$ .

We maintain the largest productive worldwide capacity of thick film resistors offering case sizes from 0075 to 2512. The series is highly reliable electrode construction and is suitable for all general purpose applications, such as smartphones, tablets, laptops and televisions.

#### High Voltage



Our high voltage series is ideal for industrial automation, power supplies and battery chargers. The series is designed to handle a maximum working voltage of 500V with case sizes from 0603 to 2512. The surface mountable resistors are suitable for handling by automatic placement systems.



## **Lead-free**



Our lead free (Pb <1,000ppm) chip resistors are compatible with all soldering processes without RoHS exemptions (7C-1). The series is highly stable in auto-placement surface mounting applications.

We are in the leading position of advanced technologies and provides customer design-in services. Our superior quality system and state-of-the-art manufacturing technology ensure resistors fully meet all requirements. Customers can benefit from our robust product quality as well as our innovative services.

## ***Wireless Components***

Our wireless components mainly include antenna products and LTCC integrated components.

*Antenna Products.* We have been dedicated to the development of RF attenuator and antenna products for wireless communication device for years, and in 2018, we acquired Pulse Electronics to further strengthen its technology and product portfolio as well as to provide more diverse, customized, and professional services to customers. We expect to be positioned as a vendor with wireless total solution. We offer high performance communication antenna products, including PCB/FPCB antennas, metal antennas, ceramic patch antennas, ceramic chip antennas, and active antennas, which can be used in wireless wide area network (WWAN), wireless metro network (WMAN), wireless local area network (WLAN) and wireless personal network (WPAN) that address multi-frequency, broadband, dual or multiple network technologies. Our products enable the internet networking services that meet the needs of various WiFi users. Applications cover consumer devices, automotive electronics (infotainment and telematics), industrial surveillance, smart-meters, smart homes, and wireless networking.

*LTCC integrated components.* We also offer low temperature co-fired ceramic, or LTCC, integrated components, including balun, filter, balanced filter, and diplexer and triplexer, which combine multiple discrete circuits into one compact package.

We possess comprehensive wireless manufacturing technologies, including ceramic patch antennas, LTCC, LDS, FluidAnt, and base station wireless technology, which can be used in NFC, Bluetooth earphone, wireless network, GPS satellite navigation, IoT networking, automotive, mini base stations and others.

## ***Through-hole Resistors***

We are one of the major market providers of through-hole resistors. Our through-hole resistors include film resistors (metal, metal oxide, carbon and metal glazed film), wirewound (general purpose, fusible safety, non-inductive and power wirewound), and shunt (metal plate and alloy wire). Resistors are available in compact size, precision, high voltage, safety, ultra-low resistance, and extreme high power rating to meet all applications, from consumer electronics to computers, alternative energy, telecommunications, and industrial. With state-of-art manufacturing technology and a wide range of specifications, we are committed to providing total solutions for superior product quality and reliability with the most comprehensive value added services.

## ***Circuit Protection Components***

We offer complete circuit protection solutions including overvoltage protection components (TVS, MOV, GDT, SPG, ESD and TSS) and overcurrent protection components (PPTC and NTC). TVS, MOV, and ESD products have precise voltage clamping capability. They can constrain the voltage in a permissible level to prevent circuit damage by conducting significant current to ground. GDT, SPG and TSS products work as a switch. The switch can be turned on to conduct transient abnormal current to ground. PPTC and NTC are resistors whose resistances are dependent on temperature. The resistances of PPTC and NTC can be changed along with temperature to protect circuit. Our circuit protection products are used in all kinds of applications including automotive, industrial, power supplies, telecommunications and consumer electronics.



## Other Products

Our other products mainly include electrolytic capacitors, inductors and coils.

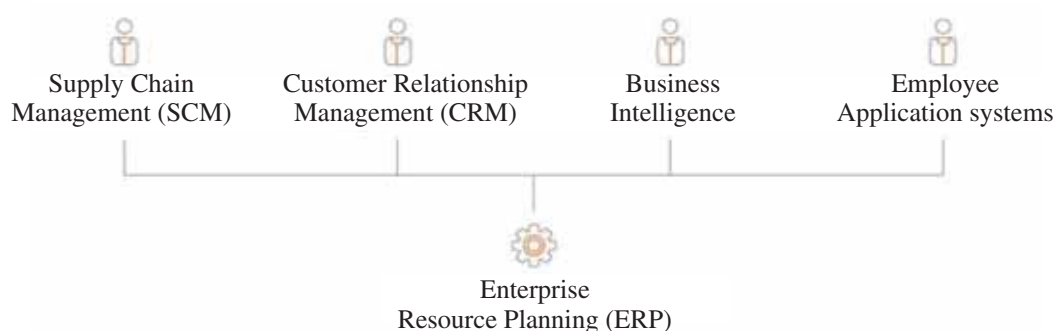
*Electrolytic Capacitors.* Aluminum electrolytic capacitor is one of capacitor types which has a larger capacitance per unit volume. The large capacitance of electrolytic capacitors makes them particularly suitable for passing or bypassing low-frequency signals and storing large amounts of energy. Coupled with strictly quality control, advanced technology, and excellent service, we offer many different series of electrolytic capacitors including miniature, surface mount, snap-in, screw terminal and polymer.

*Inductors and Coils.* After we successfully acquired Pulse Electronics, our product offerings expand to include inductors, coils and other components used in cars and mobile phones. Inductors are one of the essential passive components used for reshaping and delaying alternating current. They are applied to electronics where voltage and current change over time. Our inductor products include chip beads, multi-layer chip inductors, wirewound inductors and power inductors, with various sizes, frequency characteristics and a wide range of impedance / inductance values to meet customer's diverse application requirements.

## Electronic Data Interchange

Electronic data interchange, or EDI, is the electronic interchange of business information using a standardized format; which allows one company to send information to another company electronically. We work hard to make things easy for customers. EDI makes it possible to minimize or even eliminate the manual steps involved in the transfer of information from the seller's computer to the customer's computer. Now customers can place an order at the touch of a button, and the electronic components customers order will arrive at their production line on time.

To integrate distribution, production lines, and information flows, we invested in an e-business platform a couple years ago, establishing an electronic link between customers, suppliers, and factories. On a platform of information system technology and enterprise resource planning, or ERP, supply chain management, or SCM, customer relationship management, or CRM, business intelligence, and employee application systems play an important role, facilitating globalized communication with customers including information exchange while also handling development, production, and distribution issues. By using technology to optimize efficiency, we have once again made life easier for customers by becoming an integral part of their supply chain.



## Research and Development

We believe that our continuous devotion in research and development is crucial in maintaining our competitive edge. Our research and development efforts mainly focus on improving our product quality, optimizing productivity and manufacturing efficiency and reducing raw material and energy consumption. We also endeavor to invest in the development of new products in response for potential business opportunities. For example, we are developing RF attenuator and antenna products which support sub-6GHz and mm Wave in relation to 5G applications. In addition, we continue to develop advanced MLCC product with higher capacitance, higher voltage, better reliability and smaller size for more diversified applications, including consumer electronics, 5G, automotive, and industrial grade. Meanwhile, we have grown the capacity of our thin film resistors and current sensing resistors to a large extent and we expect it to reach the world's number one position after further technology breakthrough and successful product development given the strong demand for IoT, automotive and industrial applications.

As of December 31, 2019, we had eight research and development centers worldwide, and we had a dedicated research and development team with over 274 employees, among which approximately 25.5% had a master's degree and 5.5% had a Ph.D. degree.

## Sales and Marketing

Our products are applied in various industries, which is attributable to our stable and expanding customer base. We primarily sell our products to EMS, ODM, OEM providers and distributors. Revenue derived from direct sales, EMS/OEM providers and distributors accounted for approximately 26%, 31% and 43% of our total revenue in 2019. As a result of our comprehensive product offerings, we are able to maintain a diversified customer base covering first-tier industry players based in Greater China, Japan and the United States.

We believe we do not rely on any single customer. As of December 31, 2019, we worked with more than 1,347 distributors and customers worldwide. In addition, due to our worldwide customer base, we have established a distribution network covering over 69 countries or regions in the world. The table below sets forth the breakdown of revenue contribution by geographic locations for the years indicated:

|                                  | Year ended December 31,           |       |          |       |          |         |       |
|----------------------------------|-----------------------------------|-------|----------|-------|----------|---------|-------|
|                                  | 2017                              |       | 2018     |       | 2019     |         |       |
|                                  | NT\$                              | %     | NT\$     | %     | NT\$     | US\$    | %     |
|                                  | (in millions, except percentages) |       |          |       |          |         |       |
| Revenue by geographic locations: |                                   |       |          |       |          |         |       |
| Asia (except Taiwan) . . . . .   | 25,267.6                          | 78.3  | 57,059.1 | 74.0  | 28,310.5 | 946.5   | 68.5  |
| Taiwan . . . . .                 | 3,070.9                           | 9.5   | 7,913.6  | 10.3  | 2,100.7  | 70.2    | 5.1   |
| Europe . . . . .                 | 3,221.5                           | 10.0  | 9,365.0  | 12.1  | 8,190.7  | 273.9   | 19.8  |
| Americas . . . . .               | 698.6                             | 2.2   | 2,817.9  | 3.6   | 2,704.7  | 90.4    | 6.6   |
| Total . . . . .                  | 32,258.6                          | 100.0 | 77,155.6 | 100.0 | 41,306.6 | 1,381.0 | 100.0 |

Sales to our customers are generally governed by purchase orders. In certain cases, we enter into a framework procurement contract with our key customer, under which we will deliver our products according to specified qualifications, while customers will settle the procurement payment within thirty days to ninety days from the invoice date or the monthly closing date. The term ranges from one year to five years, and some of which can be automatically renewable for one year unless otherwise terminated. We usually fix the price at the time of delivery or negotiate the price with our customers upon each order based on our proposal.

Leveraging our established brand recognition and market leading position, we primarily market and sell our products through our in-house direct sales force based in our Taiwan headquarters and each of our operating subsidiaries. We also leverage the sales force of our distributors located across the globe to serve customers worldwide. Our sales and marketing personnel works closely with our research and development and manufacturing teams to coordinate our product development activities, product launches and ongoing demand and supply planning.

## Raw Materials, Manufacturing Processes and Logistics

### *Raw Materials and Supply*

The main raw materials of passive components are ceramic powder, porcelain rod, iron cap, lacquer, copper wire, substrate, conductive paste and resistor paste. Most of the raw materials are imported from China and Japan. Considering cost control, stable delivery and local supply chain cluster, we also purchase some of the raw materials from domestic vendors.

In line with industry practice, we do not have long-term supply contracts with our suppliers. A shortage of any key raw materials could limit the number of units we are able to produce, and is likely to increase the costs of our products, thereby depressing the margins for our products to the extent that we are not able to pass on the increased costs to our customers. In 2018, we encountered a temporary shortage in material supply as the PRC government tightened its policies towards factories' wastewater treatment and certain of our suppliers located in China were subject to temporary interruption of

production before they improved their wastewater treatment process. See “Risk Factors — Risks Relating to our Industry and Business - Increases in costs for or shortage of supply of our raw materials from our suppliers could decrease our profitability.”

### *Manufacturing Facilities and Processes*

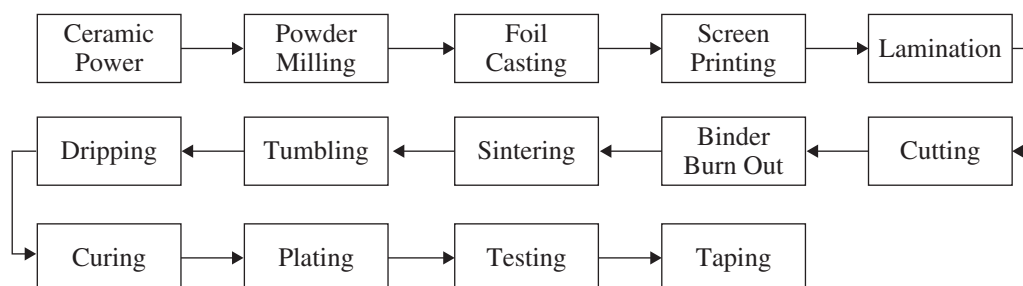
To maintain our leading position, we have placed great emphasis on achieving large production capacity and maintaining a high standard of manufacturing quality at the same time. We have established a global manufacturing network to meet our customers’ needs worldwide. We currently operate 19 manufacturing facilities in Taiwan, China, India, the United States and Europe, as well as 37 branch offices across three continents. Moreover, since our manufacturing facilities have production capacity for multiple products, we are able to achieve better economies of scale and optimize our cost structure by reallocating production resources among various sites after evaluating relevant production costs. In response to the ROC government’s favorable policy, we have increased our investment in manufacturing facilities in Taiwan. In particular, in March 2020, our plan to invest an additional of NT\$14.7 billion in Taiwan was approved by the ROC government.

The table below sets forth certain information of these manufacturing facilities as of December 31, 2019:

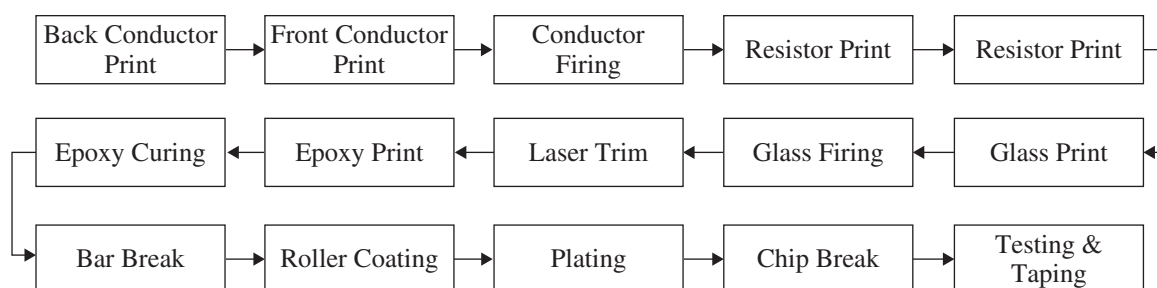
| Facilities                                | Commencement<br>of Operation | Main Products                                                                                                               | Actual Capacity                                                     |
|-------------------------------------------|------------------------------|-----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| YP, Kaohsiung, Taiwan . . . . .           | 2003                         | MLCC                                                                                                                        | 5,193                                                               |
| YR I, YR II, Y3, Kaohsiung, Taiwan . . .  | 1987                         | Chip Resistor                                                                                                               | 1,520                                                               |
| YF, Kaohsiung, Taiwan . . . . .           | 2001                         | MLCC                                                                                                                        | 9,244                                                               |
| SZI, Suzhou, China . . . . .              | 1998                         | MLCC                                                                                                                        | 21,211                                                              |
| SZII, Suzhou, China . . . . .             | 1998                         | Chip Resistor                                                                                                               | 59,943                                                              |
| MD, Suzhou, China . . . . .               | 2003                         | Leaded Resistor                                                                                                             | 362                                                                 |
| DG, Dongguan, China . . . . .             | 1996                         | Chip Resistor, MLCC,<br>Leaded Resistor                                                                                     | Chip Resistor:<br>56,539<br>MLCC: 23,179<br>Leaded<br>Resistor: 252 |
| Vitrohm, Trajouce, Portugal . . . . .     | 1971                         | Leaded Resistor                                                                                                             | 4                                                                   |
| BBE, Dongguan, China . . . . .            | 2007                         | Circuit Protection<br>Components                                                                                            | 125.01                                                              |
| PSU, Suzhou, China . . . . .              | 1999                         | Different types of Antennas,<br>like Embedded, External,<br>In-Door and Outdoor<br>Antennas, as well as<br>Vehicle Antennas | 12                                                                  |
| MPO, Mianyang, China . . . . .            | 2007                         | Connector, Transformer,<br>Filter                                                                                           | 1.55                                                                |
| MPO1, Suining, China . . . . .            | 2010                         | Inductor, Transformer                                                                                                       | 15.50                                                               |
| CPO, Dongguan, China . . . . .            | 1994                         | Electromagnetic Coil,<br>Ignition coils,<br>Transformer, Inductor                                                           | 0.581                                                               |
| UPO, Dongguan, China . . . . .            | 2016                         | LAN Transformer, Chip<br>Inductor                                                                                           | 5.14                                                                |
| Vancouver, WA, the United Statets . . . . | 1966                         | LMR (Land Mobile Radio)<br>Antennas and Other<br>Accessories                                                                | 0.05                                                                |
| Zhuhai, China . . . . .                   | 2004                         | Current Transformer, Power<br>Inductor, SMD<br>Transformer, Ignition<br>Coil, Cable System,<br>Power Supply                 | 2                                                                   |
| Jemnice and Znojmo, Czech Republic . .    | 1991                         | Cables, Inductive<br>Components, Motor Coils                                                                                | 1.0198                                                              |
| Pancevo, Serbia . . . . .                 | 2017                         | Cables                                                                                                                      | 0.001407                                                            |
| Trichy, India . . . . .                   | 2011                         | Transformers, Inductors                                                                                                     | 0.269437                                                            |

Our well-established global manufacturing network enables us to quickly respond to customer demands in major regional markets and the close proximity to our customers is also attributable to reduce our logistic costs. Moreover, each of our manufacturing facilities is able to deliver multi types of products, which bring us significant manufacturing flexibility and we may shift production schedules among our facilities in the event of unexpected business interruption or overcapacity.

The diagram below illustrates the manufacturing process of our MLCC:



The diagram below illustrates the manufacturing process of our chip resistors:



### **Logistics**

With our global logistics support, we provide fast delivery to accelerate time-to-market for customers' products efficiently. Our unique logistics platforms, including customer's demand planning systems, collaborative working models and automated warehousing operations, allow customers to better estimate and control their logistics expenses for operational efficiency improvements. Meanwhile, we have established multiple regional services centers based in customer's area, helping customers respond to their clients' various requests in a timely manner.

### **Intellectual Property**

We believe maintaining sufficient and integrate intellectual property and other proprietary know-hows covering our products and major manufacturing processes are critical to our business operations. As of December 31, 2019, we had obtained 81, 142 and 219 granted patents in Taiwan, the PRC and other jurisdictions in the world, respectively. In addition, we had 84 pending patent applications worldwide. As of December 31, 2019, we had obtained 32, 25, 7, 6 and 70 granted trademarks in Taiwan, the PRC, Hong Kong, Singapore and other jurisdictions in the world, respectively. In addition, we had 15 pending trademark applications worldwide. In addition to the patented technologies, we also utilize know-hows available in the public domain and unpatented know-how developed in-house.

As of the date of this Offering Circular, we had not been involved in any material disputes or claims in connection with our intellectual property. The technology industry frequently features disputes over intellectual property. We may in the future be required to defend our intellectual property rights against infringement, duplication, discovery and misappropriation by third parties or to defend ourselves against third party claims of infringement. See "Risk Factors — Risks Relating to Our Industry and Business — Our failure to protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights or defend against third-party allegations of infringement may be costly" and "Risk Factors — Risks Relating to Our Industry and Business — We may be involved in intellectual property disputes which, if determined adversely to us, could cause us to pay significant damage awards and interrupt our business and operations."

## Competition

The worldwide passive component industry is highly competitive and rapidly evolving. We compete internationally and domestically with dedicated passive component manufacturers and those final product manufacturers who have in-house manufacturing capacity. In particular, we compete with several strong capacitor manufacturers such as Murata and SEMCO, and we also compete with linear resistor manufacturers such as Vishay and KOA. Some of our competitors may have substantially greater production capacity, financial, research and development and marketing resources, greater brand recognition, more established customer base or stronger bargaining power for raw materials than we have. In addition, emerging new market players may further intensify the competition. Any significant increase in competition regionally or globally may erode our profit margins, weaken our earnings and cause us to lose market share. See “Risk Factors — Risks Relating to Our Industry and Business — We operate in a highly competitive industry and we may not be able to sustain our current market position.”

Key competitive factors in the passive component market include availability of raw materials and their prices, product quality, consistency, pricing, technical innovation and customer services. We believe we have successfully differentiated ourselves from our competitors by providing a comprehensive product portfolio with competitive pricing, our leading technical know-how, global coverage as well as our strong manufacturing capacity. We will continue to emphasize our research and development capacity, enhance product innovation, improve customer service and consistency in delivering high quality wafers that meet our customers’ evolving demands.

## Employees

As of December 31, 2019, we had 15,018 full-time employees, including 3,101 in Taiwan, 10,450 in China, 85 in the United States and 1,382 in other countries. The table below sets forth our employees by function as of December 31, 2019:

| Function                                 | Number of Employees |
|------------------------------------------|---------------------|
| Manufacturing and engineering . . . . .  | 12,722              |
| Research and development . . . . .       | 305                 |
| Procurement . . . . .                    | 167                 |
| Marketing and customer service . . . . . | 389                 |
| Administration and management . . . . .  | 1,227               |
| Others . . . . .                         | 208                 |
| <b>Total . . . . .</b>                   | <b>15,018</b>       |

Our success is dependent in large part on our ability to attract, retain, train and motivate skilled and qualified engineering, research and management personnel. We have devoted significant attention and resources to recruit and train our employees in order to enhance their professional capabilities and to instill the qualities that are essential to enable us to realize our long-term goals. We select our personnel through a rigorous process. We recruit graduates from colleges and universities. We also recruit employees through various other channels, including postings on job recruitment websites and human resource agents.

We believe that our compensation packages are competitive with those of our competitors. We evaluate the performance of our employees annually, which forms the basis for determining the salary levels, bonuses and promotion opportunities. We may also distribute annual bonuses in the form of cash and Shares to our directors, senior management and other full-time employees. See “Dividends and Dividend Policy.”

We are required to make contribution to employee pension plans in the various jurisdictions in which we operate. In particular, PRC subsidiaries are required under the PRC law to make contributions to our employee benefit plans including pension, work-related injury benefits, maternity insurance and medical and unemployment insurance. Our contributions are made based on specified percentages of the salaries, bonuses and certain allowances of our employees.

We have not experienced any material labor dispute and we believe we have maintained a sound relationship with our employees.

## **Insurance**

We believe our insurance policies are in line with customary industry practice in our industry. However, any uninsured occurrence of business disruption, litigation or natural disaster, or significant damages to our uninsured equipment or facilities could have a material adverse effect on our results of operations, and we cannot assure you that our insurance coverage will be sufficient to cover our losses. See “Risk Factors — Our insurance coverage may not adequately protect us against certain operating and other hazards which may have an adverse effect on our business” in this Offering Circular.

## **Environmental, Safety and Health Matters**

Our operations and manufacturing sites are subject to the laws and regulations governing the environment protection in the relevant jurisdictions, including those governing air emissions, water discharges, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. Chemical emissions and wastewater are by-products of the production processes for our products and these pollutants are treated in accordance with all applicable environmental laws and regulations. We believe that our operations are in compliance in all material respects with applicable environmental laws and regulations. We have obtained all requisite licenses and certificates for our operations in each jurisdiction where we have operations. We have also received ISO14001, ISO9001, ISO17025, ISO45001, TS16949, IATF16949, SONY Green Partner and Asustek Green Management System certification for environment management.

We may incur substantial costs in the event of violations or liabilities under these laws and regulations, or non-compliance with the environmental permits required at our facilities. Our expenditures in this regard may further increase if more environmental laws in the relevant jurisdictions are adopted in the future which may impose more string compliance requirements. As of the date of this Offering Circular, we were not aware of any threatened or pending material environmental investigations, lawsuits or claims involving us, our operations, or our manufacturing facilities.

Our health and safety standards and our implementations of such are reviewed on an ongoing basis. Our operations are also subject to periodic inspections by the government.

## **Legal Proceedings**

We may from time to time be subject to various complaints, allegations or lawsuits claiming in the ordinary course of business. Such complaints, allegations or lawsuit claiming, whether or not have merit, may result in our expenditure of significant financial and management resources, injunctions against us or payment of damages. The outcome of any claims, investigations and proceedings is inherently uncertain, and in any event defending against these claims could be both costly and time-consuming. These risks may be amplified by the increase in the number of third parties whose sole or primary business is to assert such claims.

As of the date of this Offering Circular, we were not involved in any material legal, arbitral or administrative proceedings, and we were not aware of any material pending or threatened legal, arbitral or administrative proceedings against us or any of our directors which could have a material adverse effect on our operations or financial condition.

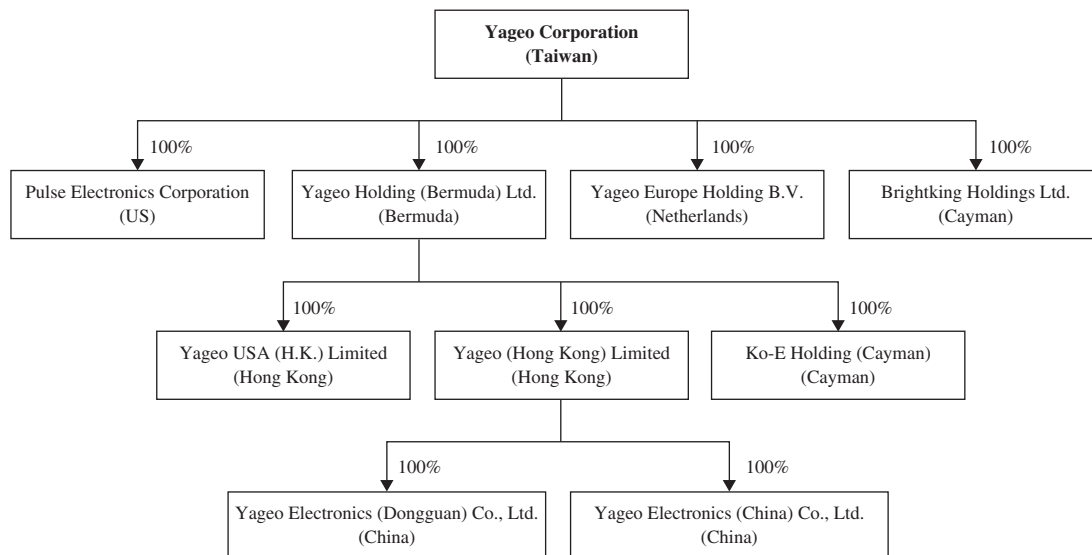
## **Investment and Principal Subsidiaries**

We have adopted internal investment guidelines based on the requirements of the FSC relating to acquisition and disposal of assets and derivative transactions. We shall consider the liquidity and volatility, as well as the overall prudence and investment amounts. Our guidelines specify respective maximum investment limits for each type of investments we are allowed to make, such as real estates, equity interests, securities and so on. The guidelines also provide detailed procedures we shall follow to complete the investments, including obtaining relevant valuation reports or legal opinions, obtaining approvals from our shareholders and/or board of directors, issuing proper announcements in accordance with the relevant laws and regulations, and evaluating the fair treatment in the proposed transaction in case the relevant counterparty is an associate of our company. Investment proposals shall also be submitted to the board of directors for discussion and review.



We maintain shareholdings in our subsidiaries and affiliates for long-term strategic and financial investment purposes. To the extent that we make any long-term investments during a given year, the majority of such investments would be made on a strategic basis in companies whose businesses relate in some way to our business operations.

Set forth below is an organizational chart depicting our principal subsidiaries as of December 31, 2019:



## MANAGEMENT

### General

The ROC Company Law and our Articles of Incorporation provide that our board of directors is elected by the shareholders and is responsible for the management of our business. The election of our directors by our shareholders is conducted by means of cumulative voting pursuant to the ROC Company Law. Our Articles of Incorporation provide for a board comprising nine directors, among them at least three and not fewer than one-fifth of the total number of directors shall be independent directors. Directors serve up to a term of three years and may serve any number of consecutive terms. Directors may be removed from office at any time for a bonafide reason, including breach of duties, by a resolution adopted at a shareholders' meeting. Our current directors were elected at the ordinary shareholders' meeting held on June 5, 2018, and their terms expire on June 4, 2021 (except for Tzong-Yeng Lin, one of the Hsu Chang Investment Ltd. Representatives, who was elected on October 17, 2018 and Chi-Sheng Weng, one of the Hsu Chang Investment Ltd. Representatives, who was elected on August 16, 2019). The next election for all of the directors is expected to be held in 2021. Pursuant to the ROC Company Law, a person may serve as our director in his/her personal capacity or as the representative of another legal entity (excluding independent directors, which should serve as our director in his/her personal capacity). Our board of directors is empowered to appoint executive officers to serve until appointed successors are qualified.

Each of our directors, supervisors and senior executive officers listed below can be reached at our registered and principal executive office located at 3F, No. 233-1, Baoqiao Road, Xindian District, New Taipei City, Taiwan, R.O.C.

The following table shows information regarding all of our directors and executive officers as of the date of this Offering Circular:

| Name                                                         | Age | Position                              | Number of Shares<br>(and percentage) held as<br>of February 26, 2020 |
|--------------------------------------------------------------|-----|---------------------------------------|----------------------------------------------------------------------|
| Pierre T.M. Chen                                             | 63  | Chairman & Chief<br>Executive Officer | 35,280,673 (8.2%)                                                    |
| Hsu Chang Investment Ltd. Representative:<br>Victor C. Wang  | 69  | Director                              | 4,019,156 (0.9%)                                                     |
| Hsu Chang Investment Ltd. Representative:<br>Tzong-Yeong Lin | 68  | Director                              | 4,019,156 (0.9%)                                                     |
| Hsu Chang Investment Ltd. Representative:<br>Shih-Chien Yang | 75  | Director                              | 4,019,156 (0.9%)                                                     |
| Hsu Chang Investment Ltd. Representative:<br>Chi-Sheng Weng  | 49  | Director                              | 4,019,156 (0.9%)                                                     |
| Hsu Chang Investment Ltd. Representative:<br>Lai-Fu Lin      | 69  | Director                              | 4,019,156 (0.9%)                                                     |
| Jerry Lee                                                    | 62  | Independent director                  | 0                                                                    |
| Hilo Chen                                                    | 69  | Independent director                  | 0                                                                    |
| Tun-Son Lin                                                  | 49  | Independent director                  | 0                                                                    |
| David D.R. Wang                                              | 61  | Chief Operating<br>Officer            | 0                                                                    |
| Kim Chang                                                    | 52  | Chief Financial<br>Officer            | 0                                                                    |
| Masayuki Fujimoto                                            | 65  | Chief Technical<br>Officer            | 0                                                                    |
| Bob P.Y. Wang                                                | 68  | Executive Vice<br>President           | 0                                                                    |
| Owen Yang                                                    | 67  | Vice President                        | 0                                                                    |
| Chris Yang                                                   | 54  | Vice President                        | 34,503 (0.008%)                                                      |
| C.T Lee                                                      | 49  | Vice President                        | 36,183 (0.008%)                                                      |

**Pierre T.M. Chen** joined us in 1977. He has served as our chairman since 1993, chief executive officer since 2019, and president since 2019. Currently, Mr. Chen also serves as the chairman of Chilisin Electronics Corp, the chairman of Kuo Shin Investment Ltd., the chairman of Yageo Holding (Bermuda) Ltd., a director of Hsu Tai International (H.K.), the chairman at Global Testing Corporation Limited, and the chairman of Tong Hsing Electronic Industries Ltd. Previously, Mr. Chen served as our general manager and the chairman of Teapo Electronic Corp. Mr. Chen received his bachelor's degree in engineering from National Cheng Kung University.

**Victor C. Wang** joined us in 2012. He has served as the representative of Hsu Chang Investment Ltd. at our board of directors since 2012. Currently, Mr. Wang also serves as an independent director of Taiwan Cement Co., Ltd., an independent Director of Da-Cin Construction Co., Ltd., an independent Director of Taiwan Navigation., Co., Ltd., a director of Chilisin Electronics Corp., a supervisor of DIVA Laboratories. Ltd., a vice chairman of Deloitte & Touche, and an independent director of Fulin-KY. Previously, Mr. Wang served as the vice chairman of Deloitte & Touche. Mr. Wang received his EMBA degree from National Taiwan University and bachelor's degree in accounting from Soochow University.

**Tzong-Yeong Lin** joined us in 2007. He has served as the representative of Hsu Chang Investment Ltd. at our board of directors since 2007. Currently, Mr. Lin also serves as a director of the International Commercial Bank of China Cultural and Educational Foundation. Previously, Mr. Lin served as a senior advisor of Mega International Commercial Bank Co., Ltd., the president of Mega Financial Holding Company, the chairman of the International Commercial Bank of China, administrative vice minister of Ministry of Finance, and chairman of Securities and Futures Commission, Ministry of Finance. Mr. Lin received his master's degree in law from National Taiwan University.

**Shih-Chien Yang** joined us in 2006. He has served as the representative of Hsu Chang Investment Ltd. at our board of directors since 2006. Currently, Mr. Yang also serves as the chairman and chief executive officer of Global Strategic Investment Fund, an independent director of Topkey Group, and an independent director of WUS Printed Circuit Co., Ltd. Previously, Mr. Yang served as the senior vice minister of the Ministry of Economic Affairs. Mr. Yang received his Ph.D. degree in electrical engineering from Northwestern University.

**Chi-Sheng Weng** joined us in 2015. He has served as the representative of Hsu Chang Investment Ltd. at our board of directors since 2015. Currently, Mr. Weng also serves as the Chairman of Kaimei Electronic Corporation. Previously, Mr. Weng served as the Chairman of Teapo Electronic Corporation. Mr. Weng received his bachelor's degree in public administration from National Chengchi University.

**Lai-Fu Lin** joined us in 2012. He has served as the representative of Hsu Chang Investment Ltd. at our board of directors since 2012. Currently, Mr. Lin also serves as an independent director of O2Micro International Limited, the chief executive partner of UHY L&C Company, a director and member of Compensation Committee of Arima Communications Corp, the CPAs international contact in Taiwan of UHY International and a supervisor of Tex Year Industries Inc. Mr. Lin is a ROC certified public accountant. Previously, he served as an accountant at Deloitte & Touche. Mr. Lin received an undergraduate degree from New Taipei Municipal San-chung Commercial High School.

**Jerry Lee** joined us in 2012. He has served as our independent director since 2012. Previously, Mr. Lee served as our vice chairman, and an audit manager of Deloitte & Touche. Mr. Lee received his bachelor's degree in accounting from Tam-Kang University.

**Hilo Chen** joined us in 2012. He has served as our independent director since 2012. Currently, Mr. Chen is also the founder & Chairman of GuoShi Partners, an independent director of Giant Manufacturing Co., Ltd., an independent director of Momo.com Inc., and an independent director of China Chemical & Pharmaceutical Co., Ltd. Previously, Mr. Chen served as the president and chief executive officer of Systex Corp., a general manager of Yahoo! China, and a vice president of Commercial Ops, Yahoo! North Asia. Mr. Chen received his bachelor's degree in transportation technology and management from National Chiao Tung University, and he received his EMBA degree from National Taiwan University.

**Tun-Son Lin** joined us in 2018. He has served as our independent director since 2018. Currently, Mr. Lin also serves as the chairman and managing partner of Whitesun Equily Ltd., and an independent director of Ubright Optronics Corporation. Mr. Lin is experienced in investing, operating and financing in consumer service, media as well as high-end value-added manufacturing businesses in the Pacific Rim since 2000. Mr. Lin is the founding vice president of the Hong Kong Independent Non-Executive Directors Association (HKINED), where he advocates better corporate governance and providing linkage to knowledge sharing across Hong Kong, China and Taiwan. Mr. Lin is also involved in philanthropic activities where he supports autism awareness and provides education support across the U.S. and Greater China region. Mr. Lin received his Ph.D. degree from King's College London, University of London.

**David D.R. Wang** joined us in 2019. He has served as our chief operating officer since 2019. Previously, Mr. Wang served as the senior vice president and spokesman of Qisda Company and the financial controller of Philips in household electronic appliance. Mr. Wang also served as Sr. VP of Finance & Administration, CFO and Spokesman of Qisda Corporation. Mr. Wang received his EMBA degree from National Taiwan University and his master's degree in computer from University of Massachusetts.

**Kim Chang** joined us in 2020. She served as our chief financial officer since 2020. Previously, Ms. Chang served as the chief accounting officer at Standard Chartered Bank Taiwan. She also served as the partner and chief operating officer of Assurance Services, EY Taiwan. Ms. Chang received her EMBA degree from National Taiwan University and her master degree in accounting from Long Island University, New York.

**Masayuki Fujimoto** joined us in 2008. He has served as our chief technical officer since 2008. Previously, Mr. Masayuki served as the general manager of central research laboratories of Taiyo Yuden Co., Ltd. and the visiting scientist at the Massachusetts Institute of Technology. Mr. Masayuki received his bachelor's degree in science from Tokyo University and Ph.D. degree in engineering from University of Tokyo.

**Bob P.Y. Wang** joined us in 2019. He has served as our executive vice president of the head of global business unit since 2019. Currently, Mr. Wang also serves as the chairman of Kuo-E Corp., a director of Chilisun Electronics Corp., and a director of Teapo Electronics Corp. Previously, Mr. Wang served as CEO of Yageo USA, and Commercial Vice president of Philips Taiwan,. Mr. Wang received his bachelor's degree in electrical engineering and microelectronics from National Cheng Kung University.

**Owen Yang** joined us in 2016. He has served as our vice president since 2016. Currently, Mr. Yang also serves as a director of Ko-E Technology (Shenzhen) Co. Ltd., a director of Ko-E (H.K.) Ltd., a director of Ko-E Corp., a director of Yageo USA (H.K.) Ltd., a supervisor of Yageo Components (Suzhou) Co., Ltd., a director of Yageo Corp. (South Asia), a director of Yageo America, a director of Yageo Europe Holding B.V., a director of Vitrohm Holding, and a director of Yageo South Asia (M) SDN BHD. Previously, Mr. Yang served as the executive vice president of Ralec Electronic Co., Ltd. Mr. Yang received his associate's degree in industrial engineering from Provincial Taipei Institute of Technology.

**Chris Yang** joined us in 2010. He has served as our vice president since 2014. Currently, Mr. Yang also serves as a director of Yageo Electronics (China) Co., Ltd., a supervisor of Yageo Trade (Suzhou) Co., Ltd., and a director of Compostar Technology (Dongguan) Co., Ltd. Previously, Mr. Yang served as a director of TPO Displays Corp. and a Senior Manager of NXP Semiconductors. Mr. Yang received his bachelor's degree in computer science from Soochow University and master's degree in information engineering from Feng Chia University.

**C.T Lee** joined us in 2000. He has served as our vice president since 2014. Currently, Mr. Lee also serves as our Senior Manager of MLCC Specialty Division. Previously, Mr. Lee served as a deputy manager of MLCC Specialty Division of Philips Taiwan. Mr. Lee received his Ph.D. degree in resources engineering from National Cheng Kung University.

## **Audit Committee**

Prior to June 5, 2018, we had two supervisors, each of whom was elected by our shareholders for a three-year term at the shareholders' meeting. On June 5, 2018, our shareholders' meeting and board of directors resolved to set up an audit committee, which replaced these two supervisors and is responsible for implementing the powers and functions of supervisors required by relevant laws and regulations, including but not limited to, investigation of our business and financial condition. Our audit committee currently consists of Mr. Jerry Lee, Mr. Hilo Chen and Mr. Tun-Son Lin. Mr. Lee is the chairman of our audit committee. In 2018 and 2019, our audit committee held meetings 6 times and 6 times, respectively.

## **Compensation Committee**

Our compensation committee consists of Mr. Jerry Lee, Mr. Hilo Chen and Mr. Tun-Son Lin. Mr. Lee is the chairman of our compensation committee. All of our compensation committee members are independent directors. Our compensation committee is responsible for prescribing and periodically reviewing the performance review and remuneration policy, system, standards, and structure for directors and managerial officers. Our compensation committee is also responsible for periodically evaluating and prescribing the remuneration of directors and managerial officers.

## **Compensation of Directors and Executive Officers**

Our directors received aggregate remuneration approximately of NT\$195 million, NT\$1,028 million and NT\$281 million (US\$9.4 million) in 2017, 2018 and 2019, respectively. Our senior management received aggregate remuneration approximately of NT\$63 million, NT\$70 million and NT\$67 million (US\$2.2 million) in 2017, 2018 and 2019, respectively. Aggregate remuneration includes all salaries, benefits in kind and annual profit-sharing paid in cash and stock, with stock being valued at par value.

In addition, there are no outstanding loans granted by us to any of the directors or senior management and there are no outstanding guarantees provided by us for the benefit of any of the directors or senior management. Our directors and senior management do not have any interests, other than in the ordinary course of business, in our business transactions. In 2017, 2018 and 2019, we did not enter into any transactions with our directors or senior management or any other companies or entities on which they serve which are unusual in their nature or conditions.

## PRINCIPAL SHAREHOLDERS

The names of our principal shareholders of record and their share ownership as of February 26, 2020, the most recent record date, are as follows:

| Principal Shareholders                                                                                                  | Shares held prior to<br>this Offering <sup>(1)</sup> |      | Shares held after to<br>this Offering <sup>(1)</sup> |      |
|-------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|------|------------------------------------------------------|------|
|                                                                                                                         | Number                                               | %    | Number                                               | %    |
| 1. Pierre T.M. Chen . . . . .                                                                                           | 35,280,673                                           | 8.19 | 35,280,673                                           | 7.15 |
| 2. CTBC Bank as Custodian for PRC Holding<br>Limited . . . . .                                                          | 35,053,556                                           | 8.14 | 35,053,556                                           | 7.10 |
| 3. CTBC Bank as Custodian for Dominant<br>Investment Holdings Ltd. . . . .                                              | 34,991,943                                           | 8.13 | 34,991,943                                           | 7.09 |
| 4. Mega International Commercial Bank as<br>Custodian for the investment account of Wholly<br>Group Japan III . . . . . | 13,665,618                                           | 3.17 | 13,665,618                                           | 2.77 |
| 5. Fubon Life Insurance Co., Ltd . . . . .                                                                              | 10,923,772                                           | 2.53 | 10,923,772                                           | 2.21 |
| 6. New Employee Retirement Fund . . . . .                                                                               | 8,196,290                                            | 1.90 | 8,196,290                                            | 1.66 |
| 7. JPMorgan Chase Bank N.A. . . . .                                                                                     | 6,390,561                                            | 1.48 | 6,390,561                                            | 1.29 |
| 8. Credit Suisse Securities (Europe) Limited . . . . .                                                                  | 6,167,584                                            | 1.43 | 6,167,584                                            | 1.25 |
| 9. Vanguard Emerging Markets Stock Index Fund . . . . .                                                                 | 5,831,629                                            | 1.35 | 5,831,629                                            | 1.18 |
| 10. Hsu Tai Investment Ltd. . . . .                                                                                     | 5,402,577                                            | 1.25 | 5,402,577                                            | 1.09 |

As of February 26, 2020, the total number of our Common Shares held by our directors was 39,299,829 shares, which represented 9.1% of the issued and outstanding Common Shares of our company on that date. As of February 26, 2020, the total number of our Common Shares held by our senior management was 35,351,359 shares, which represented 8.2% of the issued and outstanding Common Shares of our company on that date.

We granted 40,000,000 options to certain employees in May 2014, which included 20,430,000 options granted to the senior management. The vesting period of these options is 10 years. Qualified employees may exercise at certain percentages of the options after two years, from the grant date. The options were granted at an exercise price equal to the closing price of our common shares listed on the on the grant date. For any subsequent changes in our capital surplus, the exercise price is adjusted accordingly.



## CHANGES IN ISSUED SHARE CAPITAL

According to our Articles of Incorporation, we have common shares with a par value of NT\$10 per share and we may also issue preferred shares within our authorized share capital. Currently, our Articles of Incorporation provide that our authorized share capital is NT\$4,302,570,560, divided into 430,257,056 Shares. All issued shares are in registered form.

The following table sets forth the changes in our issued share capital as of the dates indicated:

| <u>Date</u>            | <u>Description</u>                                                                                                                                                                  | <u>Number of<br/>Shares issued</u> | <u>Number of total<br/>issued Shares<br/>after issue</u> |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|----------------------------------------------------------|
| September 1987 . . .   | Initial issuance of 2,000,000 shares                                                                                                                                                | 2,000,000                          | 2,000,000                                                |
| May 1988 . . . . .     | Cash capital increase: NT\$23,500,000;<br>Issuance of Stock dividends from<br>earnings: NT\$6,500,000                                                                               | 3,000,000                          | 5,000,000                                                |
| August 1989 . . . . .  | Issuance of stock dividends from earnings:<br>NT\$54,000,000                                                                                                                        | 5,400,000                          | 10,400,000                                               |
| November 1989 . . . .  | Consolidation by merger: NT\$75,000,000;<br>Cash capital increase: NT\$20,000,000                                                                                                   | 9,500,000                          | 19,900,000                                               |
| July 1990 . . . . .    | Cash capital increase: NT\$40,000,000;<br>Issuance of stock dividends from earnings:<br>NT\$44,354,000; Issuance of stock<br>dividends from capital reserves:<br>NT\$30,271,000     | 11,462,500                         | 31,362,500                                               |
| June 1991 . . . . .    | Issuance of stock dividends from earnings:<br>NT\$37,635,000; Issuance of stock<br>dividends from capital reserves:<br>NT\$50,180,000                                               | 8,781,500                          | 40,144,000                                               |
| October 1992 . . . . . | Issuance of stock dividends from earnings:<br>NT\$40,144,000; Issuance of stock<br>dividends from capital reserves:<br>NT\$80,288,000                                               | 12,043,200                         | 52,187,200                                               |
| July 1993 . . . . .    | Issuance of stock dividends from earnings:<br>NT\$52,187,200; Issuance of stock<br>dividends from capital reserves:<br>NT\$78,280,800                                               | 13,046,800                         | 65,234,000                                               |
| January 1994 . . . . . | Cash capital increase: NT\$147,660,000                                                                                                                                              | 14,766,000                         | 80,000,000                                               |
| June 1994 . . . . .    | Issuance of stock dividends from earnings:<br>NT\$168,000,000; Issuance of stock<br>dividends from capital reserves:<br>NT\$120,000,000                                             | 28,800,000                         | 108,800,000                                              |
| August 1994 . . . . .  | Cash capital increase: NT\$200,000,000                                                                                                                                              | 20,000,000                         | 128,800,000                                              |
| March 1995 . . . . .   | Cash capital increase: NT\$512,000,000                                                                                                                                              | 51,200,000                         | 180,000,000                                              |
| May 1995 . . . . .     | Issuance of stock dividends from earnings:<br>NT\$352,800,000; Issuance of stock<br>dividends from capital reserves:<br>NT\$547,200,000                                             | 90,000,000                         | 270,000,000                                              |
| May 1996 . . . . .     | Issuance of stock dividends from earnings:<br>NT\$810,000,000; Employee Profit<br>sharing: NT\$16,701,000; Issuance of stock<br>dividends from capital reserves:<br>NT\$270,000,000 | 109,670,100                        | 379,670,100                                              |
| March 1997 . . . . .   | Conversion of convertible bonds to capital<br>stock: NT\$177,474,990                                                                                                                | 17,747,499                         | 397,417,599                                              |
| June 1997 . . . . .    | Cash capital increase: NT\$525,000,000                                                                                                                                              | 52,500,000                         | 449,917,599                                              |
| June 1997 . . . . .    | Issuance of stock dividends from earnings:<br>NT\$899,835,190;                                                                                                                      |                                    |                                                          |

| Date                    | Description                                                                                                                                                                             | Number of<br>Shares issued | Number of total<br>issued Shares<br>after issue |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------------------------------------|
|                         | Employee Profit sharing: NT\$42,400,610;<br>Issuance of stock dividends from capital<br>reserves: NT\$899,835,190                                                                       | 184,207,099                | 634,124,698                                     |
| September 1997 . . .    | Conversion of convertible bonds to capital<br>stock: NT\$379,474,570                                                                                                                    | 37,947,457                 | 672,072,155                                     |
| March 1998 . . . . .    | Cash capital increase: NT\$700,000,000                                                                                                                                                  | 70,000,000                 | 742,072,155                                     |
| April 1998 . . . . .    | Conversion of convertible bonds to capital<br>stock: NT\$60,596,030                                                                                                                     | 6,059,603                  | 748,131,758                                     |
| June 1998 . . . . .     | Issuance of stock dividends from earnings:<br>NT\$1,496,263,510;<br>Employee Profit sharing: NT\$79,588,480;<br>Issuance of stock dividends from capital<br>reserves: NT\$1,496,263,510 | 307,211,550                | 1,055,343,308                                   |
| October 1998 . . . . .  | Conversion of convertible bonds to capital<br>stock: NT\$36,306,060                                                                                                                     | 3,630,606                  | 1,058,973,914                                   |
| April 1999 . . . . .    | Conversion of convertible bonds to capital<br>stock: NT\$4,596,990                                                                                                                      | 459,699                    | 1,059,433,613                                   |
| June 1999 . . . . .     | Issuance of stock dividends from earnings:<br>NT\$635,660,160;<br>Employee Profit sharing: NT\$61,988,130;<br>Issuance of stock dividends from capital<br>reserves: NT\$529,716,800     | 122,736,509                | 1,182,170,122                                   |
| May 2000 . . . . .      | Conversion of convertible bonds to capital<br>stock: NT\$76,391,080                                                                                                                     | 7,639,108                  | 1,189,809,230                                   |
| June 2000 . . . . .     | Issuance of stock dividends from earnings:<br>NT\$832,866,460; Employee Profit<br>sharing: NT\$114,878,130; Issuance of<br>stock dividends from capital reserves:<br>NT\$951,847,380    | 189,959,197                | 1,379,768,427                                   |
| May 2001 . . . . .      | Issuance of stock dividends from earnings:<br>NT\$4,139,305,280; Employee Profit<br>sharing: NT\$570,938,660                                                                            | 471,024,394                | 1,850,792,821                                   |
| July 2001 . . . . .     | Cash capital increase: NT\$2,000,000,000                                                                                                                                                | 200,000,000                | 2,050,792,821                                   |
| July 2002 . . . . .     | Issuance of stock dividends from capital<br>reserves: NT\$1,640,634,260; Employee<br>Profit sharing: NT\$391,853,470                                                                    | 203,248,773                | 2,254,041,594                                   |
| June 2004 . . . . .     | Conversion of convertible bonds to capital<br>stock: NT\$31,774,000                                                                                                                     | 3,177,400                  | 2,257,218,994                                   |
| July 2004 . . . . .     | Conversion of convertible bonds to capital<br>stock: NT\$176,445,110                                                                                                                    | 17,644,511                 | 2,274,863,505                                   |
| July 2005 . . . . .     | Issuance of new shares for the acquisition of<br>the shares of Compostar Technology Co.,<br>Ltd: 131,605,908 shares                                                                     | 131,605,908                | 2,406,469,413                                   |
| July 2006 . . . . .     | Issuance of new shares for the acquisition of<br>the shares of Chipcera Technology Co.,<br>Ltd.: 16,556,067 shares                                                                      | 16,556,067                 | 2,423,025,480                                   |
| February 2007 . . . . . | Cancellation of Treasury stock: 2,193,000<br>shares; Conversion of convertible bonds to<br>capital stock: 1,241,171 shares;<br>Conversion of Option: 140,800 shares                     | -811,029                   | 2,422,214,451                                   |
| May 2007 . . . . .      | Conversion of Option: 157,000 shares                                                                                                                                                    | 157,000                    | 2,422,371,451                                   |
| September 2007 . . .    | Conversion of Option: 8,768,167 shares                                                                                                                                                  | 8,768,167                  | 2,431,139,618                                   |
| November 2007 . . . .   | Conversion of Option: 640,000 shares;<br>Conversion of convertible bonds to capital<br>stock: 6,441,687 shares                                                                          | 7,081,687                  | 2,438,221,305                                   |
| May 2008 . . . . .      | Cancellation of Treasury stock:<br>145,470,000 shares                                                                                                                                   | -145,470,000               | 2,292,751,305                                   |

| Date                  | Description                                                                                                                                                                  | Number of<br>Shares issued | Number of total<br>issued Shares<br>after issue |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------------------------------------|
| July 2008 . . . . .   | Cancellation of Treasury stock:<br>97,889,000 shares                                                                                                                         | -97,889,000                | 2,194,862,305                                   |
| November 2010 . . . . | Conversion of convertible bonds to capital<br>stock: 6,846,077 shares                                                                                                        | 6,846,077                  | 2,201,708,382                                   |
| April 2011 . . . . .  | Conversion of Option: 3,600,000 shares                                                                                                                                       | 3,600,000                  | 2,205,308,382                                   |
| September 2013 . . .  | Cash Capital reduction: 661,592,515 shares                                                                                                                                   | -661,592,515               | 1,543,715,867                                   |
| April 2014 . . . . .  | Cancellation of Treasury stock:<br>18,001,000 shares; Conversion of<br>convertible bonds to capital stock:<br>691,797,237 shares; Conversion of Option:<br>21,280,000 shares | 695,076,237                | 2,238,792,104                                   |
| July 2014 . . . . .   | Cancellation of Treasury stock:<br>39,494,000 shares                                                                                                                         | -39,494,000                | 2,199,298,104                                   |
| September 2014 . . .  | Cash Capital reduction:<br>1,539,508,673 shares                                                                                                                              | -1,539,508,673             | 659,789,431                                     |
| November 2014 . . . . | Conversion of Option: 8,102,500 shares                                                                                                                                       | 8,102,500                  | 667,891,931                                     |
| May 2015 . . . . .    | Conversion of Option: 9,107,763 shares                                                                                                                                       | 9,107,763                  | 676,999,694                                     |
| September 2015 . . .  | Cancellation of Treasury stock:<br>17,445,000 shares                                                                                                                         | -17,445,000                | 659,554,694                                     |
| November 2015 . . . . | Cancellation of Treasury stock:<br>7,960,000 shares                                                                                                                          | -7,960,000                 | 651,594,694                                     |
| March 2016 . . . . .  | Cancellation of Treasury stock:<br>4,045,000 shares                                                                                                                          | -4,045,000                 | 647,549,694                                     |
| May 2016 . . . . .    | Cancellation of Treasury stock:<br>4,731,000 shares                                                                                                                          | -4,731,000                 | 642,818,694                                     |
| July 2016 . . . . .   | Cash Capital reduction: 128,563,739 shares                                                                                                                                   | -128,563,739               | 514,254,955                                     |
| November 2016 . . . . | Conversion of Option: 2,050,587 shares                                                                                                                                       | 2,050,587                  | 516,305,542                                     |
| April 2017 . . . . .  | Conversion of Option: 5,266,456 shares;<br>Cancellation of Treasury stock:<br>18,349,000 shares                                                                              | -13,082,544                | 503,222,998                                     |
| July 2017 . . . . .   | Cash Capital reduction: 150,966,899 shares                                                                                                                                   | -150,966,899               | 352,256,099                                     |
| August 2017 . . . . . | Conversion of Option: 377,693 shares;<br>Cancellation of Treasury stock:<br>3,392,000 shares                                                                                 | -3,014,307                 | 349,241,792                                     |
| November 2017 . . . . | Conversion of Option: 1,159,163 shares                                                                                                                                       | 1,159,163                  | 350,400,955                                     |
| March 2018 . . . . .  | Conversion of Option: 162,791 shares                                                                                                                                         | 162,791                    | 350,563,746                                     |
| May 2018 . . . . .    | Conversion of Option: 175,552 shares                                                                                                                                         | 175,552                    | 350,739,298                                     |
| July 2018 . . . . .   | Issuance of stock dividends from capital<br>reserves: 70,141,276 shares; Conversion of<br>Option: 3,300,957 shares                                                           | 73,442,233                 | 424,181,531                                     |
| December 2018 . . . . | Conversion of Option: 2,857,888 shares                                                                                                                                       | 2,857,888                  | 427,039,419                                     |
| April 2019 . . . . .  | Conversion of Option: 82,276 shares                                                                                                                                          | 82,276                     | 427,121,695                                     |
| August 2019 . . . . . | Conversion of Option: 878,166 shares                                                                                                                                         | 878,166                    | 427,999,861                                     |
| November 2019 . . . . | Conversion of Option: 1,047,932 shares                                                                                                                                       | 1,047,932                  | 429,047,793                                     |
| March 2020 . . . . .  | Conversion of Option: 1,209,263 shares                                                                                                                                       | 1,209,263                  | 430,257,056                                     |

## TRANSACTIONS WITH RELATED PARTIES

### General

We have from time to time engaged in a variety of transactions with our related parties (as defined under the Regulations Governing the Preparation of Financial Reports by Securities Issuers. Unless it can be established that no control or significant influence exists, a party falling within any of the following shall be deemed to have a substantive related party relationship:

1. An affiliated enterprise within the meaning given in Chapter VI-I of the ROC Company Law, and any of its directors, supervisors, and managerial officers.
2. A company or institution governed by the same general management office as the issuer, and any of its directors, supervisors, and managerial officers.
3. A person holding the position of manager or higher in the general management office.
4. A company or institution shown as an affiliated enterprise in the issuer's publications or public announcements.

Under Chapter VI-1 of the ROC Company Law, the term "affiliated enterprises" as used in this Law shall refer to enterprises which are independent in existence but are interrelated in either of the following relations:

- Companies having controlling and subordinate relation between them;
- Companies having made investment in each other.

In considering whether a counterparty is a related party, attention shall be directed to the substance of the relationship in addition to the legal form.

### Transactions with Related Parties

#### *Sales and Purchases of Goods*

In 2017, 2018 and 2019, we sold our products to our related parties in the aggregate amount of NT\$596.3 million, NT\$966.7 million and NT\$113.2 million (US\$3.8 million), respectively.

In 2017, 2018 and 2019, we purchased raw materials and components from our related parties in the aggregate amount of NT\$1,002.6 million, NT\$723.0 million and NT\$204.2 million (US\$6.8 million), respectively.

#### *Accounts Receivable and Payable*

As of December 31, 2017, 2018 and 2019, accounts receivable due from our related parties but accounted for under accounts receivable amounted to NT\$456.1 million, NT\$199.0 million and NT\$121.5 million (US\$4.1 million), respectively.

As of December 31, 2017, 2018 and 2019, accounts payable due to our related parties but accounted for under accounts payable amounted to NT\$146.1 million, NT\$135.2 million and NT\$129.0 million (US\$4.3 million), respectively.

#### *Lease Arrangements*

In 2017, 2018 and 2019, we leased out office and plant to our related parties and received lease income amounting to NT\$15.2 million, NT\$25.6 million and NT\$26.5 million (US\$0.9 million), respectively.

#### *Disposal of Property, Plant and Equipment*

In 2017, 2018 and 2019, proceeds of the disposal of property, plant and equipment amounted to NT\$0.4 million, nil and nil, respectively.

In 2017, 2018 and 2019, gain from the disposal of property, plant and equipment amounted to NT\$0.2 million, nil and nil, respectively.

***Disposals of Other Assets***

In 2017, 2018 and 2019, proceeds of the disposal of other assets amounted to NT\$4,329.4 million, nil and nil, respectively.

In 2017, 2018 and 2019, gain from the disposal of other assets amounted to nil, nil and nil, respectively.

***Other transactions with related parties***

In 2017, 2018 and 2019, rental income amounted to NT\$15.2 million, NT\$25.6 million and NT\$26.5 million (US\$0.9 million), respectively.

In 2017, 2018 and 2019, other expense amounted to nil, NT\$0.2 million and NT\$3.0 million (US\$0.1 million), respectively.

***Key Management Compensation***

In 2017, 2018 and 2019, key management compensation amounted to NT\$317.4 million, NT\$1,257.7 million and NT\$378.2 million (US\$12.6 million), respectively.

For more information on the transactions with related parties, see Note 30 to our consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019, which appear in the F-pages of this Offering Circular.

## DESCRIPTION OF OUR SHARE CAPITAL

*Set forth below is certain information relating to our capital stock, including brief summaries of certain provisions of our Articles of Incorporation, the Securities and Exchange Law of the ROC (the “ROC Securities and Exchange Law”) and the regulations promulgated thereunder, and the Company Law of the ROC (the “ROC Company Law”).*

### General

As of the date of this offering Circular, our authorized share capital registered with the MOEA was NT\$40,000,000,000, and our paid-in share capital was NT\$4,302,570,560, divided into 430,257,056 Shares with a par value of NT\$10 per share. Any change in the authorized share capital of a public company limited by shares, such as us, requires an amendment to our Articles of Incorporation (which requires approval at a shareholders’ meeting). Authorized but unissued shares may also be issued at such times and, subject to the provisions of the applicable laws and the approval of, or registration with, the MOEA and the FSC, upon terms that our board of directors may determine. Except as disclosed in this Offering Circular, we do not as of the date of this Offering Circular have any equity in any other form such as preference shares, preferential subscription rights, exchangeable debt securities or warrants other than the Shares.

All issued and outstanding Shares are fully paid and in registered form.

### Pre-Emptive Rights and Issue of New Shares

The ROC Company Law provides that between 10% to 15% of any newly-issued shares must be offered first to the issuing company’s employees except in certain limited circumstances. In addition, the ROC Securities and Exchange Law and the relevant securities regulations require that if a public company listed on the TWSE or whose shares are traded on the Taipei Exchange, formerly known as GreTai Securities Market, intends to offer new shares for cash, at least 10% of the issue must be offered to the public, except under certain circumstances or when exempted by the FSC. This percentage can be increased by a resolution passed at a shareholders’ meeting, which will reduce the number of new shares to which existing shareholders may have pre-emptive right. Unless the percentage of the shares offered to the public is increased by a resolution, our existing shareholders have a pre-emptive right to acquire the remaining 75% to 80% of the issue in proportion to their existing shareholdings. The shares not subscribed for by the employees or the shareholders at the expiration of the period for the exercise of their rights, may be freely offered by the company (subject to ROC law) to the general public by means of a public offering or to specified persons at the direction of our board of directors.

### Transfer of Shares

Shares (in registered form) are transferred by endorsement and delivery of the related share certificates. However, settlement of trading of share of a listed company, such as our company, is generally carried out on the book-entry system maintain by the Taiwan Depository & Clearing Corporation, or TDCC. Transferees must have their names and addresses registered on our shareholder’s register in order to assert shareholder’s rights against us. Shareholders are required to register their respective specimen seals or chops with our share registrar.

### Shareholders’ Meetings

Our annual ordinary shareholders’ meetings are usually held in New Taipei City, Taiwan, or an alternative location within the ROC as determined by our Board of Directors, within six months following the end of our fiscal year. Notice in writing of our annual ordinary shareholders’ meetings stating the place, time and agenda thereof must be dispatched to each shareholder at least 30 days prior to the date set for the meeting. Special meetings of our shareholders may be convened by resolution of our Board of Directors, or by our shareholders under certain circumstances. Special meetings of our shareholders may also be convened by any of our supervisors when the Board of Directors does not or cannot convene a shareholders’ meeting and/or such a meeting is necessary for the benefit of the shareholders.

Notice in writing of such special meetings stating the place, time and agenda thereof must be dispatched to each shareholder at least 15 days prior to the date set for the meeting. Notice of the



shareholders' meetings shall also be published on the MOPS in accordance with the Taiwan Stock Exchange Corporation Regulations Governing Information Reporting by Listed Companies.

### **Voting Rights**

Each Share is entitled to one vote. Except as otherwise provided by ROC law, a resolution may be adopted by the holders of a majority of our issued and outstanding Shares represented at a shareholders' meeting at which a majority of the holders of our issued and outstanding Shares are present. Notwithstanding the above, in order to approve certain major corporate actions, including (a) any amendment to our Articles of Incorporation (which is required in respect of, inter alia, any increase in authorized share capital and any changes in the rights of different classes of shares), (b) entering into, modification or termination of any contract regarding leasing all our business, outsourcing our operations or forming joint operations with others, (c) our dissolution, amalgamation or spin-off, the transfer of all or a material part of our business or our property, (d) the taking over of the whole of the business or property of any other entity which would have a significant impact on our operations, and (e) the distribution of any stock dividend, a resolution has to be approved by the holders of at least a majority of our Shares represented at a meeting of shareholders with a quorum of holders of at least two-third of the issued and outstanding Shares.

Our shareholders may be represented at an ordinary or a special shareholders' meeting by proxy if a valid proxy form is delivered to us at least five days before the date fixed for the ordinary or special shareholders' meeting. Voting rights attached to our Shares exercised by our shareholders' proxies are subject to the proxy regulations promulgated by the FSC.

Any shareholder who has a personal interest in a matter to be discussed at our shareholders' meeting, the outcome of which may impair our interests, shall not vote or exercise voting rights on behalf of another shareholder on such matter.

### **Registration of Shareholders**

With respect to shareholders who have opened book-entry accounts at the TDCC, our register of such shareholders is maintained by the database of the TDCC. With respect to shareholders who have not opened TDCC book-entry accounts, our share registrar, MasterLink Securities Corporation, maintains the register of our shareholders at its offices located at 1F-3F, No. 209, Sec. 1, Fuxing S. Rd., Da'an Dist., Taipei City 106, Taiwan, and enters transfers of shares in such register upon presentation of, among other documents, certificates representing the shares transferred.

For the purpose of determining certain rights, including right to dividends attached to the Shares, the ROC Company Law provides that the register of shareholders be closed for a period of 60 days, 30 days and five days immediately before the date of each ordinary shareholders' meeting, each special shareholders' meeting and the record date for a dividend distribution, respectively.

### **Annual Financial Statements**

Under the ROC Company Law, 10 days before our ordinary shareholders' meeting, the statements and records of accounts prepared by the board of directors and the report made by the supervisors must be made available at our registered office in New Taipei City for inspection by our shareholders. According to the regulations of the FSC, we are required to publish our annual and quarterly financial statements on a consolidated basis.

### **Dividends and Distributions**

Except under limited circumstances as permitted by the ROC Company Law, an ROC company is not permitted to distribute dividends or make any other distributions to shareholders for any year in which the company does not have current or retained earnings (excluding reserves). In addition, before distributing a dividend or making any other distribution to shareholders, a company must pay all outstanding taxes, recover any past losses, and set aside a reserve, referred to as the "Legal Reserve", at 10% of its earnings until such time as its accumulated Legal Reserve equals the amount of its total paid-up capital. In addition, a company may set aside a special reserve in accordance with its articles of incorporation or resolutions of the shareholders' meeting. Subject to compliance with these requirements, a company may pay dividends from its earnings or make other distributions from its reserves as set forth below.

In addition to permitting dividends to be paid out of current or retained earnings, the ROC Company Law also permits a company to make distributions to its shareholders in the form of additional shares of capital stock from recapitalization of reserves (including the Legal Reserve and the capital surplus of premium from issuing stocks and earnings from gifts received, referred to as the “Capital Reserve”). In the case of a company’s Capital Reserve, subject to the ROC Securities and Exchange Law and applicable FSC regulations, 100% of the capital reserves may be recapitalized through stock distributions to shareholders. In the case of a company’s Legal Reserve, however, the recapitalized portion payable out of such Legal Reserve can only be effected when the accumulated Legal Reserve exceeds 125% of the paid-in capital of the company.

Under the ROC Company Law, following approval at the shareholders’ meeting, dividends are paid to shareholders from a company’s current or retained earnings, Legal Reserves or Capital Reserve (subject to compliance with the above requirements), in proportion to the number of shares owned by each shareholder as listed on the register of shareholders as of the relevant record date. Dividends declared out of earnings may also be distributed either in cash or in the form of common stock or a combination thereof. The ratio between any cash dividend and stock dividend is determined by the shareholders at a shareholders’ meeting. Stock dividends are delivered to the persons whose names are recorded as shareholders in the shareholders’ register at the relevant record date. Notices of such persons’ entitlements to stock dividends are delivered by post notifying them of the place and date to collect the relevant share certificates or requesting them to designate an account under their names to which such stock dividends will be delivered. In respect of cash dividends, the company will notify the shareholders and make the payments in check or wire transfer to such accounts as may be designated by the shareholders.

Our Articles of Incorporation provide that, in principle, at least 10% of the remaining portion of the net income, less prior years’ losses, outstanding taxes, the legal reserve and any special reserve will be distributed as dividends to shareholders. In addition, pursuant to our Articles of Incorporation, prior to distributing any dividends to our shareholders, we were required to first distribute (i) not less than 2% of the distributable earnings to employees as bonuses and (ii) not more than 3% of the distributable earnings to directors as compensation. The employees’ bonuses may, subject to a resolution of the board of directors, be distributed to employees in way of cash or shares and the directors’ compensation should be distributed in way of cash. Pursuant to Articles of Incorporation, we are allowed to distribute dividends to our shareholders semiannually.

No dividend or distribution shall bear interest against the Company. Upon the date of declaration, we typically remit dividends into a special bank account, and the bank agency will transfer dividends to each shareholder’s designated account. In limited cases, we also distribute dividends with non-negotiable notes by registered mails. If a shareholder fails to provide the correct bank account or address for the wire transfer or registered mail and thus is unable to receive dividends, such dividends will remain as a debt due to the shareholder. Any dividend which remains unclaimed after five years from the date of declaration shall be forfeited and returned to us.

For information on the dividends paid by us in recent years, see “Dividends and Dividend Policy”. For information as to ROC taxes on dividends and distributions, see “Taxation — ROC Taxation”.

### **Acquisition of Our Shares by Us**

With minor exceptions, we cannot acquire our own Shares under the ROC Company Law. However, under the ROC Securities and Exchange Law, we may by a board resolution adopted by majority consent at a meeting with two-thirds of our Directors present, purchase up to 10% of our issued and outstanding Shares on the TWSE or by a tender offer, in accordance with the procedures prescribed by the FSC, for the following purposes:

- (i) to transfer Shares to our employees;
- (ii) to convert bonds with warrants, preferred shares with warrants, convertible bonds, convertible preferred shares or certificates of warrants issued by us into the Shares; and
- (iii) if necessary, to maintain our credit and our shareholders’ equity provided that the Shares so purchased shall be cancelled thereafter.

In addition, we may not spend more than the aggregate amount of the retained earnings, the premium from issuing Shares and the realized portion of the capital reserve to purchase our Shares.

We may not pledge or hypothecate any purchased Shares. In addition, we may not exercise any shareholders' rights attached to such Shares. In the event that we purchase our Shares on the TWSE, our affiliates, Directors, supervisors, and their respective spouses and minor children and/or nominees are prohibited from selling any of our Shares during the period in which we purchase our Shares.

### **Liquidation Rights**

Pursuant to the ROC Company Law, in the event of our liquidation, the assets remaining after payment of all debts, liquidation expenses, taxes and distributions to holders of preferred shares, if any, will be distributed pro rata to our shareholders.

### **Other Rights of Shareholders**

Under the ROC Company Law, dissenting shareholders are entitled to appraisal rights in the event of a spin-off or a merger and various other major corporate actions. Dissenting shareholders may request us to redeem all their shares at a fair price to be determined by mutual agreement. If no agreement can be reached, the valuation will be determined by a court. Subject to applicable law, dissenting shareholders may, among other things, exercise their appraisal rights by notifying us before the related shareholders' meeting and/or by raising and registering their dissent at the shareholders' meeting.

One or more shareholders who have held more than 3% of the issued and outstanding Shares for more than one year may require our board of directors to call a special shareholders' meeting by sending a written request, setting forth therein the agenda for discussion and the reasons, to our board of directors. The ROC Company Law allows shareholders holding 1% or more of the total issued shares of a company to submit, during the period of time prescribed by the company, one proposal in writing for discussion at the ordinary meeting of shareholders. The ROC Company Law also provides that a company may adopt a nomination procedure for election of directors or supervisors. If a company wishes to adopt the nomination procedure, it must be stipulated in its articles of incorporation. With such provision in the articles of incorporation of a company, shareholders representing 1% or more of the total issued shares of such company may submit a candidate list along with relevant information and supporting documents to the company within the period prescribed by the company. Our Articles of Incorporation currently offer such nomination procedure.

## DESCRIPTION OF THE GLOBAL DEPOSITARY SHARES

Citibank, N.A., or Citibank, has agreed to act as the Depositary for the Global Depositary Shares, or GDSs. Citibank was incorporated on June 16, 1812 under the laws of the United States. Citibank's depositary offices are located at 388 Greenwich Street, New York, New York 10013, USA. Rule 144A and Regulation S Global Depositary Shares are referred to as "Rule 144A GDSs" and "Regulation S GDSs," respectively. In this summary, we intend to use the term "GDSs" to refer to the Rule 144A GDSs and to the Regulation S GDSs. Unless we otherwise state, you should assume that the term "GDSs" encompasses both Rule 144A GDSs and Regulation S GDSs. GDSs are evidenced by Global Depositary Receipt, or GDR, certificates. The GDSs we are selling in the United States are referred to and will be issued as Rule 144A GDSs, and the GDSs we are selling outside the United States are referred to and will be issued as Regulation S GDSs. GDSs represent ownership interests in securities that are on deposit with the Depositary.

The Depositary has appointed a Custodian to hold the securities on deposit in safekeeping. In this case, the Custodian is Citibank Taiwan Limited, having its principal office at 9F, 16, SEC.4, Nanking E. Road, Taipei 105, Taiwan, Republic of China.

We will appoint Citibank as Depositary pursuant to two separate amended and restated Deposit Agreements, both to be dated as of the Closing Date, one for the Rule 144A GDSs, or the Rule 144A Deposit Agreement, and one for the Regulation S GDSs, or the Regulation S Deposit Agreement. A copy of the Deposit Agreements and any supplements or amendments thereto may be obtained from the Depositary. This is a summary description of the material terms of the GDSs and of your material rights as an owner of GDSs. Please remember that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of GDSs will be determined by reference to the terms of the applicable Deposit Agreement and not by this summary. We urge you to review the Deposit Agreements in their entirety. Statements printed in italics in this description are provided for your information but may not be contained in the Deposit Agreements. *Existing GDR deposit agreements will be amended and restated for Yageo GDRs outstanding at the time of the closing of this offering to become fungible with the GDRs described herein (except to the extent certain rights of existing GDR holders need to be preserved under the terms of the existing deposit agreements).*

Each GDS represents the right to receive, and to exercise the beneficial ownership interests in, five Shares, or evidence of the right to receive, and to exercise the beneficial ownership interests in, five Shares, on deposit with the Custodian. A GDS will also represent the right to receive, and to exercise the beneficial ownership interests in, any other property received by the Depositary or the Custodian on behalf of the owner of the GDS but that has not been distributed to the owner of the GDSs because of legal restrictions or practical considerations.

*On the date that we receive proceeds from this offering, or the Closing Date, we will deliver to the Custodian a global certificate of payment ("**Certificate of Payment**") evidencing the irrevocable right to receive the underlying Shares until the individual certificates of payment in scripless form ("**Individual Scripless Certificates of Payment**") are listed on the TWSE. Following the Closing Date, we will apply to the TWSE for listing of the Individual Scripless Certificates of Payment. It is expected that the TWSE will approve the listing of the Individual Scripless Certificates of Payment on the fourth ROC Business Day following the Closing Date, such approval date being the "Share Listing Date," although there is no assurance that such approval will be obtained by such date, if at all. (For the avoidance of doubt, the first ROC Business Day after the Closing Date is April 21, 2020.) Immediately upon the listing of the Individual Scripless Certificates of Payment on the TWSE, the Certificate of Payment we deliver to the Custodian on the Closing Date will be replaced by the Individual Scripless Certificates of Payment. As used herein, "ROC Business Day" means a day (other than a Saturday or Sunday) on which the commercial banks are open for business in Taipei City, ROC.*

If you become an owner of GDSs, you will become a party to the applicable Deposit Agreement and therefore will be bound to its terms and to the terms of the GDR certificate that evidences your GDSs. The Deposit Agreements and the GDR certificates specify our rights and obligations as well as your rights and obligations as an owner of GDSs and those of the Depositary. As a GDS owner you appoint the Depositary to act on your behalf for the Shares represented by your GDSs, either upon (1) your specific instructions when we call a meeting of shareholders, distribute an elective dividend (if permitted by ROC laws) or make a rights offering, or (2) the specific terms of the applicable Deposit

Agreement to receive any dividends we distribute or Shares. The Deposit Agreements are governed by New York law. However, our obligations to the holders of Shares will continue to be governed by ROC laws, which may be different from the laws in the United States. In addition, we note that ROC laws and regulations may restrict the deposit and withdrawal of the Shares into or from the depositary receipt facilities.

EACH OF THE PARTIES TO THE DEPOSIT AGREEMENTS (INCLUDING, WITHOUT LIMITATION EACH HOLDER AND BENEFICIAL OWNER OF GDSS) IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING AGAINST THE COMPANY AND/OR THE DEPOSITARY ARISING OUT OF, OR RELATING TO, THE DEPOSIT AGREEMENTS, ANY GDR AND ANY TRANSACTIONS CONTEMPLATED THEREIN (WHETHER BASED ON CONTRACT, TORT, COMMON LAW OR OTHERWISE)

*Under the laws and regulations of the ROC and as provided in the Deposit Agreements, as currently in effect, after the Initial Deposit (as defined below), without obtaining regulatory approval from the FSC, no shares may be accepted for deposit and no GDSs may be issued under the terms of the Deposit Agreements except in the following circumstances:*

- 1) upon a stock dividend on, or a free distribution of, Shares to existing shareholders;*
- 2) upon the exercise by existing shareholders of their pre-emptive rights in connection with capital increases for cash;*
- 3) as permitted under the Deposit Agreements, to the extent previously issued GDSs have been cancelled, the purchase directly by a person or through the Depositary of Shares for deposit in the depositary receipt facility on the TWSE or the delivery by any person of Shares held by such person for deposit in the depositary receipt facility; and*
- 4) upon the exchange of Rule 144A GDSs for Regulation S GDSs and vice versa,*

*provided that the total number of GDSs outstanding after an issuance described in clause (3) does not exceed the number of GDSs issued and previously approved by the FSC in connection with the offering plus any GDSs created under clauses (1) and (2) described above and subject to any adjustment on the number of Shares represented by each GDS.*

Under the laws and regulations of the ROC, the Shares deposited under the Deposit Agreements may be withdrawn upon cancellation of the corresponding GDSs pursuant to the respective Deposit Agreement subject to the following conditions:

- *the appointment of an eligible agent in the ROC to open (1) a securities trading account with an ROC brokerage firm with ROC approval and (2) a bank account to pay ROC taxes, remit funds, exercise shareholders' rights and perform such other functions as you may designate upon such withdrawal;*
- *the appointment of a tax guarantor in the ROC for filing tax return and making tax payment;*
- *the appointment of a custodian bank to hold the securities in safekeeping, make confirmations, settle trades and report relevant information; and*
- *obtaining a Foreign Investor Investment I.D.*

*In addition, you will be required to register with the TWSE for making investments in the ROC securities market prior to withdrawing Shares.* Presently, you may hold your GDSs only through a brokerage or safekeeping account. As such, you must rely on the procedures of your broker or bank to assert your rights as a GDS owner. Please consult with your broker or bank to determine what those procedures are. When we refer to "you," we assume the reader owns GDSs and will own GDSs at the relevant time. When we refer to a "holder," we assume the person owns GDSs and such person's agent, which may be a broker, custodian, bank or trust company, is the holder of the applicable GDR certificate.



The registration of the Shares in the name of the Depositary or the Custodian shall, to the maximum extent permitted by applicable law, vest in the Depositary or the Custodian the record ownership in the applicable Shares with the beneficial ownership rights and interests in such Shares being at all times vested with the beneficial owners of the GDSs representing the Shares. The Depositary or the Custodian shall at all times be entitled to exercise the beneficial ownership rights in all deposited property, in each case only on behalf of the holders and beneficial owners of the GDSs representing the deposited property.

### **Distinctions Between Rule 144A GDSs and Regulation S GDSs**

The Rule 144A GDSs and the Regulation S GDSs are similar in many ways but are different primarily on account of the requirements of the U.S. securities laws. The Rule 144A GDSs are "restricted securities" under the securities laws and as such are subject to limitations on their issuance, transfer and cancellation.

The differences between the Rule 144A GDSs and the Regulation S GDSs and the restrictions imposed on the Rule 144A GDSs and the Regulation S GDSs cover primarily the following:

- The persons who may own and trade the GDSs:
  - only "Qualified Institutional Buyers" (as defined in Rule 144A) and persons located outside of the United States other than "U.S. persons" (as defined in Regulation S) may own and trade Rule 144A GDSs; and
  - any person may own and trade Regulation S GDSs offered herein.
- The persons who may create additional GDSs:
  - only persons located outside of the United States other than "U.S. persons" (as defined in Regulation S) may deposit Shares to receive Regulation S GDSs; and
  - only "Qualified Institutional Buyers" (as defined in Rule 144A) and persons located outside of the United States other than "U.S. persons" may deposit Shares to receive Rule 144A GDSs.
- The persons to whom you may transfer the GDSs, upon sale or otherwise:
  - you may transfer Rule 144A GDSs only to "Qualified Institutional Buyers" (as defined in Rule 144A) or outside of the United States to non-U.S. persons in accordance with Rule 903 and 904 of Regulation S; and
  - you may transfer the Regulation S GDSs offered herein to any person.
- The restrictions on the transfers and withdrawal of the Shares represented by the GDSs:
  - Please refer to "— Legends" below.
- The eligibility for book-entry transfer:
  - Please refer to "— Clearance, Settlement and Safekeeping" below.

These distinctions and the requirements of the U.S. securities laws may require us and the Depositary to treat the Regulation S GDSs and the Rule 144A GDSs differently at any time in the future. There can be no guarantee that holders of Rule 144A GDSs will receive the same entitlements as holders of Regulation S GDSs and vice versa.

## Clearance, Settlement and Safekeeping

### Rule 144A GDSs

The Depositary has made arrangements with DTC to act as securities depository for the Rule 144A GDSs. All Rule 144A GDSs issued in this offering will be registered in the name of Cede & Co., DTC's nominee. One Master Rule 144A GDR certificate will represent all Rule 144A GDSs issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDSs are to be accomplished by entries made on the books of DTC and of the participants in DTC acting on behalf of Rule 144A GDS owners. Owners of Rule 144A GDSs will not receive physical certificates evidencing their ownership interests in the Rule 144A GDSs, except in the event that DTC no longer acts as securities depository and a successor securities depository cannot be appointed.

*The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Rule 144A GDSs evidenced by the Master Rule 144A GDR certificate to such persons may be limited. Because DTC can only act on behalf of direct participants (“**Direct Participants**”), who in turn act on behalf of indirect participants (“**Indirect Participants**”), the ability of a person owning Rule 144A GDSs evidenced by the Master Rule 144A GDR certificate to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take action in respect of such interest, may be affected by the lack of physical individual definitive securities in respect of such interest.*

*So long as DTC, or its nominee, is the registered holder of the Master Rule 144A GDR certificate, DTC or such nominee, as the case may be, will be considered the sole holder of the Rule 144A GDSs evidenced thereby for all purposes under the Rule 144A Deposit Agreement and the Rule 144A GDSs.*

*DTC may discontinue providing its services as securities depository with respect to the Rule 144A GDSs at any time by giving reasonable notice to the Depositary. Under such circumstances, in the event that a successor securities depository cannot be appointed, Rule 144A GDR certificates will be printed and delivered to the applicable Rule 144A GDS owners.*

*DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that the Direct Participants deposit and facilitates the clearance and settlement of securities transactions among Direct Participants in such securities through electronic computerized book-entry changes in accounts of Direct Participants, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the managers (and/or their respective affiliates). Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly, or the Indirect Participants. Transfers of ownership or other interests in DTC are to be accomplished by entries made on the books of Direct Participants or Indirect Participants acting on behalf of beneficial owners of GDSs. In addition, beneficial owners of GDSs in DTC will receive all distributions of dividends, GDSs, shares, rights and other distributions, if any, on the GDSs from the Depositary through Direct Participants and Indirect Participants.*

### Regulation S GDSs

The Regulation S GDSs are not eligible for settlement in DTC. Arrangements have been made with Euroclear and Clearstream to act as securities depositories for the Regulation S GDSs. All Regulation S GDSs issued in this offering will be registered in the name of a nominee of Citibank Europe plc as, common depository for Euroclear and Clearstream (the “**Common Depository**”). One Master Regulation S GDR certificate will represent all Regulation S GDSs issued to and registered in the name of a nominee of the Common Depository (initially “**Citivic Nominees Limited**”). Euroclear and Clearstream will hold the Regulation S GDSs on behalf of their participants through their respective depositories, and transfers will be permitted only within Euroclear and Clearstream in accordance with usual rules and operating procedures of the relevant system. Transfers of ownership interests in Regulation S GDSs are to be accomplished by entries made on the books of Clearstream and Euroclear and of participants in Clearstream and Euroclear, acting in each case on behalf of



Regulation S GDS owners. Owners of Regulation S GDSs will not receive physical certificates representing their ownership interests in the Regulation S GDSs, except in the event that use of the Euroclear and Clearstream book-entry systems for the Regulation S GDSs is discontinued. *The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Regulation S GDSs evidenced by the Master Regulation S GDR certificate to such persons may be limited. Because Euroclear and Clearstream can only act on behalf of direct participants in their book-entry systems, who in turn act on behalf of indirect participants, the ability of a person owning Regulation S GDSs evidenced by the Master Regulation S GDR certificate to pledge such interest to persons or entities that do not participate in the Euroclear and Clearstream systems, or otherwise take action in respect of such interest, may be affected by the lack of physical individual definitive securities in respect of such interest.*

*So long as the Common Depository (as nominee for Euroclear and Clearstream) is the registered holder of the Master Regulation S GDR certificate, the Common Depository will be considered the sole holder of the Regulation S GDSs evidenced thereby for all purposes under the Regulation S Deposit Agreement.*

If at any time Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the Regulation S GDSs, we and the Depository will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depository will make available Regulation S GDSs in physical certificate form.

## **Settlement**

*So long as the Rule 144A GDSs are evidenced by the Master Rule 144A GDR certificate registered in the name of DTC or its nominee, the Rule 144A GDSs will settle in DTC's book-entry settlement system and secondary market trading activity in the Rule 144A GDSs will be required by DTC to settle in immediately available funds. So long as the Regulation S GDSs are represented by the Master Regulation S GDR certificate registered in the name of the Common Depository or its nominee, the Regulation S GDSs will settle in Euroclear and Clearstream in accordance with their respective rules and operating procedures.*

*Subject to compliance with the transfer restrictions applicable to the GDSs described below, in cross-market transfers from the account of a DTC participant to the account of a Euroclear or Clearstream account-holder, the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream account-holder to DTC by 3:00 p.m., New York City time, on the settlement date. On the settlement date, the Depository will (1) decrease the amount of the Rule 144A GDSs registered in the name of DTC or its nominee and evidenced by the Master Rule 144A GDR certificate and (2) increase the amount of Regulation S GDSs registered in the name of the Common Depository or its nominee and evidenced by the Master Regulation S GDR certificate. Book-entry interests will be delivered to Euroclear or Clearstream, as the case may be, for credit to the relevant account-holder on the first business day following the settlement date.*

*Subject to compliance with the transfer restrictions applicable to the GDSs described below, when beneficial interests in the GDSs represented by the relevant Master GDR certificate are to be transferred from the account of a Euroclear or Clearstream account-holder holding a beneficial interest in the Regulation S GDSs represented by the Master Regulation S GDR certificate to the account of a DTC participant wishing to hold a beneficial interest in the Rule 144A GDSs represented by the Master Rule 144A GDR certificate, the Euroclear or Clearstream account-holder must send delivery instructions to Euroclear by 10:00 a.m., Brussels time, for custody exchange instructions received by telex, and by 3:00 p.m., Brussels time, for custody exchange instructions through SWIFT or Euclid, and to Clearstream by 7:45 p.m., Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, as the case may be, will in turn transmit an appropriate instruction to the Depository to arrange delivery to the DTC participant on the settlement date. On the settlement date, the Depository will (1) deliver such Rule 144A GDSs by book-entry transfer to the relevant account of the DTC participant and (2)(a) decrease the amount of Regulation S GDSs registered in the name of the Common Depository or its nominee and evidenced by the Master Regulation S GDR certificate and (b) increase the amount of Rule 144A GDSs registered in the name of DTC or its nominee and evidenced by the Master Rule 144A GDR certificate.*

*DTC will take any action permitted to be taken by an owner of Rule 144A GDSs only at the direction of one or more DTC participants to whose account or accounts with DTC interests in the Rule 144A GDSs evidenced by the Master Rule 144A GDR certificate are credited and only in respect of such portion of the number of Rule 144A GDSs as to which such DTC participant or DTC participants has or have given such direction. Owners of indirect interests in securities evidenced by the Master Rule 144A GDR certificate through DTC participants have no direct rights to enforce such interests while the securities are in global form.*

*The Common Depository will take any action permitted to be taken by an owner of Regulation S GDSs only at the direction of one or more participants of Euroclear or Clearstream to whose account or accounts are credited with interests in the Regulation S GDSs evidenced by the Master Regulation S GDR certificate held by the Common Depository and only in respect of such portion of the number of Regulation S GDSs as to which such participant or participants has or have given such direction. Owners of indirect interests in securities evidenced by the Master Regulation S GDR certificate through the participants of Euroclear and Clearstream have no direct rights to enforce such interests while the securities are in global form.*

*Although DTC, Clearstream and Euroclear have procedures in order to facilitate the transfer of interests in the Master GDR certificates among participants in their respective settlement systems, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time. None of us, the Depository, the Custodian or any of their agents will have any responsibility for the performance by DTC, Clearstream or Euroclear or their respective participants of their respective obligations under the rules and procedures governing their operations.*

## **Transfer Restrictions**

The GDSs may be resold, pledged or otherwise transferred only in compliance with the U.S. securities laws and are subject to the following restrictions:

| <b>Rule 144A GDSs</b>                                                                                                                                     | <b>Regulation S GDSs</b>                                                                            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| The Rule 144A GDSs may for U.S. securities laws purposes be resold, pledged or otherwise transferred only:                                                | The Regulation S GDSs offered herein will be freely transferable for U.S. securities laws purposes. |
| (i) outside the United States to a person other than a U.S. person (as defined in Regulation S under the Securities Act) in accordance with Regulation S; |                                                                                                     |
| Or                                                                                                                                                        |                                                                                                     |
| (ii) to a “Qualified Institutional Buyer” (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A;                               |                                                                                                     |
| Or                                                                                                                                                        |                                                                                                     |
| (iii) pursuant to Rule 144 under the Securities Act, if available;                                                                                        |                                                                                                     |
| Or                                                                                                                                                        |                                                                                                     |
| (iv) pursuant to an effective registration statement under the Securities Act.....                                                                        |                                                                                                     |

| <b>Rule 144A GDSs</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <b>Regulation S GDSs</b>                                                                                                                                                                                                                                                                                          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Restrictions Upon Deposit</b></p> <p>Shares will be accepted for deposit only if delivered by, or on behalf of, a person that is:</p> <p>(a) not us or our affiliate or a person acting on behalf of us or our affiliate, and</p> <p>(b) is (i) a “Qualified Institutional Buyer” (as defined in Rule 144A), or (ii) a person other than a “U.S. person” (as defined in Regulation S) located outside the United States. . . . .</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <p>Shares will be accepted for deposit only if delivered by, or on behalf of, a person that is:</p> <p>not us or our affiliate or a person acting on behalf of us or our affiliate, and</p> <p>(b) is a person other than a “U.S. person” (as defined in Regulation S) and located outside the United States.</p> |
| <p><b>Restrictions Upon Withdrawal</b></p> <p>Shares may be withdrawn from the Rule 144A GDR Facility agreement only by:</p> <p>a person other than a “U.S. person” (as defined in Regulation S) located outside of the United States who will be the beneficial owner of the Shares upon withdrawal;</p> <p>Or</p> <p>a “Qualified Institutional Buyer” (as defined in Rule 144A) who:</p> <p>(x) has sold the Rule 144A GDSs to another “Qualified Institutional Buyer” (as defined in Rule 144A), in a transaction meeting the requirements of Rule 144A, or outside the United States to a person other than a “U.S. person” (as defined in Regulation S) in accordance with Regulation S,</p> <p>Or</p> <p>(y) will be the beneficial owner of the Shares and agrees to observe the transfer restrictions applicable to Rule 144A GDSs in respect of the Shares so withdrawn. . .</p> |                                                                                                                                                                                                                                                                                                                   |

See “APPENDIX B — FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC — FOREIGN INVESTMENT” for additional restrictions that may apply to PRC persons wishing to invest in or hold GDSs or Shares.

### **Dividends and Distributions**

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the Custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the Deposit Agreements in proportion to the number of GDSs held as of a specified record date.

### **Distributions of Cash**

Subject always to the laws and regulations of the ROC, whenever we make a cash distribution for the securities on deposit with the Custodian, we will notify the Depositary and deposit the funds with the Custodian.

Upon receipt of such notice and of confirmation of the deposit of the requisite funds, the Depositary will arrange for the funds to be converted into US dollars, if necessary and for the distribution of the US dollars to the holders, subject to the laws and regulations of the ROC.

The conversion into US dollars will take place only if necessary and practicable and if the US dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. The Depositary will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the Custodian in respect of securities on deposit.

### **Distributions of Shares**

Subject always to the laws and regulations of the ROC, whenever we make a free distribution of Shares for the securities on deposit with the Custodian, we will notify the Depositary and deposit the applicable number of Shares with the Custodian. Upon receipt of confirmation of such deposit from the Custodian, the Depositary will, to the extent permitted by applicable laws, either distribute to holders new GDSs representing the Shares deposited or modify the GDS-to-Shares ratio, in which case each GDS you hold will represent rights and interests in the additional Shares so deposited. Only whole new GDSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDSs or, to the extent permitted by applicable law, the modification of the GDS-to-Shares ratio upon a distribution of Shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes or governmental charges, the Depositary may sell all or a portion of the new Shares so distributed.

No such distribution of new GDSs will be made if it would violate U.S. law, including the U.S. securities laws, or if it is not lawful or reasonably practicable. If the Depositary does not distribute new GDSs as described above, it will use commercially reasonable efforts to sell the Shares received and will distribute the proceeds of the sale as in the case of a distribution of cash.

### **Distributions of Rights**

Subject always to the laws and regulations of the ROC, whenever we intend to distribute rights to purchase additional Shares, we will give prior notice to the Depositary and will indicate whether we wish the distribution of rights to be made available to you. In such case, we will assist the Depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDSs to holders.

The Depositary, with our assistance, will establish procedures to distribute rights to purchase additional GDSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of GDSs, and if we provide all of the documentation contemplated in the applicable Deposit Agreement (such as opinions to address the lawfulness of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new GDSs upon the exercise of your rights. The Depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new Shares other than in the form of GDSs.

The Depositary will not distribute the rights to you if:

- We do not timely request that the rights be distributed to you; or
- We fail to deliver satisfactory documents to the Depositary; or
- It is not reasonably practicable to distribute the rights.

If registration of the rights or the securities to which such rights relate may be required under the Securities Act or any other applicable law in order for us to offer such rights or such securities to holders and to sell the securities represented by such rights, the Depositary will not distribute rights to holders of GDSs unless and until a registration statement under the Securities Act or other applicable law covering such offering is in effect. We have no obligation under the Deposit Agreements to prepare and file a registration statement for any purpose.

The Depositary will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell the rights, it will allow the rights to lapse.

### **Elective Distributions**

Subject always to the laws and regulations of the ROC, whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional Shares, we will give prior notice thereof to the Depositary and will indicate whether we wish the elective distribution to be made available to you. In such case, we will assist the Depositary in determining whether such distribution is lawful and reasonably practicable.

### **Other Distributions**

Subject always to the laws and regulations of the ROC, whenever we intend to distribute property other than cash, Shares or rights to purchase additional Shares, we will notify the Depositary in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the Depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If it is lawful and reasonably practicable to distribute such property to you and if we provide all of the documentation contemplated in the Deposit Agreements, the Depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes and governmental charges, the Depositary may sell all or a portion of the property received.

The Depositary will not distribute the property to you and will sell the property if:

- We do not request that the property be distributed to you; or
- We do not deliver satisfactory documents to the Depositary; or
- The Depositary determines that all or a portion of the distribution to you is not lawful or reasonably practicable.

The proceeds of such a sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems practicable under the circumstances.

### **Redemption**

To the extent permitted by applicable laws, whenever we decide to redeem any of the securities on deposit with the Custodian, we will notify the Depositary. If it is practicable and if we provide all of the documentation contemplated in the Deposit Agreements, the Depositary will distribute notice of the redemption to the holders.

The Custodian will be instructed to surrender the Shares being redeemed against payment of the applicable redemption price. The Depositary will convert the redemption funds received into US dollars upon the terms of the Deposit Agreements and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their GDSs to the Depositary. You may have to pay fees, expenses, taxes and other governmental charges upon the redemption of your GDSs. If less than all GDSs are being redeemed, the GDSs to be retired will be selected by lot or on a pro rata basis, as the Depositary may determine.

### **Changes Affecting Shares**

The Shares held on deposit for your GDSs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such Shares or a recapitalization, reorganization, merger, consolidation or sale of assets.



If any such change were to occur, your GDSs would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the Shares held on deposit. The Depositary may in such circumstances deliver new GDR certificates to you or call for the exchange of your existing GDR certificates for new GDR certificates. If the Depositary may not lawfully distribute such property to you or the distribution is not reasonably practicable, the Depositary may sell such property and distribute the net proceeds to you as in the case of a cash distribution.

## **Deposits**

The initial deposit of the Shares offered in connection with this offering will be made by the delivery to the Custodian of a Certificate of Payment evidencing the right to receive the underlying Shares offered by us, which Shares will be registered in the name of the Custodian, the Depositary or their respective nominees, as representatives of the holders of the GDSs. Following the Closing Date, we will apply to the TWSE for listing of the Individual Scripless Certificates of Payment. It is expected that the TWSE will approve the listing of the Individual Scripless Certificates of Payment on the fourth ROC Business Day following the Closing Date. Immediately upon such listing, the Certificate of Payment we deliver to the Custodian on the Closing Date will be replaced by the Individual Scripless Certificates of Payment. The initial deposit of the Certificate of Payment and the subsequent deposit of Shares in exchange therefore by us in connection with this offering are collectively referred to herein as the “Initial Deposit.”

*Under the ROC Securities and Exchange Act and applicable regulations, we are required to deliver the underlying Shares in physical certificate form or scripless form to the Custodian within 30 days after receiving approval from the relevant governmental authority of our corporate amendment registration. We are required under the ROC Company Law to file an amendment to our corporate registration within 15 days after receiving the proceeds from this offering. Prior to the issue of the underlying Shares in physical certificate form or scripless form, we will apply for and obtain approval to list the underlying Shares on the TWSE. We have agreed to issue and deliver the underlying Shares in scripless form in respect of the Individual Scripless Certificates of Payment in connection with this offering on or about 30-50 calendar days after the Closing Date, subject to obtaining approvals from the relevant governmental authority and the TWSE. Until the underlying Shares have been so issued and delivered, the GDSs will represent Shares evidenced by the global certificate of payment (from the Closing Date to the date immediately prior to the listing of the Individual Scripless Certificates of Payment) or the Individual Scripless Certificates of Payment on or after the date of listing of the Individual Scripless Certificates of Payment. Immediately after the listing of the Individual Scripless Certificates of Payment, a holder may apply to withdraw the Individual Scripless Certificates of Payment or underlying Shares, as the case may be. In case of a withdrawal of the Individual Scripless Certificates of Payment, such holders will be entitled to the same rights as if the Depositary were holding the underlying Shares in scripless form. The Individual Scripless Certificates of Payment, which are without physical form and are issued only in book-entry form through TDCC, the book-entry settlement system of the ROC, carry the same rights as those attaching to the Shares in respect of dividends and are eligible for trading on the TWSE in the same manner as the Shares.*

Subject to limitations set forth in the Deposit Agreements and the GDR certificates, after the Initial Deposit, the Depositary may create GDSs on your behalf if you or your broker deposits Shares with the Custodian. The Depositary will deliver these GDSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the Shares to the Custodian and you provide the applicable deposit certification. Your ability to deposit Shares and receive GDSs may be limited by U.S. and ROC legal considerations applicable at the time of deposit.



*Under current ROC law and as provided in the applicable Deposit Agreements, after the Initial Deposit, no deposits of Shares may be made in a depositary receipt facility, and no GDSs may be issued against such deposits, without specific approval of the FSC, except in connection with the offering and the issuance of additional GDSs in connection with (i) stock dividends on, or free distributions of, Shares, (ii) the exercise by existing shareholders of their preemptive rights in the event of capital increases for cash, (iii) as permitted under the applicable Deposit Agreements, to the extent that previously issued GDSs have been canceled, the purchase directly by a person or through the Depositary of Shares on the TWSE or the delivery by any person of Shares held by such person for deposit in the depositary receipt facility or (iv) the exchange of Rule 144A GDSs for Regulation S GDSs and vice versa, provided that the total number of GDSs outstanding after an issuance described in clause (iii) does not exceed the number of GDSs issued and previously approved by the FSC in connection with the offering plus any GDSs created under clauses (i) and (ii) described above and subject to any adjustment on the number of Shares represented by each GDS.*

The Depositary and the Custodian will refuse to accept Shares for deposit whenever they are notified in writing that such deposit would result in any violation of applicable laws, including ownership restrictions under the laws of the ROC. The Depositary will also refuse (i) to accept certain Shares for deposit under the Rule 144A Deposit Agreement if notified in writing that such Shares are listed on a U.S. securities exchange or quoted on a U.S. automated inter-dealer quotation system, unless accompanied by evidence satisfactory to the Depositary that any Shares presented for deposit are eligible for resale pursuant to Rule 144A, or (ii) to issue GDSs representing the new Shares that are separate and distinct from the existing Shares represented by GDSs.

The issuance of GDSs may be delayed until the Depositary or the Custodian receives confirmation that all required approvals have been given and that the Shares have been duly transferred to the Custodian. The Depositary will only issue GDSs in whole numbers.

When you make a deposit of Shares, you will be responsible for transferring good and valid title to the Depositary. As such, you will be deemed to represent and warrant that:

- Such Shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained.
- All pre-emptive (and similar) rights, if any, with respect to such Shares have been validly waived or exercised.
- You are duly authorized to deposit such Shares.
- The Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, and, in the case of Regulation S GDSs, are not, and the Regulation S GDSs issuable upon such deposit will not be, “restricted securities” (as defined in the Regulation S Deposit Agreement).
- The Shares presented for deposit have not been stripped of any rights or entitlements.

If any of the representations or warranties is incorrect in any way, we and the Depositary may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When you deposit Shares to receive Rule 144A GDSs, you will be required to provide the Depositary with a deposit certification stating, inter alia, that:

- you acknowledge that the Shares and the Rule 144A GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- you are not an “affiliate” of ours and you are not acting on behalf of us or one of our “affiliates”; and
- you certify that you are, or are acting on behalf of, (i) a “Qualified Institutional Buyer” (as defined in Rule 144A), or (ii) a person other than a “U.S. person” (as defined in Regulation S) and located outside the United States and will acquire the Shares to be deposited outside the United States; and

- you agree, as the owner of the Rule 144A GDSs, to offer, sell, pledge or otherwise transfer the Rule 144A GDSs or the Shares represented by the Rule 144A GDSs in accordance with the applicable U.S. state securities laws and only
  - (a) to a “Qualified Institutional Buyer” (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or
  - (b) outside the United States to a person other than a “U.S. person” (as defined in Regulation S) in accordance with Regulation S, or
  - (c) in accordance with Rule 144 under the Securities Act, if available, or
  - (d) pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Rule 144A GDSs is attached to the Rule 144A Deposit Agreement and may be obtained from the Depositary upon request.

When you deposit Shares to receive Regulation S GDSs, you will be required to provide the Depositary with a deposit certificate stating, inter alia, that:

- you acknowledge that the Shares and the Regulation S GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- you are not an “affiliate” of ours and you are not acting on behalf of us or one of our “affiliates”; and
- you certify that you are, or are acting on behalf of, (i) a person other than a U.S. person (as defined in Regulation S) and are located outside the United States and (ii) a person that is not in the business of buying and selling securities, or, if you or such person is in such business, you or such person did not acquire the Shares to be deposited from us or any affiliate in the initial distribution of Regulation S GDSs, Shares and Rule 144A GDSs.

A copy of the form of deposit certification for Regulation S GDSs is attached to the Regulation S Deposit Agreement and may be obtained from the Depositary upon request.

### **Withdrawal of Shares Upon Cancellation of GDSs**

*On or after approximately the fourth ROC Business Day following the applicable closing date for distribution of the GDSs pursuant to this Offering, subject to the approval from the TWSE of the listing of the Individual Scripless Certificates of Payment and the relevant provisions of the Deposit Agreements, a holder may apply to withdraw the underlying Shares or, as the case may be, the Individual Scripless Certificates of Payment from the GDS facility. The Individual Scripless Certificates of Payment, which are without physical form and settle through the book-entry system, carry the same rights as those attaching to underlying Shares in respect of dividends and are eligible for trading on the TWSE in the same manner as the underlying Shares. Your ability to withdraw the Shares may be limited by U.S. and ROC law considerations applicable at the time of withdrawal.*

*Under current ROC law, if you (other than PRC persons, except for QDIIs, or a person with prior approval from the ROC Investment Commission of the MOEA) wish to withdraw and hold underlying Individual Scripless Certificates of Payment or Shares, as the case may be, from a depositary receipt facility, you will be required to appoint an eligible agent in the ROC to open a securities trading account with a local brokerage firm (after being registered with the TWSE) and a bank account (the securities trading account and the bank account collectively, the “Accounts”), to pay ROC taxes, remit funds, exercise shareholders’ rights and perform such other functions as you may designate upon such withdrawal. In addition, you will be required to appoint a custodian bank to hold the securities in safekeeping, make confirmation and settle trades and report all relevant information. Without the opening of such Accounts, the withdrawing holder would be unable to hold or subsequently sell the underlying Shares withdrawn from the depositary receipt facility on the TWSE or otherwise. In addition, you will be required to register with the TWSE for making investments in the ROC securities*

market prior to withdrawing Shares. These laws may change from time to time. We cannot assure you that current ROC law will remain in effect or that future changes in ROC law will not adversely affect your ability to withdraw the Shares from the applicable GDS facility.

Holders of GDSs withdrawing Individual Scripless Certificates of Payment or Shares represented by GDSs are also required under current ROC law and regulations to appoint an agent in the ROC for filing tax returns and making tax payments. Such agent must meet certain qualifications set by the ROC Ministry of Finance and, upon appointment, becomes a guarantor of such withdrawing holder's ROC tax obligations. Evidence of the appointment of such agent and the approval of such appointment by the ROC tax authorities may be required as conditions to such withdrawing holder's repatriation of the proceeds from the sale of the withdrawn Individual Scripless Certificates of Payment or Shares. There can be no assurance that such withdrawing holder will be able to appoint and obtain approval for such agent in a timely manner.

Pursuant to the Regulations Governing Mainland China Investor's Securities Investment and Futures Trading in Taiwan, or the PRC Regulations, a qualified institutional investor which has been approved by the competent authority in PRC, or QDII, is permitted to make securities investments or trade futures in the ROC. The total investment amount allowed to be remitted into the ROC by all QDIIs cannot exceed US\$500 million, and by each QDII cannot exceed US\$100 million. A custodian shall be appointed by each QDII to apply with the TWSE for the remittance. Subject to the compliance with the foregoing applicable laws and regulations of the ROC, a QDII may request withdrawal of, and holds the Shares represented by the GDSs.

Other than a QDII, a PRC person may, pursuant to the Regulations Governing the Approval of Investment in Taiwan by the Mainland China Investors, make an investment in the ROC with prior investment approval from the Investment Commission of the Ministry of Economic Affairs, or MOEA, and other competent authority if the business of the invested company are in the positive list promulgated by the Executive Yuan. As not all of our businesses are within the list promulgated by the ROC government for PRC investment, currently PRC persons which are not QDII are not allowed to withdraw and hold our shares. Under current ROC laws, regulations and policy, a "PRC person" refers to (A) an individual holding a passport issued by the PRC, (B) a resident or any corporation, partnership or other entity of any area under the effective control or jurisdiction of the PRC (but not including Hong Kong and Macau), (C) any agency or instrumentality of the PRC, or (D) any corporation, partnership or other entity organized under the laws of any other jurisdiction but (x) is directly or indirectly controlled by, or (y) directly or indirectly having 30% or more of its capital owned by, or beneficially owned by any such individual, resident, entity, agency or instrumentality referred to in (A) to (C).

Subject to the withdrawal of deposited property being permitted under ROC laws and regulations, you may also request that our Shares or Individual Scripless Certificates of Payment represented by your GDSs be sold on your behalf. The Depositary may require that you deliver your request for sale in writing. Any sale of the Individual Scripless Certificate of Payment or Shares will be conducted according to applicable ROC law through a securities company in the ROC on the TWSE or in another manner as is permitted under applicable ROC law. Any sale will be at your risk and expense. You may also be required to enter into a separate agreement to cover the terms of the sale of our Shares or Individual Scripless Certificates of Payment.

Upon receipt of any proceeds from any sale, subject to any restrictions imposed by ROC law and regulations, the Depositary shall convert the proceeds into US dollars and distribute the proceeds to you, net of any fees, expenses, taxes or governmental charges (including, without limitation, any ROC and U.S. taxes) incurred in connection with the sale. Sales of GDSs are not regarded as sales of ROC securities and thus any gains derived from transfers of our GDSs are not regarded as ROC-sourced income. Accordingly, any gains derived from transfers of our GDRs by non-ROC holders are not currently subject to ROC income tax. Starting from January 1, 2016, capital gains realized from the sales of our Shares or Individual Scripless Certificates of Payment are exempt from ROC income tax.

In order to withdraw or instruct the sale of the Shares or Individual Scripless Certificates of Payment represented by your GDSs, you will be required to pay the fees for cancellation of GDSs and any charges and taxes payable upon the transfer of the Shares or Individual Scripless Certificates of Payment being withdrawn and you will be required to provide to the Depositary the applicable withdrawal certification. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the GDSs will not have any rights under the corresponding Deposit Agreement.

*You will not be entitled to withdraw or instruct the sale of interests in Individual Scripless Certificate(s) of Payment underlying the GDSs issued in this offering until on or about the fourth ROC Business Day following the closing date for distribution of the GDSs pursuant to this Offering. In addition, under ROC market practice, you will not be able to receive the underlying Individual Scripless Certificate of Payment or the Shares for an additional two ROC Business Days.*

If you hold a GDR certificate registered in your name, the Depositary may ask you to provide proof of identity and genuineness of any signature and such other documents as the Depositary may deem appropriate before it will cancel your GDSs. The withdrawal of the Shares or Individual Scripless Certificates of Payment represented by your GDSs may be delayed until the Depositary receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the Depositary will only accept GDSs for cancellation that represent a whole number of securities on deposit.

In addition, the Depositary shall not deliver interests in Individual Scripless Certificate(s) of Payment or Shares to a surrendering holder of GDSs unless such holder presents evidence of payment of any securities transaction tax which may be imposed under ROC law or we shall have advised the Depositary that no such tax is assessable in connection with the withdrawal of the Individual Scripless Certificate(s) of Payment or Shares hereunder.

We have reporting obligations under ROC law in respect of the GDS facilities. In order to enable us to gather the information necessary for our compliance with our obligations set forth under the laws and regulations of the ROC, you will be asked to provide information upon withdrawal of Shares or Individual Scripless Certificates of Payment from the applicable GDS facility, including a certification to the Depositary stating, inter alia, that:

- the holder is or is not a “Related Party,” as such term is defined in the applicable Deposit Agreement, to us;
- the holder will own a certain number of the Shares after cancellation of the GDSs surrendered thereby, as well as a certain number of GDSs representing the Shares after cancellation of the GDSs surrendered thereby;
- the holder, or the person on whose account he acts, is the beneficial owner of the GDSs surrendered to the Depositary thereby;
- the name, address and nationality of the beneficial owner of the GDSs, as included upon presentation of GDSs for cancellation, is true and correct;
- the number of GDSs surrendered and the number of Shares withdrawn, as included upon presentation of GDSs for cancellation, is true and correct;
- if the presenter is a broker-dealer, the owner of the account for which he is acting has confirmed the accuracy of the above representations; and
- the holder is or is not a PRC person meeting the qualifications required under the laws of the ROC (“**Qualified PRC Person**”), as such term is defined in the applicable Deposit Agreement; and
- if the holder is a Qualified PRC Person, it has made all registrations and/or obtained all government approvals required under the laws of the ROC to hold the Shares or Individual Scripless Certificates of Payment underlying the GDSs submitted for cancellation and withdrawal and its ownership of Shares will not result in a violation of applicable laws of the ROC.

The Depositary will refuse to release the Shares or Individual Scripless Certificates of Payment to you until you deliver a completed and signed certification to it.

The Deposit Agreements may not be modified to impair your right to withdraw the securities represented by your GDSs unless there are:

- temporary delays because (1) the transfer books for the Shares or GDSs are closed, or (2) the register of shareholders is closed due to a shareholders' meeting or a payment of dividends;
- obligations to pay fees, taxes and similar charges; and
- restrictions imposed by law or regulation.

When you request the withdrawal of the Shares represented by your Rule 144A GDSs, you will be required to provide the Depositary with a withdrawal certification stating, inter alia, that:

- you acknowledge that the Shares represented by your Rule 144A GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and

you certify that either:

- (x) you are a "Qualified Institutional Buyer" (as defined in Rule 144A) who is the beneficial owner of the Rule 144A GDSs presented for cancellation, or you are acting on behalf of a Qualified Institutional Buyer who is the beneficial owner of the Rule 144A GDSs presented for cancellation and
  - (i) you have, or the person on whose behalf you are acting has, sold or agreed to sell the Rule 144A GDSs or Shares to a person other than a "U.S. Person (as defined in Regulation S) in accordance with Regulation S, or
  - (ii) you have, or the person on whose behalf you are acting has, sold or agreed to sell the Rule 144A GDSs or Shares to another "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or
  - (iii) you (or the person on whose behalf you are acting) will be the beneficial owner of the Shares upon withdrawal and you (or the person on whose behalf you are acting) (x) will not deposit the Shares in any depositary receipt facility that is not a "restricted" depositary receipt facility and (y) will sell the Shares only
    - (a) to another Qualified Institutional Buyer (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or
    - (b) outside the United States to a person other than "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or
    - (c) in accordance with Rule 144 (if available), or
    - (d) pursuant to an effective registration statement under the Securities Act; or
- (Y) you are a person other than a "U.S. Person" (as defined in Regulation S) and are located outside the United States and you acquired or agreed to acquire the Rule 144A GDSs or Shares outside the United States and will be the beneficial owner of the Rule 144A GDSs or Shares upon withdrawal.

## **Voting Rights**

Except as described below, holders of GDSs generally have no right under the applicable Deposit Agreement to instruct the Depositary to exercise the voting rights for the Shares represented by the GDSs. Instead, by accepting GDSs or any beneficial interest in GDSs, holders of GDSs are deemed to have authorized and directed the depositary to appoint our chairman or his/her designee to represent them at our shareholders' meetings and to vote our Shares deposited with the Custodian according to the terms of the applicable Deposit Agreement.

The Depositary will distribute to holders of GDSs any notice of a shareholders' meeting received from us together with information explaining how to instruct the Depositary to exercise the voting rights of the securities represented by GDSs.



If we fail to timely provide the Depositary with an English-language translation of our notice of meeting or other materials related to any meeting of holders of our Shares, the Depositary will endeavor to cause all the deposited securities represented by GDSs to be present at the applicable meeting, insofar as practicable and permitted under applicable law, but will not cause those securities to be voted.

If the Depositary timely receives voting instructions from holders of at least 51% of the outstanding GDSs to vote in the same direction regarding one or more resolutions to be proposed at the meeting, including election of directors, the depositary will notify our chairman or his/her designee to attend the meeting and vote all the securities represented by the holders' GDSs in accordance with the direction received from holders of at least 51% of the outstanding GDSs.

If we have timely provided the depositary with the materials described in the applicable Deposit Agreement and the Depositary has not timely received instructions from holders of at least 51% of the outstanding GDSs to vote in the same direction regarding any resolution to be considered at the meeting and the depositary has secured a satisfactory opinion of counsel, then, holders of GDSs will be deemed to have authorized and directed the Depositary to give a discretionary authorization to our chairman or his designee to attend and vote at the meeting our Shares represented by the GDSs in any manner our chairman or his designee may wish, which may not be in the interests of holders.

The ability of the Depositary to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure GDS holders that they will receive voting materials in time to enable them to return voting instructions to the depositary in a timely manner.

While shareholders who own 1% or more of our outstanding shares are entitled to submit one proposal to be considered at our annual general meetings, only holders representing at least 51% of our GDSs outstanding at the relevant record date are entitled to submit one proposal to be considered at our annual general meetings. Hence, only one proposal may be submitted on behalf of all GDS holders.

## Fees and Charges

As a GDS holder, you will be required to pay the following fees under the terms of the deposit agreements:

| Service                                                                                                                                                                                                                                                                                                                                      | Fees                                                                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Issuance of GDSs (e.g., issuance of GDSs upon a deposit of Shares, upon a change in the GDS(s)-to-Share(s) ratio, upon a conversion of Rule 144A GDSs for Regulation S GDSs, and vice versa, or for any other reason), excluding issuances as a result of distribution of Shares . . . . .</li> </ul> | Up to 5¢ per GDS issued                                                |
| <ul style="list-style-type: none"> <li>Cancellation of GDSs (e.g., cancellation of GDSs for delivery of deposited property, upon a change of the GDS(s)-to Share(s) ratio, upon a conversion of Rule 144A GDSs for Regulation S GDSs, and vice versa, or for any other reason) . . . . .</li> </ul>                                          | Up to 5¢ per GDS canceled                                              |
| <ul style="list-style-type: none"> <li>Distribution of cash dividends or other cash distributions (e.g., sale of rights and other entitlements) .</li> </ul>                                                                                                                                                                                 | Up to 5¢ per GDS held                                                  |
| <ul style="list-style-type: none"> <li>Distribution of GDSs pursuant to (i) stock dividends or other free stock distributions, or (ii) exercise of rights to purchase additional GDSs . . . . .</li> </ul>                                                                                                                                   | Up to 5¢ per GDS held                                                  |
| <ul style="list-style-type: none"> <li>Distribution of securities other than GDSs or rights to purchase additional GDSs (e.g., spin-off shares) . . . . .</li> </ul>                                                                                                                                                                         | Up to 5¢ per GDS held                                                  |
| <ul style="list-style-type: none"> <li>GDS Services . . . . .</li> </ul>                                                                                                                                                                                                                                                                     | Up to 5¢ per GDS held on the record date established by the depositary |



| Service                                                                                                                                                                                                                                                                                      | Fees                                                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Registration of GDS transfers (e.g., upon a registration of the transfer of registered ownership of GDSs, upon a transfer of GDSs into DTC, Euroclear, or Clearstream, and vice versa, or for any other reason) . . . . .</li> </ul>                  | Up to U.S. 5¢ per GDS (or fraction thereof) transferred |
| <ul style="list-style-type: none"> <li>Conversion of GDSs of one series for GDSs of another series (e.g., upon conversion of Partial Entitlement GDSs for Full Entitlement GDSs, upon a conversion of GDSs into freely transferrable depositary shares, and vice versa) . . . . .</li> </ul> | Up to U.S. 5¢ per GDS (or fraction thereof) converted   |

As a GDS holder you will also be responsible to pay certain charges such as:

- taxes (including applicable interest and penalties) and other governmental charges;
- registration fees as may from time to time be in effect for the registration of Shares or other deposited securities on the share register and applicable to transfers of Shares or other deposited securities to or from the name of the custodian, the depositary or any nominees upon the making of deposits and withdrawals, respectively;
- cable, telex and facsimile transmission and delivery expenses as are expressly provided in the deposit agreement to be at the expense of the person depositing Shares or withdrawing deposited securities or of the holders and beneficial owners of GDSs;
- in connection with the conversion of foreign currency, fees, expenses, spreads, taxes and other charges of the depositary and/or conversion service providers (which may be a division, branch or affiliate of the depositary). Such fees, expenses, spreads, taxes, and other charges shall be deducted from the foreign currency;
- any reasonable and customary out-of-pocket expenses incurred in such conversion and/or on behalf of the holders and beneficial owners in complying with currency exchange control or other governmental requirements; and
- the fees, charges, costs, and expenses incurred by the depositary, the custodian or any nominee in connection with the GDR program.

GDS fees and charges payable upon (i) deposit of Shares against issuance of GDSs and (ii) surrender of GDSs for cancellation and withdrawal of Shares are payable by the person to whom the GDSs are delivered (in the case of GDS issuances) and by the person who delivers the GDSs for cancellation (in the case of GDS cancellations). In the case of GDSs issued by the depositary into DTC or presented to the depositary via DTC, Euroclear or Clearstream, as the case may be, the GDS issuance and cancellation fees and charges may be deducted from distributions made through DTC, Euroclear or Clearstream, as the case may be, and may be charged to the DTC, Euroclear or Clearstream participant(s) receiving the GDSs or the DTC, Euroclear or Clearstream participant(s) surrendering the GDSs for cancellation, as the case may be, on behalf of the beneficial owner(s) and will be charged by the DTC, Euroclear or Clearstream participant(s) to the account(s) of the applicable beneficial owner(s) in accordance with the procedures and practices of the DTC, Euroclear or Clearstream participant(s) as in effect at the time. GDS fees and charges in respect of distributions and the GDS service fee are charged to the holders as of the applicable GDS record date. In the case of distributions of cash, the amount of the applicable GDS fees and charges is deducted from the funds being distributed. In the case of (i) distributions other than cash and (ii) the GDS service fee, holders as of the GDS record date will be invoiced for the amount of the GDS fees and charges and such GDS fees and charges may be deducted from distributions made to holders of GDSs. For GDSs held through DTC, Euroclear or Clearstream, as the case may be, the GDS fees and charges for distributions other than cash and the GDS service fee may be deducted from distributions made through DTC, Euroclear or Clearstream, as the case be, and may be charged to the DTC, Euroclear or Clearstream participants in accordance with the procedures and practices prescribed by DTC, Euroclear or Clearstream, as the case may be, and the DTC, Euroclear or Clearstream participants in turn charge the amount of such GDS fees and charges to the beneficial owners for whom they hold GDSs. In the case of (i) registration of GDS transfers, the GDS transfer fee will be payable by the GDS holder whose GDSs are being transferred or by the person to whom the GDSs are transferred, and (ii) conversion of GDSs of one series for GDSs of another series, the GDS conversion fee will be payable by the holder whose GDSs are converted or by the person to whom the converted GDSs are delivered.

Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. *Certain depositary fees and charges (such as the GDS services fee) may become payable shortly after the closing of a GDS offering.* You will receive prior notice of such changes. In addition, the depositary may reimburse us for certain expenses incurred by us in respect of the GDR programs established pursuant to the deposit agreements, by making available a portion of the fees charged in respect of the GDR programs or otherwise, upon such terms and conditions as we and the depositary may agree from time to time. We will pay to the depositary such fees and charges and reimburse the depositary for such out-of-pocket expenses as we and the depositary may agree from time to time. Responsibility for payment of such charges and reimbursements may from time to time be changed by agreement between us and the depositary. The charges and expenses of the custodian are for the sole account of the depositary.

### **Amendments and Termination**

We may agree with the Depositary to modify the Deposit Agreements at any time without your consent. We undertake to give GDS holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the Deposit Agreements. We will not consider to be materially prejudicial to your substantial rights any modifications or supplements that are reasonably necessary for the GDSs to be settled in electronic book-entry form, and (ii) do not impose or increase the fees and charges you are required to pay. In addition, we may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the Deposit Agreements if you continue to hold your GDSs after the modifications to the applicable Deposit Agreements become effective. The Deposit Agreements cannot be amended to prevent you from withdrawing the Individual Scripless Certificate of Payment or Shares represented by your GDSs (except as permitted by law).

We have the right to direct the Depositary to terminate the Deposit Agreements. Similarly, the Depositary may in certain circumstances on its own initiative terminate the Deposit Agreements. In either case, the Depositary must give notice to the holders at least 30 days before termination.

After termination, the Depositary will continue to collect distributions received (but will not distribute any such property until you request the cancellation of your GDSs) and may sell the securities held on deposit. After the sale, the Depositary will hold the proceeds from such sale and any other funds then held for the holders of GDS in a non-interest bearing account. At that point, the Depositary will have no further obligations to holders other than to account for the funds then held for the holders of GDSs still outstanding (after deduction of applicable fees, taxes and expenses).

### **Books of the Depositary**

The Depositary will maintain GDS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the GDSs and the Deposit Agreements.

The Depositary will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of GDSs. These facilities may be closed from time to time, to the extent not prohibited by law.

### **Limitations on Obligations and Liabilities**

The Deposit Agreements limit our obligations and the Depositary's obligations to you. Please note the following:

- We and the Depositary are obligated only to take the actions specifically stated in the Deposit Agreements without negligence or bad faith.
- The Depositary disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the applicable Deposit Agreement.

- The Depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to you on our behalf or for the accuracy of any translation of such a document, for the investment risks associated with investing in Shares, for the validity or worth of the Shares, for any tax consequences that result from the ownership of GDSs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the Deposit Agreements or for the timeliness of any of our notices or for our failure to give notice.
- We and the Depositary will not be obligated to perform any act that is inconsistent with the terms of the Deposit Agreements.
- We and the Depositary disclaim any liability if we are prevented or forbidden from acting on account of any law or regulation, any provision of our Articles of Incorporation, any provision of any securities on deposit or by reason of any act of God or war or terrorism or other circumstances beyond our control.
- We and the Depositary disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreements or in our Articles of Incorporation or in any provisions of securities on deposit.
- We and the Depositary further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting Shares for deposit, any holder of GDSs or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.
- We and the Depositary also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of Shares but is not, under the terms of the applicable Deposit Agreement, made available to you.
- We and the Depositary may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- We and the Depositary also disclaim any liability for consequential or punitive damages (including lost profits) for any breach of the terms of the applicable Deposit Agreement.

## **Taxes**

You will be responsible for the taxes and other governmental charges payable on the GDSs and the securities represented by the GDSs. We, the Depositary and the Custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The Depositary may refuse to issue GDSs, to deliver, transfer, split and combine GDR certificates or to release securities on deposit until all taxes and charges are paid by the applicable holder. The Depositary and the Custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the Depositary and to the Custodian proof of taxpayer status and residence and such other information as the Depositary and the Custodian may require to fulfill legal obligations. You are required to indemnify us, the Depositary and the Custodian for any claims with respect to taxes based on any tax benefit obtained for you.

## **Foreign Currency Conversion**

Subject to ROC law, the Depositary will arrange for the conversion of all foreign currency received into US dollars if such conversion is practicable, and it will distribute the US dollars in accordance with the terms of the Deposit Agreements. You may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the Depositary may take the following actions in its discretion:

- convert the foreign currency to the extent practicable and lawful and distribute the US dollars to the holders for whom the conversion and distribution is lawful and practicable;
- distribute the foreign currency to holders for whom the distribution is lawful and practicable; or
- hold the foreign currency (without liability for interest) for the applicable holders.

## **Legends**

The Rule 144A GDRs issued to represent the Rule 144A GDSs offered for sale herein shall contain, and all owners of Rule 144A GDSs shall be bound by the terms of, the following legend:

NEITHER THIS RULE 144A GDR, NOR THE RULE 144A GDSs EVIDENCED HEREBY, NOR THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR AND THE RULE 144A GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

THE BENEFICIAL OWNER OF RULE 144A DEPOSITED SECURITIES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDS MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SECURITIES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SECURITIES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE RULE 144A DEPOSITED SECURITIES OR THE RULE 144A GDSs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR OR A BENEFICIAL INTEREST IN THE RULE 144A GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

The Regulation S GDRs issued to represent the Regulation S GDSs offered for sale herein shall contain, and all owners of Regulation S GDSs shall be bound by the terms of, the following legend:

NEITHER THIS REGULATION S GDR, NOR THE REGULATION S GDSs EVIDENCED HEREBY, NOR THE REGULATION S DEPOSITED SECURITIES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE REGULATION S DEPOSITED SECURITIES REPRESENTED THEREBY EACH IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR AND THE REGULATION S GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE REGULATION S DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE REGULATION S DEPOSITED SECURITIES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES.

## TAXATION

*Prospective investors should consult their own advisers concerning the tax consequences of an investment in the GDSs or Shares.*

### **ROC Taxation**

The following summary addresses the principal ROC tax consequences of the ownership and disposition of the Shares or GDSs by a non-resident individual or non-resident entity that holds such Shares or GDSs (each a “**Non-ROC Holder**”). A “non-resident individual” (a “**Non-ROC Individual Holder**”) is a foreign national individual who is not physically present in the ROC for 183 days or more during any calendar year in which he or she owns the Shares or GDSs and a “non-resident entity” (a “**Non-ROC Entity Holder**”) is a corporation or a non-corporate body that is organized under the laws of a jurisdiction other than the ROC and does not have a fixed place of business or business agent in the ROC.

#### ***Dividends***

Dividends (whether in cash or Shares) declared by the Company out of its retained earnings and distributed to a Non-ROC Holder in respect of the Shares are ROC sourced income and therefore subject to ROC withholding tax, currently at the rate of 21%, on the amount of the distribution (in the case of cash dividends) or on the par value of the Shares (in the case of stock dividends) unless a lower withholding rate is provided under an applicable tax treaty between the ROC and the jurisdiction where the Non-ROC Holder is a resident. A 10% undistributed earnings tax was imposed on an ROC company for its after-tax earnings generated after January 1, 1998 which were not distributed in the following year. The undistributed earnings tax was reduced to 5% on January 1, 2018. The undistributed earnings tax so paid will further reduce the retained earnings available for future distribution. Distributions of stock dividends declared by the Company out of its capital reserves are not subject to withholding tax, except under limited circumstances.

#### ***Capital Gains***

Sales of the GDSs by Non-ROC Holders are regarded as transactions relating to property located outside the ROC and thus any resultant gains are currently not subject to ROC income tax. Non-ROC Holders are exempt from income tax on capital gains from the sale or disposal of the Shares.

#### ***Securities Transaction Tax***

Securities transaction tax will be withheld at the rate of 0.3% of the transaction price upon a sale of the Shares. Nevertheless, transfers of the GDSs by Non-ROC Holders are not subject to ROC securities transaction tax.

#### ***Pre-emptive Rights***

Distributions of statutory subscription rights for the Shares in compliance with the ROC Company Law are not subject to ROC tax. Proceeds derived from sales of statutory subscription rights evidenced by securities are subject to securities transaction tax, currently at the rate of 0.3% of the gross amount received. Non-ROC Holders remain exempt, after January 1, 2013, from income tax on capital gains from such sale. Proceeds derived from sales of statutory subscription rights which are not evidenced by securities are subject to income tax at the rate of 20% of the gains realized. Subject to compliance with ROC laws, the Company has the sole discretion to determine whether statutory subscription rights shall be evidenced by the issuance of securities.

#### ***Estate Tax and Gift Tax***

Subject to allowable exclusions, deductions and exemptions, ROC estate tax is payable on any property located within the ROC of a deceased Non-ROC Individual Holder, and ROC gift tax is payable on any property located within the ROC donated by a Non-ROC Individual Holder. Estate tax and gift tax are currently imposed at the progressive rates of 10%, 15% and 20%. Under ROC estate and gift tax law, the Shares are deemed located within the ROC regardless of the location of the owner. Nevertheless, it is unclear whether a holder of the GDSs will be considered to own the Shares for this purpose.



## ***Tax Treaties***

At present, the ROC has income tax treaties with Singapore, Indonesia, South Africa, Australia, New Zealand, Vietnam, Gambia, Eswatini, Malaysia, North Macedonia, the Netherlands, UK, Senegal, Sweden, Belgium, Denmark, Israel, Paraguay, Hungary, France, India, Slovakia, Switzerland, Germany, Thailand, Kiribati, Luxembourg, Austria, Italy, Japan, Canada, and Poland, which limit the rate of withholding tax on dividends or interest paid by ROC companies to residents of these countries. Holders of the Shares or GDSs should consult their own tax advisers concerning their eligibility for benefits under an income tax treaty with respect to the Shares or GDSs.

## **United States Federal Income Tax Considerations**

The following discussion describes certain United States federal income tax consequences of the ownership of our Common Shares or GDSs as of the date hereof. The discussion is only applicable to United States Holders (as defined below) who hold our Common Shares or GDSs as capital assets, who do not have a fixed place of business or other permanent establishment in the ROC, who are not citizens of the ROC and who are not physically present in the ROC for 183 days or more within a calendar year. As used herein, the term “United States Holder” means a beneficial owner of a Common Share or GDS that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust, if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust, or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This discussion does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax-exempt organization;
- a person holding our Common Shares or GDSs as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a person who owns or is deemed to own 10% or more of our stock (by vote or by value);
- a partnership or other pass-through entity for United States federal income tax purposes; or
- a person whose “functional currency” is not the United States dollar.

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in United States federal income tax consequences different from those discussed below. In addition, this discussion assumes that the Deposit Agreements, and all other related agreements, will be performed in accordance with their terms.

If a partnership holds Common Shares or GDSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our Common Shares or GDSs, you should consult your tax advisors.

This discussion does not contain a detailed description of all the United States federal income tax consequences to you in light of your particular circumstances and does not address the Medicare tax on net investment income or the effects of any state, local or non-United States tax laws. **If you are considering the purchase, ownership or disposition of our Common Shares or GDSs, you should consult your own tax advisors concerning the United States federal income tax consequences to you in light of your particular situation as well as any consequences arising under other United States federal tax laws and the laws of any other taxing jurisdiction.**

### *GDSs*

If you hold GDSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying Common Shares that are represented by such GDSs. Accordingly, deposits or withdrawals of Common Shares for GDSs will not be subject to United States federal income tax.

### *Taxation of Dividends*

Subject to the discussion under “— Passive Foreign Investment Company” below, the gross amount of distributions on Common Shares or GDSs (including any amounts withheld to reflect ROC withholding taxes) will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Such income (including any withheld taxes) will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of Common Shares, or by the Depositary, in the case of GDSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

Under current law, dividends received by non-corporate United States investors on shares (or GDSs backed by such shares) of certain foreign corporations may be subject to United States federal income tax at lower rates than other types of ordinary income if certain conditions are met. We do not believe that dividends that we pay currently meet these conditions. You should consult your own tax advisors regarding the application of these rules given your particular circumstances.

The amount of any dividend paid in NT dollars will equal the United States dollar value of the NT dollars you receive, calculated by reference to the exchange rate in effect on the date you actually or constructively receive the dividend, which in the case of a GDS will be the date actually or constructively received by the Depositary, regardless of whether the NT dollars are actually converted into United States dollars. If the NT dollars received as a dividend are converted into United States dollars on the date of receipt, you generally will not be required to recognize foreign currency gain or loss in respect of the dividend income. If the NT dollars received as a dividend are not converted into United States dollars on the date of receipt, you will have a basis in the NT dollars equal to their United States dollar value on the date of receipt. Any gain or loss you realize on a subsequent conversion or other disposition of the NT dollars will be ordinary income or loss from sources within the United States for foreign tax credit limitation purposes.

Subject to certain conditions and limitations, ROC withholding taxes on dividends may be treated as foreign taxes eligible for credit against your United States federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on Common Shares or GDSs will be treated as income from sources outside the United States and will generally constitute passive category income. Further, in certain circumstances, if you:

- have held Common Shares or GDSs for less than a specified minimum period during which you are not protected from risk of loss, or
- are obligated to make payments related to the dividends,

you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on the Common Shares or GDSs. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under United States federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the Common Shares or GDSs, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain recognized on a sale, exchange or other disposition. We do not expect to determine earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend (as discussed above).

Distributions of Common Shares, GDSs or rights to subscribe for Common Shares that are received as part of a pro rata distribution to all of our shareholders generally will not be subject to United States federal income tax.

As discussed above under the caption “ROC Taxation — Dividends,” the ROC may impose a withholding tax on the par value of any Common Shares distributed by us as a stock dividend to a United States Holder of Common Shares or GDSs. However, as discussed above, such stock dividends may not be subject to United States federal income tax (provided such stock dividends are pro rata). Consequently, a United States Holder may not be able to use the foreign tax credit attributable to such ROC taxes unless it can be applied to other foreign source income in the appropriate limitation category.

### ***Passive Foreign Investment Company***

Based upon the projected composition of our income and assets and the valuation of our assets, including goodwill, we do not expect to be a PFIC for U.S. federal income tax purposes for our taxable year ending December 31, 2020, and we do not expect to become one in the future, although there can be no assurance in this regard. Given that the determination of PFIC status with respect to both 2020 and future years depends on future facts and circumstances, including the nature of our income and the composition and value of our assets in each year, we cannot provide assurance with respect to our expectation regarding our PFIC status.

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income; or
- at least 50% of the value (determined based on a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income (which includes cash).

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation’s assets and receiving our proportionate share of the other corporation’s income. The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may become a PFIC in the

current or any future taxable year due to changes in our asset or income composition. Because we have valued our goodwill based on the market value of our equity, a decrease in the price of our Common Shares or GDSs may also result in our becoming a PFIC in the current or any future taxable year. In this regard, the market price of our Common Shares and our GDSs is likely to fluctuate after this offering (and may fluctuate considerably given that the global capital markets have been experiencing extreme volatility). In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in this offering.

If we are a PFIC for any taxable year during which you hold our Common Shares or GDSs, you will be subject to special tax rules discussed below. If we are a PFIC for any taxable year during which you hold our Common Shares or GDSs and you do not make a timely mark-to-market election (as described below), you will be subject to special tax rules with respect to any “excess distribution” received and any gain realized from a sale or other disposition, including a pledge, of Common Shares or GDSs. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the Common Shares or GDSs will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the Common Shares or GDSs;
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

You will generally be required to file Internal Revenue Service Form 8621 if you hold our Common Shares or GDSs in any year in which we are classified as a PFIC.

If we are a PFIC for any taxable year during which you hold our Common Shares or GDSs and any of our non-United States subsidiaries is also a PFIC, you would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

In certain circumstances, in lieu of being subject to the rules discussed above regarding excess distributions and recognized gains, you may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method, provided that such stock is regularly traded on a qualified exchange. The Common Shares are listed on the TWSE, and it is intended that the GDSs will be listed on the Luxembourg Stock Exchange, each of which must meet certain trading, listing, financial disclosure and other requirements to be treated as qualified exchanges under applicable Treasury regulations for purposes of the mark-to-market election, and no assurance can be given that the Common Shares or the GDSs will be “regularly traded” for purposes of the mark-to-market election.

If you make an effective mark-to-market election, you will include in each year that we are a PFIC as ordinary income the excess of the fair market value of your Common Shares or GDSs at the end of the year over your adjusted tax basis in the Common Shares or GDSs. You will be entitled to deduct as an ordinary loss in each such year the excess of your adjusted tax basis in the Common Shares or GDSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, in each year that we are a PFIC any gain you recognize upon the sale or other disposition of your Common Shares or GDSs will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

Your adjusted tax basis in the Common Shares or GDSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If you make a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the Common Shares or GDSs are no longer regularly

traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You are urged to consult your tax advisors about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

Alternatively, you can sometimes avoid the rules described above by electing to treat a PFIC as a “qualified electing fund” under Section 1295 of the Code. This option is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election.

You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding Common Shares or GDSs if we are considered a PFIC in any taxable year.

### ***Taxation of Capital Gains***

For United States federal income tax, you will recognize taxable gain or loss on any sale, exchange or other disposition of Common Shares or GDSs in an amount equal to the difference between the amount realized for the Common Shares or GDSs and your tax basis in the Common Shares or GDSs, both as determined in U.S. dollars. Subject to the discussion under “— Passive Foreign Investment Company” above, such gain or loss will generally be capital gain or loss. Capital gains of non-corporate United States Holders (including individuals) derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as United States source gain or loss. Consequently, you may not be able to use the foreign tax credit arising from any ROC tax imposed on the sale, exchange or other disposition of Common Shares or GDSs unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

You should note that any ROC securities transaction tax will not be treated as a creditable foreign tax for United States federal income tax purposes, although you may be entitled to deduct such taxes, subject to applicable limitations under the Code.

### ***Information Reporting and Backup Withholding***

In general, information reporting will apply to dividends in respect of our Common Shares or GDSs and the proceeds from the sale, exchange or other disposition of our Common Shares or GDSs that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of exempt status or fail to report in full dividend and interest income. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

## **TRANSFER RESTRICTIONS**

The GDSs and the Shares represented by such GDSs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, United States persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The GDSs are not being offered or sold in the United States except through the U.S. selling agents of certain of the Initial Purchasers only to qualified institutional buyers, as defined in Rule 144A, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

The GDSs sold outside the United States and the ROC will be offered by the Initial Purchasers in offshore transactions in reliance on Regulation S under the Securities Act.

Except in certain limited circumstances, interests in the GDSs may only be held through owning beneficial interests in the master global depositary receipts, or master GDRs. Such interests in the Rule 144A master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC and such interests in the Regulation S master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the restrictions described below will not be recognized by us or the Depositary, as the case may be.

### **Transfer Restrictions on the Rule 144A GDSs**

Each owner of an interest in Rule 144A GDSs, by its acceptance thereof, will be deemed to have acknowledged and represented to and agreed with us, the Depositary and the Initial Purchasers that (terms used herein that are defined in Rule 144A or Regulation S are used as defined therein):

1. the Rule 144A GDSs and the Shares represented thereby have not been and are not expected to be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;
2. such owner is purchasing the Rule 144A GDSs for:
  - its own account or an account and it is a QIB, or
  - an account with respect to which it exercises sole investment discretion or for transfer to an account as it may lawfully direct the Depositary and that such account is a QIB;
3. such owner is aware that the transferor of such securities is relying on the exemption from registration under the Securities Act provided by Rule 144A for the transfer;
4. such owner will not offer, sell, pledge or otherwise transfer any interest in the Rule 144A GDSs or Shares represented thereby except as permitted by the applicable legend set forth in paragraph (5) below;



5. the Rule 144A GDRs will bear legends to the following effect, unless we and the Depositary determine otherwise in compliance with applicable law, and that such owner will observe the restrictions contained therein:

**NEITHER THIS RULE 144A GDR, NOR THE RULE 144A GDSs EVIDENCED HEREBY, NOR THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR AND THE RULE 144A GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATIONS UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATIONS UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.**

**THE BENEFICIAL OWNER OF RULE 144A DEPOSITED SECURITIES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDS MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SECURITIES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SECURITIES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE RULE 144A DEPOSITED SECURITIES OR THE RULE 144A GDSs.**

**EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR OR A BENEFICIAL INTEREST IN THE RULE 144A GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.**

## **Transfer Restrictions on the Regulation S GDSs**

Each owner of an interest in Regulation S GDSs, by its acceptance thereof, will be deemed to have acknowledged and represented to and agreed with us, the Depositary and the Initial Purchasers that (terms used herein that are defined in Rule 144A or Regulation S are used as defined therein):

1. the Regulation S GDSs and the Shares represented thereby have not been and are not expected to be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;
2. such owner will not offer, sell, pledge or otherwise transfer any interest in the Regulation S GDSs or Shares represented thereby except as permitted by the applicable legend set forth in paragraph (3) below;
3. the Regulation S GDRs will bear legends to the following effect, unless we and the Depositary determine otherwise in compliance with applicable law, and that such owner will observe the restrictions contained therein:

**NEITHER THIS REGULATION S GDR, NOR THE REGULATION S GDSs EVIDENCED HEREBY, NOR THE REGULATION S DEPOSITED SECURITIES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE REGULATION S DEPOSITED SECURITIES REPRESENTED THEREBY EACH IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR AND THE REGULATION S GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE REGULATION S DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT.**

## PLAN OF DISTRIBUTION

We and the Initial Purchasers have entered into a purchase agreement dated April 14, 2020 with respect to the GDSs, or the Purchase Agreement. Subject to certain conditions set out in the Purchase Agreement, the Initial Purchasers have agreed to purchase from us, and we have agreed to sell to the Initial Purchasers, the amount of GDSs indicated in the following table.

| Initial Purchaser                          | Number of GDSs    |
|--------------------------------------------|-------------------|
| Citigroup Global Markets Limited . . . . . | 9,510,000         |
| UBS AG, Hong Kong Branch . . . . .         | 3,170,000         |
| Total . . . . .                            | <u>12,680,000</u> |

The Purchase Agreement provides that the obligations of the Initial Purchasers to purchase the GDSs included in this offering are subject to certain conditions, including receipt of certain legal opinions. The Initial Purchasers are obligated to purchase all the GDSs if they purchase any of the GDSs. We have agreed to indemnify each of the Initial Purchasers against certain losses, claims, damages or liabilities under the Securities Act in accordance with the Purchase Agreement.

The Initial Purchasers propose to resell the GDSs at the offering price set forth on the cover page of this Offering Circular within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. The GDSs and the Shares have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See “Transfer Restrictions.” The GDSs will not be offered or sold directly or indirectly in the ROC, or to, or for the account or benefit of, any ROC person.

The purchase price for the GDSs will be US\$51.12 per GDS, which is US\$0.13 lower than the offering price set forth on the cover page of this Offering Circular, or the offering price. The Initial Purchasers propose to offer the GDSs at the offering price. After the GDSs are released for sale, the offering price and other selling terms may from time to time be varied by the Initial Purchasers.

We have applied to have the GDSs listed on the Luxembourg Stock Exchange. However, we cannot assure you that the prices at which the GDSs will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the GDSs will develop and continue after this offering. The Initial Purchasers have advised us that they currently intend to make a market in the GDSs. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the GDSs at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the GDSs. In connection with the offering, the Initial Purchasers may purchase and sell the GDSs in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions, and stabilizing purchases.

- Short sales involve secondary market sales by the Initial Purchasers of a greater number of securities than they are required to purchase in the offering.
- Covering transactions involve purchases of securities in the open market after the distribution has been completed in order to cover short positions.
- Stabilizing transactions involve bids to purchase securities so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the Initial Purchasers for their own accounts, may have the effect of preventing or retarding a decline in the market price of the GDSs. It may also cause the price of the GDSs to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The Initial Purchasers may conduct these transactions in the over-the-counter market or otherwise. If any of the Initial Purchasers commences any of these transactions, it may discontinue it at any time.

We expect to deliver the GDSs against payment for the GDSs on or about the date specified in the last paragraph of the cover page of this Offering Circular, which will be the third business day following the date of the pricing of the GDSs. Since trades in the secondary market generally settle in three business days, purchasers who wish to trade the GDSs on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the GDSs initially will settle in T+3, to specify alternative settlement arrangements to prevent a failed settlement. Investors will be notified by the relevant Initial Purchasers of their allocations of the GDSs and the settlement arrangements in respect thereof. The GDSs will be issued on the closing date against payment to the Issuer by the relevant Initial Purchasers of the purchase price.

We and each of Pierre T.M. Chen, Hsu Chang Investment Ltd. and Hsu Tai Investment Ltd. have agreed that until 90 days after the date hereof, we will not, without the Initial Purchasers' prior written consent, offer, sell, contract to sell or otherwise dispose of any securities of us that are substantially similar to the GDSs or the Shares, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, or the Shares or any such substantially similar securities. Notwithstanding the foregoing, we may issue such securities (i) pursuant to employee stock option plans existing on the date hereof, or (ii) upon the conversion or exchange of convertible or exchangeable securities outstanding as of the date of this Offering Circular.

The Initial Purchasers have performed commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The Initial Purchasers may, from time to time, engage in transactions with and perform services for us in the ordinary course of its business for which it may receive customary fees and reimbursement of expenses. In addition, affiliates of the Initial Purchasers are lenders, and in some cases agents or managers for the lenders, under our credit facility.

#### **Notice to prospective investors in the ROC and restriction on related party subscription under ROC law**

The Initial Purchasers have represented, warranted and agreed that this Offering Circular is not an offer or sale, directly or indirectly, of any GDSs in the ROC or to, or for the account or benefit of, and resident of the ROC. The GDSs may not be offered or sold directly or indirectly in the ROC, or to, or for the account or benefit of, any ROC person.

Under applicable ROC laws and regulations, we and the Initial Purchasers are prohibited from offering and selling the GDSs to the "related parties" as defined in the IAS 24 or the Regulations Governing Preparation of Financial Reports by Securities Issuers, or any person specified in Section 36 of the ROC Securities Association Rules Governing Underwriting and Resale of Securities by Securities Firms. Unless it can be established that no control or significant influence exists, a party falling within any of the following shall be deemed to have a substantive related party relationship:

1. An affiliated enterprise within the meaning given in Chapter VI-I of the ROC Company Law, and any of its directors, supervisors, and managerial officers.
2. A company or institution governed by the same general management office as the issuer, and any of its directors, supervisors, and managerial officers.
3. A person holding the position of manager or higher in the general management office.
4. A company or institution shown as an affiliated enterprise in the issuer's publications or public announcements.
5. Where the board chairman or president of another company or institution is the same person as the board chairman or president of the issuer, or is the spouse or a relative within the second degree or closer of the board chairman or president of the issuer.

Under Chapter VI-1 the ROC Company Law, the term “affiliated enterprises” as used in this Law shall refer to enterprises which are independent in existence but are interrelated in either of the following relations:

- Companies having controlling and subordinate relation between them.
- Companies having made investment in each other.

In considering whether a counterparty is a related party, attention shall be directed to the substance of the relationship in addition to the legal form.

#### **Notice to prospective investors in the United States**

The GDSs have not been and will not be registered under the Securities Act for offer or sale as part of their distribution and may not be offered or sold in the United States except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the GDSs are being offered and sold by the Initial Purchasers only (1) in the United States to QIBs pursuant to Rule 144A and (2) outside the United States in reliance upon Regulation S under the Securities Act. The Initial Purchasers have agreed that they will not offer, sell or deliver any GDS as part of their distribution at any time within the United States except to persons whom they reasonably believe to be qualified institutional buyers pursuant to Rule 144A, and that they will have sent to each dealer to which they sell the GDSs a confirmation or other notice setting forth the restriction on offers and sales of GDSs within the United States.

#### **Notice to prospective investors in the European Economic Area and the United Kingdom**

In relation to each Member State of the European Economic Area and the United Kingdom (each, a “**Relevant State**”), an offer to the public of any GDSs may not be made in that Relevant State, except that an offer to the public in that Relevant State of any GDSs may be made at any time under the following exemptions under the Prospectus Regulation:

- (a) to any legal entity which is a “qualified investor” as defined under the Prospectus Regulation;
- (b) to fewer than 150 natural or legal persons (other than “qualified investors” as defined under the Prospectus Regulation), subject to obtaining the prior consent of the Initial Purchasers for any such offer; or
- (c) in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of GDSs shall result in a requirement for us or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or a supplemental prospectus pursuant to Article 23 of the Prospectus Regulation and each person who initially acquires any GDSs or to whom any offer is made will be deemed to have represented, warranted and agreed to and with each of the Initial Purchasers and us that it is a qualified investor within the meaning of Article 2(e) of the Prospectus Regulation.

In the case of any GDSs being offered to a financial intermediary as that term is used in Article 1(4) of the Prospectus Regulation, each financial intermediary will also be deemed to have represented, warranted and agreed that the GDSs acquired by it in this offering have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any GDSs to the public, other than their offer or resale in a Relevant State to qualified investors as so defined or in circumstances in which the prior consent of the Initial Purchasers has been obtained to each such proposed offer or resale.

We, the Initial Purchasers and our and their affiliates will rely upon the truth and accuracy of the foregoing representations, warranties and agreements. Notwithstanding the above, a person who is not a “qualified investor” and who has notified the Initial Purchasers of such fact in writing may, with the prior consent of the Initial Purchasers, be permitted to acquire GDSs in this offering.

For the purposes of this provision, the expression an “offer to the public” in relation to any GDSs in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and any GDSs to be offered so as to enable an investor to decide to purchase or subscribe for any GDSs, and the expression “Prospectus Regulation” means Regulation (EU) 2017/1129.

## Notice to prospective investors in Singapore

The Initial Purchasers have acknowledged that this Offering Circular has not been, and will not be, registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Initial Purchasers have represented, warranted and agreed that it has not offered or sold any GDSs or caused the GDSs to be made the subject of an invitation for subscription or purchase and will not offer or sell any GDSs or cause the GDSs to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the GDSs, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of notes may not be circulated or distributed, nor may notes be offered or sold, or be made the subject of an invitation for subscription or purchase whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the GDSs are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)), the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the GDSs pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

*Singapore SFA Product Classification — In connection with Section 309B of the SFA and the CMP Regulations 2018, the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the GDSs are “prescribed capital markets products” (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*



### **Notice to prospective investors in Hong Kong**

The securities may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong), and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the securities may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to securities which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

### **Notice to prospective investors in Japan**

The securities offered in this Offering Circular have not been registered under the Securities and Exchange Law of Japan. The securities have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law, and (ii) in compliance with any other applicable requirements of Japanese law.

### **Notice to prospective investors in Canada**

The GDSs may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the GDSs must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering circular contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts, or NI 33-105, the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

### **Notice to prospective investors in United Arab Emirates**

The GDSs have not been, and are not being, publicly offered, sold, promoted or advertised in the United Arab Emirates (including the Abu Dhabi Global Market and the Dubai International Financial Centre) other than in compliance with the laws, regulations and rules of the United Arab Emirates, the Abu Dhabi Global Market and the Dubai International Financial Centre governing the issue, offering and sale of securities. Further, this Offering Circular does not constitute a public offer of securities in the United Arab Emirates (including the Abu Dhabi Global Market and the Dubai International Financial Centre) and is not intended to be a public offer. This Offering Circular has not been approved by or filed with the Central Bank of the United Arab Emirates, the Securities and Commodities Authority, the Financial Services Regulatory Authority or the Dubai Financial Services Authority.

## **LEGAL MATTERS**

Certain legal matters with respect to the GDSs will be passed upon for us by Baker & McKenzie as to ROC law, and for the Initial Purchasers by Simpson Thacher & Bartlett as to U.S. federal and New York law and Beijing Tianyuan Law Firm as to PRC law.

## **INDEPENDENT AUDITORS**

### **YAGEO Corporation Independent Auditors**

The consolidated financial statements of YAGEO Corporation and its subsidiaries as of and for the years ended December 31, 2017 and 2018 and as of and for the years ended December 31, 2018 and 2019, included in this offering circular have been audited by Deloitte & Touche, independent auditors, as stated in their reports appearing herein which reports express an unqualified opinion on the consolidated financial statements and include other matters paragraph referring to certain subsidiaries and equity method investees being audited by other auditors, the proposed acquisition of KEMET Corporation, the disposal made in 2017, the acquisitions made in 2018, and retrospective adjustments to the provisional amount of acquisitions made in 2018 and the unqualified opinion expressed on the parent company only financial statements.

Deloitte & Touche are located at 20F, No. 100, Songren Road, Taipei, Taiwan.

### **KEMET Corporation Independent Registered Public Accounting Firm**

The consolidated balance sheets of KEMET Corporation and subsidiaries as of March 31, 2019 and 2018, and the consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for each of the three years in the period ended March 31, 2019, and the related notes, appearing in KEMET Corporation's Annual Report (Form 10-K) for the year ended March 31, 2019, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon, included therein, and incorporated herein by reference.

## GENERAL INFORMATION

We were founded by Mr. M.Y. Chen and was incorporated on July 10, 1977 under the name Yageo Company Limited, or YCL, under the Company Law of the Republic of China. YCL manufactured leaded resistors under contract for resistor producers and designed and built resistor factories for third parties on a turnkey basis. YCL merged with Taiwan Resistance Corporation, a manufacturer of leaded resistors in Kaohsiung, Taiwan in 1989 and adopted the name “Yageo Corporation”. As of the date of this Offering Circular, according to our Articles of Incorporation, our authorized share capital is NT\$40,000,000,000, and our paid-in share capital was NT\$4,302,570,560, divided into 430,257,056 Shares with a par value of NT\$10 per share. Our registered and principal executive office is located at 3F, 233-1, Baoqiao Rd. Xindian Dist., New Taipei City, Taiwan, Republic of China, and our telephone number at the above address is +886-2-6629-9999. We are registered with Taiwan Ministry of Economic Affairs and our registration number is 22636630. Our Legal Entity Identifier Code is 5493001P0TOZH7GGNQ21. MasterLink Securities Corporation currently acts as our Common Share registrar and maintains our register of shareholders at its offices in Taipei, Taiwan, and enters transfers of Common Shares in such register upon presentation of, among other documents, certificates in respect of the transferred Common Shares. The registered office of our share registrar is at 1F-3F, No. 209, Sec. 1, Fuxing S. Rd., Da’an Dist., Taipei City 106, Taiwan.

Currently, we do not have any outstanding convertible or exchangeable debt securities or debt securities with warrants attached.

The Regulation S GDSs and Rule 144A GDSs have been accepted for clearance and settlement by DTC, Euroclear and Clearstream. Relevant trading information is set forth below.

|                             | ISIN         | Common Code | CUSIP     |
|-----------------------------|--------------|-------------|-----------|
| The GDSs:                   |              |             |           |
| Regulation S GDSs . . . . . | US9843268437 | 168427034   | 984326843 |
| Rule 144A GDSs . . . . .    | US9843268502 | 112316132   | 984326850 |

Application has been made to admit the GDSs on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market of the Luxembourg Stock Exchange.

We will apply to the TWSE for the listing of the Shares underlying the GDSs as soon as practicable after the Closing Date. It is expected that the TWSE will approve the listing of the Shares on the fourth business day in the ROC following the Closing Date, although there is no assurance that such listing approval will be obtained by such date (if at all).

We have obtained all necessary consents, approvals and authorizations in connection with the issue of the Shares and the GDSs. The issue of the Shares and GDSs was authorized by the shareholders at a meeting held on February 26, 2020 and by the resolutions of our board of directors passed on March 2, 2020. Our shareholders waived their pre-emptive rights in respect of the Shares to be represented by the GDSs pursuant to a resolution passed at the same shareholders’ meeting held on February 26, 2020.

Except as disclosed, there has been no significant change in our financial or trading position since December 31, 2019 or any material adverse change in our financial position or prospects since December 31, 2019.

Except as disclosed at “Business — Legal Proceedings”, neither we nor any of its subsidiaries is involved in any litigation or arbitration proceedings which may have, or have had during the period recently preceding the date of this Offering Circular, a material adverse effect on our financial position, nor, so far as any of them is aware, are any such proceedings pending or threatened except as may be otherwise disclosed or referred to herein.

In 2019, no public takeovers relating to us have taken place.

No company in which we have a direct or indirect holding of more than 50% of capital or issued shares holds any Shares.

Copies (and certified English translations where the documents are not in English) of the following documents may be inspected, free of charge, at our website at <http://www.yageo.com>, our principal executive office and the specified offices of the Depositary, so long as the GDSs remain outstanding:

- our Articles of Incorporation;
- the Deposit Agreements relating to the GDSs;
- the Purchase Agreement relating to the GDSs;
- this Offering Circular; and
- a copy of the audit reports of the independent accountants and our audited financial statements as of and for the year ended December 31, 2017, 2018 and 2019.

In addition, copies of this Offering Circular, the most recent annual audited consolidated financial statements of the Company and any semi-annual consolidated financial statements and condensed interim first-quarter and condensed interim third-quarter consolidated financial statements published by the Company will be available for collection free of charge at the specified office of the Depositary in Luxembourg, so long as the GDSs are listed on the Luxembourg Stock Exchange. The Company publishes both its annual and interim consolidated financial statements. For as long as the GDSs are traded on the Euro MTF Market, we will publish all notices to holders of GDSs on the website of the Luxembourg Stock Exchange, which is *www.bourse.lu*.

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## **Yageo Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2018 and 2019 and  
Independent Auditors' Report**



## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Yageo Corporation

### **Opinion**

We have audited the accompanying consolidated financial statements of Yageo Corporation (the Company) and its subsidiaries (collectively referred to as the Group), which comprise the consolidated balance sheets as of December 31, 2018 and 2019, 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, based on our audits and the reports of other auditors (refer to the other matter paragraph below), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2019, 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. Based on our audits and the reports of other auditors, 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, 2019. 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 on the consolidated financial statements for the year ended December 31, 2019 are as follows:

#### Allowance for Expected Credit Loss of Trade Receivables

The recoverable amount of trade receivables is determined by management's evaluation of the credit risk of overdue receivables, which is affected by management's assumptions about a client's credit quality. In our audit, we focused on clients with significant trade receivables and overdue balances, and we evaluated the reasonableness of management's estimation of the allowance for expected credit loss of trade receivables.

For a summary of the significant accounting policies on expected credit loss of trade receivables, refer to Note 4 to the accompanying consolidated financial statements. Refer to Note 10 to the consolidated financial statements for the carrying amount of trade receivables. Our audit procedures for the aforementioned key audit matter are described as follows:

1. We tested the completeness and the accuracy of the aging report of the trade receivables which served as a basis for the calculation of the expected credit loss allowance and verified that the percentage of such allowance was consistent with the Group's policy on the allowance for expected credit loss.
2. We confirmed the recoverability of trade receivables outstanding at year end by checking the collections after the balance sheet date.
3. For the past due, outstanding amount, we assessed the reasonableness of the allowance through understanding the history of the client and whether collateral was obtained; we also assessed the state of the overall economy.

#### Allowance for Inventory Valuation Loss

The value of inventory is affected by the volatility of market demand and the ever-changing technology which can cause inventory to become outdated and obsolete. The allocation of inventory costs and the estimations of the net realizable value of inventory require management's judgment. In our audit, we focused on testing whether the value of inventory is stated at the lower of cost or net realizable value. We also assessed the reasonableness of management's estimation of the allowance for inventory valuation loss.

For a summary of the significant accounting policies on inventory valuation, refer to Note 4 to the accompanying consolidated financial statements. Refer to Note 11 to the consolidated financial statements for the carrying amount of inventory. Our audit procedures for the aforementioned key audit matter are described as follows:

1. We tested the completeness and the accuracy of the aging of inventory, assessed the reasonableness of inventory valuation loss per the Group's policy, and calculated the amount of allowance for inventory valuation loss per the Group's policy.
2. We selected samples of inventory items at yearend and we compared the respective actual purchase and selling prices with the book values to ensure that the book values do not exceed the net realizable values.

## **Other Matter**

We did not audit the financial statements of certain subsidiaries included in the consolidated financial statements of the Group, as of and for the years ended December 31, 2018 and 2019. The total assets of these subsidiaries were 10.55% (NT\$13,051,571 thousand) and 15.90% (NT\$15,320,336 thousand) of the Group's total consolidated assets as of December 31, 2018 and 2019, respectively, and the total revenue of these subsidiaries was 7.24% (NT\$5,584,073 thousand) and 20.63% (NT\$8,520,693 thousand) of the Group's total consolidated revenue for the years ended December 31, 2018 and 2019, respectively. As disclosed in Note 13 to the accompanying consolidated financial statements, we also did not audit the financial statements of some investees accounted for using the equity method. The total investments in these investees accounted for using the equity method were 0.13% (NT\$154,651 thousand) and 0.16% (NT\$153,770 thousand) of the Group's total consolidated assets as of December 31, 2018 and 2019, respectively; the Group's total share of the profit (loss) of such associates was and (0.06%) (NT\$(23,364) thousand) 0.01% (NT\$673 thousand) of the Group's consolidated profit before income tax for the years ended December 31, 2018 and 2019, respectively. The financial statements of the aforementioned subsidiaries and investees accounted for using the equity method were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the related amounts included herein, is based solely on the reports of other auditors.

We have also audited the parent company only financial statements of the Company as of and for the years ended December 31, 2018 and 2019 on which we have issued an unqualified opinion with other matter paragraph.

As described in Note 32 to the accompanying consolidated financial statements, on November 12, 2019, the Company's board approved the Company's acquisition of 100% of the equity interest of KEMET Corporation at US\$27.20 per share in cash transaction for total amount of US\$1.64 billion.

As described in Note 1 to the accompanying consolidated financial statements, in 2018, the Company acquired 100% of the equity interest of Brightking Holdings Limited and Pulse Electronics Corporation in a cash settlement amounting to NT\$3,328,253 thousand and US\$721,461 thousand, respectively. The comparative figures have been restated as if the initial accounting was completed at the acquisition date. Refer to Note 15 for information relating to the restated comparative figures.

## **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 Audit Committee, are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2019 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 Yung-Hsiang Chao and Cheng-Tsai Tsai.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 26, 2020

#### 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.*

# YAGEO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2018 AND 2019 (In Thousands)

| ASSETS                                                                                          | 2018                  |            | 2019                 |                              |            |
|-------------------------------------------------------------------------------------------------|-----------------------|------------|----------------------|------------------------------|------------|
|                                                                                                 | NT\$                  | %          | NT\$                 | US\$ (Note 4)<br>(Unaudited) | %          |
| <b>CURRENT ASSETS</b>                                                                           |                       |            |                      |                              |            |
| Cash and cash equivalents (Notes 4 and 6)                                                       | \$ 20,388,744         | 17         | \$ 16,153,271        | \$ 540,063                   | 17         |
| Financial assets at fair value through profit or loss - current (Notes 4 and 7)                 | 80,458                | -          | 373,120              | 12,475                       | 1          |
| Financial assets at amortized cost - current (Notes 4 and 9)                                    | 8,568,937             | 7          | 4,072,506            | 136,159                      | 4          |
| Notes receivable (Notes 4, 5 and 10)                                                            | 553,176               | -          | 159,758              | 5,341                        | -          |
| Trade receivables (Notes 4, 5, 10 and 30)                                                       | 19,251,951            | 16         | 9,702,437            | 324,388                      | 10         |
| Other receivables (Notes 4 and 30)                                                              | 442,998               | -          | 307,178              | 10,270                       | -          |
| Inventories (Notes 4, 5 and 11)                                                                 | 10,279,726            | 8          | 5,679,345            | 189,881                      | 6          |
| Prepayments (Note 17)                                                                           | 996,362               | 1          | 496,079              | 16,586                       | 1          |
| Other current assets                                                                            | <u>355,718</u>        | -          | <u>203,843</u>       | <u>6,815</u>                 | -          |
| Total current assets                                                                            | <u>60,918,070</u>     | <u>49</u>  | <u>37,147,537</u>    | <u>1,241,978</u>             | <u>39</u>  |
| <b>NON-CURRENT ASSETS</b>                                                                       |                       |            |                      |                              |            |
| Financial assets at fair value through profit or loss - non-current (Notes 4 and 7)             | 89,196                | -          | 87,686               | 2,932                        | -          |
| Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8) | 2,226,976             | 2          | 1                    | -                            | -          |
| Financial assets at amortized cost - non-current (Notes 4 and 9)                                | 6,946,640             | 6          | 4,041,659            | 135,127                      | 4          |
| Investments accounted for using the equity method (Notes 4 and 13)                              | 6,205,942             | 5          | 6,040,518            | 201,956                      | 6          |
| Property, plant and equipment (Notes 4, 5, 14 and 31)                                           | 18,550,010            | 15         | 20,511,273           | 685,766                      | 22         |
| Right-of-use assets (Note 4)                                                                    | -                     | -          | 230,273              | 7,699                        | -          |
| Goodwill (Notes 4, 5 and 15)                                                                    | 21,464,280            | 17         | 21,377,750           | 714,736                      | 22         |
| Other intangible assets (Notes 4 and 16)                                                        | 4,737,280             | 4          | 4,535,560            | 151,640                      | 5          |
| Deferred tax assets (Notes 4 and 23)                                                            | 2,207,304             | 2          | 2,156,351            | 72,095                       | 2          |
| Refundable deposits                                                                             | 104,372               | -          | 103,997              | 3,477                        | -          |
| Long-term prepayments for lease, net of current portion (Note 17)                               | 110,730               | -          | -                    | -                            | -          |
| Other non-current assets                                                                        | <u>143,532</u>        | -          | <u>149,532</u>       | <u>4,999</u>                 | -          |
| Total non-current assets                                                                        | <u>62,786,262</u>     | <u>51</u>  | <u>59,234,600</u>    | <u>1,980,427</u>             | <u>61</u>  |
| <b>TOTAL</b>                                                                                    | <u>\$ 123,704,332</u> | <u>100</u> | <u>\$ 96,382,137</u> | <u>\$ 3,222,405</u>          | <u>100</u> |
| <b>LIABILITIES AND EQUITY</b>                                                                   |                       |            |                      |                              |            |
| <b>CURRENT LIABILITIES</b>                                                                      |                       |            |                      |                              |            |
| Short-term borrowings (Note 18)                                                                 | \$ 23,667,981         | 19         | \$ 18,640,796        | \$ 623,230                   | 19         |
| Short-term bills payable (Note 18)                                                              | 499,487               | 1          | 299,881              | 10,026                       | -          |
| Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)            | 27,674                | -          | 421,701              | 14,099                       | 1          |
| Notes payable                                                                                   | 163,595               | -          | 4,803                | 161                          | -          |
| Trade payables (Note 30)                                                                        | 10,347,305            | 8          | 6,059,800            | 202,601                      | 6          |
| Other payables (Notes 19 and 30)                                                                | 12,012,953            | 10         | 7,080,835            | 236,738                      | 8          |
| Current tax liabilities (Notes 4 and 23)                                                        | 6,782,248             | 6          | 1,826,900            | 61,080                       | 2          |
| Lease liabilities - current                                                                     | -                     | -          | 125,695              | 4,202                        | -          |
| Other current liabilities                                                                       | <u>281,179</u>        | -          | <u>284,326</u>       | <u>9,506</u>                 | -          |
| Total current liabilities                                                                       | <u>53,782,422</u>     | <u>44</u>  | <u>34,744,737</u>    | <u>1,161,643</u>             | <u>36</u>  |
| <b>NON-CURRENT LIABILITIES</b>                                                                  |                       |            |                      |                              |            |
| Long-term borrowings (Notes 18 and 31)                                                          | 9,000,000             | 7          | 14,013,562           | 468,524                      | 15         |
| Deferred tax liabilities (Notes 4 and 23)                                                       | 383,698               | -          | 260,100              | 8,696                        | -          |
| Net defined benefit liabilities - non-current (Notes 4 and 20)                                  | 471,418               | -          | 518,283              | 17,328                       | 1          |
| Guarantee deposits received                                                                     | 150,895               | -          | 191,517              | 6,403                        | -          |
| Other non-current liabilities                                                                   | <u>477,547</u>        | <u>1</u>   | <u>407,207</u>       | <u>13,614</u>                | -          |
| Total non-current liabilities                                                                   | <u>10,483,558</u>     | <u>8</u>   | <u>15,390,669</u>    | <u>514,565</u>               | <u>16</u>  |
| Total liabilities                                                                               | <u>64,265,980</u>     | <u>52</u>  | <u>50,135,406</u>    | <u>1,676,208</u>             | <u>52</u>  |
| <b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>                                             |                       |            |                      |                              |            |
| Share capital                                                                                   |                       |            |                      |                              |            |
| Common shares                                                                                   | 4,270,394             | 3          | 4,290,478            | 143,446                      | 4          |
| Capital collected in advance                                                                    | <u>453</u>            | -          | <u>12,093</u>        | <u>404</u>                   | -          |
| Total share capital                                                                             | <u>4,270,847</u>      | <u>3</u>   | <u>4,302,571</u>     | <u>143,850</u>               | <u>4</u>   |
| Capital surplus                                                                                 |                       |            |                      |                              |            |
| Issuance of common shares                                                                       | 2,718,524             | 2          | 2,534,899            | 84,751                       | 3          |
| From share of changes in capital surplus of associates                                          | 2,804,929             | 3          | 2,842,519            | 95,036                       | 3          |
| From employee share options                                                                     | <u>20,146</u>         | -          | <u>16,097</u>        | <u>538</u>                   | -          |
| Total capital surplus                                                                           | <u>5,543,599</u>      | <u>5</u>   | <u>5,393,515</u>     | <u>180,325</u>               | <u>6</u>   |
| Retained earnings                                                                               |                       |            |                      |                              |            |
| Legal reserve                                                                                   | 3,235,596             | 3          | 6,619,525            | 221,315                      | 7          |
| Special reserve                                                                                 | 437,595               | -          | 1,647,659            | 55,087                       | 2          |
| Unappropriated earnings                                                                         | <u>49,478,674</u>     | <u>40</u>  | <u>33,213,245</u>    | <u>1,110,440</u>             | <u>34</u>  |
| Total retained earnings                                                                         | <u>53,151,865</u>     | <u>43</u>  | <u>41,480,429</u>    | <u>1,386,842</u>             | <u>43</u>  |
| Other equity                                                                                    |                       |            |                      |                              |            |
| Exchange differences on translation of foreign operations                                       | (1,820,627)           | (1)        | (2,560,689)          | (85,613)                     | (3)        |
| Unrealized gain on financial assets at FVTOCI                                                   | <u>610,563</u>        | -          | <u>52,457</u>        | <u>1,754</u>                 | -          |
| Total other equity                                                                              | <u>(1,210,064)</u>    | <u>(1)</u> | <u>(2,508,232)</u>   | <u>(83,859)</u>              | <u>(3)</u> |
| Treasury shares                                                                                 | <u>(2,421,552)</u>    | <u>(2)</u> | <u>(2,421,552)</u>   | <u>(80,961)</u>              | <u>(2)</u> |
| Total equity attributable to owners of the Company                                              | <u>59,334,695</u>     | <u>48</u>  | <u>46,246,731</u>    | <u>1,546,197</u>             | <u>48</u>  |
| <b>NON-CONTROLLING INTERESTS</b>                                                                | <u>103,657</u>        | -          | -                    | -                            | -          |
| Total equity                                                                                    | <u>59,438,352</u>     | <u>48</u>  | <u>46,246,731</u>    | <u>1,546,197</u>             | <u>48</u>  |
| <b>TOTAL</b>                                                                                    | <u>\$ 123,704,332</u> | <u>100</u> | <u>\$ 96,382,137</u> | <u>\$ 3,222,405</u>          | <u>100</u> |

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

(With Deloitte & Touche audit report dated February 26, 2020)



# YAGEO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2019 (In Thousands, Except Earnings Per Share)

|                                                                             | 2018              |           | 2019              |                              |            |
|-----------------------------------------------------------------------------|-------------------|-----------|-------------------|------------------------------|------------|
|                                                                             | NT\$              | %         | NT\$              | US\$ (Note 4)<br>(Unaudited) | %          |
| OPERATING REVENUE (Notes 4 and 30)                                          |                   |           |                   |                              |            |
| Net sales                                                                   | \$ 77,155,611     | 100       | \$ 41,306,656     | \$ 1,381,032                 | 100        |
| OPERATING COSTS (Notes 4, 11, 22 and 30)                                    |                   |           |                   |                              |            |
| Cost of goods sold                                                          | <u>28,310,343</u> | <u>37</u> | <u>26,526,111</u> | <u>886,864</u>               | <u>64</u>  |
| GROSS PROFIT                                                                | <u>48,845,268</u> | <u>63</u> | <u>14,780,545</u> | <u>494,168</u>               | <u>36</u>  |
| OPERATING EXPENSES (Notes 4, 22 and 30)                                     |                   |           |                   |                              |            |
| Selling and marketing expenses                                              | 6,496,642         | 8         | 3,792,344         | 126,792                      | 9          |
| General and administrative expenses                                         | 3,523,253         | 5         | 3,171,344         | 106,030                      | 8          |
| Research and development expenses                                           | 413,353           | -         | 774,821           | 25,905                       | 2          |
| Expected credit (gain) loss (Notes 4 and 10)                                | <u>1,504,052</u>  | <u>2</u>  | <u>(989,287)</u>  | <u>(33,075)</u>              | <u>(3)</u> |
| Total operating expenses                                                    | <u>11,937,300</u> | <u>15</u> | <u>6,749,222</u>  | <u>225,652</u>               | <u>16</u>  |
| PROFIT FROM OPERATIONS                                                      | <u>36,907,968</u> | <u>48</u> | <u>8,031,323</u>  | <u>268,516</u>               | <u>20</u>  |
| NON-OPERATING INCOME AND EXPENSES                                           |                   |           |                   |                              |            |
| Finance costs (Notes 4 and 22)                                              | (547,020)         | (1)       | (524,825)         | (17,547)                     | (1)        |
| Share of profit of associates (Note 4)                                      | 635,527           | 1         | 154,049           | 5,150                        | -          |
| Interest income (Note 4)                                                    | 1,091,535         | 1         | 1,142,171         | 38,187                       | 3          |
| Rental income (Notes 4 and 30)                                              | 41,662            | -         | 34,429            | 1,151                        | -          |
| Gain on financial instruments at fair value through profit or loss (Note 4) | 1,288,486         | 2         | 620,680           | 20,752                       | 1          |
| Loss on financial instruments at fair value through profit or loss (Note 4) | (974,160)         | (1)       | (1,324,859)       | (44,295)                     | (3)        |
| Other gains and losses (Note 22)                                            | <u>1,451,363</u>  | <u>2</u>  | <u>890,112</u>    | <u>29,760</u>                | <u>2</u>   |
| Total non-operating income                                                  | <u>2,987,393</u>  | <u>4</u>  | <u>991,757</u>    | <u>33,158</u>                | <u>2</u>   |

(Continued)

# YAGEO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2019 (In Thousands, Except Earnings Per Share)

|                                                                                                                        | 2018              |            | 2019             |                              |            |
|------------------------------------------------------------------------------------------------------------------------|-------------------|------------|------------------|------------------------------|------------|
|                                                                                                                        | NT\$              | %          | NT\$             | US\$ (Note 4)<br>(Unaudited) | %          |
| PROFIT BEFORE INCOME TAX                                                                                               | 39,895,361        | 52         | 9,023,080        | 301,674                      | 22         |
| INCOME TAX EXPENSE (Notes 4 and 23)                                                                                    | <u>6,055,209</u>  | <u>8</u>   | <u>1,970,965</u> | <u>65,897</u>                | <u>5</u>   |
| NET PROFIT FOR THE YEAR                                                                                                | <u>33,840,152</u> | <u>44</u>  | <u>7,052,115</u> | <u>235,777</u>               | <u>17</u>  |
| OTHER COMPREHENSIVE INCOME (LOSS)                                                                                      |                   |            |                  |                              |            |
| Items that will not be reclassified subsequently to profit or loss:                                                    |                   |            |                  |                              |            |
| Remeasurement of defined benefit plans (Note 4)                                                                        | 29,415            | -          | (47,340)         | (1,583)                      | -          |
| Unrealized loss on investments in equity instruments at fair value through other comprehensive income (Notes 4 and 21) | (598,587)         | (1)        | (192,914)        | (6,450)                      | (1)        |
| Share of the other comprehensive (loss) income of associates accounted for using the equity method (Note 4)            | 282               | -          | (153,407)        | (5,129)                      | -          |
| Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 23)             | <u>(2,817)</u>    | <u>-</u>   | <u>9,468</u>     | <u>317</u>                   | <u>-</u>   |
|                                                                                                                        | <u>(571,707)</u>  | <u>(1)</u> | <u>(384,193)</u> | <u>(12,845)</u>              | <u>(1)</u> |
| Items that may be reclassified subsequently to profit or loss:                                                         |                   |            |                  |                              |            |
| Exchange differences on translating the financial statements of foreign operations (Notes 4 and 21)                    | (266,131)         | -          | (861,057)        | (28,788)                     | (2)        |
| Share of the other comprehensive loss of associates accounted for using the equity method (Notes 4 and 21)             | (8,200)           | -          | (76,166)         | (2,547)                      | -          |

(Continued)

# YAGEO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2019 (In Thousands, Except Earnings Per Share)

|                                                                                                                | 2018                               |                      | 2019                               |                                 |                        |
|----------------------------------------------------------------------------------------------------------------|------------------------------------|----------------------|------------------------------------|---------------------------------|------------------------|
|                                                                                                                | NT\$                               | %                    | NT\$                               | US\$ (Note 4)<br>(Unaudited)    | %                      |
| Income tax relating to items that<br>may be reclassified<br>subsequently to profit or loss<br>(Notes 4 and 23) | <u>114,209</u><br><u>(160,122)</u> | <u>-</u><br><u>-</u> | <u>185,016</u><br><u>(752,207)</u> | <u>6,186</u><br><u>(25,149)</u> | <u>-</u><br><u>(2)</u> |
| Other comprehensive loss for<br>the year, net of income tax                                                    | <u>(731,829)</u>                   | <u>(1)</u>           | <u>(1,136,400)</u>                 | <u>(37,994)</u>                 | <u>(3)</u>             |
| TOTAL COMPREHENSIVE<br>INCOME FOR THE YEAR                                                                     | <u>\$ 33,108,323</u>               | <u>43</u>            | <u>\$ 5,915,715</u>                | <u>\$ 197,783</u>               | <u>14</u>              |
| NET PROFIT ATTRIBUTABLE TO:                                                                                    |                                    |                      |                                    |                                 |                        |
| Owners of the Company                                                                                          | \$ 33,839,293                      | 44                   | \$ 6,944,793                       | \$ 232,189                      | 17                     |
| Non-controlling interests                                                                                      | <u>859</u>                         | <u>-</u>             | <u>107,322</u>                     | <u>3,588</u>                    | <u>-</u>               |
|                                                                                                                | <u>\$ 33,840,152</u>               | <u>44</u>            | <u>\$ 7,052,115</u>                | <u>\$ 235,777</u>               | <u>17</u>              |
| TOTAL COMPREHENSIVE<br>INCOME ATTRIBUTABLE TO:                                                                 |                                    |                      |                                    |                                 |                        |
| Owners of the Company                                                                                          | \$ 33,113,026                      | 43                   | \$ 5,820,538                       | \$ 194,601                      | 14                     |
| Non-controlling interests                                                                                      | <u>(4,703)</u>                     | <u>-</u>             | <u>95,177</u>                      | <u>3,182</u>                    | <u>-</u>               |
|                                                                                                                | <u>\$ 33,108,323</u>               | <u>43</u>            | <u>\$ 5,915,715</u>                | <u>\$ 197,783</u>               | <u>14</u>              |
| EARNINGS PER SHARE (NEW<br>TAIWAN DOLLARS; Note 24)                                                            |                                    |                      |                                    |                                 |                        |
| Basic                                                                                                          | <u>\$ 80.30</u>                    |                      | <u>\$ 16.35</u>                    | <u>\$ 0.55</u>                  |                        |
| Diluted                                                                                                        | <u>\$ 78.09</u>                    |                      | <u>\$ 16.02</u>                    | <u>\$ 0.54</u>                  |                        |

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

(With Deloitte & Touche audit report dated February 26, 2020)

(Concluded)

# **YAGEO CORPORATION AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2019  
(In Thousands)

|                                                                                                               | Equity Attributable to Owners of the Company |          |              |              |                                         |                            |                              |                                                                                                         |                                                                                                                                             |                                                                                                                                             | Other Equity                         |               | Non-controlling<br>Interests (Notes 4, 21<br>and 27) | Total Equity  |
|---------------------------------------------------------------------------------------------------------------|----------------------------------------------|----------|--------------|--------------|-----------------------------------------|----------------------------|------------------------------|---------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|---------------|------------------------------------------------------|---------------|
|                                                                                                               | Share Capital (Note 21)                      |          |              |              | Retained Earnings                       |                            |                              | Exchange<br>Differences on<br>Translating the<br>Financial Statements<br>Operations (Notes 4<br>and 21) | Unrealized<br>Valuation Gain<br>(Loss) on Financial<br>Assets at Fair Value<br>Through Other<br>Comprehensive<br>Income (Notes 4<br>and 21) | Unrealized<br>Valuation Gain<br>(Loss) on Financial<br>Assets at Fair Value<br>Through Other<br>Comprehensive<br>Income (Notes 4<br>and 21) |                                      |               |                                                      |               |
|                                                                                                               | Capital Collected in<br>Advance              |          | Total        |              | Capital Surplus<br>(Notes 4, 21 and 27) | Legal Reserve<br>(Note 21) | Special Reserve<br>(Note 21) |                                                                                                         |                                                                                                                                             |                                                                                                                                             | Unappropriated<br>Earnings (Note 21) |               |                                                      |               |
|                                                                                                               | Common Shares                                |          |              |              |                                         |                            |                              |                                                                                                         |                                                                                                                                             |                                                                                                                                             |                                      |               |                                                      |               |
| BALANCE, JANUARY 1, 2018                                                                                      | \$ 3,504,010                                 | \$ 1,628 | \$ 3,505,638 | \$ 3,101,438 | \$ 2,550,866                            | \$ 1,723,692               | \$ 20,096,117                | \$ 24,370,675                                                                                           | \$ (1,664,627)                                                                                                                              | \$ 1,911,923                                                                                                                                | \$ -                                 | \$ 31,225,047 | \$ 108,360                                           | \$ 31,333,407 |
| Effect of retrospective application and retrospective restatement                                             | -                                            | -        | -            | -            | -                                       | -                          | 5,440                        | 5,440                                                                                                   | -                                                                                                                                           | (1,911,923)                                                                                                                                 | -                                    | -             | -                                                    | -             |
| BALANCE, JANUARY 1, 2018 AS RESTATED                                                                          | 3,504,010                                    | 1,628    | 3,505,638    | 3,101,438    | 2,550,866                               | 1,723,692                  | 20,101,557                   | 24,376,115                                                                                              | (1,664,627)                                                                                                                                 | -                                                                                                                                           | 1,906,483                            | 31,225,047    | 108,360                                              | 31,333,407    |
| Appropriation of the 2017 earnings                                                                            | -                                            | -        | -            | -            | 684,730                                 | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | -             | -                                                    | -             |
| Legal reserve                                                                                                 | -                                            | -        | -            | -            | -                                       | (1,286,097)                | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | -             | -                                                    | -             |
| Share dividends distributed by the Company                                                                    | -                                            | -        | -            | -            | -                                       | -                          | (5,036,144)                  | (5,036,144)                                                                                             | -                                                                                                                                           | -                                                                                                                                           | -                                    | (5,036,144)   | -                                                    | (5,036,144)   |
| Cash dividends distributed by the Company                                                                     | 701,413                                      | -        | 701,413      | -            | -                                       | -                          | (701,413)                    | (701,413)                                                                                               | -                                                                                                                                           | -                                                                                                                                           | -                                    | -             | -                                                    | -             |
| Share dividends distributed by the Company                                                                    | -                                            | -        | -            | -            | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | -             | -                                                    | -             |
| Changes in capital surplus from investments in associates accounted for by using equity method                | -                                            | -        | -            | 2,389,116    | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | 2,389,116     | -                                                    | 2,389,116     |
| Issue of share dividends from capital surplus                                                                 | -                                            | -        | -            | (226,586)    | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | (226,586)     | -                                                    | (226,586)     |
| Actual acquisitions of interests in subsidiaries                                                              | -                                            | -        | -            | -            | -                                       | -                          | (25,874)                     | (25,874)                                                                                                | -                                                                                                                                           | -                                                                                                                                           | -                                    | (25,874)      | (543,571)                                            | (569,445)     |
| Changes in percentage of ownership interests in subsidiaries                                                  | -                                            | -        | -            | -            | -                                       | -                          | (25,765)                     | (25,765)                                                                                                | -                                                                                                                                           | -                                                                                                                                           | -                                    | (25,765)      | -                                                    | (25,765)      |
| Recognition of employees share options by the Company                                                         | -                                            | -        | -            | -            | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | -             | -                                                    | -             |
| Recognition of employee share options by the Company                                                          | 64,971                                       | (1,175)  | 63,796       | 279,631      | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | 343,427       | -                                                    | 343,427       |
| Net profit for the year ended December 31, 2018                                                               | -                                            | -        | -            | -            | -                                       | -                          | 33,839,293                   | 33,839,293                                                                                              | -                                                                                                                                           | -                                                                                                                                           | -                                    | 33,839,293    | 859                                                  | 33,840,152    |
| Other comprehensive income (loss) for the year ended December 31, 2018                                        | -                                            | -        | -            | -            | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | -             | -                                                    | -             |
| Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax                     | -                                            | -        | -            | -            | -                                       | -                          | 26,880                       | 26,880                                                                                                  | (156,000)                                                                                                                                   | -                                                                                                                                           | (597,147)                            | (726,267)     | (5,562)                                              | (731,829)     |
| Buy-back of treasury shares                                                                                   | -                                            | -        | -            | -            | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | (2,421,552)                          | (2,421,552)   | -                                                    | (2,421,552)   |
| Disposals of investments in equity instruments designated as at fair value through other comprehensive income | -                                            | -        | -            | -            | -                                       | -                          | 698,773                      | 698,773                                                                                                 | -                                                                                                                                           | -                                                                                                                                           | (698,773)                            | -             | -                                                    | -             |
| Non-controlling interests                                                                                     | -                                            | -        | -            | -            | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | -             | -                                                    | -             |
| BALANCE AT DECEMBER 31, 2018                                                                                  | 4,270,394                                    | 453      | 4,270,847    | 5,543,599    | 3,235,596                               | 437,595                    | 49,478,674                   | 53,151,865                                                                                              | (1,820,627)                                                                                                                                 | -                                                                                                                                           | 610,563                              | 59,334,695    | 103,657                                              | 59,438,352    |
| Cash dividends of the Company received by its subsidiaries                                                    | -                                            | -        | -            | -            | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | -             | (211,529)                                            | (211,529)     |
| Appropriation of the 2018 earnings                                                                            | -                                            | -        | -            | -            | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | -             | -                                                    | -             |
| Legal reserve                                                                                                 | -                                            | -        | -            | -            | 3,383,929                               | -                          | (3,383,929)                  | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | -             | -                                                    | -             |
| Special reserve                                                                                               | -                                            | -        | -            | -            | -                                       | 1,210,064                  | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | -             | -                                                    | -             |
| Cash dividends distributed by the Company                                                                     | -                                            | -        | -            | -            | -                                       | -                          | (18,790,142)                 | (18,790,142)                                                                                            | -                                                                                                                                           | -                                                                                                                                           | -                                    | (18,790,142)  | -                                                    | (18,790,142)  |
| Changes in capital surplus from investments in associates accounted for by using equity method                | -                                            | -        | -            | -            | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | -             | -                                                    | -             |
| Issue of share dividends from capital surplus                                                                 | -                                            | -        | -            | 107,616      | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | 107,616       | -                                                    | 107,616       |
| Issue of share dividends from capital surplus                                                                 | -                                            | -        | -            | (296,909)    | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | (296,909)     | -                                                    | (296,909)     |
| Actual acquisitions of interests in subsidiaries                                                              | -                                            | -        | -            | (70,026)     | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | (70,026)      | 12,695                                               | (57,331)      |
| Recognition of employees share options by the Company                                                         | -                                            | -        | -            | -            | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | -             | -                                                    | -             |
| Recognition of employee share options by the Company                                                          | 20,084                                       | 11,640   | 31,724       | 109,235      | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | 140,959       | -                                                    | 140,959       |
| Net profit for the year ended December 31, 2019                                                               | -                                            | -        | -            | -            | -                                       | -                          | 6,944,793                    | 6,944,793                                                                                               | -                                                                                                                                           | -                                                                                                                                           | -                                    | 6,944,793     | 107,322                                              | 7,052,115     |
| Other comprehensive income loss for the year ended December 31, 2019                                          | -                                            | -        | -            | -            | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | -             | -                                                    | -             |
| Other comprehensive income loss for the year ended December 31, 2019, net of income tax                       | -                                            | -        | -            | -            | -                                       | -                          | (192,103)                    | (192,103)                                                                                               | (740,062)                                                                                                                                   | -                                                                                                                                           | (192,090)                            | (1,124,255)   | (12,145)                                             | (1,136,400)   |
| Disposals of investments in equity instruments designated as at fair value through other comprehensive income | -                                            | -        | -            | -            | -                                       | -                          | 366,016                      | 366,016                                                                                                 | -                                                                                                                                           | -                                                                                                                                           | (366,016)                            | -             | -                                                    | -             |
| BALANCE AT DECEMBER 31, 2019                                                                                  | 4,290,478                                    | 17,093   | \$ 4,307,571 | \$ 5,935,515 | \$ 6,619,525                            | \$ 1,667,629               | \$ 33,913,245                | \$ 41,480,429                                                                                           | \$ 10,560,689                                                                                                                               | \$ -                                                                                                                                        | \$ 59,457                            | \$ 46,246,731 | \$ -                                                 | \$ 46,246,731 |
| BALANCE AT DECEMBER 31, 2019                                                                                  | -                                            | -        | -            | -            | -                                       | -                          | -                            | -                                                                                                       | -                                                                                                                                           | -                                                                                                                                           | -                                    | -             | -                                                    | -             |
| BALANCE AT DECEMBER 31, 2019 (IN U.S. DOLLARS) (Note 4) (unaudited)                                           | 143,446                                      | 404      | \$ 143,850   | \$ 180,325   | \$ 221,315                              | \$ 55,082                  | \$ 1,110,440                 | \$ 1,386,842                                                                                            | \$ (85,613)                                                                                                                                 | \$ -                                                                                                                                        | \$ 1,754                             | \$ 1,546,197  | \$ -                                                 | \$ 1,546,197  |

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated February 26, 2020)

# YAGEO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2019 (In Thousands)

|                                                                                                               | 2018          | 2019         |                              |
|---------------------------------------------------------------------------------------------------------------|---------------|--------------|------------------------------|
|                                                                                                               | NT\$          | NT\$         | US\$ (Note 4)<br>(Unaudited) |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                                   |               |              |                              |
| Income before income tax                                                                                      | \$ 39,895,361 | \$ 9,023,080 | \$ 301,674                   |
| Adjustments for:                                                                                              |               |              |                              |
| Depreciation expenses                                                                                         | 7,500,217     | 2,719,123    | 90,910                       |
| Amortization expenses                                                                                         | 76,677        | 235,569      | 7,876                        |
| Expected credit loss recognized (reversed) on trade receivables                                               | 1,504,052     | (989,287)    | (33,075)                     |
| Net (gain) loss on fair value change of financial assets and liabilities at fair value through profit or loss | (314,326)     | 704,179      | 23,543                       |
| Finance costs                                                                                                 | 547,020       | 524,825      | 17,547                       |
| Amortization of prepayments for leases                                                                        | 2,444         | -            | -                            |
| Amortization of prepayments                                                                                   | 6,745         | 6,863        | 229                          |
| Interest income                                                                                               | (1,091,535)   | (1,142,171)  | (38,187)                     |
| Dividend income                                                                                               | (148,998)     | (202,483)    | (6,770)                      |
| Share of profit of associates                                                                                 | (635,527)     | (154,049)    | (5,150)                      |
| Net loss on disposal of property, plant and equipment                                                         | 22,279        | 9,713        | 325                          |
| Write-downs of inventories                                                                                    | 77,515        | 487,935      | 16,313                       |
| (Gain) loss on foreign currency exchange                                                                      | 93,207        | (37,644)     | (1,259)                      |
| Changes in operating assets and liabilities                                                                   |               |              |                              |
| Financial assets mandatorily classified at fair value through profit or loss                                  | 59,368        | (367,441)    | (12,285)                     |
| Notes receivable                                                                                              | 735,928       | 393,418      | 13,153                       |
| Trade receivables                                                                                             | (6,544,318)   | 10,457,389   | 349,629                      |
| Trade receivables of related parties                                                                          | -             | 74,891       | 2,504                        |
| Other receivables                                                                                             | 11,979        | 114,686      | 3,834                        |
| Other receivables of related parties                                                                          | -             | 2,611        | 87                           |
| Inventories                                                                                                   | (3,353,349)   | 4,112,446    | 137,494                      |
| Prepayments                                                                                                   | (344,788)     | 493,989      | 16,516                       |
| Other current assets                                                                                          | 32,391        | 214,355      | 7,167                        |
| Notes payable                                                                                                 | 150,387       | (158,792)    | (5,309)                      |
| Trade payables                                                                                                | 310,976       | (4,237,138)  | (141,663)                    |
| Trade payables of related parties                                                                             | -             | (6,202)      | (207)                        |
| Other payables                                                                                                | 4,587,537     | (4,624,267)  | (154,606)                    |
| Other current liabilities                                                                                     | 154,559       | 3,147        | 105                          |
| Net defined benefit liabilities                                                                               | (100,570)     | 46,865       | 1,567                        |
| Cash generated from operations                                                                                | 43,235,231    | 17,705,610   | 591,962                      |
| Interest received                                                                                             | 1,077,893     | 1,160,694    | 38,806                       |
| Dividend received                                                                                             | 148,998       | 202,483      | 6,770                        |
| Interest paid                                                                                                 | (518,382)     | (544,637)    | (18,209)                     |
| Income tax paid                                                                                               | (2,160,957)   | (6,801,822)  | (227,410)                    |

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# YAGEO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2019 (In Thousands)

|                                                                                                      | 2018                | 2019              |                              |
|------------------------------------------------------------------------------------------------------|---------------------|-------------------|------------------------------|
|                                                                                                      | NT\$                | NT\$              | US\$ (Note 4)<br>(Unaudited) |
| Net cash generated from operating activities                                                         | <u>41,782,783</u>   | <u>11,722,328</u> | <u>391,919</u>               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                          |                     |                   |                              |
| Proceeds from sale of financial assets at fair value through other comprehensive income              | 1,429,614           | 2,031,103         | 67,907                       |
| Purchase of financial assets at amortized cost                                                       | (210,977)           | (1,612,894)       | (53,925)                     |
| Proceeds from sale of financial assets at amortized cost                                             | 3,556,572           | 8,931,172         | 298,602                      |
| Purchase of financial assets at fair value through profit or loss                                    | (149,648)           | (296,621)         | (9,917)                      |
| Proceeds from sale of financial assets at fair value through profit or loss                          | 482,128             | 61,248            | 2,048                        |
| Proceeds from capital reduction of financial assets at fair value through other comprehensive income | -                   | 4,987             | 167                          |
| Proceeds from capital reduction of financial assets at fair value through profit or loss             | 10,497              | -                 | -                            |
| Acquisition of associates                                                                            | -                   | (24,010)          | (803)                        |
| Acquisition of subsidiaries                                                                          | (23,920,521)        | -                 | -                            |
| Proceeds from capital reduction of associates                                                        | 45,261              | -                 | -                            |
| Payments for property, plant and equipment                                                           | (9,074,910)         | (5,737,653)       | (191,831)                    |
| Proceeds from disposal of property, plant and equipment                                              | 92,506              | 60,615            | 2,027                        |
| Increase in refundable deposits                                                                      | (21,737)            | -                 | -                            |
| Decrease in refundable deposits                                                                      | -                   | 375               | 13                           |
| Payments for intangible assets                                                                       | (10,012)            | (2,430)           | (81)                         |
| Dividends received from associates                                                                   | <u>246,719</u>      | <u>306,050</u>    | <u>10,232</u>                |
| Net cash generated from (used in) investing activities                                               | <u>(27,524,508)</u> | <u>3,721,942</u>  | <u>124,439</u>               |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                          |                     |                   |                              |
| Proceeds from short-term borrowings                                                                  | 5,612,797           | -                 | -                            |
| Repayments of short-term borrowings                                                                  | -                   | (5,026,976)       | (168,070)                    |
| Repayments of short-term bills payable                                                               | (600,285)           | (199,606)         | (6,674)                      |
| Repayments of bond payables                                                                          | (287,599)           | -                 | -                            |
| Proceeds from long-term borrowings                                                                   | 3,500,000           | 12,513,562        | 418,374                      |
| Repayments of long-term borrowings                                                                   | -                   | (7,500,000)       | (250,752)                    |
| Proceeds from guarantee deposits received                                                            | 81,352              | 41,409            | 1,384                        |
| Repayments of lease liabilities                                                                      | -                   | (90,161)          | (3,014)                      |
| Dividends paid to owners of the Company                                                              | (5,262,730)         | (19,087,051)      | (638,149)                    |
| Proceeds from employee share options                                                                 | 343,427             | 140,959           | 4,713                        |

(Continued)



# YAGEO CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2019 (In Thousands)

|                                                                                   | <u>2018</u>          | <u>2019</u>          |                              |
|-----------------------------------------------------------------------------------|----------------------|----------------------|------------------------------|
|                                                                                   | NT\$                 | NT\$                 | US\$ (Note 4)<br>(Unaudited) |
| Payments for buyback of treasury shares                                           | (2,421,552)          | -                    | -                            |
| Dividends paid to non-controlling interests                                       | <u>(569,445)</u>     | <u>(144,435)</u>     | <u>(4,829)</u>               |
| Net cash generated from (used in) financing activities                            | <u>395,965</u>       | <u>(19,352,299)</u>  | <u>(647,017)</u>             |
| EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | <u>(26,385)</u>      | <u>(327,444)</u>     | <u>(10,948)</u>              |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                              | 14,627,855           | (4,235,473)          | (141,607)                    |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR                            | <u>5,760,889</u>     | <u>20,388,744</u>    | <u>681,670</u>               |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR                                  | <u>\$ 20,388,744</u> | <u>\$ 16,153,271</u> | <u>\$ 540,063</u>            |

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

(With Deloitte & Touche audit report dated February 26, 2020)

(Concluded)

# **YAGEO CORPORATION AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2019 (In Thousands of New Taiwan Dollars Unless Stated Otherwise)**

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### **1. GENERAL INFORMATION**

Yageo Corporation (the Company) was incorporated in 1987 in the Republic of China (ROC). The Company's shares are traded on the Taiwan Stock Exchange. The Company manufactures and sells passive components.

In 2018, the Company acquired 100% of the equity interests of Brightking Holdings Limited and Pulse Electronics Corporation in a cash settlement amounting to NT\$3,328,253 thousand and US\$721,461 thousand, respectively.

The consolidated financial statements of the Company and its subsidiaries, collectively referred to as the "Group", are presented in the Company's functional currency, the New Taiwan dollar.

### **2. APPROVAL OF FINANCIAL STATEMENTS**

The consolidated financial statements were approved by the Company's board of directors on February 26, 2020.

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

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

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

#### **1) IFRS 16 "Leases"**

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

#### **Definition of a lease**

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

### The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables were recognized on the consolidated balance sheets for contracts classified as finance leases.

The Group elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities. The Group applies IAS 36 to all right-of-use assets.

The Group also applies the following practical expedients:

- a) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Group adjusts the right-of-use assets on January 1, 2019 by the amount of any provisions for onerous leases recognized on December 31, 2018, instead of assessing the impairment under IAS 36.
- c) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- d) The Group excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- e) The Group uses hindsight, such as in determining lease terms, to measure lease liabilities.

For leases previously classified as finance leases under IAS 17, the carrying amounts of right-of-use assets and lease liabilities on January 1, 2019 are determined as at the carrying amounts of the respective leased assets and finance lease payables on December 31, 2018.

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1.744%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

|                                                                                                       | NT\$              | US\$ (Note 4)<br>(Unaudited) |
|-------------------------------------------------------------------------------------------------------|-------------------|------------------------------|
| The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018 | \$ 327,407        | \$ 10,946                    |
| Less: Recognition exemption for short-term leases                                                     | <u>(100,198)</u>  | <u>(3,350)</u>               |
| Undiscounted amounts on January 1, 2019                                                               | <u>\$ 227,209</u> | <u>\$ 7,596</u>              |
| Discounted amounts using the incremental borrowing rate on January 1, 2019                            | <u>\$ 219,487</u> | <u>\$ 7,338</u>              |
| Lease liabilities recognized on January 1, 2019                                                       | <u>\$ 219,487</u> | <u>\$ 7,338</u>              |

#### The Group as lessor

The Group does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

|                             | As Originally<br>Stated on<br>January 1, 2019<br>NT\$ | Adjustments<br>Arising from<br>Initial<br>Application<br>NT\$ | Restated on<br>January 1, 2019<br>NT\$ |
|-----------------------------|-------------------------------------------------------|---------------------------------------------------------------|----------------------------------------|
| Right-of-use assets         | \$ -                                                  | \$ 332,593                                                    | \$ 332,593                             |
| Lease liabilities - current | \$ -                                                  | \$ 219,487                                                    | \$ 219,487                             |

|                             | As Originally<br>Stated on<br>January 1, 2019<br>US\$<br>(Unaudited) | Adjustments<br>Arising from<br>Initial<br>Application<br>US\$<br>(Unaudited) | Restated on<br>January 1, 2019<br>US\$<br>(Unaudited) |
|-----------------------------|----------------------------------------------------------------------|------------------------------------------------------------------------------|-------------------------------------------------------|
| Right-of-use assets         | \$ -                                                                 | \$ 11,120                                                                    | \$ 11,120                                             |
| Lease liabilities - current | \$ -                                                                 | \$ 7,338                                                                     | \$ 7,338                                              |

## 2) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes" and IAS 23 "Borrowing Costs", were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, the related borrowing costs shall be included in the calculation of the capitalization rate on general borrowings. Upon initial application of the above amendment, the related borrowing costs are included in the calculation starting from 2019.

- b. The IFRSs endorsed by the FSC for application starting from 2020

| <b>New IFRSs</b>                                                         | <b>Effective Date<br/>Announced by IASB</b> |
|--------------------------------------------------------------------------|---------------------------------------------|
| Amendments to IFRS 3 “Definition of a Business”                          | January 1, 2020 (Note 1)                    |
| Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform” | January 1, 2020 (Note 2)                    |
| Amendments to IAS 1 and IAS 8 “Definition of Material”                   | January 1, 2020 (Note 3)                    |

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

Note 2: The Group shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

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

1) Amendments to IFRS 3 “Definition of a Business”

The amendments clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether or not an acquired set of activities and assets is a business.

2) Amendments to IAS 1 and IAS 8 “Definition of material”

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRSs. The concept of “obscuring” material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from “could influence” to “could reasonably be expected to influence”.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

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

| <b>New IFRSs</b>                                                                                                         | <b>Effective Date<br/>Announced by IASB (Note)</b> |
|--------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” | To be determined by IASB                           |
| IFRS 17 “Insurance Contracts”                                                                                            | January 1, 2021                                    |
| Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”                                            | January 1, 2022                                    |

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

1) Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The amendments stipulate that, when the Group sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate, the gain or loss resulting from the transaction is recognized in full. Also, when the Group loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when the Group sells or contributes assets that do not constitute a business to an associate, the gain or loss resulting from the transaction is recognized only to the extent of the Group’s interest as an unrelated investor in the associate, i.e., the Group’s share of the gain or loss is eliminated. Also, when the Group loses control of a subsidiary that does not contain a business but retains significant influence or joint control over an associate, the gain or loss resulting from the transaction is recognized only to the extent of the Group’s interest as an unrelated investor in the associate or joint venture, i.e., the Group’s share of the gain or loss is eliminated.

2) Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

The amendments clarify that for a liability to be classified as non-current, the Group shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Group will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Group must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Group’s own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Group’s own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32: Financial Instruments: Presentation, the aforementioned terms would not affect the classification of the liability.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a. Statement of compliance

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

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are



measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

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

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

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Basis of consolidation

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

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

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

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

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

See Note 12, Table 8 and 9 for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred and the fair value of the acquirer's previously held interests in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

f. Foreign currencies

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

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

Monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction (i.e., not retranslated).

For the purpose of presenting consolidated financial statements, the functional currencies of the

Company's foreign operations (including subsidiaries and associates in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to the non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences are recognized in other comprehensive income.

g. Inventories

Inventories consist of raw materials, supplies, finished goods and work in progress and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

h. Investments in associates

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture. The Group uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of the equity of associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Company subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Group's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required had directly disposed of the related assets or liabilities. When the adjustment should be debited

to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses, if any. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required had that associate directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

When the Group transacts with its associate, profits and losses resulting from the transactions with the associate is recognized in the Group's consolidated financial statements only to the extent of interests in the associate that is not related to the Group.

i. Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

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

Except for freehold land which is not depreciated, the depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

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

j. Goodwill

Goodwill arising from the acquisition of a business is measured at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the Group disposes of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

k. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

l. Impairment of tangible and intangible assets other than goodwill

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

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

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

m. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and equity instruments at FVTOCI.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 29: Financial Instruments.

ii. Financial assets at amortized cost

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

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

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



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

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

A financial asset is credit impaired when one or more of the following events have occurred:

- i) Significant financial difficulty of the issuer or the borrower;
- ii) Breach of contract, such as a default;
- iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv) The disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b) Impairment of financial assets

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

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

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

For internal credit risk management purposes, the Group determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Group):

- i. Internal or external information show that the debtor is unlikely to pay its creditors.
- ii. When a financial asset is more than 60 days past due unless the Group has reasonable and corroborative information to support a more lagged default criterion.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account.

c) Derecognition of financial assets

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

The repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

### 3) Financial liabilities

#### a) Subsequent measurement

Except the following situations, all financial liabilities are measured at amortized cost using the effective interest method:

##### Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities are held for trading.

Financial liabilities held for trading are stated at fair value, and any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any interest or dividends paid on such financial liability.

Fair value is determined in the manner described in Note 29.

#### b) Derecognition of financial liabilities

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

### 4) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument; in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the host contracts are not measured at FVTPL.

### n. Revenue recognition

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

Revenue from the sale of goods comes from sales of passive components and other electronic components. Sales of passive components and other electronic components are recognized as revenue when the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Trade receivables are recognized concurrently.

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

o. Leasing

2018

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

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

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

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

1) The Group as lessor

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

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

2) The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. However, if leases transfer ownership of the underlying assets to the Group by the end of the lease terms or if the costs of right-of-use assets reflect that the Group will exercise a purchase option, the Group depreciates the right-of-use assets from the commencement dates to the end of the useful lives of the underlying assets.

Lease liabilities are initially measured at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. Lease liabilities are presented on a separate line in the consolidated balance sheets.

p. Borrowing costs

Borrowing costs directly attributable to an acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur, or when the plan amendment or curtailment occurs. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Employee share options

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately. The grant date of treasury shares transferred to employees is the date on which the employees are informed.

At the end of each reporting period, the Group revises its estimate of the number of employee share options that are expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

s. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax on unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

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

2) Deferred tax

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforwards and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

3) Current and deferred taxes for the year

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



## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

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

### **Key Sources of Estimation Uncertainty**

#### **a. Estimated impairment of financial assets**

The provision for impairment of trade receivables and investments in debt instruments is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Notes 9 and 10. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

#### **b. Write-down of inventories**

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

#### **c. Impairment of property, plant and equipment**

The impairment of equipment in relation to the production of passive components was based on the recoverable amounts of the equipment, which is the higher of its fair value less costs of disposal and its value in use. Any changes in the market prices or future cash flows will affect the recoverable amount of the equipment and may lead to the recognition of additional impairment losses or the reversal of impairment losses.

#### **d. Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The calculation of the value in use requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

## 6. CASH AND CASH EQUIVALENTS

|                                                                               | December 31          |                      |                              |
|-------------------------------------------------------------------------------|----------------------|----------------------|------------------------------|
|                                                                               | 2018                 | 2019                 |                              |
|                                                                               | NT\$                 | NT\$                 | US\$ (Note 4)<br>(Unaudited) |
| Cash on hand                                                                  | \$ 2,743             | \$ 2,435             | \$ 82                        |
| Demand deposits                                                               | 15,223,019           | 10,199,110           | 340,993                      |
| Cash equivalents (investments with original maturities of less than 3 months) |                      |                      |                              |
| Short-term bills                                                              | 127,835              | -                    | -                            |
| Time deposits                                                                 | <u>5,035,147</u>     | <u>5,951,726</u>     | <u>198,988</u>               |
|                                                                               | <u>\$ 20,388,744</u> | <u>\$ 16,153,271</u> | <u>\$ 540,063</u>            |

The market rate intervals of cash in the bank at the end of the year were as follows:

|                  | December 31 |             |
|------------------|-------------|-------------|
|                  | 2018        | 2019        |
| Short-term bills | 0.5%        | -           |
| Bank deposits    | 0.01%-4.7%  | 0.01%-3.67% |

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|                                                          | December 31      |                   |                              |
|----------------------------------------------------------|------------------|-------------------|------------------------------|
|                                                          | 2018             | 2019              |                              |
|                                                          | NT\$             | NT\$              | US\$ (Note 4)<br>(Unaudited) |
| <u>Financial assets at FVTPL - current</u>               |                  |                   |                              |
| Financial assets mandatorily classified as at FVTPL      |                  |                   |                              |
| Derivative financial assets (not under hedge accounting) |                  |                   |                              |
| Foreign exchange forward contracts                       | \$ 20,398        | \$ 997            | \$ 33                        |
| Non-derivative financial assets                          |                  |                   |                              |
| Domestic listed shares                                   |                  |                   |                              |
| Walsin Technology Co., Ltd.                              | <u>60,060</u>    | <u>372,123</u>    | <u>12,442</u>                |
|                                                          | <u>\$ 80,458</u> | <u>\$ 373,120</u> | <u>\$ 12,475</u>             |

### Financial assets at FVTPL - non-current

|                                                     |           |           |          |
|-----------------------------------------------------|-----------|-----------|----------|
| Financial assets mandatorily classified as at FVTPL |           |           |          |
| Non-derivative financial assets                     |           |           |          |
| Overseas unlisted shares                            |           |           |          |
| Xmholder Technology Co., Ltd.                       | \$ 43,092 | \$ 41,582 | \$ 1,390 |
| Domestic unlisted shares                            |           |           |          |
| Hsin Bung International Co., Ltd.                   | 33,622    | 33,622    | 1,124    |

(Continued)

|                                              | December 31      |                  |                              |
|----------------------------------------------|------------------|------------------|------------------------------|
|                                              | 2018             | 2019             |                              |
|                                              | NT\$             | NT\$             | US\$ (Note 4)<br>(Unaudited) |
| Jihsun Securities Investment Trust Co., Ltd. | 12,000           | 12,000           | 402                          |
| Linko International Golf & Country Club      | <u>482</u>       | <u>482</u>       | <u>16</u>                    |
|                                              | <u>\$ 89,196</u> | <u>\$ 87,686</u> | <u>\$ 2,932</u>              |

#### Financial liabilities at FVTPL - current

Financial liabilities mandatorily classified as at FVTPL

Derivative financial liabilities (not under hedge accounting)

|                                    |                  |                   |                                 |
|------------------------------------|------------------|-------------------|---------------------------------|
| Foreign exchange forward contracts | <u>\$ 27,674</u> | <u>\$ 421,701</u> | <u>\$ 14,099</u><br>(Concluded) |
|------------------------------------|------------------|-------------------|---------------------------------|

At the end of the year, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

|                          | Currency | Maturity Date         | Notional Amount<br>(In Thousands) |
|--------------------------|----------|-----------------------|-----------------------------------|
| <u>December 31, 2018</u> |          |                       |                                   |
| Buy                      | USD/NTD  | 2019.01.04-2019.01.28 | USD 581,500/NTD 17,903,315        |
| Buy                      | EUR/USD  | 2019.01.07            | EUR 6,000/USD 6,831               |
| Sell                     | EUR/CZK  | 2019.01.31-2019.04.30 | EUR 1,750/CZK 46,486              |
| <u>December 31, 2019</u> |          |                       |                                   |
| Buy                      | USD/NTD  | 2020.01.03-2020.01.31 | USD 1,226,205/NTD 37,255,360      |
| Buy                      | EUR/NTD  | 2020.01.03            | EUR 234/NTD 7,887                 |
| Buy                      | EUR/USD  | 2020.01.21            | EUR 6,000/USD 6,699               |
| Sell                     | EUR/USD  | 2020.01.02            | EUR 10,000/USD 11,196             |

The Group entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities.

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

|                                             | December 31         |             |                              |
|---------------------------------------------|---------------------|-------------|------------------------------|
|                                             | 2018                | 2019        |                              |
|                                             | NT\$                | NT\$        | US\$ (Note 4)<br>(Unaudited) |
| <u>Non-current</u>                          |                     |             |                              |
| Investments in equity instruments at FVTOCI | <u>\$ 2,226,976</u> | <u>\$ 1</u> | <u>\$ -</u>                  |

## Investments in equity instruments at FVTOCI

|                                          | December 31         |             |                              |
|------------------------------------------|---------------------|-------------|------------------------------|
|                                          | 2018                | 2019        |                              |
|                                          | NT\$                | NT\$        | US\$ (Note 4)<br>(Unaudited) |
| <u>Non-current</u>                       |                     |             |                              |
| Domestic investments                     |                     |             |                              |
| Listed shares and emerging market shares |                     |             |                              |
| TA-I Technology Co., Ltd.                | \$ 1,327,605        | \$ 1        | \$ -                         |
| Foreign investments                      |                     |             |                              |
| Overseas listed shares                   |                     |             |                              |
| SHS KOA Corp.                            | <u>899,371</u>      | <u>-</u>    | <u>-</u>                     |
|                                          | <u>\$ 2,226,976</u> | <u>\$ 1</u> | <u>\$ -</u>                  |

These investments in equity instruments are held for medium to long-term strategic purposes and expected to profit through long-term investments. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. In 2019, the Group sold all its ordinary shares in SHS KOA Corp. and part of its ordinary shares in TA-I Technology Co., Ltd. in order to manage credit concentration risk. The shares sold had a fair value of JPY3,870,434 thousand and \$949,279 thousand (US\$31,738 thousand), respectively, and the related unrealized valuation gain of \$365,781 thousand (US\$12,229 thousand) in other equity was transferred to retained earnings.

## 9. FINANCIAL ASSETS AT AMORTIZED COST

|                                                                  | December 31         |                     |                              |
|------------------------------------------------------------------|---------------------|---------------------|------------------------------|
|                                                                  | 2018                | 2019                |                              |
|                                                                  | NT\$                | NT\$                | US\$ (Note 4)<br>(Unaudited) |
| <u>Current</u>                                                   |                     |                     |                              |
| Domestic investments                                             |                     |                     |                              |
| Time deposits with original maturities of more than 3 months (a) | <u>\$ 8,568,937</u> | <u>\$ 4,072,506</u> | <u>\$ 136,159</u>            |
| <u>Non-current</u>                                               |                     |                     |                              |
| Foreign investments                                              |                     |                     |                              |
| Corporate bonds (b)                                              | <u>\$ 6,946,640</u> | <u>\$ 4,041,659</u> | <u>\$ 135,127</u>            |

- The ranges of interest rates for time deposits with original maturities of more than 3 months were approximately 3.10%-5.40% and 1.76%-4.50% per annum as of December 31, 2018 and 2019, respectively.
- From August to October 2017, August to November 2018 and March to December 2019, the Group bought corporate bonds at face value of \$230,100, \$6,695 and \$51,760 in thousand U.S. dollars with the coupon rates of 2.95%-5.50%, 4.10%-4.88% and 1.875%-9.00%, and the effective interest rates of 2.53%-4.35%, 3.84%-3.95% and 2.44%-10.02%, respectively.

In October 2018 and from September to December 2019, part of the bonds were sold to manage credit concentration risk; the bonds were sold at fair value of \$550,229 thousand and \$4,099,659 thousand (US\$137,066 thousand), respectively.

###### 10. NOTES RECEIVABLE AND TRADE RECEIVABLES

|                                                    | December 31   |              |                              |
|----------------------------------------------------|---------------|--------------|------------------------------|
|                                                    | 2018          | 2019         |                              |
|                                                    | NT\$          | NT\$         | US\$ (Note 4)<br>(Unaudited) |
| <u>Notes receivable</u>                            |               |              |                              |
| At amortized cost                                  |               |              |                              |
| Gross carrying amount                              | \$ 553,176    | \$ 159,758   | \$ 5,341                     |
| Notes receivable - operating                       | \$ 553,176    | \$ 159,758   | \$ 5,341                     |
| <u>Trade receivables</u>                           |               |              |                              |
| At amortized cost                                  |               |              |                              |
| Gross carrying amount                              | \$ 20,767,427 | \$ 9,808,954 | \$ 327,949                   |
| Less: Allowance for impairment loss                | (1,614,602)   | (130,752)    | (4,372)                      |
|                                                    | \$ 19,152,825 | \$ 9,678,202 | \$ 323,577                   |
| <u>Trade receivables - related party</u> (Note 30) | \$ 99,126     | \$ 24,235    | \$ 811                       |

### Trade Receivables

The average credit period of sales of goods was 30-90 days. No interest was charged on trade receivables. The Group adopted a policy of dealing with major customers that the Group could use other publicly available financial information or its own trading records to rate and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

In order to minimize credit risk, the management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the year to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

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

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

The aging of trade receivables was as follows:

|                    | <b>December 31</b>   |                     |                                      |
|--------------------|----------------------|---------------------|--------------------------------------|
|                    | <b>2018</b>          | <b>2019</b>         |                                      |
|                    | <b>NT\$</b>          | <b>NT\$</b>         | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| Current term       | \$ 15,054,779        | \$ 8,775,129        | \$ 293,385                           |
| Past due           |                      |                     |                                      |
| 1-60 days          | 4,479,367            | 838,141             | 28,022                               |
| 61-90 days         | 476,379              | 26,948              | 901                                  |
| 91-181 days        | 750,791              | 103,288             | 3,453                                |
| More than 181 days | <u>105,237</u>       | <u>89,683</u>       | <u>2,999</u>                         |
|                    | <u>\$ 20,866,553</u> | <u>\$ 9,833,189</u> | <u>\$ 328,760</u>                    |

In 2018, the expected credit loss rate of trade receivable for not past due, 1-90 days past due, and 91 days or older past due was 0.01%, 2.95%-3.72% and 43.77%-100%, respectively.

In 2019, the expected credit loss rate of trade receivable for not past due, 1-90 days past due, and 91 days or older past due was 0.01%, 1.21%-2.48% and 43.77%-100%, respectively.

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

The movements of the loss allowance of trade receivables were as follows:

|                                            | <b>For the Year Ended December 31</b> |                   |                                      |
|--------------------------------------------|---------------------------------------|-------------------|--------------------------------------|
|                                            | <b>2018</b>                           | <b>2019</b>       |                                      |
|                                            | <b>NT\$</b>                           | <b>NT\$</b>       | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| Balance at January 1                       | \$ 50,142                             | \$ 1,614,602      | \$ 53,982                            |
| Acquisitions through business combinations | 30,988                                | -                 | -                                    |
| Add: Net remeasurement of loss allowance   | 1,800,534                             | 418,704           | 13,999                               |
| Less: Net remeasurement of loss allowance  | (296,482)                             | (1,407,991)       | (47,074)                             |
| Less: Amounts written off                  | (468)                                 | (502,075)         | (16,786)                             |
| Foreign exchange gains and losses          | <u>29,888</u>                         | <u>7,512</u>      | <u>251</u>                           |
| Balance at December 31                     | <u>\$ 1,614,602</u>                   | <u>\$ 130,752</u> | <u>\$ 4,372</u>                      |



## 11. INVENTORIES

|                                | December 31          |                     |                              |
|--------------------------------|----------------------|---------------------|------------------------------|
|                                | 2018                 | 2019                |                              |
|                                | NT\$                 | NT\$                | US\$ (Note 4)<br>(Unaudited) |
| Finished goods and merchandise | \$ 3,823,036         | \$ 1,737,902        | \$ 58,104                    |
| Work in progress               | 1,954,122            | 1,104,038           | 36,912                       |
| Raw materials                  | 4,205,334            | 2,599,951           | 86,926                       |
| Supplies                       | 285,790              | 198,849             | 6,648                        |
| Inventory in transit           | 11,444               | 38,605              | 1,291                        |
|                                | <u>\$ 10,279,726</u> | <u>\$ 5,679,345</u> | <u>\$ 189,881</u>            |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2019 was \$28,310,343 thousand and \$26,526,111 thousand (US\$886,864 thousand), respectively. The cost of goods sold included inventory write-downs of \$77,515 thousand and \$487,935 thousand (US\$16,313 thousand) for the years ended December 31, 2018 and 2019, respectively.

## 12. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements:

| Investor                      | Investee                                  | Nature of Activities                           | Proportion of Ownership (%)                                                            |        | Remark |
|-------------------------------|-------------------------------------------|------------------------------------------------|----------------------------------------------------------------------------------------|--------|--------|
|                               |                                           |                                                | December 31                                                                            |        |        |
|                               |                                           |                                                | 2018                                                                                   | 2019   |        |
| Yageo Corporation             | Yageo Holding (Bermuda) Ltd.              | Investment                                     | 100.00                                                                                 | 100.00 | a.     |
|                               | Ko-Shin Investment Limited.               | Investment                                     | 100.00                                                                                 | 100.00 |        |
|                               | Ferroxcube (Samoa) Holding Ltd.           | Investment                                     | 100.00                                                                                 | 100.00 |        |
|                               | Brightking Holdings Limited               | Holding company                                | 100.00                                                                                 | 100.00 |        |
|                               | Yageo Corporation (South Asia)            | Electronic component manufacturing and selling | 100.00                                                                                 | 100.00 |        |
|                               | Yageo Europe Holding B.V.                 | Holding company                                | 100.00                                                                                 | 100.00 |        |
|                               | Yageo America                             | Electronic component manufacturing and selling | 100.00                                                                                 | 100.00 |        |
|                               | Yageo South Asia (M) Sdn. Bhd.            | Electronic component manufacturing and selling | 100.00                                                                                 | 100.00 |        |
|                               | Yageo Holding (Cayman) Limited            | Holding company                                | 100.00                                                                                 | 100.00 |        |
|                               | Pulse Electronics Corporation             | Holding company                                | 100.00                                                                                 | 100.00 |        |
| Yageo Holding (Bermuda) Ltd.  | Yageo (Hong Kong) Limited                 | Investment                                     | 100.00                                                                                 | 100.00 | b.     |
|                               | Yageo USA (H.K.) Limited                  | Passive component selling                      | 100.00                                                                                 | 100.00 |        |
|                               | Ko-E Holding (Cayman)                     | Holding company                                | 83.83                                                                                  | 100.00 | c.     |
|                               | Vitrohm Holding GmbH                      | Investment                                     | 100.00                                                                                 | 100.00 |        |
|                               | Yageo Korea                               | Resistor selling                               | 100.00                                                                                 | 100.00 |        |
|                               | Yageo Japan                               | Resistor selling                               | 100.00                                                                                 | 100.00 |        |
|                               | Hsu Tai International (H.K.) Ltd.         | Investment                                     | 100.00                                                                                 | 100.00 |        |
|                               | Brightking Holdings Limited               | Brightking Enterprise (H.K.) Co., Ltd.         | Manufacturing and selling overvoltage and overcurrent protection electronic components | 100.00 |        |
| Pulse Electronics Corporation | Egston Holding GmbH                       | Holding company                                | 100.00                                                                                 | 100.00 | b.     |
| Yageo (Hong Kong) Limited     | Yageo Electronics (China) Co., Ltd.       | Passive component manufacturing and selling    | 100.00                                                                                 | 100.00 |        |
|                               | Yageo Electronics (Dongguan) Co., Ltd.    | Passive component manufacturing and selling    | 100.00                                                                                 | 100.00 |        |
|                               | Yageo (Suzhou) Trade Co., Ltd.            | Passive component selling                      | 100.00                                                                                 | 100.00 |        |
|                               | Yageo Components (Suzhou) Co., Ltd.       | Passive component manufacturing and selling    | 100.00                                                                                 | 100.00 |        |
|                               | Compostar Technology (Dongguan) Co., Ltd. | Passive component manufacturing and selling    | 100.00                                                                                 | -      |        |

(Continued)

| Investor                                                | Investee                                  | Nature of Activities                                                                   | Proportion of Ownership (%) |        | Remark |
|---------------------------------------------------------|-------------------------------------------|----------------------------------------------------------------------------------------|-----------------------------|--------|--------|
|                                                         |                                           |                                                                                        | 2018                        | 2019   |        |
| Ko-E Holding (Cayman)                                   | Ko-E (H.K.) Limited                       | Electronic component selling                                                           | 100.00                      | 100.00 |        |
|                                                         | Ko-E Corp.                                | Electronic component selling                                                           | 100.00                      | 100.00 |        |
| Brightking Enterprise (H.K.) Co., Ltd.                  | Ko-E Electronics Trade Co., Ltd.          | Electronic component selling                                                           | -                           | 100.00 | e.     |
|                                                         | Bestbright Electronics Co., Ltd.          | Manufacturing and selling overvoltage and overcurrent protection electronic components | 100.00                      | 100.00 | a.     |
|                                                         | Brightking Electronics Inc.               | Selling overvoltage and overcurrent protection electronic components                   | 100.00                      | 100.00 | a.     |
|                                                         | Brightking Electronics Co., Ltd.          | Manufacturing and selling overvoltage and overcurrent protection electronic components | 100.00                      | 100.00 | a.     |
|                                                         | Bestbright Electronics Co., Ltd. (Taiwan) | Manufacturing and selling overvoltage and overcurrent protection electronic components | 100.00                      | 100.00 | a.     |
|                                                         | Huizhou Lien Shun Electronics Co., Ltd.   | Manufacturing and selling overvoltage protection electronic components                 | 28.37                       | 28.37  | a.     |
| Ko-E (H.K.) Limited<br>Bestbright Electronics Co., Ltd. | Ko-E Technology (Shenzhen) Co., Ltd.      | Electronic component selling                                                           | 100.00                      | 100.00 |        |
|                                                         | Brightking (Shenzhen) Co., Ltd.           | Selling overvoltage and overcurrent protection electronic components                   | 100.00                      | 100.00 | a.     |
|                                                         | Ceramate Technical (Suzhou) Co., Ltd.     | Manufacturing and selling overvoltage and overcurrent protection electronic components | 100.00                      | 100.00 | a.     |
|                                                         | Zhejiang Bestbright Electronics Co., Ltd. | Manufacturing and selling overvoltage and overcurrent protection electronic components | 100.00                      | 100.00 | a.     |
| Brightking (Shenzhen) Co., Ltd.                         | Brightking (Shanghai) Co., Ltd.           | Selling overvoltage and overcurrent protection electronic components                   | 100.00                      | 100.00 | a.     |
|                                                         | Brightking (Beijing) Co., Ltd.            | Selling overvoltage and overcurrent protection electronic components                   | 100.00                      | 100.00 | a.     |
|                                                         | Huizhou Lien Shun Electronics Co., Ltd.   | Manufacturing and selling overvoltage protection electronic components                 | 71.63                       | 71.63  | a.     |

(Concluded)

Remarks:

- The Company acquired 100% of interests of Brightking Holdings Limited in a cash settlement amounting to NT\$3,328,253 thousand in 2018.
- The Company acquired 100% of interests of Pulse Electronics Corporation in a cash settlement amounting to US\$721,461 thousand in 2018.
- Ko-E Holding (Cayman) returned capital of US\$1,904 thousand to its non-controlling interests in December 2019, and the ownership percentage of the Group was increased from 83.83% to 100%.
- Cancelled in the third quarter of 2019.
- Established in November 2019.

### 13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

#### Investments in Associates

|                                               | December 31         |                     |                              |
|-----------------------------------------------|---------------------|---------------------|------------------------------|
|                                               | 2018                | 2019                |                              |
|                                               | NT\$                | NT\$                | US\$ (Note 4)<br>(Unaudited) |
| Material associates                           |                     |                     |                              |
| Chilisin Electronics Corp.                    | \$ 5,158,426        | \$ 5,035,935        | \$ 168,370                   |
| Associates that are not individually material |                     |                     |                              |
| Kaimei Electronic Corp.(Note)                 | 615,983             | 612,864             | 20,490                       |
| Global Testing Corporation Limited (GTCL)     | 276,882             | 237,949             | 7,955                        |
| Strong Components Co., Ltd.                   | 88,161              | 91,970              | 3,075                        |
| Belkin International Enterprises Ltd. (Samoa) | 35,061              | 33,784              | 1,129                        |
| Guo Chuang Electronics (Dongguan) Co., Ltd.   | 31,429              | 28,016              | 937                          |
|                                               | <u>1,047,516</u>    | <u>1,004,583</u>    | <u>33,586</u>                |
|                                               | <u>\$ 6,205,942</u> | <u>\$ 6,040,518</u> | <u>\$ 201,956</u>            |

Note. Teapo Electronics Corporation held shareholders' meeting on June 5, 2019, and passed the decision to acquire 100% of the equity interests of Kaimei Electronic Corp. through issuance of common stock; the record date of the acquisition was September 30, 2019; after the acquisition, Teapo Electronics Corporation is the surviving company and renamed Kaimei Electronic Corp.

#### a. Material associates

| Name of Associate          | Proportion of Ownership and<br>Voting Rights |        |
|----------------------------|----------------------------------------------|--------|
|                            | December 31                                  |        |
|                            | 2018                                         | 2019   |
| Chilisin Electronics Corp. | 12.47%                                       | 12.46% |

Refer to Table 8 "Information on Investees" and Table 9 "Information on Investments in Mainland China" for the nature of activities, principal places of business and countries of incorporation of the associates.

Fair values (Level 1) of investments in associates with available published price quotations are summarized as follows:

| Name of Associate          | December 31         |                     |                              |
|----------------------------|---------------------|---------------------|------------------------------|
|                            | 2018                | 2019                |                              |
|                            | NT\$                | NT\$                | US\$ (Note 4)<br>(Unaudited) |
| Chilisin Electronics Corp. | \$ 2,379,300        | \$ 3,879,623        | \$ 129,710                   |
| Kaimei Electronic Corp.    | 545,328             | 637,095             | 21,300                       |
| GTCL                       | <u>135,845</u>      | <u>111,428</u>      | <u>3,725</u>                 |
|                            | <u>\$ 3,060,473</u> | <u>\$ 4,628,146</u> | <u>\$ 154,735</u>            |

All the associates were accounted for using the equity method.

Summarized financial information in respect of each of the Group's material associates is set out below. The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

Chilisin Electronics Corp.

|                                                    | <b>December 31</b>   |                      |                                      |
|----------------------------------------------------|----------------------|----------------------|--------------------------------------|
|                                                    | <b>2018</b>          | <b>2019</b>          |                                      |
|                                                    | <b>NT\$</b>          | <b>NT\$</b>          | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| Current assets                                     | \$ 18,502,431        | \$ 16,901,120        | \$ 565,066                           |
| Non-current assets                                 | 22,544,803           | 23,336,272           | 780,216                              |
| Current liabilities                                | (10,599,060)         | (11,636,991)         | (389,067)                            |
| Non-current liabilities                            | <u>(5,873,843)</u>   | <u>(4,981,992)</u>   | <u>(166,566)</u>                     |
| Equity                                             | 24,574,331           | 23,618,409           | 789,649                              |
| Non-controlling interests                          | <u>(73,793)</u>      | <u>(74,741)</u>      | <u>(2,499)</u>                       |
|                                                    | <u>\$ 24,500,538</u> | <u>\$ 23,543,668</u> | <u>\$ 787,150</u>                    |
| Proportion of the Group's ownership                | 12.47%               | 12.46%               | 12.46%                               |
| Equity attributable to the Group                   | \$ 3,055,217         | \$ 2,933,541         | \$ 98,079                            |
| Other adjustments                                  | <u>2,103,209</u>     | <u>2,102,394</u>     | <u>70,291</u>                        |
| Carrying amount                                    | <u>\$ 5,158,426</u>  | <u>\$ 5,035,935</u>  | <u>\$ 168,370</u>                    |
| <b>For the Year Ended December 31</b>              |                      |                      |                                      |
|                                                    | <b>2018</b>          | <b>2019</b>          |                                      |
|                                                    | <b>NT\$</b>          | <b>NT\$</b>          | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| Operating revenue                                  | <u>\$ 17,553,007</u> | <u>\$ 15,870,564</u> | <u>\$ 530,611</u>                    |
| Net profit for the year                            | \$ 2,866,095         | \$ 1,150,010         | \$ 38,449                            |
| Other comprehensive loss                           | <u>(187,404)</u>     | <u>(574,456)</u>     | <u>(19,206)</u>                      |
| Total comprehensive income for the year            | <u>\$ 2,678,691</u>  | <u>\$ 575,554</u>    | <u>\$ 19,243</u>                     |
| Dividends received from Chilisin Electronics Corp. | <u>\$ 82,897</u>     | <u>\$ 242,038</u>    | <u>\$ 8,092</u>                      |

b. Aggregate information of associates that are not individually material

|                                         | <b>For the Year Ended December 31</b> |                 |                                      |
|-----------------------------------------|---------------------------------------|-----------------|--------------------------------------|
|                                         | <b>2018</b>                           | <b>2019</b>     |                                      |
|                                         | <b>NT\$</b>                           | <b>NT\$</b>     | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| The Group's share of:                   |                                       |                 |                                      |
| Net profit for the year                 | \$ 193,579                            | \$ 11,143       | \$ 373                               |
| Other comprehensive income (loss)       | <u>13,440</u>                         | <u>(4,209)</u>  | <u>(141)</u>                         |
| Total comprehensive income for the year | <u>\$ 207,019</u>                     | <u>\$ 6,934</u> | <u>\$ 232</u>                        |

Investments in Chilisin Electronics Corp. and Kaimei Electronic Corp. were accounted for by the equity method since the Group had significant influence over it.

Except for Kaimei Electronic Corp., investments were accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on financial statements which have been audited. Management believes there is no material impact on the equity method of accounting or the calculation of the share of profit or loss and other comprehensive income from the financial statement of Kaimei Electronic Corp. which have not been audited. The financial statements of some investment in associates - Strong Components Co., Ltd., Belkin International Enterprises Ltd. (Samoa), and Guo Chuang Electronics (Dongguan) Co., Ltd. as of and for the years ended December 31, 2018 and 2019 had been audited by other auditors.

## 14. PROPERTY, PLANT AND EQUIPMENT

### a. 2018

|                                                         | Freehold Land     | Buildings            | Machinery<br>Equipment | Other Equipment     | Construction in<br>Progress and<br>Unaccepted<br>Equipment | Total                |
|---------------------------------------------------------|-------------------|----------------------|------------------------|---------------------|------------------------------------------------------------|----------------------|
|                                                         | NT\$              | NT\$                 | NT\$                   | NT\$                | NT\$                                                       | NT\$                 |
| <u>Cost</u>                                             |                   |                      |                        |                     |                                                            |                      |
| Balance at January 1, 2018                              | \$ 714,067        | \$ 12,060,388        | \$ 27,313,086          | \$ 1,971,720        | \$ 2,597,969                                               | \$ 44,657,230        |
| Additions                                               | -                 | 664                  | 69,556                 | 29,602              | 8,798,103                                                  | 8,897,925            |
| Disposals                                               | -                 | (182,179)            | (944,410)              | (58,365)            | -                                                          | (1,184,954)          |
| Effects of foreign currency<br>exchange differences     | (1,081)           | (188,276)            | (374,376)              | (50,773)            | (40,215)                                                   | (654,721)            |
| Reclassifications                                       | -                 | 1,437,710            | 7,165,433              | 257,274             | (8,904,220)                                                | (43,803)             |
| Acquisitions through business<br>combinations (Note 26) | 17,962            | 409,195              | 3,696,182              | 849,664             | 212,378                                                    | 5,185,381            |
| Balance at December 31, 2018                            | <u>\$ 730,948</u> | <u>\$ 13,537,502</u> | <u>\$ 36,925,471</u>   | <u>\$ 2,999,122</u> | <u>\$ 2,664,015</u>                                        | <u>\$ 56,857,058</u> |
| <u>Accumulated depreciation<br/>and impairment</u>      |                   |                      |                        |                     |                                                            |                      |
| Balance at January 1, 2018                              | \$ 203,808        | \$ 5,880,180         | \$ 20,676,375          | \$ 1,621,990        | \$ -                                                       | \$ 28,382,353        |
| Disposals                                               | -                 | (180,063)            | (843,965)              | (46,141)            | -                                                          | (1,070,169)          |
| Depreciation expenses                                   | -                 | 533,774              | 6,846,137              | 120,306             | -                                                          | 7,500,217            |
| Effects of foreign currency<br>exchange differences     | -                 | (70,756)             | (273,092)              | (43,522)            | -                                                          | (387,370)            |
| Acquisitions through business<br>combinations (Note 26) | -                 | 222,322              | 3,090,950              | 568,745             | -                                                          | 3,882,017            |
| Balance at December 31, 2018                            | <u>\$ 203,808</u> | <u>\$ 6,385,457</u>  | <u>\$ 29,496,405</u>   | <u>\$ 2,221,378</u> | <u>\$ -</u>                                                | <u>\$ 38,307,048</u> |
| Carrying amounts at<br>December 31, 2018                | <u>\$ 527,140</u> | <u>\$ 7,152,045</u>  | <u>\$ 7,429,066</u>    | <u>\$ 777,744</u>   | <u>\$ 2,664,015</u>                                        | <u>\$ 18,550,010</u> |

Operating leases relate to lease of the property owned by the Group with lease terms between 1 to 5 years. All operating lease contracts contain market review clauses in the event that the lessees exercise their options to extend. The lessees do not have bargain purchase options to acquire the assets at the expiry of the lease periods.

The future minimum lease payments of non-cancellable operating leases are as follows:

|                                              | <b>December 31,<br/>2018</b> |
|----------------------------------------------|------------------------------|
|                                              | <b>NT\$</b>                  |
| Not later than 1 year                        | \$ 16,894                    |
| Later than 1 year and not later than 5 years | <u>535</u>                   |
|                                              | <u><b>\$ 17,429</b></u>      |

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

|                     |             |
|---------------------|-------------|
| Buildings           |             |
| Main buildings      | 50-56 years |
| Engineering system  | 40-56 years |
| Others              | 1-20 years  |
| Machinery Equipment | 1-20 years  |
| Other Equipment     | 1-20 years  |

Property, plant and equipment pledged as collateral for bank borrowings are set out in Note 31.

b. Assets used by the Group - 2019

|                                      | <b>December 31, 2019</b>    |                                      |
|--------------------------------------|-----------------------------|--------------------------------------|
|                                      | <b>NT\$</b>                 | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| Assets used by the Group             | \$ 20,374,570               | \$ 681,196                           |
| Assets leased under operating leases | <u>136,703</u>              | <u>4,570</u>                         |
|                                      | <u><b>\$ 20,511,273</b></u> | <u><b>\$ 685,766</b></u>             |

|                                                  | <b>Freehold Land</b>       | <b>Buildings</b>            | <b>Machinery<br/>Equipment</b> | <b>Other<br/>Equipment</b> | <b>Construction in<br/>Progress and<br/>Unaccepted<br/>Equipment</b> | <b>Total</b>                | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
|--------------------------------------------------|----------------------------|-----------------------------|--------------------------------|----------------------------|----------------------------------------------------------------------|-----------------------------|--------------------------------------|
|                                                  | <b>NT\$</b>                | <b>NT\$</b>                 | <b>NT\$</b>                    | <b>NT\$</b>                | <b>NT\$</b>                                                          | <b>NT\$</b>                 |                                      |
| <b>Cost</b>                                      |                            |                             |                                |                            |                                                                      |                             |                                      |
| Balance at January 1, 2019                       | \$ 730,948                 | \$ 13,315,250               | \$ 36,925,471                  | \$ 2,999,122               | \$ 2,664,015                                                         | \$ 56,634,806               | \$ 1,893,507                         |
| Additions                                        | 951,724                    | 26,083                      | 216,833                        | 23,904                     | 4,106,645                                                            | 5,325,189                   | 178,041                              |
| Disposals                                        | -                          | (12,907)                    | (837,348)                      | (84,259)                   | -                                                                    | (934,514)                   | (31,244)                             |
| Effects of foreign currency exchange differences | (3,927)                    | (340,285)                   | (752,834)                      | (52,060)                   | (74,090)                                                             | (1,223,196)                 | (40,896)                             |
| Reclassifications                                | -                          | 1,401,689                   | 2,308,550                      | 215,720                    | (4,021,003)                                                          | (95,044)                    | (3,178)                              |
| Balance at December 31, 2019                     | <u><b>\$ 1,678,745</b></u> | <u><b>\$ 14,389,830</b></u> | <u><b>\$ 37,860,672</b></u>    | <u><b>\$ 3,102,427</b></u> | <u><b>\$ 2,675,567</b></u>                                           | <u><b>\$ 59,707,241</b></u> | <u><b>\$ 1,996,230</b></u>           |
| <b>Accumulated depreciation and impairment</b>   |                            |                             |                                |                            |                                                                      |                             |                                      |
| Balance at January 1, 2019                       | \$ 203,808                 | \$ 6,308,772                | \$ 29,496,405                  | \$ 2,221,378               | \$ -                                                                 | \$ 38,230,363               | \$ 1,278,180                         |
| Disposals                                        | -                          | (11,186)                    | (781,348)                      | (71,652)                   | -                                                                    | (864,186)                   | (28,893)                             |
| Depreciation expenses                            | -                          | 685,957                     | 1,778,771                      | 247,192                    | -                                                                    | 2,711,920                   | 90,669                               |
| Effects of foreign currency exchange differences | -                          | (137,085)                   | (565,017)                      | (43,324)                   | -                                                                    | (745,426)                   | (24,922)                             |
| Reclassifications                                | -                          | 1,558                       | -                              | (1,558)                    | -                                                                    | -                           | -                                    |
| Balance at December 31, 2019                     | <u><b>\$ 203,808</b></u>   | <u><b>\$ 6,848,016</b></u>  | <u><b>\$ 29,928,811</b></u>    | <u><b>\$ 2,352,036</b></u> | <u><b>\$ -</b></u>                                                   | <u><b>\$ 39,332,671</b></u> | <u><b>\$ 1,315,034</b></u>           |
| Carrying amounts at December 31, 2019            | <u><b>\$ 1,474,937</b></u> | <u><b>\$ 7,541,814</b></u>  | <u><b>\$ 7,931,861</b></u>     | <u><b>\$ 750,391</b></u>   | <u><b>\$ 2,675,567</b></u>                                           | <u><b>\$ 20,374,570</b></u> | <u><b>\$ 681,196</b></u>             |

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

Buildings



|                     |             |
|---------------------|-------------|
| Main buildings      | 50-56 years |
| Engineering system  | 40-56 years |
| Others              | 1-20 years  |
| Machinery equipment | 1-20 years  |
| Other equipment     | 1-20 years  |

Property, plant and equipment used by the Group and pledged as collateral for bank borrowings were set out in Note 31.

c. Assets leased under operating leases - 2019

|                                                  | <b>Buildings</b>  |                                      |
|--------------------------------------------------|-------------------|--------------------------------------|
|                                                  | <b>NT\$</b>       | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| <u>Cost</u>                                      |                   |                                      |
| Balance at January 1, 2019                       | \$ 222,252        | \$ 7,431                             |
| Effect of foreign currency exchange differences  | <u>(7,721)</u>    | <u>(258)</u>                         |
| Balance at December 31                           | <u>\$ 214,531</u> | <u>\$ 7,173</u>                      |
| <u>Accumulated depreciation and impairment</u>   |                   |                                      |
| Balance at January 1, 2019                       | \$ 76,685         | \$ 2,564                             |
| Depreciation expenses                            | 3,935             | 132                                  |
| Effects of foreign currency exchange differences | <u>(2,792)</u>    | <u>(93)</u>                          |
| Balance at December 31, 2019                     | <u>\$ 77,828</u>  | <u>\$ 2,603</u>                      |
| Carrying amounts at December 31, 2019            | <u>\$ 136,703</u> | <u>\$ 4,570</u>                      |

The maturity analysis of lease payments receivable under operating lease payments was as follows:

|                                              | <b>December 31, 2019</b> |                                      |
|----------------------------------------------|--------------------------|--------------------------------------|
|                                              | <b>NT\$</b>              | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| Not later than 1 year                        | \$ 16,852                | \$ 563                               |
| Later than 1 year and not later than 5 years | <u>393</u>               | <u>13</u>                            |
|                                              | <u>\$ 17,245</u>         | <u>\$ 576</u>                        |

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

|                |             |
|----------------|-------------|
| Buildings      |             |
| Main buildings | 50-56 years |

## 15. GOODWILL

|                                                         | For the Year Ended December 31 |                      |                              |
|---------------------------------------------------------|--------------------------------|----------------------|------------------------------|
|                                                         | 2018                           | 2019                 |                              |
|                                                         | NT\$                           | NT\$                 | US\$ (Note 4)<br>(Unaudited) |
| <u>Cost</u>                                             |                                |                      |                              |
| Balance at January 1                                    | \$ 2,074,005                   | \$ 21,464,280        | \$ 717,629                   |
| Acquisitions through business combinations<br>(Note 26) | 17,826,168                     | -                    | -                            |
| Goodwill adjustment after the business<br>combination   | 1,588,772                      | -                    | -                            |
| Effect of foreign currency exchange differences         | (24,665)                       | (86,530)             | (2,893)                      |
| Balance at December 31                                  | <u>\$ 21,464,280</u>           | <u>\$ 21,377,750</u> | <u>\$ 714,736</u>            |

It was indicated in a valuation report received by the Group in the fourth quarter of 2019 that the fair value of the other current assets, property, plant and equipment, intangible assets and current liabilities of Pulse Electronics Corporation at the date of acquisition was \$2,839,703 thousand (US\$94,942 thousand). The 2018 comparative figures have been restated as if the initial accounting was completed at the acquisition date.

The balances of the items on the consolidated balance sheets before and after the adjustments are the following:

|                               | December 31,<br>2018<br>NT\$ | Acquisition<br>Date<br>NT\$ |
|-------------------------------|------------------------------|-----------------------------|
| Goodwill adjustments          | \$ 16,943,384                | \$ 18,532,156               |
| Other current assets          | 4,570,373                    | 4,377,022                   |
| Property, plant and equipment | 1,483,560                    | 921,181                     |
| Intangible assets             | 3,357,150                    | 4,062,336                   |
| Current liabilities           | (4,982,608)                  | (6,520,836)                 |

The recoverable amount of the cash-generating unit was determined based on a value in use calculation. The Group's management estimated the recoverable amounts of core assets at their expected useful lives and thus based the cash flow forecast with the following discount rates as of December 31, 2018 and 2019: 14.82% and 11.64% , respectively. The operating revenue forecast was based on the expected future growth rate of the passive product industry along with the projected advancement of the Group's own business. The Group's management believed that any reasonable changes in the principal assumptions would not result in the carrying values exceeding the recoverable amounts. As of December 31, 2018 and 2019, there was no indication of impairment loss based on the principal assumptions.

## 16. OTHER INTANGIBLE ASSETS

|                                                         | Computer<br>Software<br>NT\$ | Proprietary<br>Technology<br>NT\$ | Customer<br>Relationships<br>NT\$ | Trademark<br>NT\$ | Others<br>NT\$ | Total<br>NT\$ |
|---------------------------------------------------------|------------------------------|-----------------------------------|-----------------------------------|-------------------|----------------|---------------|
| <u>Cost</u>                                             |                              |                                   |                                   |                   |                |               |
| Balance at January 1, 2018                              | \$ 228,336                   | \$ -                              | \$ -                              | \$ -              | \$ -           | \$ 228,336    |
| Additions                                               | 10,012                       | -                                 | -                                 | -                 | -              | 10,012        |
| Reclassifications                                       | 32,146                       | -                                 | -                                 | -                 | -              | 32,146        |
| Acquisitions through business<br>combinations (Note 26) | 25,397                       | 739,902                           | 1,055,883                         | 2,854,305         | 16,246         | 4,691,733     |
| Effect of foreign currency                              | (23)                         | -                                 | -                                 | -                 | -              | (23)          |

|                                                      |            |            |              |              |           |              |
|------------------------------------------------------|------------|------------|--------------|--------------|-----------|--------------|
| exchange differences                                 |            |            |              |              |           |              |
| Balance at December 31, 2018                         | \$ 295,868 | \$ 739,902 | \$ 1,055,883 | \$ 2,854,305 | \$ 16,246 | \$ 4,962,204 |
| <u>Accumulated amortization and impairment</u>       |            |            |              |              |           |              |
| Balance at January 1, 2018                           | \$ 142,254 | \$ -       | \$ -         | \$ -         | \$ -      | \$ 142,254   |
| Amortization expenses                                | 47,331     | 11,609     | 17,737       | -            | -         | 76,677       |
| Acquisitions through business combinations (Note 26) | 5,419      | -          | -            | -            | -         | 5,419        |
| Effect of foreign currency exchange differences      | 574        | -          | -            | -            | -         | 574          |
| Balance at December 31, 2018                         | \$ 195,578 | \$ 11,609  | \$ 17,737    | \$ -         | \$ -      | \$ 224,924   |
| Carrying amounts at December 31, 2018                | \$ 100,290 | \$ 728,293 | \$ 1,038,146 | \$ 2,854,305 | \$ 16,246 | \$ 4,737,280 |

|                                                 | Computer Software<br>NTS | Proprietary Technology<br>NTS | Customer Relationships<br>NTS | Trademark<br>NTS | Others<br>NTS | Total<br>NTS | US\$ (Note 4)<br>(Unaudited) |
|-------------------------------------------------|--------------------------|-------------------------------|-------------------------------|------------------|---------------|--------------|------------------------------|
| <u>Cost</u>                                     |                          |                               |                               |                  |               |              |                              |
| Balance at January 1, 2019                      | \$ 295,868               | \$ 739,902                    | \$ 1,055,883                  | \$ 2,854,305     | \$ 16,246     | \$ 4,962,204 | \$ 165,904                   |
| Additions                                       | 2,430                    | -                             | -                             | -                | -             | 2,430        | 81                           |
| Reclassifications                               | 31,995                   | -                             | -                             | -                | -             | 31,995       | 1,070                        |
| Effect of foreign currency exchange differences | (922)                    | -                             | -                             | -                | -             | (922)        | (31)                         |
| Balance at December 31, 2019                    | \$ 329,371               | \$ 739,902                    | \$ 1,055,883                  | \$ 2,854,305     | \$ 16,246     | \$ 4,995,707 | \$ 167,024                   |
| <u>Accumulated amortization and impairment</u>  |                          |                               |                               |                  |               |              |                              |
| Balance at January 1, 2019                      | \$ 195,578               | \$ 11,609                     | \$ 17,737                     | \$ -             | \$ -          | \$ 224,924   | \$ 7,520                     |
| Amortization expenses                           | 58,516                   | 70,183                        | 106,870                       | -                | -             | 235,569      | 7,876                        |
| Effect of foreign currency exchange differences | (346)                    | -                             | -                             | -                | -             | (346)        | (12)                         |
| Balance at December 31, 2019                    | \$ 253,748               | \$ 81,792                     | \$ 124,607                    | \$ -             | \$ -          | \$ 460,147   | \$ 15,384                    |
| Carrying amounts at December 31, 2019           | \$ 75,623                | \$ 658,110                    | \$ 931,276                    | \$ 2,854,305     | \$ 16,246     | \$ 4,535,560 | \$ 151,640                   |

The trademark and others acquired through business combinations in 2018 were valued at \$2,854,305 thousand and \$16,246 thousand, respectively. Various studies including industrial characteristics, product life cycle studies and enterprise characteristics have been performed by management of the Group, which supported their opinion that there is no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows. Therefore, the trademark is considered to have an indefinite useful life. The trademark will not be amortized until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

The recoverable amount of trademark was determined based on a value in use calculation that used the cash flow projections in the financial budgets approved by management covering a 5-year period; the discount rate was 15%. The cash flows beyond that 5-year period have been extrapolated using the expected growth rate. Other key assumptions included budgeted revenue and relief from royalty rate. Such assumptions were based on the past performance of the cash-generating unit and management's expectations of market development.

No impairment loss on trademark was recognized for the years ended December 31, 2018 and 2019.

Other intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

|                        |               |
|------------------------|---------------|
| Computer Software      | 1-5 years     |
| Proprietary Technology | 10-11.5 years |
| Customer Relationships | 9.5-10 years  |

## 17. PREPAYMENTS FOR LEASES

|                                        | December 31,<br>2018 |
|----------------------------------------|----------------------|
|                                        | NT\$                 |
| Current asset (included in prepayment) | \$ 2,376             |
| Non-current asset                      | <u>110,730</u>       |
|                                        | <u>\$ 113,106</u>    |

Prepayments for leases included land use rights in Mainland China.

## 18. BORROWINGS

### a. Short-term borrowings

|                             | December 31   |               |               |
|-----------------------------|---------------|---------------|---------------|
|                             | 2018          | 2019          | US\$ (Note 4) |
|                             | NT\$          | NT\$          | (Unaudited)   |
| <u>Unsecured borrowings</u> |               |               |               |
| Line of credit borrowings   | \$ 23,667,981 | \$ 18,640,796 | \$ 623,230    |

The effective interest rates for bank loans had ranges of 0.70%-4.20% and 0.85%-3.70% per annum as of December 31, 2018 and 2019, respectively.

### b. Short-term bills payable

|                                             | For the Year Ended December 31 |                   |                  |
|---------------------------------------------|--------------------------------|-------------------|------------------|
|                                             | 2018                           | 2019              | US\$ (Note 4)    |
|                                             | NT\$                           | NT\$              | (Unaudited)      |
| Commercial paper                            | \$ 500,000                     | \$ 300,000        | \$ 10,030        |
| Less: Unamortized discount on bills payable | <u>513</u>                     | <u>119</u>        | <u>4</u>         |
|                                             | <u>\$ 499,487</u>              | <u>\$ 299,881</u> | <u>\$ 10,026</u> |

Outstanding short-term bills payable were as follows:

#### December 31, 2018

| Promissory Institution  | Nominal Amount | Discount Amount | Carrying Amount | Interest Rate | Collateral | Carrying Amount of Collateral |
|-------------------------|----------------|-----------------|-----------------|---------------|------------|-------------------------------|
|                         | NT\$           | NT\$            | NT\$            |               |            | NT\$                          |
| <u>Commercial paper</u> |                |                 |                 |               |            |                               |
| Mega Bills              | \$ 500,000     | \$ 513          | \$ 499,487      | 0.968%        | -          | \$ -                          |

#### December 31, 2019

| <u>Promissory Institutions</u> | <u>Nominal Amount</u><br>NT\$ | <u>Discount Amount</u><br>NT\$ | <u>Carrying Amount</u><br>NT\$ | <u>Interest Rate</u> | <u>Collateral</u> | <u>Carrying Amount of Collateral</u><br>NT\$ |
|--------------------------------|-------------------------------|--------------------------------|--------------------------------|----------------------|-------------------|----------------------------------------------|
|--------------------------------|-------------------------------|--------------------------------|--------------------------------|----------------------|-------------------|----------------------------------------------|

Commercial paper

|            |            |        |            |        |   |      |
|------------|------------|--------|------------|--------|---|------|
| Mega Bills | \$ 300,000 | \$ 119 | \$ 299,881 | 1.038% | - | \$ - |
|------------|------------|--------|------------|--------|---|------|

| <u>Promissory Institutions</u> | <u>Nominal Amount</u><br>US\$ (Note 4)<br>(Unaudited) | <u>Discount Amount</u><br>US\$ (Note 4)<br>(Unaudited) | <u>Carrying Amount</u><br>US\$ (Note 4)<br>(Unaudited) | <u>Interest Rate</u> | <u>Collateral</u> | <u>Carrying Amount of Collateral</u><br>US\$ (Note 4)<br>(Unaudited) |
|--------------------------------|-------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|----------------------|-------------------|----------------------------------------------------------------------|
|--------------------------------|-------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|----------------------|-------------------|----------------------------------------------------------------------|

Commercial paper

|            |           |      |           |        |   |      |
|------------|-----------|------|-----------|--------|---|------|
| Mega Bills | \$ 10,030 | \$ 4 | \$ 10,026 | 1.038% | - | \$ - |
|------------|-----------|------|-----------|--------|---|------|

c. Long-term borrowings

|                             | <u>December 31</u>  |                     |                                            |
|-----------------------------|---------------------|---------------------|--------------------------------------------|
|                             | <u>2018</u><br>NT\$ | <u>2019</u><br>NT\$ | <u>US\$ (Note 4)</u><br><u>(Unaudited)</u> |
| <u>Secured borrowings</u>   |                     |                     |                                            |
| Bank loans                  | \$ 7,500,000        | \$ 12,513,562       | \$ 418,374                                 |
| <u>Unsecured borrowings</u> |                     |                     |                                            |
| Line of credit borrowings   | 1,500,000           | 1,500,000           | 50,150                                     |
|                             | \$ 9,000,000        | \$ 14,013,562       | \$ 468,524                                 |

The effective interest rate of long-term bank loans was 0.9800%-1.7970% and 0.8690%-1.9027% per annum as of December 31, 2018 and 2019, respectively.

The Company signed a \$1,500,000 thousand (US\$50,150 thousand) medium-term loan agreement with MUFG Bank, Ltd. on March 23, 2018. The terms of the loans are summarized as follows:

| <u>Credit Lines</u>          | <u>Credit Period</u>                          | <u>Interest Rate</u>                                                         | <u>Repayment Agreement</u>                    |
|------------------------------|-----------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------------|
| \$ 1,500,000<br>(US\$50,150) | Three years after the date of first borrowing | Fixed rate 0.98% for the first year, and 0.99% for the second and third year | Three years after the date of first borrowing |

The Company signed a \$10,800,000 thousand (US\$361,083 thousand) syndicated loan agreement with Mega International Commercial Bank and twenty other financial institutions on April 10, 2017. The terms of the loan are summarized as follows:

| <u>Credit Lines</u> | <u>Credit Period</u> | <u>Interest Rate</u>         | <u>Repayment Agreement</u>  |
|---------------------|----------------------|------------------------------|-----------------------------|
| \$ 10,800,000       | Five years after the | Fixed rate (0.6%) based on a | Four quarterly installments |

|               |                         |                                                     |                                                                 |
|---------------|-------------------------|-----------------------------------------------------|-----------------------------------------------------------------|
| (US\$361,083) | date of first borrowing | specific average rate of notes transacted in Taiwan | from the 42 <sup>nd</sup> month after the contract signing date |
|---------------|-------------------------|-----------------------------------------------------|-----------------------------------------------------------------|

The Company signed a \$3,000,000 thousand (US\$100,301 thousand) mid-to-long-term loan agreement with TFC Bank Co., Ltd. on August 6, 2019. The terms of the loan are summarized as follows:

| Credit Lines                  | Credit Period                                | Interest Rate                                                                                                                         | Repayment Agreement                                                               |
|-------------------------------|----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| \$ 3,000,000<br>(US\$100,301) | Five years after the date of first borrowing | Variable interest rate based on the two-year fixed deposit of Chunghwa Post Co., Ltd. and the actual receipt must not be less than 1% | Three-year grace period.<br>Monthly installments after expiration of grace period |

The Company signed a \$5,000,000 thousand (US\$167,168 thousand) mid-to-long-term loan agreement with CTBC Bank Co., Ltd. on August 6, 2019. The terms of the loan are summarized as follows:

| Credit Lines                  | Credit Period                                                                                                                          | Interest Rate                                                                                                                         | Repayment Agreement                                                               |
|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| \$ 5,000,000<br>(US\$167,168) | Machinery equipment: Ten years after the date of first borrowing.<br><br>Revolving fund: Seven years after the date of first borrowing | Variable interest rate based on the two-year fixed deposit of Chunghwa Post Co., Ltd. and the actual receipt must not be less than 1% | Three-year grace period.<br>Monthly installments after expiration of grace period |

The Company signed a \$4,000,000 thousand (US\$133,735 thousand) mid-to-long-term loan agreement with Mega International Commercial Bank on August 21, 2019. The terms of the loan are summarized as follows:

| Credit Lines                  | Credit Period                                                                                                                            | Interest Rate                                                                                                                         | Repayment Agreement                                                               |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| \$ 4,000,000<br>(US\$133,735) | Machinery equipment: Seven years after the date of first borrowing.<br><br>Factory building: Ten years after the date of first borrowing | Variable interest rate based on the two-year fixed deposit of Chunghwa Post Co., Ltd. and the actual receipt must not be less than 1% | Three-year grace period.<br>Monthly installments after expiration of grace period |

The Company signed a \$2,560,000 thousand (US\$85,590 thousand) mid-to-long-term loan agreement with Chang Hwa Commercial Bank, Ltd. on September 11, 2019. The terms of the loan are summarized as follows:

| Credit Lines               | Credit Period                                 | Interest Rate                                                                                                                         | Repayment Agreement                                                               |
|----------------------------|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| \$ 560,000<br>(US\$18,723) | Seven years after the date of first borrowing | Variable interest rate based on the two-year fixed deposit of Chunghwa Post Co., Ltd. and the actual receipt must not be less than 1% | Three-year grace period.<br>Monthly installments after expiration of grace period |
| 2,000,000                  | Seven years after the                         | Variable interest rate based on                                                                                                       | Three-year grace period.                                                          |



|              |                         |                                                                                                         |                                                       |
|--------------|-------------------------|---------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| (US\$66,867) | date of first borrowing | the two-year fixed deposit of Chunghwa Post Co., Ltd. and the actual receipt must not be less than 1.5% | Monthly installments after expiration of grace period |
|--------------|-------------------------|---------------------------------------------------------------------------------------------------------|-------------------------------------------------------|

Under the loan agreements, except MUFG Bank, Ltd., the Company should collateralize the freehold land, the office buildings and machinery equipment of the factory located in the administrative office in Xindian in New Taipei City and in the Nan-Zi Branch and in the Da-fa industrial estate and a capacitor-line factory in a village in Dashe in Kaohsiung City. The Company will have to maintain its interim and annual current ratios, debt ratios and interest coverage ratios at percentages specified in the agreement.

## 19. OTHER LIABILITIES

|                                                                      | December 31          |                     |                              |
|----------------------------------------------------------------------|----------------------|---------------------|------------------------------|
|                                                                      | 2018                 | 2019                |                              |
|                                                                      | NT\$                 | NT\$                | US\$ (Note 4)<br>(Unaudited) |
| <u>Current</u>                                                       |                      |                     |                              |
| Other payables                                                       |                      |                     |                              |
| Payables for compensation of employees and remuneration of directors | \$ 2,527,914         | \$ 1,095,930        | \$ 36,641                    |
| Payables for salaries or bonuses                                     | 1,372,575            | 1,086,849           | 36,337                       |
| Payables for purchases of equipment                                  | 1,140,176            | 727,712             | 24,330                       |
| Payables for annual leave                                            | 43,251               | 110,537             | 3,696                        |
| Payables for dividends                                               | 7,686                | 7,686               | 257                          |
| Others                                                               | <u>6,921,349</u>     | <u>4,052,119</u>    | <u>135,477</u>               |
|                                                                      | 12,012,951           | 7,080,833           | 236,738                      |
| Other payables - related party (Note 30)                             | <u>2</u>             | <u>2</u>            | <u>-</u>                     |
|                                                                      | <u>\$ 12,012,953</u> | <u>\$ 7,080,835</u> | <u>\$ 236,738</u>            |

## 20. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

The Company, Brightking Electronics Co., Ltd., Bestbright Electronics Co., Ltd. (Taiwan), Ko-E Electronics Trade Co., Ltd. and Ko-E Corp. of the Group adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The subsidiaries-Yageo Dongguan, Yageo China, Yageo Components (Suzhou) Co., Ltd., Yageo Trade (Suzhou) Co., Ltd., Yageo USA (H.K.) Limited, Yageo Europe, Vitrohm Portuguesa, Yageo Japan, Yageo America Corporation, Yageo Corporation (South Asia) Pte. Ltd., Yageo South Asia (M) Sdn. Bhd., Ko-E H.K., Ko-E Technology (Shenzhen), Brightking Enterprise (H.K.) Co., Ltd., Bestbright Electronics Co., Ltd., Brightking Electronics Inc., Huizhou Lien Shun Electronics Co., Ltd., Brightking (Shenzhen) Co., Ltd., Ceramate Technical (Suzhou) Co., Ltd., Zhejiang Bestbright Electronics Co., Ltd., Brightking (Shanghai) Co., Ltd., Brightking (Beijing) Co., Ltd., Pulse Electronics (Dongguan) Co., Ltd., Mian Yang Pulse Electronics Co., Ltd., Suining Pulse Electronics Co., Ltd., Pulse (Suzhou) Wireless Products Co., Ltd., Pulse Electronics (ShenZhen) Co., Ltd., Shengsheng Technology (Suzhou) Co., Ltd. and Egston Electronics Zhuhai Ltd. have defined contribution plans and make contributions based on a fixed rate of salaries and wages according to the local laws. The subsidiaries-Yageo Holding (Bermuda), Kuo Shin Investment, Ferroxcube Holding (Samoa), Hsu Tai (H.K.), Ko-E Holding (Cayman), Yageo

Hong Kong, Yageo Holding (Cayman) Limited and Brightking Holdings Limited do not have pension plans since there is no employee.

b. Defined benefit plans

The defined benefit plans adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by a pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

All the employees of Vitrohm Holding GmbH, Yageo Europe Holding B.V., Pulse Electronics Corporation and Egston Holding GmbH (AT) have defined benefit plans. As of December 31, 2018 and 2019, the pension liabilities amounted to \$357,934 thousand and \$361,343 thousand (US\$12,081 thousand), respectively, included in defined benefit liabilities.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

|                                             | December 31       |                   |                              |
|---------------------------------------------|-------------------|-------------------|------------------------------|
|                                             | 2018              | 2019              |                              |
|                                             | NT\$              | NT\$              | US\$ (Note 4)<br>(Unaudited) |
| Present value of defined benefit obligation | \$ 346,860        | \$ 366,990        | \$ 12,270                    |
| Fair value of plan assets                   | <u>(233,376)</u>  | <u>(210,050)</u>  | <u>(7,023)</u>               |
| Net defined benefit liability               | <u>\$ 113,484</u> | <u>\$ 156,940</u> | <u>\$ 5,247</u>              |

Movements in the net defined benefit liability were as follows:

|                                          | Present Value of<br>the Defined<br>Benefit<br>Obligation | Fair Value of<br>the Plan Assets | Net Defined<br>Benefit<br>Liabilities |
|------------------------------------------|----------------------------------------------------------|----------------------------------|---------------------------------------|
|                                          | NT\$                                                     | NT\$                             | NT\$                                  |
| Balance at January 1, 2018               | <u>\$ 379,066</u>                                        | <u>\$ (171,924)</u>              | <u>\$ 207,142</u>                     |
| Service cost                             |                                                          |                                  |                                       |
| Current service cost                     | 3,440                                                    | -                                | 3,440                                 |
| Net interest expense (income)            | <u>4,738</u>                                             | <u>(2,545)</u>                   | <u>2,193</u>                          |
| Recognized in profit or loss             | <u>8,178</u>                                             | <u>(2,545)</u>                   | <u>5,633</u>                          |
| Remeasurement                            |                                                          |                                  |                                       |
| Actuarial (gain) loss                    |                                                          |                                  |                                       |
| Changes in demographic assumptions       | 741                                                      | -                                | 741                                   |
| Changes in financial assumptions         | 3,707                                                    | -                                | 3,707                                 |
| Experience adjustments                   | <u>(29,780)</u>                                          | <u>(4,746)</u>                   | <u>(34,526)</u>                       |
| Recognized in other comprehensive income | <u>(25,332)</u>                                          | <u>(4,746)</u>                   | <u>(30,078)</u>                       |
| Contributions from the employer          | -                                                        | (69,213)                         | (69,213)                              |
| Benefits paid                            | <u>(15,052)</u>                                          | <u>15,052</u>                    | <u>-</u>                              |

|                              |                   |                     |                   |
|------------------------------|-------------------|---------------------|-------------------|
| Balance at December 31, 2018 | <u>\$ 346,860</u> | <u>\$ (233,376)</u> | <u>\$ 113,484</u> |
|------------------------------|-------------------|---------------------|-------------------|

|                                          | Present Value of the Defined Benefit Obligation |                              | Fair Value of the Plan Assets |                              | Net Defined Benefit Liabilities |                              |
|------------------------------------------|-------------------------------------------------|------------------------------|-------------------------------|------------------------------|---------------------------------|------------------------------|
|                                          | NT\$                                            | US\$ (Note 4)<br>(Unaudited) | NT\$                          | US\$ (Note 4)<br>(Unaudited) | NT\$                            | US\$ (Note 4)<br>(Unaudited) |
| Balance at January 1, 2019               | <u>\$ 346,860</u>                               | <u>\$ 11,597</u>             | <u>\$ (233,376)</u>           | <u>\$ (7,803)</u>            | <u>\$ 113,484</u>               | <u>\$ 3,794</u>              |
| Service cost                             |                                                 |                              |                               |                              |                                 |                              |
| Current service cost                     | 2,843                                           | 95                           | -                             | -                            | 2,843                           | 95                           |
| Net interest expense (income)            | <u>3,902</u>                                    | <u>131</u>                   | <u>(2,675)</u>                | <u>(89)</u>                  | <u>1,227</u>                    | <u>42</u>                    |
| Recognized in profit or loss             | <u>6,745</u>                                    | <u>226</u>                   | <u>(2,675)</u>                | <u>(89)</u>                  | <u>4,070</u>                    | <u>137</u>                   |
| Remeasurement                            |                                                 |                              |                               |                              |                                 |                              |
| Actuarial (gain) loss                    |                                                 |                              |                               |                              |                                 |                              |
| Changes in demographic assumptions       | 2,002                                           | 67                           | -                             | -                            | 2,002                           | 67                           |
| Changes in financial assumptions         | 10,012                                          | 335                          | -                             | -                            | 10,012                          | 335                          |
| Experience adjustments                   | <u>42,460</u>                                   | <u>1,419</u>                 | <u>(7,134)</u>                | <u>(238)</u>                 | <u>35,326</u>                   | <u>1,181</u>                 |
| Recognized in other comprehensive income | <u>54,474</u>                                   | <u>1,821</u>                 | <u>(7,134)</u>                | <u>(238)</u>                 | <u>47,340</u>                   | <u>1,583</u>                 |
| Contributions from the employer          | -                                               | -                            | (7,915)                       | (265)                        | (7,915)                         | (265)                        |
| Benefits paid                            | <u>(41,089)</u>                                 | <u>(1,374)</u>               | <u>41,050</u>                 | <u>1,372</u>                 | <u>(39)</u>                     | <u>(2)</u>                   |
| Balance at December 31, 2019             | <u>\$ 366,990</u>                               | <u>\$ 12,270</u>             | <u>\$ (210,050)</u>           | <u>\$ (7,023)</u>            | <u>\$ 156,940</u>               | <u>\$ 5,247</u>              |

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

|                                     | For the Year Ended December 31 |                 |                              |
|-------------------------------------|--------------------------------|-----------------|------------------------------|
|                                     | 2018                           | 2019            |                              |
|                                     | NT\$                           | NT\$            | US\$ (Note 4)<br>(Unaudited) |
| Operating costs                     | \$ 4,429                       | \$ 3,138        | \$ 105                       |
| Selling and marketing expenses      | 280                            | 240             | 8                            |
| General and administrative expenses | 627                            | 496             | 17                           |
| Research and development expenses   | <u>297</u>                     | <u>196</u>      | <u>7</u>                     |
|                                     | <u>\$ 5,633</u>                | <u>\$ 4,070</u> | <u>\$ 137</u>                |

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated using the future salaries of plan participants. As such, an increase in the salaries of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

|                                   | <b>December 31</b> |             |
|-----------------------------------|--------------------|-------------|
|                                   | <b>2018</b>        | <b>2019</b> |
| Discount rates                    | 1.125%             | 0.800%      |
| Expected rates of salary increase | 1.500%             | 1.500%      |

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation will increase (decrease) as follows:

|                                   | <b>December 31</b> |                   |                                      |
|-----------------------------------|--------------------|-------------------|--------------------------------------|
|                                   | <b>2018</b>        | <b>2019</b>       |                                      |
|                                   | <b>NT\$</b>        | <b>NT\$</b>       | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| Discount rates                    |                    |                   |                                      |
| 0.25% increase                    | <u>\$ (7,541)</u>  | <u>\$ (7,836)</u> | <u>\$ (262)</u>                      |
| 0.25% decrease                    | <u>\$ 7,804</u>    | <u>\$ 8,107</u>   | <u>\$ 271</u>                        |
| Expected rates of salary increase |                    |                   |                                      |
| 0.25% increase                    | <u>\$ 7,542</u>    | <u>\$ 7,809</u>   | <u>\$ 261</u>                        |
| 0.25% decrease                    | <u>\$ (7,325)</u>  | <u>\$ (7,587)</u> | <u>\$ (254)</u>                      |

The sensitivity analysis previously presented above may not be representative of the actual changes in the present value of the defined benefit obligation as it is unlikely that the changes in assumptions will occur in isolation of one another as some of the assumptions may be correlated.

|                                                       | <b>December 31</b> |                 |                                      |
|-------------------------------------------------------|--------------------|-----------------|--------------------------------------|
|                                                       | <b>2018</b>        | <b>2019</b>     |                                      |
|                                                       | <b>NT\$</b>        | <b>NT\$</b>     | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| Expected contributions to the plans for the next year | <u>\$ 8,750</u>    | <u>\$ 7,915</u> | <u>\$ 265</u>                        |
| Average duration of the defined benefit obligation    | 12 years           | 11 years        | 11 years                             |

## 21. EQUITY

### a. Share capital

#### 1) Common shares

|                                                       | <b>December 31</b>   |                      |                                      |
|-------------------------------------------------------|----------------------|----------------------|--------------------------------------|
|                                                       | <b>2018</b>          | <b>2019</b>          |                                      |
|                                                       | <b>NT\$</b>          | <b>NT\$</b>          | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| Shares authorized (in thousands of shares)            | <u>4,000,000</u>     | <u>4,000,000</u>     | <u>4,000,000</u>                     |
| Shares authorized                                     | <u>\$ 40,000,000</u> | <u>\$ 40,000,000</u> | <u>\$ 1,337,345</u>                  |
| Shares issued and fully paid (in thousands of shares) | <u>427,039</u>       | <u>429,047</u>       | <u>429,047</u>                       |

|                              |              |              |            |
|------------------------------|--------------|--------------|------------|
| Shares issued and fully paid | \$ 4,270,394 | \$ 4,290,478 | \$ 143,446 |
|------------------------------|--------------|--------------|------------|

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

The movements of the common shares were due to issue share dividends and the exercise of employee share options.

## 2) Global depositary receipts

The Company's global depositary receipts (GDRs) as of December 31, 2019 were as follows:

|                                                           | <b>GDRs<br/>(In Thousand<br/>Units)</b> | <b>Equivalent<br/>Common Stock<br/>(In Thousand<br/>Shares)</b> |
|-----------------------------------------------------------|-----------------------------------------|-----------------------------------------------------------------|
| Initial offering                                          | 5,000                                   | 25,000                                                          |
| Converted from overseas convertible bonds                 | 34,981                                  | 174,903                                                         |
| Net increase due to capital increase or capital reduction | 68,873                                  | 344,363                                                         |
| Reissued within authorized units                          | 66,911                                  | 334,557                                                         |
| GDRs transferred to common shares                         | <u>(175,753)</u>                        | <u>(878,761)</u>                                                |
| Outstanding GDRs issued                                   | <u>12</u>                               | <u>62</u>                                                       |

The owners of GDRs have the same rights as holders of common shares, except that the GDR owners should exercise, through a depositary trust company, the following beneficial interests subject to the terms of the depositary agreements and the relevant Taiwan laws and regulations:

- Exercise voting rights;
- Convert the GDRs into common shares; and
- Receive dividends and exercise preemptive rights or other rights and interests.

On January 6, 2020, the Company's board of directors resolved to issue ordinary shares for the purpose of issuing GDR. The limit of shares issued is expected to be 80,000 thousand shares, which was approved by the special meeting of shareholders on February 26, 2020.

## b. Capital surplus

|                                                                                                    | <b>December 31</b> |              |                                      |
|----------------------------------------------------------------------------------------------------|--------------------|--------------|--------------------------------------|
|                                                                                                    | <b>2018</b>        | <b>2019</b>  |                                      |
|                                                                                                    | <b>NT\$</b>        | <b>NT\$</b>  | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| May be used to offset a deficit, distributed as cash dividends or transferred to share capital (1) |                    |              |                                      |
| Issuance of ordinary shares                                                                        | \$ 2,018,115       | \$ 1,721,206 | \$ 57,546                            |
| May only be used to offset a deficit                                                               |                    |              |                                      |
| Transferring from employee share options to issuance of common shares due to exercise              | 700,409            | 813,693      | 27,205                               |

(Continued)

|                                                                       | December 31         |                     |                                  |
|-----------------------------------------------------------------------|---------------------|---------------------|----------------------------------|
|                                                                       | 2018                | 2019                |                                  |
|                                                                       | NT\$                | NT\$                | US\$ (Note 4)<br>(Unaudited)     |
| <u>May not be used for any purpose</u>                                |                     |                     |                                  |
| Share of changes in capital surplus of associates or subsidiaries (2) | \$ 2,804,929        | \$ 2,842,519        | \$ 95,036                        |
| Employee share options                                                | <u>20,146</u>       | <u>16,097</u>       | <u>538</u>                       |
|                                                                       | <u>\$ 5,543,599</u> | <u>\$ 5,393,515</u> | <u>\$ 180,325</u><br>(Concluded) |

- 1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and to once a year).
- 2) Such capital surplus arises from the effect of changes in ownership interests in subsidiaries resulted from equity transactions other than actual disposal or acquisition, or from changes in capital surplus of subsidiaries accounted for by using equity method.

c. Retained earnings and dividend policy

Under the Company's Articles of Incorporation (the "Articles"), when the Company has earnings for the year, the Company shall appropriate for remuneration of directors at 3% or less and for employees' bonus of at least 2% of the earnings. Then, the Company shall make payments for taxes and offset past years' deficit, if any. The remaining profit shall be distributed in the following order:

- 1) Legal reserve is appropriated at 10% of the remaining profit until the legal reserve equals the Company's paid-in capital.
- 2) Special reserve is appropriated or reversed in accordance with the laws and regulations.
- 3) Appropriations for dividends and bonuses, of at least 10% of the remaining profit after appropriations for legal reserve and special reserve, may be proposed by the Company's board of directors and approved at the shareholders' meeting. However, if the earnings distribution proposal is for the distribution of dividend and bonus in cash entirely or partially, it shall be resolved by the board of directors with the attendance of more-than-two-thirds of the directors and consent of the majority of attending directors; also it shall be reported in the shareholders' meeting.

The Company's dividend policy takes into account the Company's current and future competitiveness in the domestic and foreign markets, the investment environment and cash requirements. The policy authorizes the Company's board to propose an earnings distribution in the form of shares or in cash appropriately in accordance with the laws and regulations, with the board's proposal subject to approval at the shareholders' meeting. For the policies on distribution of the compensation of employees and remuneration of directors and supervisors set forth in the Articles, refer to e. employee benefits expense in Note 22.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

The Company's earnings distribution or loss recovery can be completed at the end of each interim fiscal

year. The Company before distributing the earnings of the first half of the fiscal year as stated in the preceding paragraph should estimate and retain the amount of tax payable, loss coverage, employee compensation, and the provision of earnings reserved in advance. However, when the legal reserve equals to the amount of paid-in capital, it is not subject to this restriction.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and under the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs” should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings, bonuses to employees and remuneration to directors for 2017 and 2018 approved in the shareholders’ meetings on June 5, 2018 and June 5, 2019, respectively, were as follows:

|                 | <b>Appropriation of Earnings</b> |              | <b>Dividends Per Share</b> |             |
|-----------------|----------------------------------|--------------|----------------------------|-------------|
|                 | <b>For the Year Ended</b>        |              | <b>(NT\$)</b>              |             |
|                 | <b>December 31</b>               |              | <b>For the Year Ended</b>  |             |
|                 | <b>2017</b>                      | <b>2018</b>  | <b>2017</b>                | <b>2018</b> |
|                 | <b>NT\$</b>                      | <b>NT\$</b>  | <b>NT\$</b>                | <b>NT\$</b> |
| Legal reserve   | \$ 684,730                       | \$ 3,383,929 | \$ -                       | \$ -        |
| Special reserve | (1,286,097)                      | 1,210,064    | -                          | -           |
| Cash dividends  | 5,036,144                        | 18,790,142   | 14.36                      | 44.30       |
| Share dividends | 701,413                          | -            | 2.00                       | -           |

On November 7, 2019, the Company’s board of directors resolved not to appropriate earnings for the six months ended June 30, 2019.

On June 5, 2019, the Company’s shareholders resolved to pay cash dividends at NT\$0.70(US\$0.023) per share from capital surplus of \$296,909 thousand(US\$9,927 thousand), and plus the above cash dividends at NT\$44.3(US\$1.48) per share, the total cash dividends paid aggregated to NT\$45(US\$1.50) per share for 2018.

The appropriations of earnings for 2019 had been proposed by the Company’s board of directors on February 26, 2020. The appropriations and dividends per share were as follows:

|                                 | <b>For the Year Ended</b> |                      |
|---------------------------------|---------------------------|----------------------|
|                                 | <b>December 31, 2019</b>  |                      |
|                                 | <b>NT\$</b>               | <b>US\$ (Note 4)</b> |
|                                 |                           | <b>(Unaudited)</b>   |
| Legal reserve                   | \$ 731,081                | \$ 24,443            |
| Special reserve                 | \$ 1,298,169              | \$ 43,403            |
| Cash dividends                  | \$ 6,409,381              | \$ 214,289           |
| Cash dividends per share (NT\$) | \$ 15                     | \$ 0.5               |

d. Special reserves

|                                              | <b>For the Year Ended December 31</b> |             |                      |
|----------------------------------------------|---------------------------------------|-------------|----------------------|
|                                              | <b>2018</b>                           | <b>2019</b> |                      |
|                                              | <b>NT\$</b>                           | <b>NT\$</b> | <b>US\$ (Note 4)</b> |
|                                              |                                       |             | <b>(Unaudited)</b>   |
| Beginning at January 1                       | \$ 1,723,692                          | \$ 437,595  | \$ 14,630            |
| Debit to other equity items                  | -                                     | 1,210,064   | 40,457               |
| Reversal of the debits to other equity items | (1,286,097)                           | -           | -                    |



|                        |                   |                     |                  |
|------------------------|-------------------|---------------------|------------------|
| Balance at December 31 | \$ <u>437,595</u> | \$ <u>1,647,659</u> | \$ <u>55,087</u> |
|------------------------|-------------------|---------------------|------------------|

e. Other equity items

1) Exchange differences on translating the financial statements of the foreign operations

|                                                                                    | <b>For the Year Ended December 31</b> |                       |                                      |
|------------------------------------------------------------------------------------|---------------------------------------|-----------------------|--------------------------------------|
|                                                                                    | <b>2018</b>                           | <b>2019</b>           |                                      |
|                                                                                    | <b>NT\$</b>                           | <b>NT\$</b>           | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| Balance at January 1                                                               | \$ (1,664,627)                        | \$ (1,820,627)        | \$ (60,870)                          |
| Effect of change in tax rate                                                       | 60,167                                | -                     | -                                    |
| Recognized for the year                                                            |                                       |                       |                                      |
| Exchange differences on translating the financial statements of foreign operations | (208,455)                             | (800,995)             | (26,780)                             |
| Share from associates accounted for using the equity method                        | <u>(7,712)</u>                        | <u>60,933</u>         | <u>2,037</u>                         |
| Balance at December 31                                                             | <u>\$ (1,820,627)</u>                 | <u>\$ (2,560,689)</u> | <u>\$ (85,613)</u>                   |

|                                                                     | <b>Amount Before Tax</b> | <b>Related Income Tax</b> | <b>Amount After Tax</b> |
|---------------------------------------------------------------------|--------------------------|---------------------------|-------------------------|
| Balance at January 1, 2018                                          | \$ (2,005,575)           | \$ 340,948                | \$ (1,664,627)          |
| Effect of change in tax rate                                        | -                        | 60,167                    | 60,167                  |
| Other comprehensive income recognized for the year                  | <u>(270,209)</u>         | <u>54,042</u>             | <u>(216,167)</u>        |
| Balance at December 31, 2018                                        | <u>\$ (2,275,784)</u>    | <u>\$ 455,157</u>         | <u>\$ (1,820,627)</u>   |
| Balance at January 1, 2019                                          | \$ (2,275,784)           | \$ 455,157                | \$ (1,820,627)          |
| Other comprehensive income recognized for the year                  | <u>(925,078)</u>         | <u>185,016</u>            | <u>(740,062)</u>        |
| Balance at December 31, 2019                                        | <u>\$ (3,200,862)</u>    | <u>\$ 640,173</u>         | <u>\$ (2,560,689)</u>   |
| Balance at December 31, 2019 (in U.S. dollars) (Note 4) (Unaudited) | <u>\$ (107,016)</u>      | <u>\$ 21,403</u>          | <u>\$ (85,613)</u>      |

2) Unrealized valuation gain/(loss) on financial assets at FVTOCI

|                                                                          | <b>For the Year Ended December 31</b> |                  |                                      |
|--------------------------------------------------------------------------|---------------------------------------|------------------|--------------------------------------|
|                                                                          | <b>2018</b>                           | <b>2019</b>      |                                      |
|                                                                          | <b>NT\$</b>                           | <b>NT\$</b>      | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| Balance at January 1                                                     | \$ 1,906,483                          | \$ 610,563       | \$ 20,413                            |
| Recognized for the year                                                  |                                       |                  |                                      |
| Unrealized gain - equity instruments                                     | (598,587)                             | (192,914)        | (6,450)                              |
| Share from associates accounted for using the equity method              | 1,440                                 | 824              | 28                                   |
| Cumulative unrealized gain of equity instruments transferred to retained | <u>(698,773)</u>                      | <u>(366,016)</u> | <u>(12,237)</u>                      |

earnings due to disposal

|                        |            |           |          |
|------------------------|------------|-----------|----------|
| Balance at December 31 | \$ 610,563 | \$ 52,457 | \$ 1,754 |
|------------------------|------------|-----------|----------|

f. Non-controlling interests

|                                                                                                                                                               | For the Year Ended December 31 |            |                              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|------------|------------------------------|
|                                                                                                                                                               | 2018                           | 2019       |                              |
|                                                                                                                                                               | NT\$                           | NT\$       | US\$ (Note 4)<br>(Unaudited) |
| Balance at January 1                                                                                                                                          | \$ 108,360                     | \$ 103,657 | \$ 3,466                     |
| Share of profit for the year                                                                                                                                  | 859                            | 107,322    | 3,588                        |
| Other comprehensive income (loss) during the year                                                                                                             |                                |            |                              |
| Exchange difference on translating the financial statements of foreign entities                                                                               | (5,562)                        | (12,145)   | (406)                        |
| Non-controlling interests arising from acquisition of Brightking Holdings Limited                                                                             | 543,571                        | -          | -                            |
| Acquisition of non-controlling interests in Brightking Holdings Limited                                                                                       | (543,571)                      | -          | -                            |
| Acquisition of non-controlling interests in Ko-E Holding (Cayman Islands) Limited because of returning cash capital to the non-controlling interests' holders | -                              | 12,695     | 424                          |
| Cash dividends distributed by subsidiaries                                                                                                                    | -                              | (211,529)  | (7,072)                      |
| Balance at December 31                                                                                                                                        | \$ 103,657                     | \$ -       | \$ -                         |

g. Treasury shares

| Purpose of Buyback                    | Shares<br>Transferred to<br>Employees<br>(In Thousands<br>of Shares) |
|---------------------------------------|----------------------------------------------------------------------|
| Number of shares on January 1, 2018   | -                                                                    |
| Increase during the year              | 2,965                                                                |
| Number of shares on December 31, 2018 | 2,965                                                                |

To enhance employee's coherence, the Company's board resolved on July 17, 2018, to buy back up to 4,500 thousand common shares with the buyback price ranging from NT\$632.80 to NT\$1,616.80 between July 19 and September 17, 2018 on the Taiwan Stock Exchange. As of September 17, 2018, the last day of the buyback period, the Company had bought back 2,965 thousand shares at a total amount of \$2,421,552 thousand.

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

## 22. NET PROFIT FOR THE YEAR

### a. Other gains and losses

|                                                   | For the Year Ended December 31 |                   |                              |
|---------------------------------------------------|--------------------------------|-------------------|------------------------------|
|                                                   | 2018                           | 2019              |                              |
|                                                   | NT\$                           | NT\$              | US\$ (Note 4)<br>(Unaudited) |
| Loss on disposal of property, plant and equipment | \$ (22,279)                    | \$ (9,713)        | \$ (325)                     |
| Net foreign exchange gains                        | 1,363,987                      | 731,548           | 24,458                       |
| Dividend income                                   | 148,998                        | 202,483           | 6,770                        |
| Other gains                                       | 98,592                         | 163,028           | 5,451                        |
| Other losses                                      | <u>(137,935)</u>               | <u>(197,234)</u>  | <u>(6,594)</u>               |
|                                                   | <u>\$ 1,451,363</u>            | <u>\$ 890,112</u> | <u>\$ 29,760</u>             |

### b. Finance costs

|                              | For the Year Ended December 31 |                   |                              |
|------------------------------|--------------------------------|-------------------|------------------------------|
|                              | 2018                           | 2019              |                              |
|                              | NT\$                           | NT\$              | US\$ (Note 4)<br>(Unaudited) |
| Interest on bank loans       | \$ 535,609                     | \$ 521,024        | \$ 17,420                    |
| Interest on short-term bills | 6,732                          | 1,844             | 62                           |
| Other finance costs          | <u>4,679</u>                   | <u>1,957</u>      | <u>65</u>                    |
|                              | <u>\$ 547,020</u>              | <u>\$ 524,825</u> | <u>\$ 17,547</u>             |

### c. Depreciation and amortization

|                                         | For the Year Ended December 31 |                     |                              |
|-----------------------------------------|--------------------------------|---------------------|------------------------------|
|                                         | 2018                           | 2019                |                              |
|                                         | NT\$                           | NT\$                | US\$ (Note 4)<br>(Unaudited) |
| An analysis of depreciation by function |                                |                     |                              |
| Operating costs                         | \$ 7,337,191                   | \$ 2,419,806        | \$ 80,903                    |
| Operating expenses                      | <u>163,026</u>                 | <u>299,317</u>      | <u>10,007</u>                |
|                                         | <u>\$ 7,500,217</u>            | <u>\$ 2,719,123</u> | <u>\$ 90,910</u>             |
| An analysis of amortization by function |                                |                     |                              |
| Operating costs                         | \$ 1,536                       | \$ 1,330            | \$ 44                        |
| Operating expenses                      | 78,551                         | 235,286             | 7,867                        |
| Other expenses                          | <u>5,779</u>                   | <u>5,816</u>        | <u>194</u>                   |
|                                         | <u>\$ 85,866</u>               | <u>\$ 242,432</u>   | <u>\$ 8,105</u>              |

d. Employee benefit expense

|                                                     | For the Year Ended December 31 |                     |                              |
|-----------------------------------------------------|--------------------------------|---------------------|------------------------------|
|                                                     | 2018                           | 2019                |                              |
|                                                     | NT\$                           | NT\$                | US\$ (Note 4)<br>(Unaudited) |
| Post-employment benefits                            |                                |                     |                              |
| Defined contribution plans                          | \$ 267,302                     | \$ 250,556          | \$ 8,377                     |
| Defined benefit plans (Note 20)                     | <u>10,662</u>                  | <u>26,650</u>       | <u>891</u>                   |
|                                                     | 277,964                        | 277,206             | 9,268                        |
| Other employee benefits                             | <u>6,840,488</u>               | <u>7,498,640</u>    | <u>250,707</u>               |
| Total employee benefit expense                      | <u>\$ 7,118,452</u>            | <u>\$ 7,775,846</u> | <u>\$ 259,975</u>            |
| An analysis of employee benefit expense by function |                                |                     |                              |
| Operating costs                                     | \$ 3,331,082                   | \$ 4,633,868        | \$ 154,927                   |
| Operating expenses                                  | <u>3,787,370</u>               | <u>3,141,978</u>    | <u>105,048</u>               |
|                                                     | <u>\$ 7,118,452</u>            | <u>\$ 7,775,846</u> | <u>\$ 259,975</u>            |

e. Employees' compensation and remuneration of directors

The Company accrued employees' compensation and remuneration of directors at rates of no less than 2% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2018 and 2019, which were approved by the Company's board of directors on March 14, 2019 and February 26, 2020, respectively, were as follows:

Accrual rate

|                           | For the Year Ended December 31 |      |
|---------------------------|--------------------------------|------|
|                           | 2018                           | 2019 |
| Employees' compensation   | 3%                             | 3%   |
| Remuneration of directors | 3%                             | 3%   |

Amount

|                           | For the Year Ended December 31 |                |              |                                      |                |                                        |
|---------------------------|--------------------------------|----------------|--------------|--------------------------------------|----------------|----------------------------------------|
|                           | 2018                           |                | 2019         |                                      |                |                                        |
|                           | Cash<br>NT\$                   | Shares<br>NT\$ | Cash<br>NT\$ | Cash<br>US\$ (Note 4)<br>(Unaudited) | Shares<br>NT\$ | Shares<br>US\$ (Note 4)<br>(Unaudited) |
| Employees' compensation   | \$ 1,173,873                   | \$ -           | \$ 258,432   | \$ 8,640                             | \$ -           | \$ -                                   |
| Remuneration of directors | 1,173,873                      | -              | 258,432      | 8,640                                | -              | -                                      |

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

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2018 and 2019.

Information on the employees' compensation and remuneration of directors resolved by the Company's

board of directors in 2019 and 2020 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

f. Gain or loss on foreign currency exchange

|                         | For the Year Ended December 31 |                    |                              |
|-------------------------|--------------------------------|--------------------|------------------------------|
|                         | 2018                           | 2019               |                              |
|                         | NT\$                           | NT\$               | US\$ (Note 4)<br>(Unaudited) |
| Foreign exchange gains  | \$ 3,765,966                   | \$ 2,515,111       | \$ 84,089                    |
| Foreign exchange losses | <u>(2,401,979)</u>             | <u>(1,783,563)</u> | <u>(59,631)</u>              |
|                         | <u>\$ 1,363,987</u>            | <u>\$ 731,548</u>  | <u>\$ 24,458</u>             |

## 23. INCOME TAXES

a. Income tax recognized in profit or loss

Major components of income tax expense are as follows:

|                                                 | For the Year Ended December 31 |                     |                              |
|-------------------------------------------------|--------------------------------|---------------------|------------------------------|
|                                                 | 2018                           | 2019                |                              |
|                                                 | NT\$                           | NT\$                | US\$ (Note 4)<br>(Unaudited) |
| <u>Current tax</u>                              |                                |                     |                              |
| In respect of current year                      | \$ 6,857,850                   | \$ 1,569,437        | \$ 52,472                    |
| Income tax on unappropriated earnings           | 166,442                        | 559,313             | 18,700                       |
| Adjustments for prior years                     | <u>(209,729)</u>               | <u>(10,900)</u>     | <u>(364)</u>                 |
|                                                 | <u>6,814,563</u>               | <u>2,117,850</u>    | <u>70,808</u>                |
| <u>Deferred tax</u>                             |                                |                     |                              |
| In respect of current year                      | (725,267)                      | (154,331)           | (5,160)                      |
| Effect of tax rate changes                      | (90,021)                       | -                   | -                            |
| Adjustments for prior years                     | <u>55,934</u>                  | <u>7,446</u>        | <u>249</u>                   |
|                                                 | <u>(759,354)</u>               | <u>(146,885)</u>    | <u>(4,911)</u>               |
| Income tax expense recognized in profit or loss | <u>\$ 6,055,209</u>            | <u>\$ 1,970,965</u> | <u>\$ 65,897</u>             |

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

|                                                     | For the Year Ended December 31 |                     |                              |
|-----------------------------------------------------|--------------------------------|---------------------|------------------------------|
|                                                     | 2018                           | 2019                |                              |
|                                                     | NT\$                           | NT\$                | US\$ (Note 4)<br>(Unaudited) |
| Profit before tax                                   | <u>\$ 39,895,361</u>           | <u>\$ 9,023,080</u> | <u>\$ 301,674</u>            |
| Income tax expense calculated at the statutory rate | \$ 7,979,072                   | \$ 1,804,616        | \$ 60,335                    |
| Unrecognized deductible temporary differences       | (4,337,584)                    | (1,056,166)         | (35,312)                     |
| Income tax on unappropriated earnings               | 166,442                        | 559,313             | 18,700                       |
| Effect of tax rate changes                          | 90,021                         | -                   | -                            |

|                                                                                  |                     |                     |                  |
|----------------------------------------------------------------------------------|---------------------|---------------------|------------------|
| Effect of different tax rates of group entities operating in other jurisdictions | 2,491,095           | 666,656             | 22,289           |
| Adjustments for prior years' tax                                                 | <u>(153,795)</u>    | <u>(3,454)</u>      | <u>(115)</u>     |
| Income tax expense recognized in profit or loss                                  | <u>\$ 6,055,209</u> | <u>\$ 1,970,965</u> | <u>\$ 65,897</u> |

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%. The applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

b. Income tax recognized in other comprehensive income

|                                                           | For the Year Ended December 31 |                     |                              |
|-----------------------------------------------------------|--------------------------------|---------------------|------------------------------|
|                                                           | 2018                           | 2019                |                              |
|                                                           | NT\$                           | NT\$                | US\$ (Note 4)<br>(Unaudited) |
| <u>Deferred tax</u>                                       |                                |                     |                              |
| Effect of change in tax rate                              | \$ (63,088)                    | \$ -                | \$ -                         |
| In respect of the current year                            |                                |                     |                              |
| Translation of foreign operations                         | (54,042)                       | (185,016)           | (6,186)                      |
| Remeasurement of defined benefit plans                    | <u>5,738</u>                   | <u>(9,468)</u>      | <u>(317)</u>                 |
| Total income tax recognized in other comprehensive income | <u>\$ (111,392)</u>            | <u>\$ (194,484)</u> | <u>\$ (6,503)</u>            |

c. Current tax liabilities

|                         | December 31         |                     |                              |
|-------------------------|---------------------|---------------------|------------------------------|
|                         | 2018                | 2019                |                              |
|                         | NT\$                | NT\$                | US\$ (Note 4)<br>(Unaudited) |
| Current tax liabilities | <u>\$ 6,782,248</u> | <u>\$ 1,826,900</u> | <u>\$ 61,080</u>             |

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2018

|                                                  | Opening Balance | Effect of Change in Tax Rate | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Exchange Differences | Acquisitions Through Business Combinations | Closing Balance |
|--------------------------------------------------|-----------------|------------------------------|------------------------------|------------------------------------------|----------------------|--------------------------------------------|-----------------|
|                                                  | NT\$            | NT\$                         | NT\$                         | NT\$                                     | NT\$                 | NT\$                                       | NT\$            |
| <u>Deferred tax assets</u>                       |                 |                              |                              |                                          |                      |                                            |                 |
| Temporary differences                            |                 |                              |                              |                                          |                      |                                            |                 |
| Impairment loss on goodwill                      | \$ 118,163      | \$ 20,852                    | \$ (55,606)                  | \$ -                                     | \$ -                 | \$ -                                       | \$ 83,409       |
| Impairment loss on property, plant and equipment | 192,335         | 33,941                       | (6,228)                      | -                                        | -                    | -                                          | 220,048         |
| Inventory write-downs                            | 54,172          | 9,560                        | 7,574                        | -                                        | -                    | -                                          | 71,306          |
| Accrued expenses                                 | 60,890          | 10,745                       | 25,000                       | -                                        | -                    | -                                          | 96,635          |

(Continued)

|                                          | Opening<br>Balance | Effect of<br>Change in Tax<br>Rate | Recognized in<br>Profit or Loss | Recognized in<br>Other Compre-<br>hensive Income | Exchange<br>Differences | Acquisitions<br>Through<br>Business<br>Combinations | Closing Balance     |
|------------------------------------------|--------------------|------------------------------------|---------------------------------|--------------------------------------------------|-------------------------|-----------------------------------------------------|---------------------|
|                                          | NT\$               | NT\$                               | NT\$                            | NT\$                                             | NT\$                    | NT\$                                                | NT\$                |
| Defined benefit obligation               | 55,691             | 5,413                              | (38,067)                        | (5,738)                                          | -                       | -                                                   | 17,299              |
| Exchange difference on foreign operation | 340,947            | 60,167                             | -                               | 54,042                                           | -                       | -                                                   | 455,156             |
| Others                                   | 82,207             | 12,431                             | 957,882                         | -                                                | -                       | 200,488                                             | 1,253,008           |
|                                          | 904,405            | 153,109                            | 890,555                         | 48,304                                           | -                       | 200,488                                             | 2,196,861           |
| Loss carryforwards                       | 18,415             | -                                  | (7,972)                         | -                                                | -                       | -                                                   | 10,443              |
|                                          | <u>\$ 922,820</u>  | <u>\$ 153,109</u>                  | <u>\$ 882,583</u>               | <u>\$ 48,304</u>                                 | <u>\$ -</u>             | <u>\$ 200,488</u>                                   | <u>\$ 2,207,304</u> |
| Deferred tax liabilities                 |                    |                                    |                                 |                                                  |                         |                                                     |                     |
| Temporary differences                    |                    |                                    |                                 |                                                  |                         |                                                     |                     |
| Others                                   | <u>\$ 376</u>      | <u>\$ -</u>                        | <u>\$ 213,250</u>               | <u>\$ -</u>                                      | <u>\$ -</u>             | <u>\$ 170,072</u>                                   | <u>\$ 383,698</u>   |

(Concluded)

### For the year ended December 31, 2019

|                                                  | Opening<br>Balance  | Effect of<br>Change in Tax<br>Rate | Recognized in<br>Profit or Loss | Recognized in<br>Other Compre-<br>hensive Income | Exchange<br>Differences | Acquisitions<br>Through<br>Business<br>Combinations | Closing Balance     |                            |
|--------------------------------------------------|---------------------|------------------------------------|---------------------------------|--------------------------------------------------|-------------------------|-----------------------------------------------------|---------------------|----------------------------|
|                                                  | NT\$                | NT\$                               | NT\$                            | NT\$                                             | NT\$                    | NT\$                                                | NT\$                | US\$(Note4)<br>(Unaudited) |
| Deferred tax assets                              |                     |                                    |                                 |                                                  |                         |                                                     |                     |                            |
| Temporary differences                            |                     |                                    |                                 |                                                  |                         |                                                     |                     |                            |
| Impairment loss on goodwill                      | \$ 83,409           | \$ -                               | \$ (55,606)                     | \$ -                                             | \$ -                    | \$ -                                                | \$ 27,803           | \$ 929                     |
| Impairment loss on property, plant and equipment | 220,048             | -                                  | (5,835)                         | -                                                | -                       | -                                                   | 214,213             | 7,162                      |
| Inventory write-downs                            | 71,306              | -                                  | 64,541                          | -                                                | -                       | -                                                   | 135,847             | 4,542                      |
| Accrued expenses                                 | 96,635              | -                                  | 124,212                         | -                                                | -                       | -                                                   | 220,847             | 7,384                      |
| Defined benefit obligation                       | 17,299              | -                                  | (802)                           | 9,468                                            | -                       | -                                                   | 25,965              | 868                        |
| Exchange difference on foreign operation         | 455,156             | -                                  | -                               | 185,016                                          | -                       | -                                                   | 640,172             | 21,403                     |
| Others                                           | 1,253,008           | -                                  | (395,333)                       | -                                                | 25,046                  | -                                                   | 882,721             | 29,513                     |
|                                                  | 2,196,861           | -                                  | (268,823)                       | 194,484                                          | 25,046                  | -                                                   | 2,147,568           | 71,801                     |
| Loss carryforwards                               | 10,443              | -                                  | (1,660)                         | -                                                | -                       | -                                                   | 8,783               | 294                        |
|                                                  | <u>\$ 2,207,304</u> | <u>\$ -</u>                        | <u>\$ (270,483)</u>             | <u>\$ 194,484</u>                                | <u>\$ 25,046</u>        | <u>\$ -</u>                                         | <u>\$ 2,156,351</u> | <u>\$ 72,095</u>           |
| Deferred tax liabilities                         |                     |                                    |                                 |                                                  |                         |                                                     |                     |                            |
| Temporary differences                            |                     |                                    |                                 |                                                  |                         |                                                     |                     |                            |
| Others                                           | <u>\$ 383,698</u>   | <u>\$ -</u>                        | <u>\$ (123,598)</u>             | <u>\$ -</u>                                      | <u>\$ -</u>             | <u>\$ -</u>                                         | <u>\$ 260,100</u>   | <u>\$ 8,696</u>            |

- e. Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the consolidated balance sheets

|                    | December 31       |                  |                              |
|--------------------|-------------------|------------------|------------------------------|
|                    | 2018              | 2019             |                              |
|                    | NT\$              | NT\$             | US\$ (Note 4)<br>(Unaudited) |
| Loss carryforwards |                   |                  |                              |
| Expire in 2019     | \$ 204,147        | \$ -             | \$ -                         |
| Expire in 2020     | <u>11,839</u>     | <u>11,839</u>    | <u>396</u>                   |
|                    | <u>\$ 215,986</u> | <u>\$ 11,839</u> | <u>\$ 396</u>                |

- f. Information about unused investment credits, unused loss carry-forwards and tax-exemptions

Loss carryforwards as of December 31, 2019 comprised:



|                          | Unused Amount    |                              | Expiry Year |
|--------------------------|------------------|------------------------------|-------------|
|                          | NT\$             | US\$ (Note 4)<br>(Unaudited) |             |
| Kuo-Shin Investment Ltd. | \$ 11,839        | \$ 396                       | 2020        |
| Vitrohm Holding GmbH     | <u>35,461</u>    | <u>1,185</u>                 | 2020        |
|                          | <u>\$ 47,300</u> | <u>\$ 1,581</u>              |             |

g. Income tax assessments

The Company's income tax returns through 2017 had been assessed by the tax authorities.

## 24. EARNINGS PER SHARE

Unit: NT\$ Per Share

|                            | For the Year Ended December 31 |                 |                              |
|----------------------------|--------------------------------|-----------------|------------------------------|
|                            | 2018                           | 2019            |                              |
|                            | NT\$                           | NT\$            | US\$ (Note 4)<br>(Unaudited) |
| Basic earnings per share   | <u>\$ 80.30</u>                | <u>\$ 16.35</u> | <u>\$ 0.55</u>               |
| Diluted earnings per share | <u>\$ 78.09</u>                | <u>\$ 16.02</u> | <u>\$ 0.54</u>               |

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

### Net Profit for the Year

|                                                           | For the Year Ended December 31 |                     |                              |
|-----------------------------------------------------------|--------------------------------|---------------------|------------------------------|
|                                                           | 2018                           | 2019                |                              |
|                                                           | NT\$                           | NT\$                | US\$ (Note 4)<br>(Unaudited) |
| Profit for the year attributable to owners of the Company | <u>\$ 33,839,293</u>           | <u>\$ 6,944,793</u> | <u>\$ 232,189</u>            |

The weighted average number of common shares outstanding (in thousand shares) is as follows:

|                                                                                                | For the Year Ended December 31 |                |
|------------------------------------------------------------------------------------------------|--------------------------------|----------------|
|                                                                                                | 2018                           | 2019           |
| Weighted average number of common shares used in the computation of basic earnings per share   | 421,408                        | 424,664        |
| Effect of potentially dilutive common shares:                                                  |                                |                |
| Employee share options                                                                         | 7,825                          | 4,652          |
| Employees' compensation                                                                        | <u>4,105</u>                   | <u>4,271</u>   |
| Weighted average number of common shares used in the computation of diluted earnings per share | <u>433,338</u>                 | <u>433,587</u> |

If the Company can choose to settle compensation or bonuses paid to employees in cash or shares, when calculating diluted earnings per share, the Company would assume the entire amount of the compensation or bonuses to be settled in shares and the resulting potential shares would be included in the weighted average number of shares outstanding as the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

## 25. SHARE-BASED PAYMENT ARRANGEMENTS

### a. Employee share option plan in 2014

Qualified employees of the Company and its subsidiaries were granted 40,000 thousand units of share options in May 2014. Each option represents one share of the Company's common share. The vesting period of these options is 10 years. Qualified employees may exercise at certain percentages of the options after two years, from the grant date. The options were granted at an exercise price equal to the closing price of the Company's common shares listed on the on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly. In 2018 and 2019, the Company adjusted the exercise price from NT\$58.20 to NT\$48.60 and from NT\$48.60(US\$1.62) to NT\$40.20(US\$1.34), respectively, according to the formulas as specified by the employee share option plan. Information on employee share options was as follows:

|                                     | For the Year Ended December 31         |                                                |                                        |                                                |                                                                        |
|-------------------------------------|----------------------------------------|------------------------------------------------|----------------------------------------|------------------------------------------------|------------------------------------------------------------------------|
|                                     | 2018                                   |                                                | 2019                                   |                                                |                                                                        |
|                                     | Number of<br>Options<br>(In Thousands) | Weighted-<br>average<br>Exercise Price<br>NT\$ | Number of<br>Options<br>(In Thousands) | Weighted-<br>average<br>Exercise Price<br>NT\$ | Weighted-<br>average<br>Exercise Price<br>US\$ (Note 4)<br>(Unaudited) |
| Balance at January 1                | 15,308                                 | \$ 58.20                                       | 8,541                                  | \$ 48.60                                       | \$ 1.62                                                                |
| Options forfeited                   | (387)                                  | 48.60-58.20                                    | -                                      | -                                              | -                                                                      |
| Options exercised                   | <u>(6,380)</u>                         | 48.60-58.20                                    | <u>(3,172)</u>                         | 40.20-48.60                                    | 1.34-1.62                                                              |
| Balance at December 31              | <u>8,541</u>                           | 48.60                                          | <u>5,369</u>                           | 40.20                                          | 1.34                                                                   |
| Options exercisable, end<br>of year | <u>5,125</u>                           |                                                | <u>4,027</u>                           |                                                |                                                                        |

The weighted average share prices on the exercise date of the share options for the years ended December 31, 2018 and 2019 were \$953.62 and \$278.86(US\$9.32), respectively.

Information about outstanding options was as follows:

|                                                           | December 31  |              |                              |
|-----------------------------------------------------------|--------------|--------------|------------------------------|
|                                                           | 2018<br>NT\$ | 2019<br>NT\$ | US\$ (Note 4)<br>(Unaudited) |
| Range of exercise price (NT\$)                            | \$48.60      | \$40.20      | \$1.34                       |
| Weighted-average remaining contractual life<br>(in years) | 5.33         | 4.33         |                              |

Options granted in May 2014 were priced using the binomial option pricing model and the inputs to the model were as follows:

**May 2014**

|                          |         |
|--------------------------|---------|
| Grant-date share price   | \$17.70 |
| Exercise price           | \$17.70 |
| Expected volatility      | 37.50%  |
| Expected life (in years) | 10      |
| Expected dividend yield  | -       |
| Risk-free interest rate  | 1.52%   |

Expected volatility was based on the historical share price volatility over the past 10 years. To allow for the effects of early exercise, the Company assumed that employees would exercise their options after the vesting date when the share price was 1.3 times the exercise price.

## 26. BUSINESS COMBINATIONS

### a. Subsidiaries acquired

| Subsidiary                    | Principal Activity         | Date of Acquisition | Proportion of Voting Equity Interests Acquired (%) | Consideration Transferred |                           |
|-------------------------------|----------------------------|---------------------|----------------------------------------------------|---------------------------|---------------------------|
|                               |                            |                     |                                                    | NT\$                      | US\$ (Note 4) (Unaudited) |
| Brightking Holdings Limited   | Holding company components | June 2018           | 81.08                                              | \$ 2,471,209              | \$ 82,621                 |
| Pulse Electronics Corporation | Holding company components | December 2018       | 100.00                                             | 22,325,600                | 746,426                   |
|                               |                            |                     |                                                    | <u>\$ 24,796,809</u>      | <u>\$ 829,047</u>         |

In order to continue the expansion of the Group's activities in passive component, the Company acquired Brightking Holdings Limited and Pulse Electronics Corporation in 2018.

### b. Consideration transferred

|      | Brightking Holdings Limited |                           | Pulse Electronics Corporation |                           |
|------|-----------------------------|---------------------------|-------------------------------|---------------------------|
|      | NT\$                        | US\$ (Note 4) (Unaudited) | NT\$                          | US\$ (Note 4) (Unaudited) |
| Cash | <u>\$ 2,471,209</u>         | <u>\$ 82,621</u>          | <u>\$ 22,325,600</u>          | <u>\$ 746,426</u>         |

### c. Assets acquired and liabilities assumed at the date of acquisition

|                               | Brightking Holdings Limited |                           | Pulse Electronics Corporation |                           |
|-------------------------------|-----------------------------|---------------------------|-------------------------------|---------------------------|
|                               | NT\$                        | US\$ (Note 4) (Unaudited) | NT\$                          | US\$ (Note 4) (Unaudited) |
| Current assets                |                             |                           |                               |                           |
| Cash and cash equivalents     | \$ 446,980                  | \$ 14,944                 | \$ 429,308                    | \$ 14,353                 |
| Other current assets          | 1,584,307                   | 52,969                    | 4,377,022                     | 146,340                   |
| Non-current assets            |                             |                           |                               |                           |
| Property, plant and equipment | 382,183                     | 12,778                    | 921,181                       | 30,798                    |
| Intangible assets             | 623,978                     | 20,862                    | 4,062,336                     | 135,819                   |
| Other non-current assets      | 124,795                     | 4,172                     | 1,623,500                     | 54,280                    |
| Current liabilities           | (585,522)                   | (19,576)                  | (6,520,836)                   | (218,015)                 |
| Non-current liabilities       | <u>(444,725)</u>            | <u>(14,869)</u>           | <u>(1,099,067)</u>            | <u>(36,746)</u>           |
|                               | <u>\$ 2,131,996</u>         | <u>\$ 71,280</u>          | <u>\$ 3,793,444</u>           | <u>\$ 126,829</u>         |

### d. Goodwill recognized on acquisitions

| Brightking Holdings Limited | Pulse Electronics Corporation |
|-----------------------------|-------------------------------|
|-----------------------------|-------------------------------|

|                                                      | NT\$               | US\$ (Note 4)<br>(Unaudited) | NT\$                 | US\$ (Note 4)<br>(Unaudited) |
|------------------------------------------------------|--------------------|------------------------------|----------------------|------------------------------|
| Consideration transferred                            | \$ 2,471,209       | \$ 82,621                    | \$ 22,325,600        | \$ 746,426                   |
| Plus: Non-controlling interests                      | 543,571            | 18,174                       | -                    | -                            |
| Less: Fair value of identifiable net assets acquired | <u>(2,131,996)</u> | <u>(71,280)</u>              | <u>(3,793,444)</u>   | <u>(126,829)</u>             |
| Goodwill recognized on acquisitions                  | <u>\$ 882,784</u>  | <u>\$ 29,515</u>             | <u>\$ 18,532,156</u> | <u>\$ 619,597</u>            |

The non-controlling interest (a 18.92% ownership interest in Brightking Holdings Limited) recognized at the acquisition date.

The goodwill recognized in the acquisition of Brightking Holdings Limited and Pulse Electronics Corporation mainly represents the control premium included in the cost of the combination. In addition, the consideration paid for the combinations effectively included amounts attributed to the benefits of expected revenue growth and future market development of Brightking Holdings Limited and Pulse Electronics Corporation. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

e. Net cash outflow on the acquisition of subsidiaries

|                                                  | <b>Brightking Holdings Limited</b> |                              | <b>Pulse Electronics Corporation</b> |                              |
|--------------------------------------------------|------------------------------------|------------------------------|--------------------------------------|------------------------------|
|                                                  | NT\$                               | US\$ (Note 4)<br>(Unaudited) | NT\$                                 | US\$ (Note 4)<br>(Unaudited) |
| Consideration paid in cash                       | \$ 2,471,209                       | \$ 82,621                    | \$ 22,325,600                        | \$ 746,426                   |
| Less: Cash and cash equivalent balances acquired | <u>(446,980)</u>                   | <u>(14,944)</u>              | <u>(429,308)</u>                     | <u>(14,353)</u>              |
|                                                  | <u>\$ 2,024,229</u>                | <u>\$ 67,677</u>             | <u>\$ 21,896,292</u>                 | <u>\$ 732,073</u>            |

f. Impact of acquisitions on the results of the Group

The financial results of the acquirees since the acquisition date included in the consolidated statements of comprehensive income were as follows:

|         | <b>Brightking Holdings Limited</b> |                              | <b>Pulse Electronics Corporation</b> |                              |
|---------|------------------------------------|------------------------------|--------------------------------------|------------------------------|
|         | NT\$                               | US\$ (Note 4)<br>(Unaudited) | NT\$                                 | US\$ (Note 4)<br>(Unaudited) |
| Revenue | <u>\$ 1,441,980</u>                | <u>\$ 48,211</u>             | <u>\$ 1,131,622</u>                  | <u>\$ 37,834</u>             |
| Profit  | <u>\$ 112,442</u>                  | <u>\$ 3,759</u>              | <u>\$ 181,051</u>                    | <u>\$ 6,053</u>              |

Had these business combinations been in effect at the beginning of the fiscal year, the Group's revenue from continuing operations would have been \$91,042,488 thousand, and the profit from continuing operations would have been \$34,083,971 thousand for the year ended December 31, 2018. This pro-forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2018, nor is it intended to be a projection of future results.

## 27. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

- a. In the period from the second quarter to the fourth quarter of 2018, the Group subscribed for additional new shares of Brightking Holdings Limited, and increased its continuing interest from 81.08% to 100%.

The above transactions were accounted for as equity transactions, since the Group did not cease to have control over the subsidiary.

|                                                                                                                                    | <b>Brightking Holdings Limited</b> |
|------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|
| Cash consideration received (paid)                                                                                                 | \$ 569,445                         |
| The proportionate share of the carrying amount of the net assets of the subsidiary transferred to (from) non-controlling interests | <u>(543,571)</u>                   |
| Differences recognized from equity transactions                                                                                    | <u>\$ 25,874</u>                   |
| <u>Line items adjusted for equity transactions</u>                                                                                 |                                    |
| Retained earnings                                                                                                                  | <u>\$ 25,874</u>                   |

b. Analysis of assets and liabilities on the date control was lost

In the fourth quarter of 2019, the subsidiary- Ko-E Holding (Cayman) had a capital reduction in cash and the Group subscribed for all the remaining shares from non-controlling interests, and the Group increased its continuing interest from 83.83% to 100%.

|                                                                                                                                    | <b>Ko-E Holding (Cayman)</b> |                                      |
|------------------------------------------------------------------------------------------------------------------------------------|------------------------------|--------------------------------------|
|                                                                                                                                    | <b>NT\$</b>                  | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| Cash consideration received (paid)                                                                                                 | \$ 57,331                    | \$ 1,917                             |
| The proportionate share of the carrying amount of the net assets of the subsidiary transferred to (from) non-controlling interests | <u>12,695</u>                | <u>424</u>                           |
| Differences recognized from equity transactions                                                                                    | <u>\$ 70,026</u>             | <u>\$ 2,341</u>                      |
| <u>Line items adjusted for equity transactions</u>                                                                                 |                              |                                      |
| Capital surplus                                                                                                                    | <u>\$ 70,026</u>             | <u>\$ 2,341</u>                      |

## 28. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy in accordance with the Company operations and cash flow to assess the situation and to be properly adjusted to adapt to changes in the market in a timely manner.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity attributable to owners of the Company (comprising issued capital, reserves, retained earnings and other equity).

Key management personnel of the Group review the capital structure on an annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may reduce the Group's capital or adjust the amount of dividends paid to shareholders and the number of shares repurchased.

## 29. FINANCIAL INSTRUMENTS

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

The Group's management consider that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

### b. Fair value of financial instruments that are measured at fair value on a recurring basis

#### 1) Fair value hierarchy

December 31, 2018

|                                   | <u>Level 1</u>      | <u>Level 2</u>   | <u>Level 3</u>   | <u>Total</u>        |
|-----------------------------------|---------------------|------------------|------------------|---------------------|
|                                   | <u>NT\$</u>         | <u>NT\$</u>      | <u>NT\$</u>      | <u>NT\$</u>         |
| Financial assets at FVTPL         |                     |                  |                  |                     |
| Derivative financial assets       | \$ -                | \$ 20,398        | \$ -             | \$ 20,398           |
| Domestic listed shares            | 60,060              | -                | -                | 60,060              |
| Domestic unlisted shares          | -                   | -                | 46,104           | 46,104              |
| Overseas unlisted shares          | -                   | -                | 43,092           | 43,092              |
|                                   | <u>\$ 60,060</u>    | <u>\$ 20,398</u> | <u>\$ 89,196</u> | <u>\$ 169,654</u>   |
| Financial assets at FVTOCI        |                     |                  |                  |                     |
| Investments in equity instruments |                     |                  |                  |                     |
| Domestic listed shares            | \$ 1,327,605        | \$ -             | \$ -             | \$ 1,327,605        |
| Overseas listed shares            | 899,371             | -                | -                | 899,371             |
|                                   | <u>\$ 2,226,976</u> | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ 2,226,976</u> |
| Financial liabilities at FVTPL    |                     |                  |                  |                     |
| Derivative financial liabilities  | <u>\$ -</u>         | <u>\$ 27,674</u> | <u>\$ -</u>      | <u>\$ 27,674</u>    |

December 31, 2019

|                                   | <u>Level 1</u>    | <u>Level 2</u>    | <u>Level 3</u>   | <u>Total</u>      |                      |
|-----------------------------------|-------------------|-------------------|------------------|-------------------|----------------------|
|                                   | <u>NT\$</u>       | <u>NT\$</u>       | <u>NT\$</u>      | <u>NT\$</u>       | <u>US\$ (Note 4)</u> |
|                                   |                   |                   |                  |                   | <u>(Unaudited)</u>   |
| Financial assets at FVTPL         |                   |                   |                  |                   |                      |
| Derivative financial assets       | \$ -              | \$ 997            | \$ -             | \$ 997            | \$ 33                |
| Domestic listed shares            | 372,123           | -                 | -                | 372,123           | 12,442               |
| Domestic unlisted shares          | -                 | -                 | 46,104           | 46,104            | 1,542                |
| Overseas unlisted shares          | -                 | -                 | 41,582           | 41,582            | 1,390                |
|                                   | <u>\$ 372,123</u> | <u>\$ 997</u>     | <u>\$ 87,686</u> | <u>\$ 460,806</u> | <u>\$ 15,407</u>     |
| Financial assets at FVTOCI        |                   |                   |                  |                   |                      |
| Investments in equity instruments |                   |                   |                  |                   |                      |
| Domestic listed shares            | <u>\$ 1</u>       | <u>\$ -</u>       | <u>\$ -</u>      | <u>\$ 1</u>       | <u>\$ -</u>          |
| Financial liabilities at FVTPL    |                   |                   |                  |                   |                      |
| Derivative financial liabilities  | <u>\$ -</u>       | <u>\$ 421,701</u> | <u>\$ -</u>      | <u>\$ 421,701</u> | <u>\$ 14,099</u>     |

There were no transfers between Levels 1 and 2 in the current and prior year.

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2018

|                                                 | <b>Financial Assets<br/>at FVTPL<br/>Equity<br/>Instruments<br/>NT\$</b> |
|-------------------------------------------------|--------------------------------------------------------------------------|
| <u>Financial assets</u>                         |                                                                          |
| Balance at January 1, 2018                      | \$ -                                                                     |
| Reclassification                                | 100,895                                                                  |
| Recognized in profit                            | 5,393                                                                    |
| Sales                                           | (5,564)                                                                  |
| Repayment of capital reduction                  | (10,497)                                                                 |
| Effect of foreign currency exchange differences | <u>(1,031)</u>                                                           |
| Balance at December 31, 2018                    | <u>\$ 89,196</u>                                                         |

For the year ended December 31, 2019

|                                                 | <b>Financial Assets at FVTPL<br/>Equity Instruments</b> |                              |
|-------------------------------------------------|---------------------------------------------------------|------------------------------|
|                                                 | NT\$                                                    | US\$ (Note 4)<br>(Unaudited) |
| <u>Financial assets</u>                         |                                                         |                              |
| Balance at January 1, 2019                      | \$ 89,196                                               | \$ 2,982                     |
| Effect of foreign currency exchange differences | <u>(1,510)</u>                                          | <u>(50)</u>                  |
| Balance at December 31, 2019                    | <u>\$ 87,686</u>                                        | <u>\$ 2,932</u>              |

3) Valuation techniques and inputs used for Level 2 fair value measurement

| <u>Financial Instruments</u>                     | <u>Valuation Techniques and Inputs</u>                                                                                                                                                                                                          |
|--------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Derivatives - foreign exchange forward contracts | Discounted cash flow.<br><br>Future cash flows are estimated on the basis of observable forward exchange rates at the end of the year and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. |

4) Valuation techniques and inputs applied for Level 3 fair value measurement

The fair values of unlisted equity securities - ROC were determined using the income approach. In this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees. The significant unobservable inputs used are listed as following: long-term revenue growth rates, long-term pre-tax operating margin, weighted average cost of capital ("WACC") and discount for the lack of marketability. An increase in long-term revenue growth rates or long-term pre-tax



operating margin or a decrease in WACC or discount for the lack of marketability used in isolation would result in increases in fair value.

c. Categories of financial instruments

|                                        | December 31 |            |                              |
|----------------------------------------|-------------|------------|------------------------------|
|                                        | 2018        | 2019       |                              |
|                                        | NT\$        | NT\$       | US\$ (Note 4)<br>(Unaudited) |
| <u>Financial assets</u>                |             |            |                              |
| FVTPL                                  |             |            |                              |
| Mandatorily classified as at FVTPL     | \$ 169,654  | \$ 460,806 | \$ 15,407                    |
| Financial assets at amortized cost (1) | 56,256,818  | 34,540,806 | 1,154,825                    |
| Financial assets at FVTOCI             |             |            |                              |
| Equity instruments                     | 2,226,976   | 1          | -                            |
| <u>Financial liabilities</u>           |             |            |                              |
| FVTPL                                  |             |            |                              |
| Mandatorily classified as at FVTPL     | 27,674      | 421,701    | 14,099                       |
| Amortized cost (2)                     | 55,842,216  | 46,291,194 | 1,547,683                    |

- 1) The balances included financial assets at amortized cost, which comprise cash and cash equivalents, debt investments, notes receivable, trade and other receivables (including related parties) and refundable deposits.
- 2) The balances included financial liabilities at amortized cost, which comprise short-term loans, short-term bills payable, notes payable, trade and other payables (including related parties), long-term loans and guarantee deposits received.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, trade receivables, trade payables, and borrowings. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports that analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's impairment financial activities are reviewed by the board of directors in accordance with related standard and internal controls. In executing financial plan, the Group have to obey the related financial operating procedures regarding financial risk management and segregation of duties.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below). The Group entered into foreign

exchange forward contracts to manage its exposure to foreign currency risk.

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

a) Foreign currency risk

The Group had foreign currency denominated sales and purchases, which exposed the Group to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposing to foreign currency risk at the end of the reporting period are set out in Note 33.

Sensitivity analysis

The Group assessed the foreign currency risk of its significant assets and liabilities as well as taking unexpired exchange forward contracts into consideration.

The Group was mainly exposed to the USD, EUR and JPY.

The following table details the Group's sensitivity to a 1% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. 1% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign exchange forward contracts designated as cash flow hedges, and adjusts their translation at the end of the year for a 1% change in foreign currency rates. A negative number below indicates an increase (a decrease) in pre-tax profit associated with New Taiwan dollars strengthening 1% against the relevant currency. For a 1% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be positive.

|                | <b>USD Impact</b>         |             | <b>EUR Impact</b>         |             | <b>JPY Impact</b>         |             |
|----------------|---------------------------|-------------|---------------------------|-------------|---------------------------|-------------|
|                | <b>For the Year Ended</b> |             | <b>For the Year Ended</b> |             | <b>For the Year Ended</b> |             |
|                | <b>December 31</b>        |             | <b>December 31</b>        |             | <b>December 31</b>        |             |
|                | <b>2018</b>               | <b>2019</b> | <b>2018</b>               | <b>2019</b> | <b>2018</b>               | <b>2019</b> |
| Profit or loss | \$ (396,589)              | \$ (80,285) | \$ (43,516)               | \$ (6,043)  | \$ 6,458                  | \$ 3,146    |

The analysis of profit or loss of the table was mainly attributable to the exposure to outstanding USD, EUR and JPY which were not hedged, at the end of the reporting period.

The Group's sensitivity to foreign currency exchange decreased during the current year mainly due to the reduction of the USD-denominated net assets.

b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate.

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

**December 31**

|                               | <u>2018</u>   |               | <u>2019</u>                  |
|-------------------------------|---------------|---------------|------------------------------|
|                               | NT\$          | NT\$          | US\$ (Note 4)<br>(Unaudited) |
| Fair value interest rate risk |               |               |                              |
| Financial assets              | \$ 20,678,559 | \$ 14,065,891 | \$ 470,274                   |
| Financial liabilities         | 33,167,468    | 32,954,239    | 1,101,780                    |
| Cash flow interest rate risk  |               |               |                              |
| Financial assets              | 15,223,019    | 10,199,110    | 340,993                      |

The Group's fixed-term time deposits, bank borrowings and short-term bills are exposed to fair value interest rate risk; however, this expected risk is insignificant.

#### Sensitivity analysis

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

If interest rates had been 1% higher and all other variables were held constant, the Group's variable-rate financial assets for the years ended December 31, 2018 and 2019 would result in cash inflows by \$152,230 thousand and \$101,991 thousand(US\$3,410 thousand), respectively.

The Group's sensitivity to interest rates decreased during the current year mainly due to the decrease in variable-rate financial assets from the current year.

#### c) Other price risk

The Group was exposed to equity price risk through its investments in equity securities.

#### Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to equity price risks at the end of the year.

If equity prices had been 1% lower, the pre-tax profit for the years ended December 31, 2018 and 2019 would have decreased by \$1,493 thousand and \$4,598 thousand(US\$154 thousand), respectively, as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the years ended December 31, 2018 and 2019 would have decreased by \$22,270 thousand and \$0 thousand(US\$0 thousand), respectively, as a result of the changes in fair value of financial assets at FVTOCI.

The Group's sensitivity to investments in equity securities has not changed significantly from the prior year.

#### 2) Credit risk

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

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

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

In order to minimize credit risk, management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The credit risk on liquid funds and derivatives was limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Ongoing credit evaluation is performed on the financial condition of trade receivables.

The Group did transactions with a large number of unrelated customers and, thus, no concentration of credit risk was observed.

### 3) Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2018 and 2019, the Group had available unutilized short-term bank loan facilities of \$8,911,414 thousand and \$14,495,815 thousand (US\$484,648 thousand), respectively.

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

The table below summarizes the maturity profile of the Group's financial liabilities based on undiscounted contractual payments but did not include the financial liabilities with carrying amounts that approximated contractual cash flows:

|                          | <b>Carrying<br/>Amount</b> | <b>Contractual<br/>Cash Flows</b> | <b>Within<br/>1 Year</b> | <b>More than<br/>1 Year</b> |
|--------------------------|----------------------------|-----------------------------------|--------------------------|-----------------------------|
|                          | <b>NT\$</b>                | <b>NT\$</b>                       | <b>NT\$</b>              | <b>NT\$</b>                 |
| <u>December 31, 2018</u> |                            |                                   |                          |                             |
| Short-term borrowings    | \$ 23,667,981              | \$ 23,768,211                     | \$ 23,768,211            | \$ -                        |
| Short-term bills payable | 499,487                    | 500,000                           | 500,000                  | -                           |
| Long-term borrowings     | <u>9,000,000</u>           | <u>9,043,648</u>                  | <u>-</u>                 | <u>9,043,648</u>            |

|  | <b>Carrying<br/>Amount</b> | <b>Contractual<br/>Cash Flows</b> | <b>Within<br/>1 Year</b> | <b>More than<br/>1 Year</b> |
|--|----------------------------|-----------------------------------|--------------------------|-----------------------------|
|  | <u>\$ 33,167,468</u>       | <u>\$ 33,311,859</u>              | <u>\$ 24,268,211</u>     | <u>\$ 9,043,648</u>         |
|  | <b>Carrying<br/>Amount</b> | <b>Contractual<br/>Cash Flows</b> | <b>Within<br/>1 Year</b> | <b>More than<br/>1 Year</b> |
|  | <b>NT\$</b>                | <b>NT\$</b>                       | <b>NT\$</b>              | <b>NT\$</b>                 |

December 31, 2019

|                          |                      |                      |                      |                      |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
| Short-term borrowings    | \$ 18,640,796        | \$ 18,707,195        | \$ 18,707,195        | \$ -                 |
| Short-term bills payable | 299,881              | 300,000              | 300,000              | -                    |
| Long-term borrowings     | <u>14,013,562</u>    | <u>14,110,966</u>    | <u>-</u>             | <u>14,110,966</u>    |
|                          | <u>\$ 32,954,239</u> | <u>\$ 33,118,161</u> | <u>\$ 19,007,195</u> | <u>\$ 14,110,966</u> |

|  | <b>Carrying<br/>Amount</b>           | <b>Contractual<br/>Cash Flows</b>    | <b>Within<br/>1 Year</b>             | <b>More than<br/>1 Year</b>          |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
|  | <b>US\$ (Note 4)<br/>(Unaudited)</b> | <b>US\$ (Note 4)<br/>(Unaudited)</b> | <b>US\$ (Note 4)<br/>(Unaudited)</b> | <b>US\$ (Note 4)<br/>(Unaudited)</b> |

December 31, 2019

|                          |                     |                     |                   |                   |
|--------------------------|---------------------|---------------------|-------------------|-------------------|
| Short-term borrowings    | \$ 623,230          | \$ 625,449          | \$ 625,449        | \$ -              |
| Short-term bills payable | 10,026              | 10,030              | 10,030            | -                 |
| Long-term borrowings     | <u>468,524</u>      | <u>471,781</u>      | <u>-</u>          | <u>471,781</u>    |
|                          | <u>\$ 1,101,780</u> | <u>\$ 1,107,260</u> | <u>\$ 635,479</u> | <u>\$ 471,781</u> |

b) Liquidity and interest rate risk tables for derivative financial liabilities

The following table detailed the Group's liquidity analysis for its derivative financial instruments. The table was based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the year.

December 31, 2018

|                                    | <b>On Demand or<br/>Less than<br/>3 Months</b> | <b>3 Months to<br/>6 Months</b> | <b>Over 6<br/>Months to<br/>12 Months</b> |
|------------------------------------|------------------------------------------------|---------------------------------|-------------------------------------------|
|                                    | <b>NT\$</b>                                    | <b>NT\$</b>                     | <b>NT\$</b>                               |
| <u>Gross settled</u>               |                                                |                                 |                                           |
| Foreign exchange forward contracts |                                                |                                 |                                           |
| Inflows                            | \$ 18,108,376                                  | \$ 37,587                       | \$ -                                      |
| Outflows                           | <u>(18,138,450)</u>                            | <u>(36,389)</u>                 | <u>-</u>                                  |
|                                    | <u>\$ (30,074)</u>                             | <u>\$ 1,198</u>                 | <u>\$ -</u>                               |

December 31, 2019

| <b>On Demand or</b> | <b>3 Months to</b> | <b>Over 6</b> |
|---------------------|--------------------|---------------|
|---------------------|--------------------|---------------|

|                                    | <b>Less than<br/>3 Months</b>                  | <b>6 Months</b>                      | <b>Months to<br/>12 Months</b>            |
|------------------------------------|------------------------------------------------|--------------------------------------|-------------------------------------------|
|                                    | <b>NT\$</b>                                    | <b>NT\$</b>                          | <b>NT\$</b>                               |
| <u>Gross settled</u>               |                                                |                                      |                                           |
| Foreign exchange forward contracts |                                                |                                      |                                           |
| Inflows                            | \$ 37,463,491                                  | \$ -                                 | \$ -                                      |
| Outflows                           | <u>(37,802,265)</u>                            | <u>-</u>                             | <u>-</u>                                  |
|                                    | <u>\$ (338,774)</u>                            | <u>\$ -</u>                          | <u>\$ -</u>                               |
| <u>December 31, 2019</u>           |                                                |                                      |                                           |
|                                    | <b>On Demand or<br/>Less than<br/>3 Months</b> | <b>3 Months to<br/>6 Months</b>      | <b>Over 6<br/>Months to<br/>12 Months</b> |
|                                    | <b>US\$ (Note 4)<br/>(Unaudited)</b>           | <b>US\$ (Note 4)<br/>(Unaudited)</b> | <b>US\$ (Note 4)<br/>(Unaudited)</b>      |
| <u>Gross settled</u>               |                                                |                                      |                                           |
| Foreign exchange forward contracts |                                                |                                      |                                           |
| Inflows                            | \$ 1,252,541                                   | \$ -                                 | \$ -                                      |
| Outflows                           | <u>(1,263,867)</u>                             | <u>-</u>                             | <u>-</u>                                  |
|                                    | <u>\$ (11,326)</u>                             | <u>\$ -</u>                          | <u>\$ -</u>                               |

### 30. TRANSACTIONS WITH RELATED PARTIES

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

a. Related party name and category:

| <b>Related Party Name</b>                                    | <b>Related Party Category</b> |
|--------------------------------------------------------------|-------------------------------|
| Chilisin Electronics Corp.                                   | Associate                     |
| Kaimei Electronic Corp. (Originally Teapo Electronics Corp.) | Associate                     |
| Teapo Electronics (H.K.) Ltd.                                | Subsidiary of associate       |
| Teapo Electronics (Dongguan) Co., Ltd.                       | Subsidiary of associate       |
| Dongguan Zhiguo Electronics Co., Ltd.                        | Subsidiary of associate       |
| Ralec Electronic Corporation                                 | Subsidiary of associate       |
| ASJ Pte. Limited (ASJ Pte.)                                  | Subsidiary of associate       |
| ASJ Components (M) Sdn. Bhd.                                 | Subsidiary of associate       |
| CRL Components (S) Pte. Ltd.                                 | Subsidiary of associate       |
| Guo Chuang Electronics (Dongguan)                            | Associate                     |
| Ferroxcube International Holding B.V.                        | Subsidiary of associate       |
| Hsin Bung International Co., Ltd.                            | Substantial related party     |
| Yixin International Co., Ltd.                                | Substantial related party     |
| Ralec Technology (Kunshan) Limited                           | Subsidiary of associate       |
| Yixin Trading (Shenzhen) Co., Ltd                            | Substantial related party     |
| Chilisin International Ltd                                   | Subsidiary of associate       |
| Suzhou Xingguo Electronics Co., Ltd                          | Substantial related party     |

Yageo Professional Competition Development Association

Substantial related party

b. Sales of goods

| Line Items | Related Party Category/<br>Name        | For the Year Ended December 31 |                   |                              |
|------------|----------------------------------------|--------------------------------|-------------------|------------------------------|
|            |                                        | 2018                           | 2019              |                              |
|            |                                        | NT\$                           | NT\$              | US\$ (Note 4)<br>(Unaudited) |
| Sales      | Substantial related party<br>Associate | \$ 200,195                     | \$ 71,655         | \$ 2,396                     |
|            |                                        | <u>766,539</u>                 | <u>41,556</u>     | <u>1,389</u>                 |
|            |                                        | <u>\$ 966,734</u>              | <u>\$ 113,211</u> | <u>\$ 3,785</u>              |

c. Purchases of goods

| Related Party Category/Name            | For the Year Ended December 31 |                   |                              |
|----------------------------------------|--------------------------------|-------------------|------------------------------|
|                                        | 2018                           | 2019              |                              |
|                                        | NT\$                           | NT\$              | US\$ (Note 4)<br>(Unaudited) |
| Substantial related party<br>Associate | \$ 534,782                     | \$ 137,784        | \$ 4,607                     |
|                                        | <u>188,189</u>                 | <u>66,406</u>     | <u>2,220</u>                 |
|                                        | <u>\$ 722,971</u>              | <u>\$ 204,190</u> | <u>\$ 6,827</u>              |

d. Receivables from related parties (excluding loans to related parties)

| Line Items        | Related Party Category/<br>Name        | December 31      |                  |                              |
|-------------------|----------------------------------------|------------------|------------------|------------------------------|
|                   |                                        | 2018             | 2019             |                              |
|                   |                                        | NT\$             | NT\$             | US\$ (Note 4)<br>(Unaudited) |
| Trade receivable  | Substantial related party<br>Associate | \$ 62,399        | \$ 23,227        | \$ 777                       |
|                   |                                        | <u>36,727</u>    | <u>1,008</u>     | <u>34</u>                    |
|                   |                                        | <u>\$ 99,126</u> | <u>\$ 24,235</u> | <u>\$ 811</u>                |
| Other receivables | Associate/Chilisin                     | \$ 92,206        | \$ 90,318        | \$ 3,020                     |
|                   | Electronics Corp.                      |                  |                  |                              |
|                   | Associate/Others                       | 7,661            | 6,751            | 226                          |
|                   | Substantial related party              | <u>-</u>         | <u>187</u>       | <u>6</u>                     |
|                   |                                        | <u>\$ 99,867</u> | <u>\$ 97,256</u> | <u>\$ 3,252</u>              |

The outstanding trade receivable from related parties are unsecured. For the years ended December 31, 2018 and 2019, no impairment loss was recognized for trade receivable from related parties.

e. Payables to related parties (excluding loans from related parties)

| Line Items | Related Party Category/<br>Name | December 31 |      |                              |
|------------|---------------------------------|-------------|------|------------------------------|
|            |                                 | 2018        | 2019 |                              |
|            |                                 | NT\$        | NT\$ | US\$ (Note 4)<br>(Unaudited) |



|                |                           |                   |                   |                 |
|----------------|---------------------------|-------------------|-------------------|-----------------|
| Trade payable  | Substantial related party | \$ 98,661         | \$ 102,516        | \$ 3,428        |
|                | Associate                 | <u>36,508</u>     | <u>26,451</u>     | <u>884</u>      |
|                |                           | <u>\$ 135,169</u> | <u>\$ 128,967</u> | <u>\$ 4,312</u> |
| Other payables | Associate                 | <u>\$ 2</u>       | <u>\$ 2</u>       | <u>\$ -</u>     |

The outstanding trade payable from related parties are unsecured.

The payment terms for the trade receivable from (trade payable to) related parties were based on the terms of the related contracts. Other related-party transactions were conducted under normal terms.

f. Lease arrangements - Group is lessor

The Group leases out office and plant to its associate - Kaimei Electronic Corp. (originally Teapo Electronics Corp.), Teapo Electronics (Dongguan) Co., Ltd and Dongguan Zhiguo Electronics Co., Ltd under operating leases with lease terms of one year. The lease arrangement would be automatically extended for one year if the arrangement is not terminated in writing by at least one party not later than three months prior to expiration date. As of December 31, 2018 and 2019, the balance of the gross lease payments receivable are \$25,625 thousand and \$11,378 thousand(US\$380 thousand), respectively.

Lease income was as follows:

| Related Party Category/Name                      | For the Year Ended December 31 |                  |                              |
|--------------------------------------------------|--------------------------------|------------------|------------------------------|
|                                                  | 2018                           | 2019             |                              |
|                                                  | NT\$                           | NT\$             | US\$ (Note 4)<br>(Unaudited) |
| Associates/Teapo Electronics (Dongguan) Co., Ltd | \$ 24,525                      | \$ 25,286        | \$ 845                       |
| Associates/Others                                | 588                            | 616              | 21                           |
| Substantial related parties                      | <u>512</u>                     | <u>611</u>       | <u>20</u>                    |
|                                                  | <u>\$ 25,625</u>               | <u>\$ 26,513</u> | <u>\$ 886</u>                |

All the terms and conditions of above rental contracts conformed to normal business practice.

g. Other transactions with related parties

| Line Items    | Related Party Category      | For the Year Ended December 31 |                 |                              |
|---------------|-----------------------------|--------------------------------|-----------------|------------------------------|
|               |                             | 2018                           | 2019            |                              |
|               |                             | NT\$                           | NT\$            | US\$ (Note 4)<br>(Unaudited) |
| Other expense | Substantial related parties | \$ -                           | \$ 3,000        | \$ 100                       |
|               | Associates                  | <u>239</u>                     | <u>30</u>       | <u>1</u>                     |
|               |                             | <u>\$ 239</u>                  | <u>\$ 3,030</u> | <u>\$ 101</u>                |

h. Compensation of key management personnel

|                              | For the Year Ended December 31 |            |                              |
|------------------------------|--------------------------------|------------|------------------------------|
|                              | 2018                           | 2019       |                              |
|                              | NT\$                           | NT\$       | US\$ (Note 4)<br>(Unaudited) |
| Short-term employee benefits | \$ 1,257,296                   | \$ 377,589 | \$ 12,624                    |

|                          |                     |                   |                  |
|--------------------------|---------------------|-------------------|------------------|
| Post-employment benefits | <u>432</u>          | <u>636</u>        | <u>21</u>        |
|                          | <u>\$ 1,257,728</u> | <u>\$ 378,225</u> | <u>\$ 12,645</u> |

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

### 31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings:

|                                    | <b>December 31</b>  |                     |                                      |
|------------------------------------|---------------------|---------------------|--------------------------------------|
|                                    | <b>2018</b>         | <b>2019</b>         |                                      |
|                                    | <b>NT\$</b>         | <b>NT\$</b>         | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| Property, plant and equipment, net | <u>\$ 2,792,249</u> | <u>\$ 4,043,146</u> | <u>\$ 135,177</u>                    |

### 32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and unrecognized commitments of the Group as of December 31, 2018 and 2019, were as follows:

#### a. Significant unrecognized commitments

##### 1) Unrecognized commitments were as follows:

|                                              | <b>December 31</b>  |                   |                                      |
|----------------------------------------------|---------------------|-------------------|--------------------------------------|
|                                              | <b>2018</b>         | <b>2019</b>       |                                      |
|                                              | <b>NT\$</b>         | <b>NT\$</b>       | <b>US\$ (Note 4)<br/>(Unaudited)</b> |
| Acquisition of property, plant and equipment | <u>\$ 2,110,530</u> | <u>\$ 970,159</u> | <u>\$ 32,436</u>                     |

- 2) On November 12, 2019, the Company's board approved the Company's acquisition of 100% of the equity interest of KEMET Corporation at US\$27.20 per share in cash transaction for total amount of US\$1.64 billion. On February 20, 2020, the shareholders of KEMET Corporation at the special meeting voted to approve the proposed acquisition by the Company.

#### b. Contingencies

##### Contingent liabilities

- 1) Please refer to Table 2 about the endorsements/guarantees and between the Company and subsidiaries.
- 2) The Securities and Future Investors Protection Center (SFIPC) alleged that Far Eastern Air Transport Ltd. (FEATL) had been involved in exaggerating the revenue and trade receivable. The SFIPC charged that FEATL window-dressed its financial reports and thus harmed its investors' welfare. Under these investors' authorization, the SFIPC sued 33 defendants, including the FEATL and its management, directors and supervisors, certified public accountant, its accounting firm, etc., (excluding the Company) and filed a civil action lawsuit to demand compensation for damages with the district court of Taipei on June 23, 2009. In January 2010, the SFIPC included in its lawsuit the

Company and two other companies because they were FEATL's directors and supervisors from 2005 to 2007. Since the joint defendants increased to 36, SFIPC appealed for a compensation amounted of \$296,989 thousand(US\$9,929 thousand). On February 21, 2020, the Company and SFIPC have reached a settlement. The Company's management assessed that the lawsuit would not have significant impact on the financial condition and business operations of the Company.

### 33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2018

|                                               | <b>Foreign<br/>Currencies (In<br/>Thousands)<br/>NT\$</b> | <b>Exchange Rate</b> | <b>Carrying<br/>Amount<br/>NT\$</b> |
|-----------------------------------------------|-----------------------------------------------------------|----------------------|-------------------------------------|
| <u>Financial assets</u>                       |                                                           |                      |                                     |
| Monetary items                                |                                                           |                      |                                     |
| USD                                           | \$ 1,043,120                                              | 30.7330 (USD:NTD)    | \$ 32,058,207                       |
| USD                                           | 405,755                                                   | 6.8637 (USD:RMB)     | 12,470,029                          |
| USD                                           | 307,233                                                   | 7.8311 (USD:HKD)     | 9,442,238                           |
| USD                                           | 105,924                                                   | 0.8733 (USD:EUR)     | 3,255,418                           |
| USD                                           | 977                                                       | 69.9160 (USD:INR)    | 30,028                              |
| EUR                                           | 564                                                       | 1.1451 (EUR:USD)     | 19,848                              |
| EUR                                           | 125,389                                                   | 35.1924 (EUR:NTD)    | 4,412,740                           |
| EUR                                           | 3,688                                                     | 25.7350 (EUR:CZK)    | 129,790                             |
| JPY                                           | 838,986                                                   | 0.2782 (JPY:NTD)     | 233,406                             |
| JPY                                           | 1,244,366                                                 | 0.0091 (JPY:USD)     | 348,012                             |
| RMB                                           | 56,797                                                    | 0.1457 (RMB:USD)     | 254,325                             |
| HKD                                           | 8,125                                                     | 0.8765 (HKD:RMB)     | <u>31,887</u>                       |
|                                               |                                                           |                      | <u>\$ 62,685,928</u>                |
| Non-monetary items                            |                                                           |                      |                                     |
| Investments accounted for using equity method |                                                           |                      |                                     |
| USD                                           | 10,150                                                    | 30.7330 (USD:NTD)    | \$ 311,943                          |
| RMB                                           | 7,019                                                     | 1.1409 (RMB:HKD)     | <u>31,429</u>                       |
|                                               |                                                           |                      | <u>\$ 343,372</u>                   |
| Investments in equity instruments at FVTOCI   |                                                           |                      |                                     |
| JPY                                           | 839,029                                                   | 0.2782 (JPY:NTD)     | \$ 233,418                          |
| JPY                                           | 2,381,207                                                 | 0.0091 (JPY:USD)     | <u>665,953</u>                      |
|                                               |                                                           |                      | <u>\$ 899,371</u>                   |

|                              | Foreign<br>Currencies (In<br>Thousands)<br>NT\$ | Exchange Rate     | Carrying<br>Amount<br>NT\$ |
|------------------------------|-------------------------------------------------|-------------------|----------------------------|
| <u>Financial liabilities</u> |                                                 |                   |                            |
| Monetary items               |                                                 |                   |                            |
| USD                          | 434,443                                         | 30.7330 (USD:NTD) | \$ 13,351,737              |
| USD                          | 128,457                                         | 6.8637 (USD:RMB)  | 3,947,857                  |
| USD                          | 9,677                                           | 0.8733 (USD:EUR)  | 297,408                    |
| EUR                          | 811                                             | 35.1924 (EUR:NTD) | 28,541                     |
|                              |                                                 |                   | (Continued)                |

|     | <b>Foreign<br/>Currencies (In<br/>Thousands)</b> | <b>Exchange Rate</b> | <b>Carrying<br/>Amount</b> |
|-----|--------------------------------------------------|----------------------|----------------------------|
|     | <b>NT\$</b>                                      |                      | <b>NT\$</b>                |
| EUR | \$ 3,239                                         | 25.7350 (EUR:CZK)    | \$ 113,989                 |
| EUR | 1,504                                            | 80.0608 (EUR:INR)    | 52,933                     |
| EUR | 434                                              | 118.1630 (EUR:RSD)   | 15,272                     |
| JPY | 2,410,354                                        | 0.2782 (JPY:NTD)     | 670,560                    |
| JPY | 2,002,097                                        | 0.0621 (JPY:RMB)     | 556,701                    |
| HKD | 16,521                                           | 0.8765 (HKD:RMB)     | 64,839                     |
| HKD | 5,500                                            | 0.1277 (HKD:USD)     | 21,585                     |
| RMB | 113,621                                          | 0.1457 (RMB:USD)     | 508,772                    |
| SGD | 16,377                                           | 22.4804 (SGD:NTD)    | <u>368,162</u>             |
|     |                                                  |                      | <u>\$ 19,998,356</u>       |
|     |                                                  |                      | (Concluded)                |

December 31, 2019

|                                               | <b>Foreign<br/>Currencies<br/>(In Thousands)</b> | <b>Exchange Rate</b> | <b>Carrying<br/>Amount</b> |
|-----------------------------------------------|--------------------------------------------------|----------------------|----------------------------|
| <u>Financial assets</u>                       |                                                  |                      |                            |
| Monetary items                                |                                                  |                      |                            |
| USD                                           | \$ 72,761                                        | 30.1060 (USD:NTD)    | \$ 2,190,543               |
| USD                                           | 241,503                                          | 6.9662 (USD:RMB)     | 7,270,647                  |
| USD                                           | 91,681                                           | 7.7862 (USD:HKD)     | 2,760,159                  |
| USD                                           | 4,428                                            | 0.8925 (USD:EUR)     | 133,316                    |
| USD                                           | 966                                              | 71.2825 (USD:INR)    | 29,079                     |
| EUR                                           | 667                                              | 1.1205 (EUR:USD)     | 22,500                     |
| EUR                                           | 23,423                                           | 33.7338 (EUR:NTD)    | 790,147                    |
| EUR                                           | 8,925                                            | 25.4006 (EUR:CZK)    | 301,081                    |
| JPY                                           | 777,885                                          | 0.2771 (JPY:NTD)     | 215,552                    |
| JPY                                           | 89,864                                           | 0.0641 (JPY:RMB)     | 24,894                     |
| RMB                                           | 77,601                                           | 0.1436 (RMB:USD)     | <u>335,486</u>             |
|                                               |                                                  |                      | <u>\$ 14,073,404</u>       |
| Non-monetary items                            |                                                  |                      |                            |
| Investments accounted for using equity method |                                                  |                      |                            |
| USD                                           | 9,026                                            | 30.1060 (USD:NTD)    | \$ 271,733                 |
| RMB                                           | 6,483                                            | 1.1177 (RMB:HKD)     | <u>28,016</u>              |
|                                               |                                                  |                      | <u>\$ 299,749</u>          |
|                                               |                                                  |                      | (Continued)                |

## Financial liabilities

### Monetary items

|     |           |                    |                |
|-----|-----------|--------------------|----------------|
| USD | 83,948    | 30.1060 (USD:NTD)  | \$ 2,527,338   |
| USD | 40,692    | 6.9662 (USD:RMB)   | 1,232,408      |
| USD | 18,244    | 7.7862 (USD:HKD)   | 562,467        |
| USD | 1,107     | 22.6690 (USD:CZK)  | 32,982         |
| EUR | 3,670     | 33.7338 (EUR:NTD)  | 123,786        |
| EUR | 9,609     | 25.4006 (EUR:CZK)  | 320,787        |
| EUR | 426       | 79.8720 (EUR:INR)  | 14,937         |
| EUR | 1,469     | 117.4508 (EUR:RSD) | 49,897         |
| JPY | 989,749   | 0.2771 (JPY:NTD)   | 274,259        |
| JPY | 1,007,394 | 0.0641 (JPY:RMB)   | 280,742        |
| HKD | 8,061     | 0.8947 (HKD:RMB)   | 31,356         |
| HKD | 29,616    | 3.8666 (HKD:NTD)   | 32,957         |
| RMB | 130,320   | 0.1436 (RMB:USD)   | 580,919        |
| SGD | 16,465    | 22.3787 (SGD:NTD)  | <u>368,465</u> |

\$ 6,433,300  
(Concluded)

For the years ended December 31, 2018 and 2019, realized and unrealized net foreign exchange gains were \$1,363,987 thousand and \$731,548 thousand (US\$24,458 thousand), respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the entities in the Group.

## 34. SEGMENT INFORMATION

### a. Basic information

Information reported to the chief operating decision maker for resource allocation and the assessment of segment performance is solely based on the financial information of each plant owned by the Group. Each plant has similar economic features as well as manufacturing procedures. In addition, products are sold by the Group in a centralized way. Thus, the Group is reported as a single segment. The Group's revenues and operating results in 2018 and 2019 are shown in the consolidated statements of comprehensive income for 2018 and 2019.

### b. Revenue from major products

The following is an analysis of the Group's revenue from its major products.

|                                            | For the Year Ended December 31 |                      |                              |
|--------------------------------------------|--------------------------------|----------------------|------------------------------|
|                                            | 2018                           | 2019                 |                              |
|                                            | NT\$                           | NT\$                 | US\$ (Note 4)<br>(Unaudited) |
| Capacitors                                 | \$ 46,609,293                  | \$ 13,417,513        | \$ 448,596                   |
| Wireless and Advanced Electronic Component | 1,586,401                      | 12,916,728           | 431,853                      |
| Resistors                                  | 26,032,119                     | 11,602,472           | 387,913                      |
| Others                                     | <u>2,927,798</u>               | <u>3,369,943</u>     | <u>112,670</u>               |
|                                            | <u>\$ 77,155,611</u>           | <u>\$ 41,306,656</u> | <u>\$ 1,381,032</u>          |

### c. Geographical information

The Group's revenue from external customers by location of operations and information about its noncurrent assets by location of assets are detailed below:

|          | Revenue from External Customers |                      |                              | Noncurrent Assets    |                      |                              |
|----------|---------------------------------|----------------------|------------------------------|----------------------|----------------------|------------------------------|
|          | Year Ended December 31          |                      |                              | December 31          |                      |                              |
|          | 2018                            | 2019                 |                              | 2018                 | 2019                 |                              |
|          | NT\$                            | NT\$                 | US\$ (Note 4)<br>(Unaudited) | NT\$                 | NT\$                 | US\$ (Note 4)<br>(Unaudited) |
| Domestic | \$ 7,913,576                    | \$ 2,100,767         | \$ 70,236                    | \$ 6,223,536         | \$ 7,580,190         | \$ 253,433                   |
| USA      | 2,817,894                       | 2,704,681            | 90,427                       | 23,552,328           | 23,469,561           | 784,673                      |
| Europe   | 9,365,002                       | 8,190,726            | 273,846                      | 2,021,857            | 1,912,826            | 63,952                       |
| Asia     | <u>57,059,139</u>               | <u>28,310,482</u>    | <u>946,523</u>               | <u>13,312,483</u>    | <u>13,945,808</u>    | <u>466,259</u>               |
|          | <u>\$ 77,155,611</u>            | <u>\$ 41,306,656</u> | <u>\$ 1,381,032</u>          | <u>\$ 45,110,204</u> | <u>\$ 46,908,385</u> | <u>\$ 1,568,317</u>          |

Noncurrent assets exclude financial instruments and deferred tax assets.

d. Information about major customers

No single customer contributed 10% or more to the Group's revenue for both 2018 and 2019.

### 35. CASH FLOW INFORMATION

#### Changes in liabilities arising from financing activities

##### For the year ended December 31, 2018

|                             | Opening<br>Balance   | Cash Flows          | Non-cash Changes               |                         |             | Closing<br>Balance   |
|-----------------------------|----------------------|---------------------|--------------------------------|-------------------------|-------------|----------------------|
|                             |                      |                     | Acquisition of<br>Subsidiaries | Exchange<br>Differences | Others      |                      |
|                             | NT\$                 | NT\$                | NT\$                           | NT\$                    | NT\$        | NT\$                 |
| Short-term borrowings       | \$ 17,624,878        | \$ 5,612,797        | \$ 431,243                     | \$ (937)                | \$ -        | \$ 23,667,981        |
| Short-term bills payable    | 1,099,772            | (600,285)           | -                              | -                       | -           | 499,487              |
| Long-term borrowings        | 5,500,000            | 3,500,000           | -                              | -                       | -           | 9,000,000            |
| Guarantee deposits received | 69,562               | 81,352              | -                              | (19)                    | -           | 150,895              |
| Bond payables (Note 3)      | -                    | (287,599)           | 287,599                        | -                       | -           | -                    |
|                             | <u>\$ 24,294,212</u> | <u>\$ 8,306,265</u> | <u>\$ 718,842</u>              | <u>\$ (956)</u>         | <u>\$ -</u> | <u>\$ 33,318,363</u> |

##### For the year ended December 31, 2019

|                             | Opening<br>Balance   | Cash Flows          | Non-cash Changes               |                         |                   | Closing<br>Balance   |
|-----------------------------|----------------------|---------------------|--------------------------------|-------------------------|-------------------|----------------------|
|                             |                      |                     | Acquisition of<br>Subsidiaries | Exchange<br>Differences | Others            |                      |
|                             | NT\$                 | NT\$                | NT\$                           | NT\$                    | NT\$              | NT\$                 |
| Short-term borrowings       | \$ 23,667,981        | \$ (5,026,976)      | \$ -                           | \$ (209)                | \$ -              | \$ 18,640,796        |
| Short-term bills payable    | 499,487              | (199,606)           | -                              | -                       | -                 | 299,881              |
| Long-term borrowings        | 9,000,000            | 5,013,562           | -                              | -                       | -                 | 14,013,562           |
| Guarantee deposits received | 150,895              | 41,409              | -                              | (787)                   | -                 | 191,517              |
| Lease liabilities (Note 3)  | <u>219,487</u>       | <u>(90,161)</u>     | <u>-</u>                       | <u>(1,674)</u>          | <u>(1,957)</u>    | <u>125,695</u>       |
|                             | <u>\$ 33,537,850</u> | <u>\$ (261,772)</u> | <u>\$ -</u>                    | <u>\$ (2,670)</u>       | <u>\$ (1,957)</u> | <u>\$ 33,271,451</u> |

##### For the year ended December 31, 2019

|                             | Opening<br>Balance           | Cash Flows                   | Non-cash Changes               |                              |                              | Closing<br>Balance           |
|-----------------------------|------------------------------|------------------------------|--------------------------------|------------------------------|------------------------------|------------------------------|
|                             |                              |                              | Acquisition of<br>Subsidiaries | Exchange<br>Differences      | Others                       |                              |
|                             | US\$ (Note 4)<br>(Unaudited) | US\$ (Note 4)<br>(Unaudited) | US\$ (Note 4)<br>(Unaudited)   | US\$ (Note 4)<br>(Unaudited) | US\$ (Note 4)<br>(Unaudited) | US\$ (Note 4)<br>(Unaudited) |
| Short-term borrowings       | \$ 791,307                   | \$ (168,070)                 | \$ -                           | \$ (7)                       | \$ -                         | \$ 623,230                   |
| Short-term bills payable    | 16,700                       | (6,674)                      | -                              | -                            | -                            | 10,026                       |
| Long-term borrowings        | 300,902                      | 167,622                      | -                              | -                            | -                            | 468,524                      |
| Guarantee deposits received | 5,045                        | 1,384                        | -                              | (26)                         | -                            | 6,403                        |



|                            |                     |                   |             |                |                |                     |
|----------------------------|---------------------|-------------------|-------------|----------------|----------------|---------------------|
| Lease liabilities (Note 3) | <u>7,338</u>        | <u>(3,014)</u>    | <u>-</u>    | <u>(57)</u>    | <u>(65)</u>    | <u>4,202</u>        |
|                            | <u>\$ 1,121,292</u> | <u>\$ (8,752)</u> | <u>\$ -</u> | <u>\$ (90)</u> | <u>\$ (65)</u> | <u>\$ 1,112,385</u> |

## **Yageo Corporation and Subsidiaries**

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

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Yageo Corporation

### **Opinion**

We have audited the accompanying consolidated financial statements of Yageo Corporation (the Company) and its subsidiaries (collectively referred to as the Group), which comprise the consolidated balance sheets as of December 31, 2017 and 2018, 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, based on our audits and the reports of other auditors (refer to the other matter paragraph below), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2018, 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. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

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

Key audit matters on the consolidated financial statements for the year ended December 31, 2018 are as follows:

#### Allowance for Expected Credit Loss of Trade Receivables

The recoverable amount of trade receivables is determined by management's evaluation of the credit risk of overdue receivables, which is affected by management's assumptions about a client's credit quality. In our audit, we focused on clients with significant trade receivables and overdue balances, and we evaluated the reasonableness of management's estimation of the allowance for expected credit loss of trade receivables.

For a summary of the significant accounting policies on expected credit loss of trade receivables, refer to Note 4 to the accompanying consolidated financial statements. Refer to Note 13 to the consolidated financial statements for the carrying amount of trade receivables. Our audit procedures for the aforementioned key audit matter are described as follows:

1. We tested the completeness and the accuracy of the aging report of the trade receivables which served as a basis for the calculation of the expected credit loss allowance and verified that the percentage of such allowance was consistent with the Group's policy on the allowance for expected credit loss.
2. We confirmed the recoverability of trade receivables outstanding at yearend by checking the collections after the balance sheet date.
3. For the past due, outstanding amount, we assessed the reasonableness of the allowance through understanding the history of the client and whether collateral was obtained; we also assessed the state of the overall economy.

#### Allowance for Inventory Valuation Loss

The value of inventory is affected by the volatility of market demand and the ever-changing technology which can cause inventory to become outdated and obsolete. The allocation of inventory costs and the estimations of the net realizable value of inventory require management's judgment. In our audit, we focused on testing whether the value of inventory is stated at the lower of cost or net realizable value. We also assessed the reasonableness of management's estimation of the allowance for inventory valuation loss.

For a summary of the significant accounting policies on inventory valuation, refer to Note 4 to the accompanying consolidated financial statements. Refer to Note 14 to the consolidated financial statements for the carrying amount of inventory. Our audit procedures for the aforementioned key audit matter are described as follows:

1. We tested the aging of inventory and we calculated the amount of allowance for inventory valuation loss per the Group's policy.
2. We selected samples of inventory items at yearend and we compared the respective actual selling prices with the book values to ensure that the book values do not exceed the net realizable values.

### Business Combinations

In 2018, the Company acquired 100% of the equity interests of Brightking Holdings Limited and Pulse Electronics Corporation in a cash settlement amounting to NT\$3,328,253 thousand and US\$721,461 thousand, respectively. The acquisitions were identified as key audit matter because the transactions involved complicated calculations such as in the determination of the consideration transferred and the assessment of the fair value of the acquired assets and assumed liabilities.

We verified that the business combinations had been properly evaluated and approved by inspecting the minutes of meetings of the board of directors and by reviewing the compliance with the internal control systems established by the Group and that the relevant provisions and procedures for the acquisition and disposal of assets were followed.

In addition, we also performed the following audit procedures:

1. We tested the controls for the acquisition and disposal of assets and assessed if the design and implementation of the internal control are effective.
2. We verified the date of the transaction, reviewed the relevant cash payment documents and the fair value of the assets, performed the recalculation of the profit and loss, and confirmed that the accounting treatment was appropriate.

### **Other Matter**

We did not audit the financial statements of partial subsidiaries included in the consolidated financial statements of the Group, as of and for the years ended December 31, 2017 and 2018. The total assets of these subsidiaries were 12.16% (NT\$8,476,474 thousand) and 10.63% (NT\$13,051,571 thousand) of the Group's total consolidated assets as of December 31, 2017 and 2018, respectively, and the total revenue of these subsidiaries was 5.79% (NT\$1,868,715 thousand) and 7.24% (NT\$5,584,073 thousand) of the Group's total consolidated revenue for the years ended December 31, 2017 and 2018, respectively. As disclosed in Note 16 to the accompanying consolidated financial statements, we also did not audit the financial statements of some investees accounted for using the equity method. The total investments in these investees accounted for using the equity method were 0.25% (NT\$177,328 thousand) and 0.13% (NT\$154,651 thousand) of the Group's total consolidated assets as of December 31, 2017 and 2018, respectively; the Group's total share of the profit (loss) of such associates was (0.03%) (NT\$(2,539) thousand) and (0.06%) (NT\$(23,364) thousand) of the Group's consolidated profit before income tax for the years ended December 31, 2017 and 2018, respectively. The financial statements of the aforementioned subsidiary and investees accounted for using the equity method were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the related amounts included herein, is based solely on the reports of other auditors.

We have also audited the parent company only financial statements of the Company as of and for the years ended December 31, 2017 and 2018 on which we have issued an unqualified opinion with other matter paragraph.

As described in Note 1 to the accompanying consolidated financial statements, on August 1, 2017, the Company sold 100% of its interest in Ferroxcube International Holding B.V. in a cash settlement amounting to €133,188 thousand. In addition, in 2018, the Company acquired 100% of the equity interest of Brightking Holdings Limited and Pulse Electronics Corporation in a cash settlement amounting to NT\$3,328,253 thousand and US\$721,461 thousand, respectively.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and 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 supervisors, are responsible for overseeing the Group's financial reporting process.

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

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

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

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

based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Yung-Hsiang Chao and Jr-Shian Ke.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 14, 2019

Notice to Readers

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

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



# YAGEO CORPORATION AND SUBSIDIARIES

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

| ASSETS                                                                                             | 2017                 |            | 2018                  |            |
|----------------------------------------------------------------------------------------------------|----------------------|------------|-----------------------|------------|
|                                                                                                    | Amount               | %          | Amount                | %          |
| <b>CURRENT ASSETS</b>                                                                              |                      |            |                       |            |
| Cash and cash equivalents (Notes 3, 4 and 6)                                                       | \$ 5,760,889         | 8          | \$ 20,388,744         | 17         |
| Financial assets at fair value through profit or loss - current (Notes 3, 4 and 7)                 | 211,359              | -          | 80,458                | -          |
| Financial assets at amortized cost - current (Notes 3, 4 and 9)                                    | -                    | -          | 8,568,937             | 7          |
| Debt investments with no active market - current (Notes 3, 4 and 12)                               | 11,575,280           | 16         | -                     | -          |
| Notes receivable (Notes 3, 4, 5 and 13)                                                            | 1,196,757            | 2          | 553,176               | -          |
| Trade receivable (Notes 3, 4, 5, 13 and 34)                                                        | 10,546,437           | 15         | 19,251,951            | 16         |
| Other receivables (Notes 3, 4 and 34)                                                              | 428,652              | 1          | 442,998               | -          |
| Inventories (Notes 4, 5 and 14)                                                                    | 4,872,001            | 7          | 10,473,077            | 9          |
| Prepayment (Note 20)                                                                               | 435,710              | 1          | 996,362               | 1          |
| Other current assets                                                                               | <u>54,859</u>        | -          | <u>355,718</u>        | -          |
| Total current assets                                                                               | <u>35,081,944</u>    | <u>50</u>  | <u>61,111,421</u>     | <u>50</u>  |
| <b>NONCURRENT ASSETS</b>                                                                           |                      |            |                       |            |
| Financial assets at fair value through profit or loss - non-current (Notes 3, 4 and 7)             | -                    | -          | 89,196                | -          |
| Financial assets at fair value through other comprehensive income - non-current (Notes 3, 4 and 8) | -                    | -          | 2,226,976             | 2          |
| Available-for-sale financial assets - noncurrent (Notes 3, 4 and 10)                               | 4,347,325            | 6          | -                     | -          |
| Held-to-maturity financial assets - noncurrent (Notes 3, 4 and 11)                                 | 7,133,802            | 10         | -                     | -          |
| Financial assets at amortized cost - non-current (Notes 3, 4 and 9)                                | -                    | -          | 6,946,640             | 6          |
| Investments accounted for using the equity method (Notes 4 and 16)                                 | 3,480,124            | 5          | 6,205,942             | 5          |
| Property, plant and equipment (Notes 4, 5, 17 and 35)                                              | 16,274,877           | 24         | 19,112,389            | 15         |
| Goodwill (Notes 4, 5 and 18)                                                                       | 2,074,005            | 3          | 20,466,026            | 17         |
| Other intangible assets (Notes 4 and 19)                                                           | 86,082               | -          | 4,032,094             | 3          |
| Deferred tax assets (Notes 4 and 26)                                                               | 922,820              | 2          | 2,207,304             | 2          |
| Refundable deposits (Note 3)                                                                       | 82,635               | -          | 104,372               | -          |
| Long-term prepayments for lease, net of current portion (Note 20)                                  | 73,061               | -          | 110,730               | -          |
| Other noncurrent assets                                                                            | <u>140,550</u>       | -          | <u>143,532</u>        | -          |
| Total noncurrent assets                                                                            | <u>34,615,281</u>    | <u>50</u>  | <u>61,645,201</u>     | <u>50</u>  |
| <b>TOTAL</b>                                                                                       | <u>\$ 69,697,225</u> | <u>100</u> | <u>\$ 122,756,622</u> | <u>100</u> |
| <b>LIABILITIES AND EQUITY</b>                                                                      |                      |            |                       |            |
| <b>CURRENT LIABILITIES</b>                                                                         |                      |            |                       |            |
| Short-term borrowings (Note 21)                                                                    | \$ 17,624,878        | 25         | \$ 23,667,981         | 19         |
| Short-term bills payable (Note 21)                                                                 | 1,099,772            | 2          | 499,487               | -          |
| Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)               | 82,995               | -          | 27,674                | -          |
| Notes payable                                                                                      | 3,449                | -          | 163,595               | -          |
| Trade payable (Note 34)                                                                            | 7,511,421            | 11         | 10,347,305            | 9          |
| Other payables (Notes 22 and 34)                                                                   | 4,874,382            | 7          | 11,065,243            | 9          |
| Current tax liabilities (Notes 4 and 26)                                                           | 1,209,130            | 2          | 6,782,248             | 6          |
| Other current liabilities                                                                          | <u>41,375</u>        | -          | <u>281,179</u>        | -          |
| Total current liabilities                                                                          | <u>32,447,402</u>    | <u>47</u>  | <u>52,834,712</u>     | <u>43</u>  |
| <b>NONCURRENT LIABILITIES</b>                                                                      |                      |            |                       |            |
| Long-term borrowings (Notes 21 and 35)                                                             | 5,500,000            | 8          | 9,000,000             | 7          |
| Deferred tax liabilities (Notes 4 and 26)                                                          | 376                  | -          | 383,698               | -          |
| Accrued pension liabilities (Notes 4 and 23)                                                       | 346,478              | -          | 471,418               | 1          |
| Guarantee deposits received                                                                        | 69,562               | -          | 150,895               | -          |
| Other noncurrent liabilities                                                                       | <u>-</u>             | -          | <u>477,547</u>        | <u>1</u>   |
| Total noncurrent liabilities                                                                       | <u>5,916,416</u>     | <u>8</u>   | <u>10,483,558</u>     | <u>9</u>   |
| Total liabilities                                                                                  | <u>38,363,818</u>    | <u>55</u>  | <u>63,318,270</u>     | <u>52</u>  |
| <b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>                                                |                      |            |                       |            |
| Share capital                                                                                      |                      |            |                       |            |
| Common shares                                                                                      | 3,504,010            | 5          | 4,270,394             | 3          |
| Capital collected in advance                                                                       | 1,628                | -          | 453                   | -          |
| Total share capital                                                                                | <u>3,505,638</u>     | <u>5</u>   | <u>4,270,847</u>      | <u>3</u>   |
| Capital surplus                                                                                    |                      |            |                       |            |
| Issuance of common shares                                                                          | 2,652,778            | 4          | 2,718,524             | 2          |
| From share of changes in capital surplus of associates                                             | 415,813              | 1          | 2,804,929             | 3          |
| From employee share options                                                                        | 32,847               | -          | 20,146                | -          |
| Total capital surplus                                                                              | <u>3,101,438</u>     | <u>5</u>   | <u>5,543,599</u>      | <u>5</u>   |
| Retained earnings                                                                                  |                      |            |                       |            |
| Legal reserve                                                                                      | 2,550,866            | 4          | 3,235,596             | 3          |
| Special reserve                                                                                    | 1,723,692            | 2          | 437,595               | -          |
| Unappropriated earnings                                                                            | 20,096,117           | 29         | 49,478,674            | 40         |
| Total retained earnings                                                                            | <u>24,370,675</u>    | <u>35</u>  | <u>53,151,865</u>     | <u>43</u>  |
| Other equity                                                                                       |                      |            |                       |            |
| Exchange differences on translation of foreign operations                                          | (1,664,627)          | (3)        | (1,820,627)           | (1)        |
| Unrealized gain on financial assets at FVTOCI                                                      | -                    | -          | 610,563               | -          |
| Unrealized loss on available-for-sale financial assets                                             | 1,911,923            | 3          | -                     | -          |
| Total other equity                                                                                 | <u>247,296</u>       | -          | <u>(1,210,064)</u>    | <u>(1)</u> |
| Treasury shares                                                                                    | <u>-</u>             | -          | <u>(2,421,552)</u>    | <u>(2)</u> |
| Total equity attributable to owners of the Company                                                 | <u>31,225,047</u>    | <u>45</u>  | <u>59,334,695</u>     | <u>48</u>  |
| <b>NONCONTROLLING INTERESTS</b>                                                                    | <u>108,360</u>       | -          | <u>103,657</u>        | -          |
| Total equity                                                                                       | <u>31,333,407</u>    | <u>45</u>  | <u>59,438,352</u>     | <u>48</u>  |
| <b>TOTAL</b>                                                                                       | <u>\$ 69,697,225</u> | <u>100</u> | <u>\$ 122,756,622</u> | <u>100</u> |

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

(With Deloitte & Touche audit report dated March 14, 2019)

# YAGEO CORPORATION AND SUBSIDIARIES

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

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

|                                                                             | 2017              |           | 2018              |           |
|-----------------------------------------------------------------------------|-------------------|-----------|-------------------|-----------|
|                                                                             | Amount            | %         | Amount            | %         |
| OPERATING REVENUE (Notes 4 and 34)                                          |                   |           |                   |           |
| Net sales                                                                   | \$ 32,258,599     | 100       | \$ 77,155,611     | 100       |
| OPERATING COSTS (Notes 4, 14, 25 and 34)                                    |                   |           |                   |           |
| Cost of goods sold                                                          | <u>21,760,490</u> | <u>68</u> | <u>28,310,343</u> | <u>37</u> |
| GROSS PROFIT                                                                | <u>10,498,109</u> | <u>32</u> | <u>48,845,268</u> | <u>63</u> |
| OPERATING EXPENSES (Notes 4 and 25)                                         |                   |           |                   |           |
| Selling and marketing                                                       | 1,462,724         | 5         | 6,496,642         | 8         |
| General and administrative                                                  | 1,138,150         | 3         | 3,523,253         | 5         |
| Research and development                                                    | 303,916           | 1         | 413,353           | -         |
| Expected credit loss (Notes 4 and 13)                                       | <u>-</u>          | <u>-</u>  | <u>1,504,052</u>  | <u>2</u>  |
| Total operating expenses                                                    | <u>2,904,790</u>  | <u>9</u>  | <u>11,937,300</u> | <u>15</u> |
| PROFIT FROM OPERATIONS                                                      | <u>7,593,319</u>  | <u>23</u> | <u>36,907,968</u> | <u>48</u> |
| NONOPERATING INCOME                                                         |                   |           |                   |           |
| Finance costs (Notes 4 and 25)                                              | (299,494)         | (1)       | (547,020)         | (1)       |
| Share of profit of associates (Note 4)                                      | 299,831           | 1         | 635,527           | 1         |
| Interest income (Note 4)                                                    | 507,890           | 2         | 1,091,535         | 1         |
| Rental income (Notes 4 and 34)                                              | 22,156            | -         | 41,662            | -         |
| Gain on financial instruments at fair value through profit or loss (Note 4) | 152,805           | -         | 1,288,486         | 2         |
| Loss on financial instruments at fair value through profit or loss (Note 4) | (412,233)         | (1)       | (974,160)         | (1)       |
| Other gains and losses (Note 25)                                            | <u>(42,052)</u>   | <u>-</u>  | <u>1,451,363</u>  | <u>2</u>  |
| Total nonoperating income                                                   | <u>228,903</u>    | <u>1</u>  | <u>2,987,393</u>  | <u>4</u>  |
| PROFIT BEFORE INCOME TAX                                                    | 7,822,222         | 24        | 39,895,361        | 52        |
| INCOME TAX EXPENSE (Notes 4 and 26)                                         | <u>1,141,208</u>  | <u>3</u>  | <u>6,055,209</u>  | <u>8</u>  |
| NET PROFIT FOR THE YEAR                                                     | <u>6,681,014</u>  | <u>21</u> | <u>33,840,152</u> | <u>44</u> |

(Continued)

# YAGEO CORPORATION AND SUBSIDIARIES

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

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

|                                                                                                                        | 2017                |           | 2018                 |            |
|------------------------------------------------------------------------------------------------------------------------|---------------------|-----------|----------------------|------------|
|                                                                                                                        | Amount              | %         | Amount               | %          |
| OTHER COMPREHENSIVE INCOME (LOSS)                                                                                      |                     |           |                      |            |
| Items that will not be reclassified subsequently to profit or loss:                                                    |                     |           |                      |            |
| Remeasurement of defined benefit plans (Note 4)                                                                        | \$ (54,555)         | -         | \$ 29,415            | -          |
| Unrealized loss on investments in equity instruments at fair value through other comprehensive income (Notes 4 and 24) | -                   | -         | (598,587)            | (1)        |
| Share of the other comprehensive income of associates accounted for using the equity method (Note 4)                   | (1,532)             | -         | 282                  | -          |
| Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 26)             | 9,396               | -         | (2,817)              | -          |
| Items that may be reclassified subsequently to profit or loss:                                                         |                     |           |                      |            |
| Exchange differences on translating foreign operations (Notes 4 and 24)                                                | (682,466)           | (2)       | (266,131)            | -          |
| Unrealized gain on available-for-sale financial assets (Notes 4 and 24)                                                | 2,101,738           | 6         | -                    | -          |
| Share of the other comprehensive income of associates accounted for using the equity method (Notes 4 and 24)           | (72,379)            | -         | (8,200)              | -          |
| Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 26)                  | <u>116,220</u>      | <u>-</u>  | <u>114,209</u>       | <u>-</u>   |
| Other comprehensive income for the year, net of income tax                                                             | <u>1,416,422</u>    | <u>4</u>  | <u>(731,829)</u>     | <u>(1)</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR                                                                                | <u>\$ 8,097,436</u> | <u>25</u> | <u>\$ 33,108,323</u> | <u>43</u>  |
| NET PROFIT ATTRIBUTABLE TO:                                                                                            |                     |           |                      |            |
| Owners of the Company                                                                                                  | \$ 6,847,300        | 21        | \$ 33,839,293        | 44         |
| Business combinations under common control with successor                                                              | (191,474)           | -         | -                    | -          |
| Noncontrolling interests                                                                                               | <u>25,188</u>       | <u>-</u>  | <u>859</u>           | <u>-</u>   |
|                                                                                                                        | <u>\$ 6,681,014</u> | <u>21</u> | <u>\$ 33,840,152</u> | <u>44</u>  |

(Continued)

# YAGEO CORPORATION AND SUBSIDIARIES

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

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

|                                                              | <u>2017</u>         |           | <u>2018</u>          |           |
|--------------------------------------------------------------|---------------------|-----------|----------------------|-----------|
|                                                              | <u>Amount</u>       | <u>%</u>  | <u>Amount</u>        | <u>%</u>  |
| TOTAL COMPREHENSIVE INCOME                                   |                     |           |                      |           |
| ATTRIBUTABLE TO:                                             |                     |           |                      |           |
| Owners of the Company                                        | \$ 8,569,219        | 27        | \$ 33,113,026        | 43        |
| Business combinations under common control with<br>successor | (489,154)           | (2)       | -                    | -         |
| Noncontrolling interests                                     | <u>17,371</u>       | <u>-</u>  | <u>(4,703)</u>       | <u>-</u>  |
|                                                              | <u>\$ 8,097,436</u> | <u>25</u> | <u>\$ 33,108,323</u> | <u>43</u> |
| EARNINGS PER SHARE (NEW TAIWAN<br>DOLLARS; Note 27)          |                     |           |                      |           |
| Basic                                                        | <u>\$ 13.05</u>     | =         | <u>\$ 80.30</u>      |           |
| Diluted                                                      | <u>\$ 12.77</u>     | =         | <u>\$ 78.09</u>      |           |

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

(With Deloitte & Touche audit report dated March 14, 2019)

(Concluded)

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

The accompanying notes are an integral part of the consolidated financial statements.  
 With Deloitte & Touche audit report dated March 14, 2019)

# YAGEO CORPORATION AND SUBSIDIARIES

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

|                                                                                           | 2017         | 2018          |
|-------------------------------------------------------------------------------------------|--------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES                                                      |              |               |
| Income before income tax                                                                  | \$ 7,822,222 | \$ 39,895,361 |
| Adjustments for:                                                                          |              |               |
| Expected credit loss recognized on trade receivables                                      | -            | 1,504,052     |
| Impairment loss recognized on trade receivables                                           | 23,916       | -             |
| Depreciation expenses                                                                     | 1,782,331    | 7,500,217     |
| Amortization expenses                                                                     | 55,701       | 76,677        |
| Amortization of prepayments for lease                                                     | 2,386        | 2,444         |
| Amortization of prepayments                                                               | 4,811        | 6,745         |
| Net loss (gain) on fair value change of financial assets and liabilities held for trading | 259,428      | (314,326)     |
| Finance costs                                                                             | 299,494      | 547,020       |
| Interest income                                                                           | (507,890)    | (1,091,535)   |
| Dividend income                                                                           | (79,907)     | (148,998)     |
| Compensation cost of employee share options                                               | 11,490       | -             |
| Share of profit of associates                                                             | (299,831)    | (635,527)     |
| Net loss on disposal of property, plant and equipment, net                                | 7,017        | 22,279        |
| Net gain on disposal of available-for-sale financial assets                               | (202,028)    | -             |
| Write-downs of inventories                                                                | 47,477       | 77,515        |
| (Gain) loss on unrealized foreign currency exchange                                       | (29,629)     | 93,207        |
| Changes in operating assets and liabilities:                                              |              |               |
| Financial assets held for trading                                                         | (224,298)    | -             |
| Financial assets mandatorily classified at fair value through profit or loss              | -            | 59,368        |
| Notes receivable                                                                          | (553,318)    | 735,928       |
| Accounts receivable                                                                       | (2,115,484)  | (6,544,318)   |
| Other receivables                                                                         | 978,918      | 11,979        |
| Inventories                                                                               | (101,305)    | (3,353,349)   |
| Prepayments                                                                               | (54,846)     | (344,788)     |
| Other current assets                                                                      | 99,924       | 32,391        |
| Notes payable                                                                             | (4,620)      | 150,387       |
| Accounts payable                                                                          | 1,298,545    | 310,976       |
| Other payables                                                                            | 48,189       | 4,587,537     |
| Other current liabilities                                                                 | (58,382)     | 154,559       |
| Accrued pension liabilities                                                               | -            | (100,570)     |
| Cash generated from operations                                                            | 8,510,311    | 43,235,231    |
| Interest received                                                                         | 473,807      | 1,077,893     |
| Dividend received                                                                         | 79,907       | 148,998       |
| Interest paid                                                                             | (291,537)    | (518,382)     |
| Income tax paid                                                                           | (745,177)    | (2,160,957)   |
| Net cash generated from operating activities                                              | 8,027,311    | 41,782,783    |

(Continued)

# YAGEO CORPORATION AND SUBSIDIARIES

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

|                                                                                          | 2017                | 2018                |
|------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                              |                     |                     |
| Purchase of held for trading financial assets                                            | \$ (2,019,471)      | \$ -                |
| Proceeds from sale of financial assets at fair value through other comprehensive income  | -                   | 1,429,614           |
| Purchase of financial assets at amortized cost                                           | -                   | (210,977)           |
| Proceeds from sale of financial assets at amortized cost                                 | -                   | 3,556,572           |
| Purchase of financial assets at fair value through profit or loss                        | -                   | (149,648)           |
| Proceeds from sale of financial assets at fair value through profit or loss              | 1,873,213           | 482,128             |
| Purchase of available-for-sale financial assets                                          | (51,941)            | -                   |
| Proceeds from sale of available-for-sale financial assets                                | 322,719             | -                   |
| Proceeds from capital reduction of available-for-sale financial assets                   | 14,579              | -                   |
| Purchase of debt investments with no active market                                       | (3,299,561)         | -                   |
| Purchase of held-to-maturity financial assets                                            | (7,243,278)         | -                   |
| Proceeds from capital reduction of financial assets at fair value through profit or loss | -                   | 10,497              |
| Acquisition of associates                                                                | (607,223)           | -                   |
| Acquisition of subsidiaries                                                              | -                   | (23,920,521)        |
| Net cash inflow on disposal of subsidiaries                                              | 4,235,378           | -                   |
| Proceeds from capital reduction of associates                                            | 22,261              | 45,261              |
| Payments for property, plant and equipment                                               | (4,949,752)         | (9,074,910)         |
| Proceeds from disposal of property, plant and equipment                                  | 16,851              | 92,506              |
| Increase in refundable deposits                                                          | -                   | (21,737)            |
| Decrease in refundable deposits                                                          | 6,247               | -                   |
| Payments for intangible assets                                                           | (12,250)            | (10,012)            |
| Increase in other noncurrent assets                                                      | (1,280)             | -                   |
| Dividends received from associates                                                       | 245,675             | 246,719             |
| Net cash used in investing activities                                                    | <u>(11,447,833)</u> | <u>(27,524,508)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                              |                     |                     |
| Proceeds of short-term borrowings                                                        | 4,907,924           | 5,612,797           |
| Repayments of short-term bills payable                                                   | -                   | (600,285)           |
| Repayments of bond payables                                                              | -                   | (287,599)           |
| Proceeds of long-term borrowings                                                         | 4,100,000           | 3,500,000           |
| Repayments of long-term borrowings                                                       | (2,200,000)         | -                   |
| Proceeds of guarantee deposits received                                                  | 39,409              | 81,352              |
| Dividends paid to the owners of the Company                                              | (1,500,626)         | (5,262,730)         |
| Capital reduction                                                                        | (1,509,669)         | -                   |
| Proceeds from employee share options                                                     | 80,927              | 343,427             |
| Payments for buyback of treasury shares                                                  | (1,617,537)         | (2,421,552)         |
| Dividends paid to noncontrolling interests                                               | <u>(49,457)</u>     | <u>(569,445)</u>    |
| Net cash generated from financing activities                                             | <u>2,250,971</u>    | <u>395,965</u>      |
|                                                                                          |                     | (Continued)         |



## YAGEO CORPORATION AND SUBSIDIARIES

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

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|                                                                                      | 2017                | 2018                 |
|--------------------------------------------------------------------------------------|---------------------|----------------------|
| EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF<br>CASH HELD IN FOREIGN CURRENCIES | \$ (689,105)        | \$ (26,385)          |
| NET (DECREASE) INCREASE IN CASH AND CASH<br>EQUIVALENTS                              | (1,858,656)         | 14,627,855           |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE<br>YEAR                            | <u>7,619,545</u>    | <u>5,760,889</u>     |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR                                     | <u>\$ 5,760,889</u> | <u>\$ 20,388,744</u> |

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

(With Deloitte & Touche audit report dated March 14, 2019)

(Concluded)

# **YAGEO CORPORATION AND SUBSIDIARIES**

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

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### **1. GENERAL INFORMATION**

Yageo Corporation (the Company) was incorporated in 1987 in the Republic of China (ROC). The Company's shares are traded on the Taiwan Stock Exchange. The Company manufactures and sells passive components.

The consolidated financial statements of the Company and its subsidiaries, collectively referred to as the "Group", are presented in the Company's functional currency, the New Taiwan dollar.

On August 1, 2017, the Company sold 100% of its equity interest in Ferroxcube International Holding B.V. ("Ferroxcube") in a cash settlement amounting to €133,188 thousand. In addition, in 2018, the Company acquired 100% of the equity interests of Brightking Holdings Limited and Pulse Electronics Corporation in a cash settlement amounting to NT\$3,328,253 thousand and US\$721,461 thousand, respectively.

### **2. APPROVAL OF FINANCIAL STATEMENTS**

The consolidated financial statements were approved by the Company's board of directors on March 14, 2019.

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

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

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

#### **1) Annual Improvements to IFRSs 2014-2016 Cycle**

Several standards, including IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures," were amended in this annual improvement.

The amendment to IFRS 12 clarifies that when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sale or is included in a disposal group that is classified as held for sale, the entity is not required to disclose summarized financial information of that subsidiary, joint venture or associate in accordance with IFRS 12. However, all other requirements in IFRS 12 apply to interests in entities classified as held for sale in accordance with IFRS 5. The Group applied the aforementioned amendment retrospectively.

## 2) IFRS 9 “Financial Instruments” and related amendments

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

### Classification, measurement and impairment of financial assets

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

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

| Financial Assets                                             | Measurement Category                                     |                                                                                  | Carrying Amount                                          |                                                         | Remark                                             |          |
|--------------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------------|----------------------------------------------------|----------|
|                                                              | IAS 39                                                   | IFRS 9                                                                           | IAS 39                                                   | IFRS 9                                                  |                                                    |          |
| Cash and cash equivalents                                    | Loans and receivables                                    | Amortized cost                                                                   | \$ 5,760,889                                             | \$ 5,760,889                                            |                                                    |          |
| Derivatives                                                  | Held- for- trading                                       | Mandatorily at fair value through profit or loss (i.e. FVTPL)                    | 1,359                                                    | 1,359                                                   |                                                    |          |
| Equity securities                                            | Held- for- trading                                       | Mandatorily at FVTPL                                                             | 210,000                                                  | 210,000                                                 |                                                    |          |
|                                                              | Available- for- sale                                     | Mandatorily at FVTPL                                                             | 143,695                                                  | 143,695                                                 | (a)                                                |          |
|                                                              | Available- for- sale                                     | Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments | 4,203,630                                                | 4,203,630                                               | (a)                                                |          |
| Debt securities                                              | Held-to-maturity                                         | Amortized cost                                                                   | 7,133,802                                                | 7,133,802                                               | (b)                                                |          |
| Time deposits with original maturities of more than 3 months | Loans and receivables                                    | Amortized cost                                                                   | 11,575,280                                               | 11,575,280                                              | (c)                                                |          |
| Notes receivable, trade receivables and other receivables    | Loans and receivables                                    | Amortized cost                                                                   | 12,171,846                                               | 12,171,846                                              | (d)                                                |          |
| Refundable deposits                                          | Loans and receivables                                    | Amortized cost                                                                   | 82,635                                                   | 82,635                                                  |                                                    |          |
| Financial Assets                                             | IAS 39<br>Carrying<br>Amount as of<br>January 1,<br>2018 | Reclassifi-<br>cations                                                           | IFRS 9<br>Carrying<br>Amount as of<br>January 1,<br>2018 | Retained<br>Earnings<br>Effect on<br>January 1,<br>2018 | Other<br>Equity<br>Effect on<br>January 1,<br>2018 | Remark   |
| <u>FVTPL</u>                                                 | \$ 211,359                                               |                                                                                  |                                                          |                                                         |                                                    |          |
| Add: Reclassification from available-for-sale (IAS 39)       |                                                          |                                                                                  |                                                          |                                                         |                                                    |          |
| Required reclassification                                    | -                                                        | \$ 143,695                                                                       |                                                          |                                                         |                                                    | (a)      |
|                                                              | <u>211,359</u>                                           | <u>143,695</u>                                                                   | \$ 355,054                                               |                                                         |                                                    |          |
| <u>FVTOCI</u>                                                |                                                          |                                                                                  |                                                          |                                                         |                                                    |          |
| Equity instruments                                           | -                                                        |                                                                                  |                                                          |                                                         |                                                    |          |
| Add: Reclassification from available-for-sale (IAS 39)       | -                                                        | 4,203,630                                                                        |                                                          | \$ 5,440                                                | \$ (5,440)                                         | (a)      |
|                                                              | <u>-</u>                                                 | <u>4,203,630</u>                                                                 | 4,203,630                                                | <u>5,440</u>                                            | <u>(5,440)</u>                                     |          |
| <u>Amortized cost</u>                                        |                                                          |                                                                                  |                                                          |                                                         |                                                    |          |
| Add: Reclassification from held-to-maturity (IAS 39)         |                                                          | 7,133,802                                                                        |                                                          |                                                         |                                                    | (b)      |
| Add: Reclassification from loans and receivables (IAS 39)    | -                                                        | 29,590,650                                                                       |                                                          |                                                         |                                                    | (c), (d) |
|                                                              | <u>-</u>                                                 | <u>36,724,452</u>                                                                | <u>36,724,452</u>                                        | <u>-</u>                                                | <u>-</u>                                           |          |
|                                                              | <u>\$ 211,359</u>                                        | <u>\$ 41,071,777</u>                                                             | <u>\$ 41,284,136</u>                                     | <u>\$ 5,440</u>                                         | <u>\$ (5,440)</u>                                  |          |

- a) The Group elected to classify all of its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTPL and FVTOCI under IFRS 9. As a result, the subsidiary reclassified the related other equity - unrealized gain on available-for-sale financial assets to retained earnings in the amount of \$5,440 thousand.

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

### 3) IFRS 15 “Revenue from Contracts with Customers” and related amendments

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

The Group assessed that the application of IFRS 15 to contracts that were not complete as of January 1, 2018 would not affect the recognition, measurement and presentation of revenue.

### 4) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendments clarify that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments also stipulate that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve the higher amount and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

Prior to the amendment, in assessing a deferred tax asset, the Group assumed that it will recover the asset at its carrying amount when estimating probable future taxable profit. The Group applied the above amendments retrospectively in 2018.

5) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group applied IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the Interpretation.

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed by the FSC for application starting from 2019

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

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

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

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

1) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 “Leases”, IFRIC 4 “Determining Whether an Arrangement Contains a Lease” and a number of related interpretations.

Definition of a lease

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

### The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

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

The Group expects to apply the following practical expedients:

- a) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Group will adjust the right-of-use assets on January 1, 2019 by the amount of any provisions for onerous leases recognized as of December 31, 2018.
- c) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- d) The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- e) The Group will use hindsight, such as in determining lease terms, to measure lease liabilities.

For leases currently classified as finance leases under IAS 17, the carrying amounts of right-of-use assets and lease liabilities on January 1, 2019 will be determined as at the carrying amounts of the respective leased assets and finance lease payables as of December 31, 2018.

### The Group as lessor

Except for sublease transactions, the Group will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

### Anticipated impact on assets and liabilities

|                             | Carrying<br>Amount as of<br>December 31,<br>2018 | Adjustments<br>Arising from<br>Initial<br>Application | Adjusted<br>Carrying<br>Amount as of<br>January 1, 2019 |
|-----------------------------|--------------------------------------------------|-------------------------------------------------------|---------------------------------------------------------|
| Right-of-use assets         | \$ -                                             | \$ 28,588                                             | \$ 28,588                                               |
| Total effect on assets      | \$ -                                             | \$ 28,588                                             | \$ 28,588                                               |
| Lease liabilities - current | \$ -                                             | \$ 28,588                                             | \$ 28,588                                               |
| Total effect on liabilities | \$ -                                             | \$ 28,588                                             | \$ 28,588                                               |

#### 2) IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Group expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

Upon initial application of IFRIC 23, the Group will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

#### 3) Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”

The amendments clarified that IFRS 9 shall be applied to account for other financial instruments in an associate or joint venture to which the equity method is not applied. These included long-term interests that, in substance, form part of the Group’s net investment in an associate or joint venture.

For long-term interests that, in substance, form part of the Group’s net investment in an associate or joint venture and are governed by IFRS 9, the Group shall, based on the facts and circumstances that exist on January 1, 2019, perform an assessment of the classification under IFRS 9 applied retrospectively.

Upon initial application of the above amendments, the Group will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

#### 4) Amendments to IFRS 9 “Prepayment Features with Negative Compensation”

IFRS 9 stipulated that if a contractual term of a financial asset permits the issuer (i.e. the debtor) to prepay a debt instrument or permits the holder (i.e. the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of the principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination, the financial asset has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The amendments further explain that reasonable compensation may be paid or received by either of the parties, i.e. a party may receive reasonable compensation when it chooses to terminate the contract early.



Upon initial application of the above amendments, the Group will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

5) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3, IFRS 11, IAS 12 and IAS 23 “Borrowing Costs”, were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, the related borrowing costs shall be included in the calculation of the capitalization rate on general borrowings.

6) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Group will apply the above amendments prospectively.

Except for the above impacts, as of the date the financial statements were authorized for issue, the Group continues assessing other possible impacts that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group’s financial position and financial performance and will disclose these other impacts when the assessment is completed.

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

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

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

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

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

1) Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The amendments stipulate that, when the Group sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when the Group loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when the Group sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group's interest as an unrelated investor in the associate or joint venture, i.e. the Group's share of the gain or loss is eliminated. Also, when the Group loses control of a subsidiary that does not contain a business but retains significant influence or joint control over an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group's interest as an unrelated investor in the associate or joint venture, i.e. the Group's share of the gain or loss is eliminated.

## 2) Amendments to IFRS 3 "Definition of a Business"

The amendments clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Statement of compliance

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

### b. Basis of preparation

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

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

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

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

Current assets include:

- 1) Assets held primarily for the purpose of trading;

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

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Basis of consolidation

- Principles for preparing consolidated financial statements

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

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

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

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

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

See Note 15, Table 7 and 8 for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred and the fair value of the acquirer's previously held interests in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of the measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value.

f. Foreign currencies

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

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

Monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

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

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

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the group entities (including subsidiaries and associates in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to the non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

g. Inventories

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

h. Investments in associates

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of the equity of associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Company subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Group's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate is recognized in the Group's consolidated financial statements only to the extent that interests in the associate is not related to the Group.

i. Property, plant and equipment

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

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

Freehold land is not depreciated.

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

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

j. Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.



If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

k. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss.

Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

2) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

l. Impairment of tangible and intangible assets other than goodwill

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

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

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

m. Financial instruments

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



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

#### 1) Financial assets

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

##### a) Measurement categories

###### 2017

Financial assets are classified into the following categories: Financial assets at FVTPL, held-to-maturity investments, available-for-sale financial assets and loans and receivables.

##### i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are either held for trading or designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 33.

##### ii. Held-to-maturity investments

Corporate bonds is above specific credit ratings and which the Group has positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

##### iii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and presented as a separate line item as financial assets measured at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value of such financial assets is recognized in other comprehensive income. Any impairment losses are recognized in profit and loss.

iv. Loans and receivables

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

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and equity instruments at FVTOCI.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 33.

ii. Financial assets at amortized cost

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

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

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

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

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

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b) Impairment of financial assets and contract assets

2017

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

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

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

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

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial assets because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to impairment is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of such an investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

## 2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), investments in debt instruments that are measured at FVTOCI, lease receivables, as well as contract assets.

The Group always recognizes lifetime expected credit losses (i.e. ECLs) for trade receivables. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

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

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

c) Derecognition of financial assets

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

Before 2018, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

Debt and equity instruments issued by a group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

The repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

Except the following situations, all financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities are either held for trading or designated as at FVTPL.

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any interest or dividends paid on such financial liability. Fair value is determined in the manner described in Note 33.

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument; in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Before 2018, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. Starting from 2018, derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the host contracts are not measured at FVTPL.

n. Revenue recognition

2017

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

1) Revenue from the sale of goods

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

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

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

2) Dividend and interest income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the Group and that the amount of income can be measured reliably.

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

2018

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

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

o. Leasing

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

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

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

p. Borrowing costs

Borrowing costs directly attributable to an acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q. Employee benefits

1) Short-term employee benefits

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



## 2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur, or when the plan amendment or curtailment occurs. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

### r. Employee share options

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Group revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

### s. Taxation

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

#### 1) Current tax

According to the Income Tax Law, an additional tax at unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

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

#### 2) Deferred tax

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforwards and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

### 3) Current and deferred taxes for the year

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

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

### a. Estimated impairment of financial assets - 2017

When there is objective evidence of impairment loss of receivables, the Group takes into consideration the estimation of the future cash flows of such assets. The amount of impairment loss is measured as the difference between such an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

b. Estimated impairment of trade receivables - 2018

The provision for impairment of trade receivables, investments in debt instruments, and financial guarantee contracts is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Notes 9 and 13. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

c. Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value was based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

d. Impairment of property, plant and equipment

The impairment of equipment in relation to the production of passive components was based on the recoverable amounts of those assets, which are the higher of their fair value less costs of disposal and their value in use. Any changes in the market prices or future cash flows will affect the recoverable amounts of those assets and may lead to the recognition of additional impairment losses or reversal of impairment losses.

e. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The calculation of the value in use requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

## 6. CASH AND CASH EQUIVALENTS

|                                                                   | <b>December 31</b>  |                      |
|-------------------------------------------------------------------|---------------------|----------------------|
|                                                                   | <b>2017</b>         | <b>2018</b>          |
| Cash on hand                                                      | \$ 1,573            | \$ 2,743             |
| Demand deposits                                                   | 5,471,062           | 15,223,019           |
| Cash equivalents (with original maturities of less than 3 months) |                     |                      |
| Short-term bills                                                  | -                   | 127,835              |
| Time deposits                                                     | <u>288,254</u>      | <u>5,035,147</u>     |
|                                                                   | <u>\$ 5,760,889</u> | <u>\$ 20,388,744</u> |

The market rate intervals of cash in bank at the end of the reporting period were as follows:

|                  | <b>December 31</b> |             |
|------------------|--------------------|-------------|
|                  | <b>2017</b>        | <b>2018</b> |
| Short-term bills | -                  | 0.5%        |
| Demand deposits  | 0.01%-5.2%         | 0.01%-4.7%  |

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|                                                               | December 31       |                  |
|---------------------------------------------------------------|-------------------|------------------|
|                                                               | 2017              | 2018             |
| <u>Financial assets at FVTPL - current</u>                    |                   |                  |
| Financial assets held for trading                             |                   |                  |
| Derivative financial assets (not under hedge accounting)      |                   |                  |
| Foreign exchange forward contracts                            | \$ 1,359          | \$ -             |
| Non-derivative financial assets                               |                   |                  |
| Domestic quoted shares                                        |                   |                  |
| Walsin Technology Co., Ltd                                    | <u>210,000</u>    | <u>-</u>         |
|                                                               | <u>211,359</u>    | <u>-</u>         |
| Financial assets mandatorily classified as at FVTPL           |                   |                  |
| Derivative financial assets (not under hedge accounting)      |                   |                  |
| Foreign exchange forward contracts                            | -                 | 20,398           |
| Non-derivative financial assets                               |                   |                  |
| Domestic quoted shares                                        |                   |                  |
| Walsin Technology Co., Ltd                                    | <u>-</u>          | <u>60,060</u>    |
|                                                               | <u>-</u>          | <u>80,458</u>    |
|                                                               | <u>\$ 211,359</u> | <u>\$ 80,458</u> |
| <u>Financial assets at FVTPL - non-current</u>                |                   |                  |
| Non-derivative financial assets                               |                   |                  |
| Overseas unlisted shares                                      |                   |                  |
| Xmholder Technology Co., Ltd.                                 | \$ -              | \$ 43,092        |
| Domestic unlisted shares                                      |                   |                  |
| Hsin Bung International Co., Ltd.                             | -                 | 33,622           |
| Jihsun Securities Investment Trust Co., Ltd.                  | -                 | 12,000           |
| Linko International Golf & Country Club                       | <u>-</u>          | <u>482</u>       |
|                                                               | <u>\$ -</u>       | <u>\$ 89,196</u> |
| <u>Financial liabilities - current</u>                        |                   |                  |
| Financial liabilities held for trading                        |                   |                  |
| Derivative financial liabilities (not under hedge accounting) |                   |                  |
| Foreign exchange forward contracts                            | \$ 82,995         | \$ -             |
| Financial assets mandatorily classified as at FVTPL           |                   |                  |
| Derivative financial liabilities (not under hedge accounting) |                   |                  |
| Foreign exchange forward contracts                            | <u>-</u>          | <u>27,674</u>    |
|                                                               | <u>\$ 82,995</u>  | <u>\$ 27,674</u> |

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

|                          | Currency | Maturity              | Notional Amount<br>(In Thousands) |
|--------------------------|----------|-----------------------|-----------------------------------|
| <u>December 31, 2017</u> |          |                       |                                   |
| Buy                      | USD/NTD  | 2018.01.02-2018.01.31 | USD303,500/NTD9,105,480           |
| Buy                      | EUR/USD  | 2018.01.05            | EUR6,000/USD7,133                 |
| Buy                      | USD/RMB  | 2018.09.10-2018.09.17 | USD30,000/RMB200,514              |
| Buy                      | USD/RMB  | 2018.01.03            | USD3,050/RMB19,944                |
| Sell                     | USD/RMB  | 2018.01.22            | USD6,000/RMB39,813                |
| Sell                     | EUR/USD  | 2018.01.07-2018.02.22 | EUR9,770/USD11,931                |
| <u>December 31, 2018</u> |          |                       |                                   |
| Buy                      | USD/NTD  | 2019.01.04-2019.01.28 | USD581,500/NTD17,903,315          |
| Buy                      | EUR/USD  | 2019.01.07            | EUR6,000/USD6,831                 |
| Sell                     | EUR/CZK  | 2019.01.31-2019.04.30 | EUR1,750/CZK46,486                |

The Group entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities.

#### 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

|                                                    | December 31,<br>2018 |
|----------------------------------------------------|----------------------|
| <u>Non-current</u>                                 |                      |
| Investments in equity instruments at FVTOCI        | <u>\$ 2,226,976</u>  |
| <u>Investments in equity instruments at FVTOCI</u> |                      |
|                                                    | December 31,<br>2018 |
| <u>Non-current</u>                                 |                      |
| Domestic investments                               |                      |
| Listed shares and emerging market shares           |                      |
| TA-I Technology Co., Ltd.                          | \$ 1,327,605         |
| Foreign investments                                |                      |
| Overseas listed shares                             |                      |
| SHS KOA Corp.                                      | <u>899,371</u>       |
|                                                    | <u>\$ 2,226,976</u>  |

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Note 3 and Note 10 for information relating to their reclassification and comparative information for 2017.

## 9. FINANCIAL ASSETS AT AMORTIZED COST

**December 31,  
2018**

### Current

#### Domestic investments

|                                                                |                     |
|----------------------------------------------------------------|---------------------|
| Time deposits with original maturity of more than 3 months (a) | <u>\$ 8,568,937</u> |
|----------------------------------------------------------------|---------------------|

### Non-current

#### Foreign investments

|                     |                     |
|---------------------|---------------------|
| Corporate bonds (b) | <u>\$ 6,946,640</u> |
|---------------------|---------------------|

- a. The interest rates for time deposits with original maturity of more than 3 months were from 3.10% to 5.40% as at the end of the reporting period. The time deposits were classified as debt investments with no active market under IAS 39. Refer to Notes 3 and 12 for information relating to their reclassification and comparative information for 2017.
  
- b. From August to October 2017 and August to November 2018, the Group bought corporate bonds at face value of \$230,100 and \$6,695 in thousand U.S. dollars with the coupon rates of 2.95% to 5.50% and 4.10%-4.88%, and the effective interest rates of 2.53% to 4.35% and 3.84%-3.95%, respectively. The bonds were classified as held-to-maturity financial assets under IAS 39. Refer to Note 3 and Note 11 for information relating to their reclassification and comparative information for 2017.

In October 2018, part of the bonds were sold to manage credit concentration risk; the bonds were sold at fair value of \$550,229.

## 10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

December 31,  
2017

### Non-current

#### Domestic investments

##### Listed shares and emerging market shares

TA-I Technology Co., Ltd.

\$ 1,049,349

Honey Hope Honesty Enterprise Co., Ltd.

42,800

##### Unlisted shares

Xmholder Technology Co., Ltd.

44,122

Hsin Bung International Co., Ltd.

33,622

Jihsun Securities Investment Trust Co., Ltd.

12,000

Parawin Venture Capital Corp.

10,669

Linko International Golf & Country Club

482

1,193,044

#### Foreign investments

##### Overseas listed shares

SHS KOA Corp.

3,154,281

\$ 4,347,325

## 11. HELD-TO-MATURITY FINANCIAL ASSETS

December 31,  
2017

### Non-current

#### Foreign investments

##### Corporate bonds

\$ 7,133,802

The Group's investments in bonds were as follows:

December 31,  
2017

Total par value (in thousand U.S. dollars)

\$ 230,100

Coupon rates

2.95%-5.50%

Effective interest rates

2.29%-4.58%

Average time to maturity (in years)

2024

## 12. DEBT INVESTMENTS WITH NO ACTIVE MARKET

December 31,  
2017

### Current

Time deposits with original maturities of more than 3 months

\$ 11,575,280



The market interest rates of the time deposits with original maturities more than 3 months were 1.95%-5.05% per annum at December 31, 2017.

### 13. NOTES RECEIVABLE AND TRADE RECEIVABLES

|                                             | <b>December 31</b>   |                      |
|---------------------------------------------|----------------------|----------------------|
|                                             | <b>2017</b>          | <b>2018</b>          |
| <u>Notes receivable</u>                     |                      |                      |
| At amortized cost                           |                      |                      |
| Gross carrying amount                       | <u>\$ 1,196,757</u>  | <u>\$ 553,176</u>    |
| Notes receivable - operating                | <u>\$ 1,196,757</u>  | <u>\$ 553,176</u>    |
| <u>Trade receivables</u>                    |                      |                      |
| At amortized cost                           |                      |                      |
| Gross carrying amount                       | \$ 10,237,622        | \$ 20,767,427        |
| Less: Allowance for impairment loss         | <u>(50,142)</u>      | <u>(1,614,602)</u>   |
|                                             | <u>\$ 10,187,480</u> | <u>\$ 19,152,825</u> |
| Trade receivables - related party (Note 34) | <u>\$ 358,957</u>    | <u>\$ 99,126</u>     |

#### Trade Receivables

##### For the year ended December 31, 2017

The Group applied the same credit policy in 2017 and 2018. The average credit period of sales of goods was 30-90 days. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the Trade receivable since the date credit was initially granted to the end of the reporting period. The Group recognized an allowance for impairment loss of 100% against all receivables over 365 days because historical experience was that receivables that are past due beyond 365 days are not recoverable. Allowance for impairment loss was recognized against trade receivables between 61 days and 365 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial positions.

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

The aging of receivables was as follows:

|                    | <b>December 31,<br/>2017</b> |
|--------------------|------------------------------|
| Current term       | \$ 9,845,405                 |
| Past due           |                              |
| 1-60 days          | 694,297                      |
| 61-90 days         | 5,997                        |
| 91-181 days        | 8,329                        |
| More than 181 days | <u>42,551</u>                |
|                    | <u>\$ 10,596,579</u>         |

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

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

|                   | <b>December 31,<br/>2017</b> |
|-------------------|------------------------------|
| Less than 60 days | <u>\$ 694,297</u>            |

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

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

|                                                                              | <b>Individually<br/>Assessed for<br/>Impairment</b> | <b>Collectively<br/>Assessed for<br/>Impairment</b> | <b>Total</b>     |
|------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|------------------|
| Balance at January 1, 2017                                                   | \$ -                                                | \$ 52,059                                           | \$ 52,059        |
| Add: Impairment loss recognized (reversal of impairment loss) on receivables | 24,287                                              | (371)                                               | 23,916           |
| Less: Amounts written off during the year as uncollectable                   | -                                                   | (23,432)                                            | (23,432)         |
| Foreign exchange translation gains and losses                                | <u>-</u>                                            | <u>(2,401)</u>                                      | <u>(2,401)</u>   |
| Balance at December 31, 2017                                                 | <u>\$ 24,287</u>                                    | <u>\$ 25,855</u>                                    | <u>\$ 50,142</u> |

For the year ended December 31, 2018

The average credit period of sales of goods was 30-90 days. No interest was charged on trade receivables. The Group adopted a policy of dealing with major customers that the Group could use other publicly available financial information or its own trading records to rate and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

In order to minimize credit risk, the management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

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

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

The aging of receivables was as follows:

|                    | <b>December 31,<br/>2018</b> |
|--------------------|------------------------------|
| Current term       | \$ 15,054,779                |
| Past due           |                              |
| 1-60 days          | 4,479,367                    |
| 61-90 days         | 476,379                      |
| 91-181 days        | 750,791                      |
| More than 181 days | <u>105,237</u>               |
|                    | <u><b>\$ 20,866,553</b></u>  |

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

The movements of the loss allowance of trade receivables were as follows:

|                                                | <b>For the Year<br/>Ended<br/>December 31,<br/>2018</b> |
|------------------------------------------------|---------------------------------------------------------|
| Balance at January 1, 2018 (IAS 39 and IFRS 9) | \$ 50,142                                               |
| Acquisitions through business combinations     | 30,988                                                  |
| Add: Net remeasurement of loss allowance       | 1,504,052                                               |
| Less: Amounts written off                      | (468)                                                   |
| Foreign exchange gains and losses              | <u>29,888</u>                                           |
| Balance at December 31, 2018                   | <u><b>\$ 1,614,602</b></u>                              |

#### 14. INVENTORIES

|                                | <b>December 31</b>         |                             |
|--------------------------------|----------------------------|-----------------------------|
|                                | <b>2017</b>                | <b>2018</b>                 |
| Finished goods and merchandise | \$ 2,251,635               | \$ 4,016,387                |
| Work in progress               | 700,312                    | 1,954,122                   |
| Raw materials                  | 1,743,034                  | 4,205,334                   |
| Supplies                       | 137,114                    | 285,790                     |
| Inventory in transit           | <u>39,906</u>              | <u>11,444</u>               |
|                                | <u><b>\$ 4,872,001</b></u> | <u><b>\$ 10,473,077</b></u> |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2018 was \$21,760,490 thousand and \$28,310,343 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2018 included inventory write-downs of \$47,477 thousand and \$77,515 thousand, respectively.

## 15. SUBSIDIARIES

Entities included in the consolidated financial statements:

| Investor                                                | Investee                                  | Nature of Activities                                                                   | Proportion of Ownership (%)                                                            |        | Remark |
|---------------------------------------------------------|-------------------------------------------|----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|--------|--------|
|                                                         |                                           |                                                                                        | December 31                                                                            |        |        |
|                                                         |                                           |                                                                                        | 2017                                                                                   | 2018   |        |
| Yageo Corporation                                       | Yageo Holding (Bermuda) Ltd.              | Investment                                                                             | 100.00                                                                                 | 100.00 |        |
|                                                         | Ko-Shin Investment Ltd.                   | Investment                                                                             | 100.00                                                                                 | 100.00 |        |
|                                                         | Ferroxcube (Samoa) Holding Ltd.           | Investment                                                                             | 100.00                                                                                 | 100.00 |        |
|                                                         | Brightking Holdings Limited               | Holding company                                                                        | -                                                                                      | 100.00 | c.     |
|                                                         | Yageo Corporation (South Asia) Pte. Ltd.  | Electronic component selling                                                           | 100.00                                                                                 | 100.00 |        |
|                                                         | Yageo Europe Holding B.V.                 | Holding company                                                                        | 100.00                                                                                 | 100.00 |        |
|                                                         | Yageo America Corporation                 | Electronic component selling                                                           | 100.00                                                                                 | 100.00 |        |
|                                                         | Yageo South Asia (M) Sdn. Bhd.            | Electronic component selling                                                           | 100.00                                                                                 | 100.00 |        |
|                                                         | Yageo Holding (Cayman) Limited            | Holding company                                                                        | -                                                                                      | 100.00 | b.     |
| Yageo Holding (Bermuda) Ltd.                            | Pulse Electronics Corporation             | Holding company                                                                        | -                                                                                      | 100.00 | d.     |
|                                                         | Yageo (Hong Kong) Limited                 | Investment                                                                             | 100.00                                                                                 | 100.00 |        |
|                                                         | Yageo USA (H.K.) Limited                  | Passive component selling                                                              | 100.00                                                                                 | 100.00 |        |
|                                                         | Ko-E Holding (Cayman)                     | Holding company                                                                        | 83.83                                                                                  | 83.83  |        |
|                                                         | Vitrohm Holding GmbH                      | Investment                                                                             | 100.00                                                                                 | 100.00 |        |
|                                                         | Yageo Korea                               | Resistor selling                                                                       | 100.00                                                                                 | 100.00 |        |
|                                                         | Yageo Japan                               | Resistor selling                                                                       | 100.00                                                                                 | 100.00 |        |
|                                                         | Hsu Tai International (H.K.) Ltd.         | Investment                                                                             | 100.00                                                                                 | 100.00 |        |
|                                                         | Brightking Holdings Limited               | Brightking Enterprise (H.K.) Co., Ltd.                                                 | Manufacturing and selling overvoltage and overcurrent protection electronic components | -      | 100.00 |
| Pulse Electronics Corporation                           | Egston Holding GmbH                       | Investment                                                                             | -                                                                                      | 100.00 | d.     |
| Yageo (Hong Kong) Limited                               | Yageo Electronics (China) Co., Ltd.       | Passive component manufacturing and selling                                            | 100.00                                                                                 | 100.00 |        |
|                                                         | Yageo Electronics (Dongguan) Co., Ltd.    | Passive component manufacturing and selling                                            | 100.00                                                                                 | 100.00 |        |
|                                                         | Yageo (Suzhou) Trade Co., Ltd.            | Passive component selling                                                              | 100.00                                                                                 | 100.00 |        |
|                                                         | Yageo Components (Suzhou) Co., Ltd.       | Passive component manufacturing and selling                                            | 100.00                                                                                 | 100.00 |        |
|                                                         | Compostar Technology (Dongguan) Co., Ltd. | Passive component manufacturing and selling                                            | 100.00                                                                                 | 100.00 |        |
| Ko-E Holding (Cayman)                                   | Ko-E (H.K.) Limited                       | Electronic component selling                                                           | 100.00                                                                                 | 100.00 |        |
|                                                         | Ko-E Corp.                                | Electronic component selling                                                           | 100.00                                                                                 | 100.00 |        |
| Brightking Enterprise (H.K.) Co., Ltd.                  | Bestbright Electronics Co., Ltd.          | Manufacturing and selling overvoltage and overcurrent protection electronic components | -                                                                                      | 100.00 | c.     |
|                                                         | Brightking Electronics Inc.               | Selling overvoltage and overcurrent protection electronic components                   | -                                                                                      | 100.00 | c.     |
|                                                         | Brightking Electronics Co., Ltd.          | Manufacturing and selling overvoltage and overcurrent protection electronic components | -                                                                                      | 100.00 | c.     |
|                                                         | Bestbright Electronics Co., Ltd. (Taiwan) | Manufacturing and selling overvoltage and overcurrent protection electronic components | -                                                                                      | 100.00 | c.     |
|                                                         | Huizhou Lien Shun Electronics Co., Ltd.   | Manufacturing and selling overvoltage protection electronic components                 | -                                                                                      | 23.87  | c.     |
| Ko-E (H.K.) Limited<br>Bestbright Electronics Co., Ltd. | Ko-E Technology (Shenzhen) Co., Ltd.      | Electronic component selling                                                           | 100.00                                                                                 | 100.00 |        |
|                                                         | Brightking (Shenzhen) Co., Ltd.           | Selling overvoltage and overcurrent protection electronic components                   | -                                                                                      | 100.00 | c.     |
|                                                         | Ceramate Technical (Suzhou) Co., Ltd.     | Manufacturing and selling overvoltage protection electronic components                 | -                                                                                      | 100.00 | c.     |

(Continued)

| Investor                        | Investee                                  | Nature of Activities                                                   | Proportion of Ownership (%) |        | Remark |
|---------------------------------|-------------------------------------------|------------------------------------------------------------------------|-----------------------------|--------|--------|
|                                 |                                           |                                                                        | December 31                 |        |        |
|                                 |                                           |                                                                        | 2017                        | 2018   |        |
| Brightking (Shenzhen) Co., Ltd. | Zhejiang Bestbright Electronics Co., Ltd. | Manufacturing and selling overvoltage protection electronic components | -                           | 100.00 | c.     |
|                                 | Brightking (Shanghai) Co., Ltd.           | Selling overvoltage and overcurrent protection electronic components   | -                           | 100.00 | c.     |
|                                 | Brightking (Beijing) Co., Ltd.            | Selling overvoltage and overcurrent protection electronic components   | -                           | 100.00 | c.     |
|                                 | Huizhou Lien Shun Electronics Co., Ltd.   | Manufacturing and selling overvoltage protection electronic components | -                           | 71.63  | c.     |

(Concluded)

Remarks:

- On August 1, 2017, the Company sold 100% of its interest of Ferroxcube International Holding B.V. (“Ferroxcube”) in a cash settlement amounting to €133,188 thousand.
- Established in May 2018.
- The Company acquired 100% of interests of Brightking Holdings Limited in a cash settlement amounting to NT\$3,328,253 thousand in 2018.
- The Company acquired 100% of interests of Pulse Electronics Corporation in a cash settlement amounting to US\$721,461 thousand in 2018.

## 16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

### Investments in Associates

|                                               | December 31         |                     |
|-----------------------------------------------|---------------------|---------------------|
|                                               | 2017                | 2018                |
| Material associates                           |                     |                     |
| Chilisin Electronics Corp.                    | \$ 2,585,773        | \$ 5,158,426        |
| Teapo Electronics Corporation                 | 363,523             | 615,983             |
| Global Testing Corporation Limited (GTCL)     | <u>353,500</u>      | <u>276,882</u>      |
|                                               | <u>3,302,796</u>    | <u>6,051,291</u>    |
| Associates that are not individually material |                     |                     |
| Strong Components Co., Ltd.                   | 86,172              | 88,161              |
| Belkin International Enterprises Ltd. (Samoa) | 59,170              | 35,061              |
| Guo Chuang Electronics (Dongguan) Co., Ltd.   | <u>31,986</u>       | <u>31,429</u>       |
|                                               | <u>177,328</u>      | <u>154,651</u>      |
|                                               | <u>\$ 3,480,124</u> | <u>\$ 6,205,942</u> |

## Material Associates

| Name of Subsidiary         | Proportion of Ownership and<br>Voting Rights |        |
|----------------------------|----------------------------------------------|--------|
|                            | December 31                                  |        |
|                            | 2017                                         | 2018   |
| Chilisin Electronics Corp. | 18.65%                                       | 12.47% |
| Teapo Electronic Corp.     | 14.86%                                       | 14.86% |
| GTCL                       | 28.48%                                       | 28.61% |

Refer to Table 7 “Information on Investees” and Table 8 “Information on Investments in Mainland China” for the nature of activities, principal places of business and countries of incorporation of the associates.

Fair values (Level 1) of investments in associates with available published price quotations are summarized as follows:

| Name of Associate          | December 31         |                     |
|----------------------------|---------------------|---------------------|
|                            | 2017                | 2018                |
| Chilisin Electronics Corp. | \$ 4,197,277        | \$ 2,379,300        |
| Teapo Electronic Corp.     | 595,645             | 545,328             |
| GTCL                       | <u>224,322</u>      | <u>135,845</u>      |
|                            | <u>\$ 5,017,244</u> | <u>\$ 3,060,473</u> |

Investments in Chilisin Electronics Corp. and Teapo Electronics were accounted for by the equity method since the Group had significant influence over it or the Group’s proportion of ownership was over 20%.

The financial statements of some investment in associates - Strong Components Co., Ltd., Belkin International Enterprises Ltd. (Samoa), and Guo Chuang Electronics (Dongguan) Co., Ltd. as of and for the years ended December 31, 2017 and 2018 had been audited by other auditors.

## 17. PROPERTY, PLANT AND EQUIPMENT

|                                                    | Freehold Land     | Buildings            | Machinery<br>Equipment | Other<br>Equipment  | Construction in<br>Progress and<br>Unaccepted<br>Equipment | Total                |
|----------------------------------------------------|-------------------|----------------------|------------------------|---------------------|------------------------------------------------------------|----------------------|
| <u>Cost</u>                                        |                   |                      |                        |                     |                                                            |                      |
| Balance at January 1, 2017                         | \$ 710,132        | \$ 11,714,623        | \$ 25,034,746          | \$ 1,896,709        | \$ 481,628                                                 | \$ 39,837,838        |
| Additions                                          | -                 | 898                  | 4,293                  | 7,468               | 5,975,093                                                  | 5,987,752            |
| Disposals                                          | -                 | (44,193)             | (865,045)              | (84,244)            | (104)                                                      | (993,586)            |
| Effect of foreign currency<br>exchange differences | 3,935             | (39,287)             | (130,299)              | 7,154               | 15,875                                                     | (142,622)            |
| Reclassifications                                  | <u>-</u>          | <u>428,347</u>       | <u>3,269,391</u>       | <u>144,633</u>      | <u>(3,874,523)</u>                                         | <u>(32,152)</u>      |
| Balance at December 31, 2017                       | <u>\$ 714,067</u> | <u>\$ 12,060,388</u> | <u>\$ 27,313,086</u>   | <u>\$ 1,971,720</u> | <u>\$ 2,597,969</u>                                        | <u>\$ 44,657,230</u> |

(Continued)

|                                                      | Freehold Land     | Buildings            | Machinery Equipment  | Other Equipment     | Construction in Progress and Unaccepted Equipment | Total                |
|------------------------------------------------------|-------------------|----------------------|----------------------|---------------------|---------------------------------------------------|----------------------|
| <u>Accumulated depreciation and impairment</u>       |                   |                      |                      |                     |                                                   |                      |
| Balance at January 1, 2017                           | \$ 202,067        | \$ 5,450,524         | \$ 20,356,831        | \$ 1,670,799        | \$ -                                              | \$ 27,680,221        |
| Disposals                                            | -                 | (43,055)             | (844,082)            | (82,581)            | -                                                 | (969,718)            |
| Depreciation expense                                 | -                 | 473,757              | 1,224,961            | 83,613              | -                                                 | 1,782,331            |
| Effect of foreign currency exchange differences      | 1,741             | (1,046)              | (61,335)             | (49,841)            | -                                                 | (110,481)            |
| Balance at December 31, 2017                         | <u>\$ 203,808</u> | <u>\$ 5,880,180</u>  | <u>\$ 20,676,375</u> | <u>\$ 1,621,990</u> | <u>\$ -</u>                                       | <u>\$ 28,382,353</u> |
| Carrying amounts at December 31, 2017                | <u>\$ 510,259</u> | <u>\$ 6,180,208</u>  | <u>\$ 6,636,711</u>  | <u>\$ 349,730</u>   | <u>\$ 2,597,969</u>                               | <u>\$ 16,274,877</u> |
| <u>Cost</u>                                          |                   |                      |                      |                     |                                                   |                      |
| Balance at January 1, 2018                           | \$ 714,067        | \$ 12,060,388        | \$ 27,313,086        | \$ 1,971,720        | \$ 2,597,969                                      | \$ 44,657,230        |
| Additions                                            | -                 | 664                  | 69,556               | 29,602              | 8,798,103                                         | 8,897,925            |
| Disposals                                            | -                 | (182,179)            | (944,410)            | (58,365)            | -                                                 | (1,184,954)          |
| Effect of foreign currency exchange differences      | (1,081)           | (188,276)            | (374,376)            | (50,773)            | (40,215)                                          | (654,721)            |
| Reclassifications                                    | -                 | 1,437,710            | 7,165,433            | 257,274             | (8,904,220)                                       | (43,803)             |
| Acquisitions through business combinations (Note 29) | 17,962            | 409,195              | 3,696,182            | 849,664             | 212,378                                           | 5,185,381            |
| Balance at December 31, 2018                         | <u>\$ 730,948</u> | <u>\$ 13,537,502</u> | <u>\$ 36,925,471</u> | <u>\$ 2,999,122</u> | <u>\$ 2,664,015</u>                               | <u>\$ 56,857,058</u> |
| <u>Accumulated depreciation and impairment</u>       |                   |                      |                      |                     |                                                   |                      |
| Balance at January 1, 2018                           | \$ 203,808        | \$ 5,880,180         | \$ 20,676,375        | \$ 1,621,990        | \$ -                                              | \$ 28,382,353        |
| Disposals                                            | -                 | (180,063)            | (843,965)            | (46,141)            | -                                                 | (1,070,169)          |
| Depreciation expense                                 | -                 | 533,774              | 6,846,137            | 120,306             | -                                                 | 7,500,217            |
| Effect of foreign currency exchange differences      | -                 | (70,756)             | (273,092)            | (43,522)            | -                                                 | (387,370)            |
| Acquisitions through business combinations (Note 29) | -                 | 222,322              | 2,528,571            | 568,745             | -                                                 | 3,319,638            |
| Balance at December 31, 2018                         | <u>\$ 203,808</u> | <u>\$ 6,385,457</u>  | <u>\$ 28,934,026</u> | <u>\$ 2,221,378</u> | <u>\$ -</u>                                       | <u>\$ 37,744,669</u> |
| Carrying amounts at December 31, 2018                | <u>\$ 527,140</u> | <u>\$ 7,152,045</u>  | <u>\$ 7,991,445</u>  | <u>\$ 777,744</u>   | <u>\$ 2,664,015</u>                               | <u>\$ 19,112,389</u> |

(Concluded)

The above items of property, plant and equipment were depreciated on a straight-line basis over the estimated useful live as follow:

|                     |             |
|---------------------|-------------|
| Building            |             |
| Main buildings      | 50-56 years |
| Engineering system  | 40-56 years |
| Others              | 1-20 years  |
| Machinery equipment | 1-20 years  |
| Other equipment     | 1-20 years  |

Property, plant and equipment pledged as collateral for bank borrowings were set out in Note 35.



## 18. GOODWILL

|                                                      | <b>For the Year Ended December 31</b> |                      |
|------------------------------------------------------|---------------------------------------|----------------------|
|                                                      | <b>2017</b>                           | <b>2018</b>          |
| <u>Cost</u>                                          |                                       |                      |
| Balance at January 1                                 | \$ 1,989,296                          | \$ 2,074,005         |
| Acquisitions through business combinations (Note 29) | -                                     | 17,826,168           |
| Effect of foreign currency exchange differences      | <u>84,709</u>                         | <u>565,853</u>       |
| Balance at December 31                               | <u>\$ 2,074,005</u>                   | <u>\$ 20,466,026</u> |

The recoverable amount of the cash-generating unit was determined based on a value in use calculation. The Group's management estimated the recoverable amounts of core assets at their expected useful lives and thus based the cash flow forecast with the following discount rates as of December 31, 2017 and 2018: 8.15% and 14.82%, respectively. The operating revenue forecast was based on the expected future growth rate of the passive product industry along with the projected advancement of the Group's own business. The Group's management believed that any reasonable changes in the principal assumptions would not result in the carrying values exceeding the recoverable amounts. As of December 31, 2017 and 2018, there was no indication of impairment loss based on the principal assumptions.

## 19. OTHER INTANGIBLE ASSETS

|                                                    | <b>Computer<br/>Software</b> | <b>Expertise</b> | <b>Client<br/>Relations</b> | <b>Trade Mark</b> | <b>Total</b>      |
|----------------------------------------------------|------------------------------|------------------|-----------------------------|-------------------|-------------------|
| <u>Cost</u>                                        |                              |                  |                             |                   |                   |
| Balance at January 1, 2017                         | \$ 192,221                   | \$ -             | \$ -                        | \$ -              | \$ 192,221        |
| Additions                                          | 12,250                       | -                | -                           | -                 | 12,250            |
| Disposals                                          | (13,871)                     | -                | -                           | -                 | (13,871)          |
| Reclassifications                                  | 38,171                       | -                | -                           | -                 | 38,171            |
| Effect of foreign currency<br>exchange differences | <u>(435)</u>                 | <u>-</u>         | <u>-</u>                    | <u>-</u>          | <u>(435)</u>      |
| Balance at December 31, 2017                       | <u>\$ 228,336</u>            | <u>\$ -</u>      | <u>\$ -</u>                 | <u>\$ -</u>       | <u>\$ 228,336</u> |
| <u>Accumulated amortization and<br/>impairment</u> |                              |                  |                             |                   |                   |
| Balance at January 1, 2017                         | \$ 100,856                   | \$ -             | \$ -                        | \$ -              | \$ 100,856        |
| Amortization expenses                              | 55,701                       | -                | -                           | -                 | 55,701            |
| Disposals                                          | (13,871)                     | -                | -                           | -                 | (13,871)          |
| Effect of foreign currency<br>exchange differences | <u>(432)</u>                 | <u>-</u>         | <u>-</u>                    | <u>-</u>          | <u>(432)</u>      |
| Balance at December 31, 2017                       | <u>\$ 142,254</u>            | <u>\$ -</u>      | <u>\$ -</u>                 | <u>\$ -</u>       | <u>\$ 142,254</u> |
| Carrying amounts at<br>December 31, 2017           | <u>\$ 86,082</u>             | <u>\$ -</u>      | <u>\$ -</u>                 | <u>\$ -</u>       | <u>\$ 86,082</u>  |

(Continued)

|                                                      | <b>Computer<br/>Software</b> | <b>Expertise</b>  | <b>Client<br/>Relations</b> | <b>Trade Mark</b>   | <b>Total</b>        |
|------------------------------------------------------|------------------------------|-------------------|-----------------------------|---------------------|---------------------|
| <u>Cost</u>                                          |                              |                   |                             |                     |                     |
| Balance at January 1, 2018                           | \$ 228,336                   | \$ -              | \$ -                        | \$ -                | \$ 228,336          |
| Additions                                            | 10,012                       | -                 | -                           | -                   | 10,012              |
| Reclassifications                                    | 32,146                       | -                 | -                           | -                   | 32,146              |
| Acquisitions through business combinations (Note 29) | 25,397                       | 267,000           | 337,000                     | 3,357,150           | 3,986,547           |
| Effect of foreign currency exchange differences      | <u>(23)</u>                  | <u>-</u>          | <u>-</u>                    | <u>-</u>            | <u>(23)</u>         |
| Balance at December 31, 2018                         | <u>\$ 295,868</u>            | <u>\$ 267,000</u> | <u>\$ 337,000</u>           | <u>\$ 3,357,150</u> | <u>\$ 4,257,018</u> |
| <u>Accumulated amortization and impairment</u>       |                              |                   |                             |                     |                     |
| Balance at January 1, 2018                           | \$ 142,254                   | \$ -              | \$ -                        | \$ -                | \$ 142,254          |
| Amortization expenses                                | 47,331                       | 11,609            | 17,737                      | -                   | 76,677              |
| Acquisitions through business combinations (Note 29) | 5,419                        | -                 | -                           | -                   | 5,419               |
| Effect of foreign currency exchange differences      | <u>574</u>                   | <u>-</u>          | <u>-</u>                    | <u>-</u>            | <u>574</u>          |
| Balance at December 31, 2018                         | <u>\$ 195,578</u>            | <u>\$ 11,609</u>  | <u>\$ 17,737</u>            | <u>\$ -</u>         | <u>\$ 224,924</u>   |
| Carrying amounts at December 31, 2018                | <u>\$ 100,290</u>            | <u>\$ 255,391</u> | <u>\$ 319,263</u>           | <u>\$ 3,357,150</u> | <u>\$ 4,032,094</u> |

(Concluded)

The trademark acquired through business combinations for the year was NT\$3,357,150 thousand. Various studies including industrial characteristics, product life cycle studies and enterprise characteristics have been performed by management of the Group, which supported their opinion that there is no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows. Therefore, the trademark is considered to have an indefinite useful life. The trademark will not be amortized until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

## 20. PREPAYMENTS FOR LEASES

|                                        | <b>December 31</b> |                   |
|----------------------------------------|--------------------|-------------------|
|                                        | <b>2017</b>        | <b>2018</b>       |
| Current asset (included in prepayment) | \$ 2,433           | \$ 2,376          |
| Non-current asset                      | <u>73,061</u>      | <u>110,730</u>    |
|                                        | <u>\$ 75,494</u>   | <u>\$ 113,106</u> |

As of December 31, 2017 and 2018, lease prepayments included rights to use the land in Mainland China with carrying amounts of \$75,494 thousand and \$113,106 thousand, respectively.

## 21. BORROWINGS

### a. Short-term borrowings

|                             | <b>December 31</b>   |                      |
|-----------------------------|----------------------|----------------------|
|                             | <b>2017</b>          | <b>2018</b>          |
| <u>Unsecured borrowings</u> |                      |                      |
| Line of credit borrowings   | <u>\$ 17,624,878</u> | <u>\$ 23,667,981</u> |

The effective interest rates for bank loans had ranges of 0.84%-4.20% and 0.70%-4.20% per annum as of December 31, 2017 and 2018, respectively.

### b. Short-term bills payable

|                                             | <b>For the Year Ended December 31</b> |                   |
|---------------------------------------------|---------------------------------------|-------------------|
|                                             | <b>2017</b>                           | <b>2018</b>       |
| Commercial paper                            | \$ 1,100,000                          | \$ 500,000        |
| Less: Unamortized discount on bills payable | <u>228</u>                            | <u>513</u>        |
|                                             | <u>\$ 1,099,772</u>                   | <u>\$ 499,487</u> |

Outstanding short-term bills payable as follows:

#### December 31, 2017

| Promissory Institutions | Nominal Amount      | Discount Amount | Carrying Value      | Interest Rate | Collateral | Carrying Value of Collateral |
|-------------------------|---------------------|-----------------|---------------------|---------------|------------|------------------------------|
| <u>Commercial paper</u> |                     |                 |                     |               |            |                              |
| International Bills     | \$ 500,000          | \$ 164          | \$ 499,836          | 0.918%        | -          | \$ -                         |
| China Bills             | <u>600,000</u>      | <u>64</u>       | <u>599,936</u>      | 0.918%        | -          | <u>-</u>                     |
|                         | <u>\$ 1,100,000</u> | <u>\$ 228</u>   | <u>\$ 1,099,772</u> |               |            | <u>\$ -</u>                  |

#### December 31, 2018

| Promissory Institutions | Nominal Amount    | Discount Amount | Carrying Value    | Interest Rate | Collateral | Carrying Value of Collateral |
|-------------------------|-------------------|-----------------|-------------------|---------------|------------|------------------------------|
| <u>Commercial paper</u> |                   |                 |                   |               |            |                              |
| Mega Bills              | <u>\$ 500,000</u> | <u>\$ 513</u>   | <u>\$ 499,487</u> | 0.968%        | -          | <u>\$ -</u>                  |

c. Long-term borrowings

|                             | <b>December 31</b>  |                     |
|-----------------------------|---------------------|---------------------|
|                             | <b>2017</b>         | <b>2018</b>         |
| <u>Secured borrowings</u>   |                     |                     |
| Bank loans                  | \$ 5,500,000        | \$ 7,500,000        |
| <u>Unsecured borrowings</u> |                     |                     |
| Line of credit borrowings   | <u>-</u>            | <u>1,500,000</u>    |
|                             | <u>\$ 5,500,000</u> | <u>\$ 9,000,000</u> |

The effective interest rate of long-term bank loans was 1.7970% and 0.9800%-1.7970% per annum as of December 31, 2017 and 2018, respectively.

The Company signed a \$10,800,000 thousand syndicated loan agreement with Mega International Commercial Bank and twenty one other financial institutions on April 10, 2017. The terms of the loans are summarized as follows:

| <b>Credit Lines</b> | <b>Credit Period</b>                  | <b>Interest Rate</b>                                                             | <b>Repayment Agreement</b>                                                                  |
|---------------------|---------------------------------------|----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| \$ 10,800,000       | Five years after the date of contract | Fixed rate (0.6%) based on a specific average rate of notes transacted in Taiwan | Four quarterly installments from the 42 <sup>nd</sup> month after the contract signing date |

The Company signed a \$1,500,000 thousand medium agreement with MUFG Bank, Ltd. on March 23, 2018. The terms of the loans are summarized as follows:

| <b>Credit Lines</b> | <b>Credit Period</b>                          | <b>Interest Rate</b>                                                         | <b>Repayment Agreement</b>                    |
|---------------------|-----------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------------|
| \$ 1,500,000        | Three years after the date of first borrowing | Fixed rate 0.98% for the first year, and 0.99% for the second and third year | Three years after the date of first borrowing |

Under the loan agreement, the Company should collateralize the freehold land, the office buildings and machinery equipment of the factory located in the administrative office in Xindian in New Taipei City and in the Nan-Zi Branch and in the Da-fa industrial estate and a capacitor-line factory in a village in Dashe in Kaohsiung City. The Company will have to maintain its interim and annual current ratios, debt ratios and interest coverage ratios at percentages specified in the agreement.

## 22. OTHER LIABILITIES

|                                                                                      | December 31         |                      |
|--------------------------------------------------------------------------------------|---------------------|----------------------|
|                                                                                      | 2017                | 2018                 |
| <u>Current</u>                                                                       |                     |                      |
| Other payables                                                                       |                     |                      |
| Payables for compensation of employees and remuneration of directors and supervisors | \$ 562,005          | \$ 2,527,914         |
| Payables for salaries or bonuses                                                     | 1,313,637           | 1,372,575            |
| Payables for purchases of equipment                                                  | 1,317,161           | 1,140,176            |
| Payables for annual leave                                                            | 39,775              | 43,251               |
| Payables for dividends                                                               | -                   | 7,686                |
| Others                                                                               | <u>1,641,802</u>    | <u>5,973,639</u>     |
|                                                                                      | 4,874,380           | 11,065,241           |
| Other payables - related party (Note 34)                                             | <u>2</u>            | <u>2</u>             |
|                                                                                      | <u>\$ 4,874,382</u> | <u>\$ 11,065,243</u> |

## 23. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

The Company, Brightking Electronics Co., Ltd., Bestbright Electronics Co., Ltd. (Taiwan) and Ko-E Corp. of the Group adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The subsidiaries-Yageo Dongguan, Yageo China, Yageo Components (Suzhou) Co., Ltd., Yageo Trade (Suzhou) Co., Ltd., Yageo USA (H.K.) Limited, Yageo Europe, Vitrohm Portuguesa, Yageo Japan, Yageo America Corporation, Yageo Corporation (South Asia) Pte. Ltd., Yageo South Asia (M) Sdn. Bhd., Ko-E H.K., Ko-E Technology (Shenzhen), Bestbright Electronics Co., Ltd., Brightking Electronics Inc., Huizhou Lien Shun Electronics Co., Ltd., Brightking (Shenzhen) Co., Ltd., Ceramate Technical (Suzhou) Co., Ltd., Zhejiang Bestbright Electronics Co., Ltd., Brightking (Shanghai) Co., Ltd., Brightking (Beijing) Co., Ltd., Pulse Electronics (Dongguan) Co., Ltd., Mian Yang Pulse Electronics Co., Ltd., Suining Pulse Electronics Co., Ltd., Pulse (Suzhou) Wireless Products Co., Ltd., Pulse Electronics (ShenZhen) CO., Ltd., Shengsheng Technology (Suzhou) Co., Ltd. and Egston Electronics Zhuhai Ltd. have defined contribution plans and make contributions based on a fixed rate of salaries and wages according to the local laws. The subsidiaries-Yageo Holding (Bermuda), Kuo Shin Investment, Ferroxcube Holding (Samoa), Hsu Tai (H.K.), Ko-E Holding (Cayman), Yageo Hong Kong, Yageo Holding (Cayman) Limited and Brightking Holdings Limited do not have pension plans since there is no employee.

### b. Defined benefit plans

The defined benefit plans adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company and its subsidiaries contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by a pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The

pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Group has no right to influence the investment policy and strategy.

All the employees of Vitrohm Holding GmbH, Yageo Korea, Pulse Electronics Corporation and Egston Holding GmbH (AT) have defined benefit plans. As of December 31, 2017 and 2018, the pension liabilities amounted to \$139,336 thousand and \$357,934 thousand, respectively, included in accrued pension liabilities.

The amounts included in the consolidated balance sheets in respect of the Group’s defined benefit plans were as follows:

|                                             | <b>December 31</b> |                   |
|---------------------------------------------|--------------------|-------------------|
|                                             | <b>2017</b>        | <b>2018</b>       |
| Present value of defined benefit obligation | \$ 379,066         | \$ 346,860        |
| Fair value of plan assets                   | <u>(171,924)</u>   | <u>(233,376)</u>  |
| Net defined benefit liability               | <u>\$ 207,142</u>  | <u>\$ 113,484</u> |

Movements in the net defined benefit liability (asset) were as follows:

|                                                     | <b>Present Value of<br/>the Defined<br/>Benefit<br/>Obligation</b> | <b>Fair Value of<br/>the Plan Assets</b> | <b>Net Defined<br/>Benefit<br/>Liability (Asset)</b> |
|-----------------------------------------------------|--------------------------------------------------------------------|------------------------------------------|------------------------------------------------------|
| Balance at January 1, 2017                          | <u>\$ 332,759</u>                                                  | <u>\$ (176,395)</u>                      | <u>\$ 156,364</u>                                    |
| Service cost                                        |                                                                    |                                          |                                                      |
| Current service cost                                | 3,215                                                              | -                                        | 3,215                                                |
| Net interest expense (income)                       | <u>4,575</u>                                                       | <u>(2,483)</u>                           | <u>2,092</u>                                         |
| Recognized in profit or loss                        | <u>7,790</u>                                                       | <u>(2,483)</u>                           | <u>5,307</u>                                         |
| Remeasurement                                       |                                                                    |                                          |                                                      |
| Actuarial loss - changes in demographic assumptions | 829                                                                | -                                        | 829                                                  |
| Actuarial loss - changes in financial assumptions   | 4,146                                                              | -                                        | 4,146                                                |
| Actuarial gain - experience adjustments             | <u>48,309</u>                                                      | <u>784</u>                               | <u>49,093</u>                                        |
| Recognized in other comprehensive income            | <u>53,284</u>                                                      | <u>784</u>                               | <u>54,068</u>                                        |
| Contributions from the employer                     | -                                                                  | (8,597)                                  | (8,597)                                              |
| Benefits paid                                       | <u>(14,767)</u>                                                    | <u>14,767</u>                            | <u>-</u>                                             |
| Balance at December 31, 2017                        | 379,066                                                            | (171,924)                                | 207,142                                              |
| Service cost                                        |                                                                    |                                          |                                                      |
| Current service cost                                | 3,440                                                              | -                                        | 3,440                                                |
| Net interest expense (income)                       | <u>4,738</u>                                                       | <u>(2,545)</u>                           | <u>2,193</u>                                         |
| Recognized in profit or loss                        | <u>8,178</u>                                                       | <u>(2,545)</u>                           | <u>5,633</u>                                         |
| Remeasurement                                       |                                                                    |                                          |                                                      |
| Actuarial loss - changes in demographic assumptions | 741                                                                | -                                        | 741                                                  |
| Actuarial loss - changes in financial assumptions   | 3,707                                                              | -                                        | 3,707                                                |
| Actuarial gain - experience adjustments             | <u>(29,780)</u>                                                    | <u>(4,746)</u>                           | <u>(34,526)</u>                                      |
| Recognized in other comprehensive income            | <u>(25,332)</u>                                                    | <u>(4,746)</u>                           | <u>(30,078)</u>                                      |
| Contributions from the employer                     | -                                                                  | (69,213)                                 | (69,213)                                             |
| Benefits paid                                       | <u>(15,052)</u>                                                    | <u>15,052</u>                            | <u>-</u>                                             |
| Balance at December 31, 2018                        | <u>\$ 346,860</u>                                                  | <u>\$ (233,376)</u>                      | <u>\$ 113,484</u>                                    |

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

|                                     | <b>For the Year Ended December 31</b> |                 |
|-------------------------------------|---------------------------------------|-----------------|
|                                     | <b>2017</b>                           | <b>2018</b>     |
| Operating costs                     | \$ 4,056                              | \$ 4,429        |
| Selling and marketing expenses      | 275                                   | 280             |
| General and administrative expenses | 711                                   | 627             |
| Research and development expenses   | <u>265</u>                            | <u>297</u>      |
|                                     | <u>\$ 5,307</u>                       | <u>\$ 5,633</u> |

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

|                                   | <b>December 31</b> |             |
|-----------------------------------|--------------------|-------------|
|                                   | <b>2017</b>        | <b>2018</b> |
| Discount rates                    | 1.250%             | 1.125%      |
| Expected rates of salary increase | 1.500%             | 1.500%      |

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

|                                   | <b>December 31</b> |                   |
|-----------------------------------|--------------------|-------------------|
|                                   | <b>2017</b>        | <b>2018</b>       |
| Discount rates                    |                    |                   |
| 0.25% increase                    | <u>\$ (8,430)</u>  | <u>\$ (7,541)</u> |
| 0.25% decrease                    | <u>\$ 8,728</u>    | <u>\$ 7,804</u>   |
| Expected rates of salary increase |                    |                   |
| 0.25% increase                    | <u>\$ 8,441</u>    | <u>\$ 7,542</u>   |
| 0.25% decrease                    | <u>\$ (8,194)</u>  | <u>\$ (7,325)</u> |



The sensitivity analysis presented above may not be representative of the actual changes in the present value of the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

|                                                       | <b>December 31</b> |                 |
|-------------------------------------------------------|--------------------|-----------------|
|                                                       | <b>2017</b>        | <b>2018</b>     |
| Expected contributions to the plans for the next year | <u>\$ 8,597</u>    | <u>\$ 8,750</u> |
| Average duration of the defined benefit obligation    | 12 years           | 12 years        |

## 24. EQUITY

### a. Share capital

#### 1) Common shares

|                                                       | <b>December 31</b>   |                      |
|-------------------------------------------------------|----------------------|----------------------|
|                                                       | <b>2017</b>          | <b>2018</b>          |
| Number of shares authorized (in thousands)            | <u>4,000,000</u>     | <u>4,000,000</u>     |
| Shares authorized                                     | <u>\$ 40,000,000</u> | <u>\$ 40,000,000</u> |
| Number of shares issued and fully paid (in thousands) | <u>350,401</u>       | <u>427,039</u>       |
| Shares issued                                         | <u>\$ 3,504,010</u>  | <u>\$ 4,270,394</u>  |

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

The movements of the common shares were due to issue share dividends and the exercise of employee share options.

#### 2) Global depositary receipts

The Company's global depositary receipts (GDRs) as of December 31, 2018 were as follows:

|                                                           | <b>GDRs<br/>(In Thousand<br/>Units)</b> | <b>Equivalent<br/>Common Stock<br/>(In Thousand<br/>Shares)</b> |
|-----------------------------------------------------------|-----------------------------------------|-----------------------------------------------------------------|
| Initial offering                                          | 5,000                                   | 25,000                                                          |
| Converted from overseas convertible bonds                 | 34,981                                  | 174,903                                                         |
| Net increase due to capital increase or capital reduction | 68,873                                  | 344,363                                                         |
| Reissued within authorized units                          | 66,911                                  | 334,557                                                         |
| GDRs transferred to common shares                         | <u>(175,753)</u>                        | <u>(878,761)</u>                                                |
| Outstanding GDRs issued                                   | <u>12</u>                               | <u>62</u>                                                       |

The owners of GDRs have the same rights as holders of common shares, except that the GDR owners should exercise, through a depositary trust company, the following beneficial interests subject to the terms of the depositary agreements and the relevant Taiwan laws and regulations:

- Exercise voting rights;
- Convert the GDRs into common shares; and
- Receive dividends and exercise preemptive rights or other rights and interests.

### 3) Capital reduction

For purpose of enhancing the return on equity, profitability per share and proper use of the capital, the capital reduction through a cash return to shareholders, which was proposed by the Company's board on April 21, 2017, was approved at the shareholders' meeting on June 7, 2017. Total capital reduction amounted to \$1,509,669 thousand, which represented the cancellation of 150,967 thousand shares (30% of common shares). This capital reduction became effective upon the approval by the Securities and Futures Bureau under the FSC on June 30, 2017 as well as the Company's board approved the day as the effective date of cash return date. The Company had registered this capital reduction with MOEA.

#### b. Capital surplus

|                                                                                                           | <b>December 31</b>  |                     |
|-----------------------------------------------------------------------------------------------------------|---------------------|---------------------|
|                                                                                                           | <b>2017</b>         | <b>2018</b>         |
| <u>May be used to offset a deficit, distributed as cash dividends or transferred to share capital (1)</u> |                     |                     |
| Issuance of ordinary shares                                                                               | \$ 2,244,701        | \$ 2,018,115        |
| <u>May be used to offset a deficit only</u>                                                               |                     |                     |
| Transferring from employee share options to issuance of common shares due to exercise                     | 408,077             | 700,409             |
| <u>May not be used for any purpose</u>                                                                    |                     |                     |
| Share of changes in capital surplus of associates or subsidiaries (2)                                     | 415,813             | 2,804,929           |
| Employee share options                                                                                    | <u>32,847</u>       | <u>20,146</u>       |
|                                                                                                           | <u>\$ 3,101,438</u> | <u>\$ 5,543,599</u> |

- 1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or may be transferred to share capital (limited to a certain percentage of the Company's capital surplus and to once a year).
- 2) Such capital surplus arises from the effect of changes in ownership interest in a subsidiaries resulted from equity transactions other than actual disposal or acquisition, or from changes in capital surplus of subsidiaries accounted for by using equity method.

#### c. Retained earnings and dividend policy

Under the Company's Articles of Incorporation, when the Company has earnings for the year, remuneration of directors at 3% or less and employees' bonus of at least 2% of the remaining earnings should be appropriated. If the Company has accumulated deficit, the Company should retain earnings to offset deficit in advance. When the Company has earnings for the year, the Company should first make tax payments, offset any past years' deficit, then distribute the remaining profit in the following order:

- 1) Legal reserve is appropriated at 10% of the remaining profit. There's no restrict if the legal reserve equals the Company's paid-in capital.
- 2) Special reserve is appropriated or reversed in accordance with the laws and regulations.

- 3) Appropriations for dividends and bonuses, of at least 10% of the remaining profit after appropriations for legal reserve and special reserve, may be proposed by the Company's board of directors and approved at the shareholders' meeting.

The Company's dividend policy takes into account the Company's current and future competitiveness in the domestic and foreign markets, the investment environment and cash requirements. The policy authorizes the Company's board to propose an earnings distribution in the form of shares or in cash appropriately in accordance with the laws and regulations, with the board's proposal subject to approval at the shareholders' meeting. For the policies on distribution of the compensation of employees and remuneration of directors and supervisors before and after amendment, refer to e. employee benefits expense in Note 25.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Order No. 1010012865, Order No. 1010047490 and Order No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

Except for non-Taiwan resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings, bonuses to employees and remuneration to directors and supervisors for 2016 and 2017 approved in the shareholders' meetings on June 7, 2017 and June 5, 2018, respectively, were as follows:

|                 | <b>Appropriation of Earnings</b> |             | <b>Dividends Per Share</b> |             |
|-----------------|----------------------------------|-------------|----------------------------|-------------|
|                 | <b>For the Year Ended</b>        |             | <b>(NT\$)</b>              |             |
|                 | <b>December 31</b>               |             | <b>For the Year Ended</b>  |             |
|                 | <b>2016</b>                      | <b>2017</b> | <b>2016</b>                | <b>2017</b> |
| Legal reserve   | \$ 395,412                       | \$ 684,730  | \$ -                       | \$ -        |
| Special reserve | 1,286,097                        | (1,286,097) | -                          | -           |
| Cash dividends  | 1,283,219                        | 5,036,144   | 2.55                       | 14.36       |
| Share dividends | -                                | 701,413     | -                          | 2.00        |

The Company's shareholders on June 5, 2018, resolved to issue cash dividends at NT\$0.64 per share from capital surplus of \$226,586 thousand. The 2017 dividends paid aggregated to NT\$17 per share, consisting cash dividends of NT\$0.64 and NT\$14.36 and share dividends of NT\$2.

The appropriations of earnings for 2018 had been proposed by the Company's board of directors on March 14, 2019. The appropriations and dividends per share were as follows:

|                 | <b>Appropriation of Earnings</b> | <b>Dividends Per Share (NT\$)</b> |
|-----------------|----------------------------------|-----------------------------------|
| Legal reserve   | \$ 3,383,929                     | \$ -                              |
| Special reserve | 1,210,063                        | -                                 |
| Cash dividends  | 18,790,142                       | 44.30                             |

The appropriations of earnings for 2018 are subject to the resolution of the shareholders' meeting to be held on June 5, 2019.

d. Special reserves

|                                              | <b>For the Year Ended December 31</b> |                    |
|----------------------------------------------|---------------------------------------|--------------------|
|                                              | <b>2017</b>                           | <b>2018</b>        |
| Beginning at January 1                       | \$ 437,595                            | \$ 1,723,692       |
| Debit to other equity items                  | 1,286,097                             | -                  |
| Reversal of the debits to other equity items | <u>-</u>                              | <u>(1,286,097)</u> |
| Balance at December 31                       | <u>\$ 1,723,692</u>                   | <u>\$ 437,595</u>  |

e. Other equity items

1) Exchange differences on translating the financial statements of the foreign operations

|                                                                                    | <b>For the Year Ended December 31</b> |                       |
|------------------------------------------------------------------------------------|---------------------------------------|-----------------------|
|                                                                                    | <b>2017</b>                           | <b>2018</b>           |
| Balance at January 1                                                               | \$ (1,097,198)                        | \$ (1,664,627)        |
| Effect of change in tax rate                                                       | -                                     | 60,167                |
| Exchange differences on translating the financial statements of foreign operations | (312,885)                             | (208,455)             |
| Share of exchange difference of associates accounted for using the equity method   | (59,314)                              | (7,712)               |
| Business combinations under common control with successor                          | <u>(195,230)</u>                      | <u>-</u>              |
| Balance at December 31                                                             | <u>\$ (1,664,627)</u>                 | <u>\$ (1,820,627)</u> |

|                                                    | <b>Amount Before Tax</b> | <b>Related Income Tax</b> | <b>Amount After Tax</b> |
|----------------------------------------------------|--------------------------|---------------------------|-------------------------|
| Balance at January 1, 2017                         | \$ (1,321,926)           | \$ 224,728                | \$ (1,097,198)          |
| Other comprehensive income recognized for the year | <u>(683,649)</u>         | <u>116,220</u>            | <u>(567,429)</u>        |
| Balance at December 31, 2017                       | <u>\$ (2,005,575)</u>    | <u>\$ 340,948</u>         | <u>\$ (1,664,627)</u>   |
| Balance at January 1, 2018                         | \$ (2,005,575)           | \$ 340,948                | \$ (1,664,627)          |
| Effect of change in tax rate                       | -                        | 60,167                    | 60,167                  |
| Other comprehensive income recognized for the year | <u>(270,209)</u>         | <u>54,042</u>             | <u>(216,167)</u>        |
| Balance at December 31, 2018                       | <u>\$ (2,275,784)</u>    | <u>\$ 455,157</u>         | <u>\$ (1,820,627)</u>   |

2) Unrealized gain (loss) on available-for-sale financial assets

|                                                                       | <b>For the Year<br/>Ended<br/>December 31,<br/>2017</b> |
|-----------------------------------------------------------------------|---------------------------------------------------------|
| Balance at January 1, 2017                                            | \$ (188,899)                                            |
| Unrealized gain on revaluation of available-for-sale financial assets | 2,101,738                                               |
| Share from associates accounted for using the equity method           | <u>(916)</u>                                            |
| Balance at December 31, 2017                                          | 1,911,923                                               |
| Adjustment on initial application of IFRS 9                           | <u>(5,440)</u>                                          |
| Balance at January 1, 2018 per IFRS 9                                 | <u>\$ 1,906,483</u>                                     |

3) Unrealized gain/(loss) on financial assets at FVTOCI

|                                                                                                   | <b>For the Year<br/>Ended<br/>December 31,<br/>2018</b> |
|---------------------------------------------------------------------------------------------------|---------------------------------------------------------|
| Balance at January 1 per IFRS 9                                                                   | \$ 1,911,923                                            |
| Adjustment on initial application of IFRS 9                                                       | <u>(5,440)</u>                                          |
| Balance at January 1, 2018 per IFRS 9                                                             | <u>1,906,483</u>                                        |
| Recognized for the year                                                                           |                                                         |
| Unrealized gain - equity instruments                                                              | (598,587)                                               |
| Share from associates accounted for using the equity method                                       | 1,440                                                   |
| Cumulative unrealized gain of equity instruments transferred to retained earnings due to disposal | <u>(698,773)</u>                                        |
| Balance at December 31                                                                            | <u>\$ 610,563</u>                                       |

f. Business combinations under common control with successor

Exchange differences on translating the financial statements of the foreign operations:

|                                                                                    | <b>For the Year<br/>Ended<br/>December 31,<br/>2017</b> |
|------------------------------------------------------------------------------------|---------------------------------------------------------|
| Balance at January 1                                                               | \$ (62,463)                                             |
| Exchange differences on translating the financial statements of foreign operations | (297,680)                                               |
| Business combinations under common control with successor                          | <u>235,217</u>                                          |
| Balance at December 31                                                             | <u>\$ -</u>                                             |

g. Non-controlling interests

|                                                                                   | <b>For the Year Ended December 31</b> |                   |
|-----------------------------------------------------------------------------------|---------------------------------------|-------------------|
|                                                                                   | <b>2017</b>                           | <b>2018</b>       |
| Balance at January 1                                                              | \$ 113,593                            | \$ 108,360        |
| Attributable to non-controlling interests:                                        |                                       |                   |
| Share of profit for the year                                                      | 25,188                                | 859               |
| Exchange difference on translating the financial statements of foreign entities   | (7,817)                               | (5,562)           |
| Non-controlling interests arising from acquisition of Brightking Holdings Limited | -                                     | 543,571           |
| Acquisition of non-controlling interests in Brightking Holdings Limited           | -                                     | (543,571)         |
| Cash dividends distributed by subsidiaries                                        | <u>(22,604)</u>                       | <u>-</u>          |
| Balance at December 31                                                            | <u>\$ 108,360</u>                     | <u>\$ 103,657</u> |

h. Treasury shares

| <b>Purpose of Buyback</b>             | <b>Shares Canceled<br/>(In Thousands of Shares)</b>      |
|---------------------------------------|----------------------------------------------------------|
| Number of shares on January 1, 2017   | -                                                        |
| Increase during the year              | 21,741                                                   |
| Decrease during the year              | <u>(21,741)</u>                                          |
| Number of shares on December 31, 2017 | <u>-</u>                                                 |
| <b>Purpose of Buyback</b>             | <b>Transfer to Employee<br/>(In Thousands of Shares)</b> |
| Number of shares on January 1, 2018   | -                                                        |
| Increase during the year              | <u>2,965</u>                                             |
| Number of shares on December 31, 2018 | <u>2,965</u>                                             |

To maintain the Company's credibility and shareholders' rights and interests, the Company's board resolved on December 23, 2016, to buy back up to 30,000 thousand common shares with the buyback price ranging from NT\$40.00 to NT\$87.80 between December 26, 2016 and February 24, 2017 on the Taiwan Stock Exchange. As of February 24, 2017, the last day of the buyback period, the Company had bought back 18,349 thousand shares at a total amount of \$1,294,350 thousand. The Company had canceled the buyback shares and registered the change with the MOEA.

To maintain the Company's credibility and shareholders' rights and interests, the Company's board resolved on March 3, 2017, to buy back up to 30,000 thousand common shares with the buyback price ranging from NT\$52.20 to NT\$109.30 between March 6 and May 5, 2017 on the Taiwan Stock Exchange. As of May 5, 2017, the last day of the buyback period, the Company had bought back 3,392 thousand shares at a total amount of \$323,187 thousand. The Company had canceled the buyback shares and registered the change with the MOEA.

To maintain the Company's credibility, shareholders' rights and interests and enhance employee coherence, the Company's board resolved on July 17, 2018, to buy back up to 4,500 thousand common shares with the buyback price ranging from NT\$632.80 to NT\$1,616.80 between July 19 and September 17, 2018 on the Taiwan Stock Exchange. As of September 17, 2018, the last day of the buyback period, the Company had bought back 2,965 thousand shares at a total amount of \$2,421,552 thousand. The Company had canceled the buyback shares and registered the change with the MOEA.

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

## 25. NET PROFIT FOR THE YEAR

### a. Other gains and losses

|                                                         | <b>For the Year Ended December 31</b> |                     |
|---------------------------------------------------------|---------------------------------------|---------------------|
|                                                         | <b>2017</b>                           | <b>2018</b>         |
| Loss on disposal of property, plant and equipment       | \$ (7,017)                            | \$ (22,279)         |
| Net foreign exchange gains (losses)                     | (524,163)                             | 1,363,987           |
| Dividend income                                         | 79,907                                | 148,998             |
| Gain on disposal of available-for-sale financial assets | 202,028                               | -                   |
| Other gains                                             | 238,401                               | 98,592              |
| Other losses                                            | <u>(31,208)</u>                       | <u>(137,935)</u>    |
|                                                         | <u>\$ (42,052)</u>                    | <u>\$ 1,451,363</u> |

### b. Finance costs

|                              | <b>For the Year Ended December 31</b> |                   |
|------------------------------|---------------------------------------|-------------------|
|                              | <b>2017</b>                           | <b>2018</b>       |
| Interest on bank loans       | \$ 289,154                            | \$ 535,609        |
| Interest on short-term bills | 5,274                                 | 6,732             |
| Other finance costs          | <u>5,066</u>                          | <u>4,679</u>      |
|                              | <u>\$ 299,494</u>                     | <u>\$ 547,020</u> |

### c. Depreciation and amortization

|                                                    | <b>For the Year Ended December 31</b> |                     |
|----------------------------------------------------|---------------------------------------|---------------------|
|                                                    | <b>2017</b>                           | <b>2018</b>         |
| Property, plant and equipment                      | \$ 1,782,331                          | \$ 7,500,217        |
| Prepayments                                        | 7,197                                 | 9,189               |
| Intangible assets (included in operating expenses) | <u>55,701</u>                         | <u>76,677</u>       |
|                                                    | <u>\$ 1,845,229</u>                   | <u>\$ 7,586,083</u> |
| An analysis of depreciation by function            |                                       |                     |
| Operating costs                                    | \$ 1,648,192                          | \$ 7,337,191        |
| Operating expenses                                 | <u>134,139</u>                        | <u>163,026</u>      |
|                                                    | <u>\$ 1,782,331</u>                   | <u>\$ 7,500,217</u> |

(Continued)



|                                         | <b>For the Year Ended December 31</b> |                  |
|-----------------------------------------|---------------------------------------|------------------|
|                                         | <b>2017</b>                           | <b>2018</b>      |
| An analysis of amortization by function |                                       |                  |
| Operating costs                         | \$ 776                                | \$ 1,536         |
| Selling and marketing expenses          | 1,676                                 | 2,480            |
| General and administrative expenses     | 53,849                                | 74,222           |
| Research and development expenses       | 2,104                                 | 1,849            |
| Other expenses                          | <u>4,493</u>                          | <u>5,779</u>     |
|                                         | <u>\$ 62,898</u>                      | <u>\$ 85,866</u> |
|                                         |                                       | (Concluded)      |

d. Employee benefit expense

|                                                     | <b>For the Year Ended December 31</b> |                     |
|-----------------------------------------------------|---------------------------------------|---------------------|
|                                                     | <b>2017</b>                           | <b>2018</b>         |
| Post-employment benefits (Note 23)                  |                                       |                     |
| Defined contribution plans                          | \$ 217,658                            | \$ 267,302          |
| Defined benefit plans                               | <u>9,781</u>                          | <u>10,662</u>       |
|                                                     | 227,439                               | 277,964             |
| Other employee benefits                             | <u>5,083,209</u>                      | <u>8,363,283</u>    |
| Total employee benefit expense                      | <u>\$ 5,310,648</u>                   | <u>\$ 8,641,247</u> |
| An analysis of employee benefit expense by function |                                       |                     |
| Operating costs                                     | \$ 3,740,562                          | \$ 4,773,687        |
| Operating expenses                                  | <u>1,570,086</u>                      | <u>3,867,560</u>    |
|                                                     | <u>\$ 5,310,648</u>                   | <u>\$ 8,641,247</u> |

e. Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at rates of no less than 2% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2017 and 2018, which have been approved by the Company's board of directors on February 22, 2018 and March 14, 2019, respectively, were as follows:

Accrual rate

|                                           | <b>For the Year Ended December 31</b> |             |
|-------------------------------------------|---------------------------------------|-------------|
|                                           | <b>2017</b>                           | <b>2018</b> |
| Employees' compensation                   | 3%                                    | 3%          |
| Remuneration of directors and supervisors | 3%                                    | 3%          |

Amount

|                                           | <b>For the Year Ended December 31</b> |               |              |               |
|-------------------------------------------|---------------------------------------|---------------|--------------|---------------|
|                                           | <b>2017</b>                           |               | <b>2018</b>  |               |
|                                           | <b>Cash</b>                           | <b>Shares</b> | <b>Cash</b>  | <b>Shares</b> |
| Employees' compensation                   | \$ 240,164                            | \$ -          | \$ 1,173,843 | \$ -          |
| Remuneration of directors and supervisors | 240,164                               | -             | 1,173,843    | -             |

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

There was no difference between the actual amounts of compensation of employees and remuneration of directors and supervisors paid and the amounts recognized in the financial statements for the year ended December 31, 2017 and 2018.

Information on the compensation of employees and remuneration to directors and supervisors and bonus to employees, directors and supervisors resolved by the shareholders' meeting in 2018 and 2019 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

## f. Gain or loss on foreign currency exchange

|                         | <b>For the Year Ended December 31</b> |                     |
|-------------------------|---------------------------------------|---------------------|
|                         | <b>2017</b>                           | <b>2018</b>         |
| Foreign exchange gains  | \$ 1,589,113                          | \$ 3,765,966        |
| Foreign exchange losses | <u>(2,113,276)</u>                    | <u>(2,401,979)</u>  |
|                         | <u>\$ (524,163)</u>                   | <u>\$ 1,363,987</u> |

**26. INCOME TAXES**

## a. Major components of tax expense recognized in profit or loss

|                                                 | <b>For the Year Ended December 31</b> |                     |
|-------------------------------------------------|---------------------------------------|---------------------|
|                                                 | <b>2017</b>                           | <b>2018</b>         |
| <u>Current tax</u>                              |                                       |                     |
| In respect of current year                      | \$ 930,853                            | \$ 6,857,850        |
| Income tax on unappropriated earnings           | 94,949                                | 166,442             |
| Adjustments for prior years                     | <u>77,067</u>                         | <u>(209,729)</u>    |
|                                                 | <u>1,102,869</u>                      | <u>6,814,563</u>    |
| <u>Deferred tax</u>                             |                                       |                     |
| In respect of current year                      | 38,339                                | (725,267)           |
| Effect of tax rate changes                      | -                                     | (90,021)            |
| Adjustments for prior years                     | <u>-</u>                              | <u>55,934</u>       |
|                                                 | <u>38,339</u>                         | <u>(759,354)</u>    |
| Income tax expense recognized in profit or loss | <u>\$ 1,141,208</u>                   | <u>\$ 6,055,209</u> |

A reconciliation of accounting profit and income tax expenses were as follows:

|                                                                                  | <b>For the Year Ended December 31</b> |                      |
|----------------------------------------------------------------------------------|---------------------------------------|----------------------|
|                                                                                  | <b>2017</b>                           | <b>2018</b>          |
| Profit before tax                                                                | \$ <u>7,822,222</u>                   | \$ <u>39,895,361</u> |
| Income tax expense calculated at the statutory rate                              | \$ 1,329,778                          | \$ 7,979,072         |
| Unrecognized deductible temporary differences                                    | (580,470)                             | (4,337,584)          |
| Income tax on unappropriated earnings                                            | 94,949                                | 166,442              |
| Effect of tax rate changes                                                       | -                                     | (90,021)             |
| Effect of different tax rates of group entities operating in other jurisdictions | 219,884                               | 2,491,095            |
| Adjustments for prior years' tax                                                 | <u>77,067</u>                         | <u>(153,795)</u>     |
| Income tax expense recognized in profit or loss                                  | \$ <u>1,141,208</u>                   | \$ <u>6,055,209</u>  |

In 2017, the applicable corporate income tax rate used by the group entities in the ROC is 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. The applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 additional tax at 5% of unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

|                                               | <b>For the Year Ended December 31</b> |                     |
|-----------------------------------------------|---------------------------------------|---------------------|
|                                               | <b>2017</b>                           | <b>2018</b>         |
| <u>Deferred tax</u>                           |                                       |                     |
| Effect of change in tax rate                  | \$ -                                  | \$ (63,088)         |
| In respect of the current year                |                                       |                     |
| Translation of foreign operations             | (116,220)                             | (54,042)            |
| Actuarial (gain) loss on defined benefit plan | <u>(9,396)</u>                        | <u>5,738</u>        |
|                                               | \$ <u>(125,616)</u>                   | \$ <u>(111,392)</u> |

c. Current tax liabilities

|                         | <b>December 31</b>  |                     |
|-------------------------|---------------------|---------------------|
|                         | <b>2017</b>         | <b>2018</b>         |
| Current tax liabilities |                     |                     |
| Income tax payable      | \$ <u>1,209,130</u> | \$ <u>6,782,248</u> |

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2017

|                                                  | Opening<br>Balance | Effect of<br>Change in<br>Tax Rate | Recognized in<br>Profit or Loss | Recognized<br>in Other<br>Compreh-<br>ensive<br>Income | Exchange<br>Differences | Acquisitions<br>through<br>Business<br>Combinations | Closing<br>Balance |
|--------------------------------------------------|--------------------|------------------------------------|---------------------------------|--------------------------------------------------------|-------------------------|-----------------------------------------------------|--------------------|
| <u>Deferred tax assets</u>                       |                    |                                    |                                 |                                                        |                         |                                                     |                    |
| Temporary differences                            |                    |                                    |                                 |                                                        |                         |                                                     |                    |
| Impairment loss on goodwill                      | \$ 165,429         | \$ -                               | \$ (47,266)                     | \$ -                                                   | \$ -                    | \$ -                                                | \$ 118,163         |
| Impairment loss on property, plant and equipment | 197,630            | -                                  | (5,295)                         | -                                                      | -                       | -                                                   | 192,335            |
| Inventory write-downs                            | 50,436             | -                                  | 3,736                           | -                                                      | -                       | -                                                   | 54,172             |
| Accrued expenses                                 | 83,413             | -                                  | (22,523)                        | -                                                      | -                       | -                                                   | 60,890             |
| Defined benefit obligation                       | 48,513             | -                                  | (10)                            | 9,396                                                  | (2,208)                 | -                                                   | 55,691             |
| Exchange difference on foreign operation         | 224,727            | -                                  | -                               | 116,220                                                | -                       | -                                                   | 340,947            |
| Others                                           | 45,505             | -                                  | 26,484                          | -                                                      | 10,218                  | -                                                   | 82,207             |
|                                                  | 815,653            | -                                  | (44,874)                        | 125,616                                                | 8,010                   | -                                                   | 904,405            |
| Loss carryforwards                               | 18,076             | -                                  | 1,734                           | -                                                      | (1,395)                 | -                                                   | 18,415             |
|                                                  | <u>\$ 833,729</u>  | <u>\$ -</u>                        | <u>\$ (43,140)</u>              | <u>\$ 125,616</u>                                      | <u>\$ 6,615</u>         | <u>\$ -</u>                                         | <u>\$ 922,820</u>  |
| <u>Deferred tax liabilities</u>                  |                    |                                    |                                 |                                                        |                         |                                                     |                    |
| Temporary differences                            |                    |                                    |                                 |                                                        |                         |                                                     |                    |
| Others                                           | <u>\$ 5,194</u>    | <u>\$ -</u>                        | <u>\$ (4,801)</u>               | <u>\$ -</u>                                            | <u>\$ (17)</u>          | <u>\$ -</u>                                         | <u>\$ 376</u>      |

For the year ended December 31, 2018

|                                                  | Opening<br>Balance | Effect of<br>Change in<br>Tax Rate | Recognized in<br>Profit or Loss | Recognized<br>in Other<br>Compreh-<br>ensive<br>Income | Exchange<br>Differences | Acquisitions<br>through<br>Business<br>Combinations | Closing<br>Balance  |
|--------------------------------------------------|--------------------|------------------------------------|---------------------------------|--------------------------------------------------------|-------------------------|-----------------------------------------------------|---------------------|
| <u>Deferred tax assets</u>                       |                    |                                    |                                 |                                                        |                         |                                                     |                     |
| Temporary differences                            |                    |                                    |                                 |                                                        |                         |                                                     |                     |
| Impairment loss on goodwill                      | \$ 118,163         | \$ 20,852                          | \$ (55,606)                     | \$ -                                                   | \$ -                    | \$ -                                                | \$ 83,409           |
| Impairment loss on property, plant and equipment | 192,335            | 33,941                             | (6,228)                         | -                                                      | -                       | -                                                   | 220,048             |
| Inventory write-downs                            | 54,172             | 9,560                              | 7,574                           | -                                                      | -                       | -                                                   | 71,306              |
| Accrued expenses                                 | 60,890             | 10,745                             | 25,000                          | -                                                      | -                       | -                                                   | 96,635              |
| Defined benefit obligation                       | 55,691             | 5,413                              | (38,067)                        | (5,738)                                                | -                       | -                                                   | 17,299              |
| Exchange difference on foreign operation         | 340,947            | 60,167                             | -                               | 54,042                                                 | -                       | -                                                   | 455,156             |
| Others                                           | 82,207             | 12,431                             | 957,882                         | -                                                      | -                       | 200,488                                             | 1,253,008           |
|                                                  | 904,405            | 153,109                            | 890,555                         | 48,304                                                 | -                       | 200,488                                             | 2,196,861           |
| Loss carryforwards                               | 18,415             | -                                  | (7,972)                         | -                                                      | -                       | -                                                   | 10,443              |
|                                                  | <u>\$ 922,820</u>  | <u>\$ 153,109</u>                  | <u>\$ 882,583</u>               | <u>\$ 48,304</u>                                       | <u>\$ -</u>             | <u>\$ 200,488</u>                                   | <u>\$ 2,207,304</u> |
| <u>Deferred tax liabilities</u>                  |                    |                                    |                                 |                                                        |                         |                                                     |                     |
| Temporary differences                            |                    |                                    |                                 |                                                        |                         |                                                     |                     |
| Others                                           | <u>\$ 376</u>      | <u>\$ -</u>                        | <u>\$ 213,250</u>               | <u>\$ -</u>                                            | <u>\$ -</u>             | <u>\$ 170,072</u>                                   | <u>\$ 383,698</u>   |

- e. Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the consolidated balance sheets

|                    | <b>December 31</b> |                   |
|--------------------|--------------------|-------------------|
|                    | <b>2017</b>        | <b>2018</b>       |
| Loss carryforwards |                    |                   |
| Expire in 2019     | \$ 208,138         | \$ 204,147        |
| Expire in 2020     | 11,839             | 11,839            |
| Expire in 2027     | <u>530</u>         | <u>-</u>          |
|                    | <u>\$ 220,507</u>  | <u>\$ 215,986</u> |

- f. Information about unused investment credits, unused loss carry-forward and tax-exemption

Loss carryforwards as of December 31, 2018 comprised of:

|                          | <b>Unused Amount</b> | <b>Expiry Year</b> |
|--------------------------|----------------------|--------------------|
| Kuo-Shin Investment Ltd. | \$ 204,147           | 2019               |
|                          | 11,839               | 2020               |
| Vitrohm Holding GmbH     | <u>35,461</u>        | 2020               |
|                          | <u>\$ 251,447</u>    |                    |

- g. Income tax assessments

The Company's income tax returns through 2015 had been assessed by the tax authorities.

## 27. EARNINGS PER SHARE

**Unit: NT\$ Per Share**

|                            | <b>For the Year Ended December 31</b> |                 |
|----------------------------|---------------------------------------|-----------------|
|                            | <b>2017</b>                           | <b>2018</b>     |
| Basic earnings per share   | <u>\$ 13.05</u>                       | <u>\$ 80.30</u> |
| Diluted earnings per share | <u>\$ 12.77</u>                       | <u>\$ 78.09</u> |

The basic and diluted earnings per share adjusted retrospectively for the year ended December 31, 2017 were as follows:

**Unit: NT\$ Per Share**

|                            | <b>Before<br/>Retrospective<br/>Adjustment</b> | <b>After<br/>Retrospective<br/>Adjustment</b> |
|----------------------------|------------------------------------------------|-----------------------------------------------|
| Basic earnings per share   | <u>\$ 15.64</u>                                | <u>\$ 13.05</u>                               |
| Diluted earnings per share | <u>\$ 15.23</u>                                | <u>\$ 12.77</u>                               |

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

### Net Profit for the Year

|                                                             | <b>For the Year Ended December 31</b> |                      |
|-------------------------------------------------------------|---------------------------------------|----------------------|
|                                                             | <b>2017</b>                           | <b>2018</b>          |
| Profit for the period attributable to owners of the Company | \$ 6,847,300                          | \$ 33,839,293        |
| Business combinations under common control with successor   | <u>(191,474)</u>                      | <u>-</u>             |
|                                                             | <u>\$ 6,655,826</u>                   | <u>\$ 33,839,293</u> |

Weighted average number of common shares outstanding (in thousand shares):

|                                                                                                | <b>For the Year Ended December 31</b> |                |
|------------------------------------------------------------------------------------------------|---------------------------------------|----------------|
|                                                                                                | <b>2017</b>                           | <b>2018</b>    |
| Weighted average number of common shares in computation of basic earnings per share            | 509,835                               | 421,408        |
| Effect of potentially dilutive common shares:                                                  |                                       |                |
| Employee share option                                                                          | 9,604                                 | 7,825          |
| Bonus issue to employees                                                                       | <u>1,932</u>                          | <u>4,105</u>   |
| Weighted average number of common shares used in the computation of diluted earnings per share | <u>521,371</u>                        | <u>433,338</u> |

If the Company offered to settle compensation or bonuses paid to employees in cash or shares, the Company assumed the entire amount of the compensation or bonuses would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

## 28. SHARE-BASED PAYMENT ARRANGEMENTS

### a. Employee share option plan in 2007

On November 30, 2007, the Company's board approved the issue of 100,000 thousand units of share options, which had been approved by the Securities and Futures Bureau under the FSC. The Company issued the entire 100,000 thousand units on December 20, 2007. Each option represents one share of the Company's common share, and the exercise price per share is \$10.25. The vesting period of these options is 10 years. Qualified employees may exercise up to 10%, 20%, 40% and 70% of the vested options after two years, three years, four years and five years, respectively, from the grant date. All options vested may be exercised after six years from the grant date. If the number of the Company's common shares changes, the exercise price will be revised, as required under the Plan terms.

As of December 31, 2018, 42,091 thousand units of employee share options were exercised and converted to 42,091 thousand common shares of the Company.

Information on employee share options was as follows:

|                                                 | <b>For the Year Ended<br/>December 31</b> |                                                                |
|-------------------------------------------------|-------------------------------------------|----------------------------------------------------------------|
|                                                 | <b>2017</b>                               | <b>Weighted-a<br/>verage<br/>Exercise<br/>Price<br/>(NT\$)</b> |
| <b>Number of<br/>Options (In<br/>Thousands)</b> |                                           |                                                                |
| Balance at January 1                            | 241                                       | \$55.70                                                        |
| Options adjusted                                | (72)                                      | 24.00                                                          |
| Options expired                                 | <u>(169)</u>                              | 79.70                                                          |
| Balance at December 31                          | <u>-</u>                                  | -                                                              |
| Options exercisable, end of year                | <u>-</u>                                  |                                                                |

Options granted in 2007 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

|                           | <b>November 2007</b> |
|---------------------------|----------------------|
| Risk-free interest rate   | 2.48%                |
| Expected life (years)     | 7.30                 |
| Expected price volatility | 48.60%               |
| Expected dividend yield   | 4.87%                |

b. Employee share option plan in 2014

Qualified employees of the Company and its subsidiaries were granted 40,000 thousand units of share options in May 2014. Each option represents one share of the Company's common share. The vesting period of these options is 10 years. Qualified employees may exercise at certain percentages of the options after two years, from the grant date. The options were granted at an exercise price equal to the closing price of the Company's common shares listed on the on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly. Information on employee share options was as follows:

|                                     | <b>For the Year Ended December 31</b>           |                                                                |                                                 |                                                                |
|-------------------------------------|-------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------|----------------------------------------------------------------|
|                                     | <b>2017</b>                                     |                                                                | <b>2018</b>                                     |                                                                |
|                                     | <b>Number of<br/>Options (In<br/>Thousands)</b> | <b>Weighted-<br/>average<br/>Exercise<br/>Price<br/>(NT\$)</b> | <b>Number of<br/>Options (In<br/>Thousands)</b> | <b>Weighted-<br/>average<br/>Exercise<br/>Price<br/>(NT\$)</b> |
| Balance at January 1                | 23,846                                          | \$42.90                                                        | 15,308                                          | \$58.20                                                        |
| Options forfeited                   | -                                               | -                                                              | (387)                                           | 48.60-58.20                                                    |
| Options adjusted                    | (6,745)                                         | 15.30                                                          | -                                               | -                                                              |
| Options granted                     | <u>(1,793)</u>                                  | 41.70-58.20                                                    | <u>(6,380)</u>                                  | 48.60-58.20                                                    |
| Balance at December 31              | <u>15,308</u>                                   | 58.20                                                          | <u>8,541</u>                                    | 48.60                                                          |
| Options exercisable, end of<br>year | <u>64</u>                                       |                                                                | <u>5,125</u>                                    |                                                                |



Information about outstanding options as of December 31, 2017 and 2018 was as follows:

|                                                        | <b>December 31</b> |             |
|--------------------------------------------------------|--------------------|-------------|
|                                                        | <b>2017</b>        | <b>2018</b> |
| Range of exercise price (NT\$)                         | \$58.20            | \$48.60     |
| Weighted-average remaining contractual life (in years) | 6.33               | 5.33        |

Options granted in May 2014 were priced using the binomial option pricing model and the inputs to the model were as follows:

|                          | <b>May 2014</b> |
|--------------------------|-----------------|
| Grant-date share price   | \$17.70         |
| Exercise price           | \$17.70         |
| Expected volatility      | 37.50%          |
| Expected life (in years) | 10              |
| Expected dividend yield  | -               |
| Risk-free interest rate  | 1.52%           |

Expected volatility was based on the historical share price volatility over the past 10 years. To allow for the effects of early exercise, the Company assumed that employees would exercise their options after the vesting date when the share price was 1.3 times the exercise price.

Compensation cost recognized was \$11,490 thousand and zero for the years ended December 31, 2017 and 2018, respectively.

## 29. BUSINESS COMBINATIONS

### a. Subsidiaries acquired

| <b>Subsidiary</b>             | <b>Principal Activity</b>  | <b>Date of Acquisition</b> | <b>Proportion of Voting Equity Interests Acquired (%)</b> | <b>Consideration Transferred</b> |
|-------------------------------|----------------------------|----------------------------|-----------------------------------------------------------|----------------------------------|
| Brightking Holdings Limited   | Holding company components | June 2018                  | 81.08                                                     | \$ 2,471,209                     |
| Pulse Electronics Corporation | Holding company components | December 2018              | 100.00                                                    | 22,325,600                       |
|                               |                            |                            |                                                           | <u>\$ 24,796,809</u>             |

In order to continue the expansion of the Group's activities in passive component, the Company acquired Brightking Holdings Limited and Pulse Electronics Corporation in 2018.

### b. Consideration transferred

|      | <b>Brightking Holdings Limited</b> | <b>Pulse Electronics Corporation</b> |
|------|------------------------------------|--------------------------------------|
| Cash | <u>\$ 2,471,209</u>                | <u>\$ 22,325,600</u>                 |

c. Assets acquired and liabilities assumed at the date of acquisition

|                               | <b>Brightking<br/>Holdings<br/>Limited</b> | <b>Pulse<br/>Electronics<br/>Corporation</b> |
|-------------------------------|--------------------------------------------|----------------------------------------------|
| Current assets                |                                            |                                              |
| Cash and cash equivalents     | \$ 446,980                                 | \$ 429,308                                   |
| Other current assets          | 1,584,307                                  | 4,570,373                                    |
| Non-current assets            |                                            |                                              |
| Property, plant and equipment | 382,183                                    | 1,483,560                                    |
| Intangible assets             | 623,978                                    | 3,357,150                                    |
| Other non-current assets      | 124,795                                    | 1,623,500                                    |
| Current liabilities           | (585,522)                                  | (4,982,608)                                  |
| Non-current liabilities       | <u>(444,725)</u>                           | <u>(1,099,067)</u>                           |
|                               | <u>\$ 2,131,996</u>                        | <u>\$ 5,382,216</u>                          |

The initial accounting for the acquisition of Pulse Electronics Corporation was only provisionally determined at the end of the reporting period. The tax bases of Pulse Electronics Corporation's assets were required to be reset based on the market values of the assets. At the date of issuance of these consolidated financial statements, the necessary market valuations and other calculations have not been finalized, and they have, therefore, only been provisionally determined based on management's best estimate of the likely tax values.

d. Goodwill recognized on acquisitions

|                                                      | <b>Brightking<br/>Holdings<br/>Limited</b> | <b>Pulse<br/>Electronics<br/>Corporation</b> |
|------------------------------------------------------|--------------------------------------------|----------------------------------------------|
| Consideration transferred                            | \$ 2,471,209                               | \$ 22,325,600                                |
| Plus: Non-controlling interests                      | 543,571                                    | -                                            |
| Less: Fair value of identifiable net assets acquired | <u>(2,131,996)</u>                         | <u>(5,382,216)</u>                           |
| Goodwill recognized on acquisitions                  | <u>\$ 882,784</u>                          | <u>\$ 16,943,384</u>                         |

The non-controlling interest (a 18.92% ownership interest in Brightking Holdings Limited) recognized at the acquisition date.

The goodwill recognized in the acquisition of Brightking Holdings Limited and Pulse Electronics Corporation mainly represents the control premium included in the cost of the combination. In addition, the consideration paid for the combination effectively included amounts attributed to the benefits of expected synergies, revenue growth, future market development and the assembled workforce of Brightking Holdings Limited and Pulse Electronics Corporation. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

e. Net cash outflow on acquisition of subsidiaries

|                                                  | <b>Brightking<br/>Holdings<br/>Limited</b> | <b>Pulse<br/>Electronics<br/>Corporation</b> |
|--------------------------------------------------|--------------------------------------------|----------------------------------------------|
| Consideration paid in cash                       | \$ 2,471,209                               | \$ 22,325,600                                |
| Less: Cash and cash equivalent balances acquired | <u>(446,980)</u>                           | <u>(429,308)</u>                             |
|                                                  | <u>\$ 2,024,229</u>                        | <u>\$ 21,896,292</u>                         |

f. Impact of acquisitions on the results of the Group

The results of the acquirees since the acquisition date included in the consolidated statements of comprehensive income were as follows:

|         | <b>Brightking<br/>Holdings<br/>Limited</b> | <b>Pulse<br/>Electronics<br/>Corporation</b> |
|---------|--------------------------------------------|----------------------------------------------|
| Revenue | <u>\$ 1,441,980</u>                        | <u>\$ 1,131,622</u>                          |
| Profit  | <u>\$ 112,442</u>                          | <u>\$ 181,051</u>                            |

Had these business combinations been in effect at the beginning of the annual reporting period, the Group's revenue from continuing operations would have been \$91,042,488 thousand, and the profit from continuing operations would have been \$34,083,971 thousand for the year ended December 31, 2018. This pro-forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2018, nor is it intended to be a projection of future results.

### 30. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

On second quarter to the fourth quarter, 2018, the Group subscribed for additional new shares of Brightking Holdings Limited, increasing its continuing interest from 81.08% to 100%.

The above transactions were accounted for as equity transactions, since the Group did not cease to have control over these subsidiaries.

|                                                                                                                                    | <b>Brightking<br/>Holdings<br/>Limited</b> |
|------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| Cash consideration received (paid)                                                                                                 | \$ 569,445                                 |
| The proportionate share of the carrying amount of the net assets of the subsidiary transferred to (from) non-controlling interests | <u>(543,571)</u>                           |
| Differences recognized from equity transactions                                                                                    | <u>\$ 25,874</u>                           |
| <u>Line items adjusted for equity transactions</u>                                                                                 |                                            |
| Retained earnings                                                                                                                  | <u>\$ 25,874</u>                           |

### 31. OPERATING LEASE ARRANGEMENTS

#### a. The Group as lessee

The Group leases the property and plant with operating leases expired until 2021. The lessees have a bargain purchase option to acquire the property at the expiry of the lease periods.

|                                        | <b>December 31</b> |                   |
|----------------------------------------|--------------------|-------------------|
|                                        | <b>2017</b>        | <b>2018</b>       |
| Not later than 1 year                  | \$ -               | \$ 117,878        |
| Over 1 year and not later than 5 years | <u>-</u>           | <u>209,529</u>    |
|                                        | <u>\$ -</u>        | <u>\$ 327,407</u> |

#### b. The Group as lessor

Operating leases relate to the property owned by the Group with lease terms between 1 to 5 years. The lessees do not have a bargain purchase option to acquire the property at the expiry of the lease periods.

The future minimum lease payments of noncancellable operating lease were as follows:

|                                        | <b>December 31</b> |                  |
|----------------------------------------|--------------------|------------------|
|                                        | <b>2017</b>        | <b>2018</b>      |
| Not later than 1 year                  | \$ 13,561          | \$ 16,894        |
| Over 1 year and not later than 5 years | <u>1,211</u>       | <u>535</u>       |
|                                        | <u>\$ 14,772</u>   | <u>\$ 17,429</u> |

### 32. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy in accordance with the Company operations and cash flow to assess the situation and to be properly adjusted to adapt to changes in the market in a timely manner.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity attributable to owners of the Company (comprising issued capital, reserves, retained earnings and other equity).

Key management personnel of the Group review the capital structure on an annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may reduce the Group's capital or adjust the amount of dividends paid to shareholders and the number of shares repurchased.

### 33. FINANCIAL INSTRUMENTS

#### a. Fair value of financial instruments that are not measured at fair value

The Group's management consider that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2017

|                                                  | Level 1             | Level 2          | Level 3           | Total               |
|--------------------------------------------------|---------------------|------------------|-------------------|---------------------|
| Financial assets at FVTPL                        |                     |                  |                   |                     |
| Derivative financial assets                      | \$ -                | \$ 1,359         | \$ -              | \$ 1,359            |
| Non-derivative financial assets held for trading | <u>210,000</u>      | <u>-</u>         | <u>-</u>          | <u>210,000</u>      |
|                                                  | <u>\$ 210,000</u>   | <u>\$ 1,359</u>  | <u>\$ -</u>       | <u>\$ 211,359</u>   |
| Available-for-sale financial assets              |                     |                  |                   |                     |
| Securities listed in ROC                         |                     |                  |                   |                     |
| Equity securities                                | \$ 1,092,149        | \$ -             | \$ -              | \$ 1,092,149        |
| Securities listed in other countries             |                     |                  |                   |                     |
| Equity securities                                | 3,154,281           | -                | -                 | 3,154,281           |
| Unlisted securities - ROC                        |                     |                  |                   |                     |
| Equity securities                                | -                   | -                | 56,773            | 56,773              |
| Unlisted securities - other countries            |                     |                  |                   |                     |
| Equity securities                                | <u>-</u>            | <u>-</u>         | <u>44,122</u>     | <u>44,122</u>       |
|                                                  | <u>\$ 4,246,430</u> | <u>\$ -</u>      | <u>\$ 100,895</u> | <u>\$ 4,347,325</u> |
| Financial liabilities at FVTPL                   |                     |                  |                   |                     |
| Derivative financial liabilities                 | <u>\$ -</u>         | <u>\$ 82,995</u> | <u>\$ -</u>       | <u>\$ 82,995</u>    |

December 31, 2018

|                                             | Level 1             | Level 2          | Level 3          | Total               |
|---------------------------------------------|---------------------|------------------|------------------|---------------------|
| Financial assets at FVTPL                   |                     |                  |                  |                     |
| Derivative financial assets                 | \$ -                | \$ 20,398        | \$ -             | \$ 20,398           |
| Domestic quoted shares                      | 60,060              | -                | -                | 60,060              |
| Domestic unlisted shares                    | -                   | -                | 46,104           | 46,104              |
| Overseas unlisted shares                    | <u>-</u>            | <u>-</u>         | <u>43,092</u>    | <u>43,092</u>       |
|                                             | <u>\$ 60,060</u>    | <u>\$ 20,398</u> | <u>\$ 89,196</u> | <u>\$ 169,654</u>   |
| Financial assets at FVTOCI                  |                     |                  |                  |                     |
| Investments in equity instruments at FVTOCI |                     |                  |                  |                     |
| Domestic quoted shares                      | \$ 1,327,605        | \$ -             | \$ -             | \$ 1,327,605        |
| Overseas quoted shares                      | <u>899,371</u>      | <u>-</u>         | <u>-</u>         | <u>899,371</u>      |
|                                             | <u>\$ 2,226,976</u> | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ 2,226,976</u> |
| Financial liabilities at FVTPL              |                     |                  |                  |                     |
| Derivative financial liabilities            | <u>\$ -</u>         | <u>\$ 27,674</u> | <u>\$ -</u>      | <u>\$ 27,674</u>    |

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Reconciliation of Level 3 fair value measurements of financial instruments

|                                                 | <b>Available-<br/>for-sale<br/>Financial Assets<br/>Equity<br/>Instruments</b> |
|-------------------------------------------------|--------------------------------------------------------------------------------|
| <u>Financial assets</u>                         |                                                                                |
| Balance at January 1, 2017                      | \$ 116,069                                                                     |
| Repayment of capital reduction                  | (14,579)                                                                       |
| Effect of foreign currency exchange differences | <u>(595)</u>                                                                   |
| Balance at December 31, 2017                    | <u>\$ 100,895</u>                                                              |
| <u>For the year ended December 31, 2018</u>     |                                                                                |

|                                                 | <b>Financial Assets<br/>at FVTPL<br/>Equity<br/>Instruments</b> |
|-------------------------------------------------|-----------------------------------------------------------------|
| <u>Financial assets</u>                         |                                                                 |
| Balance at January 1, 2018                      | \$ -                                                            |
| Reclassification                                | 100,895                                                         |
| Recognized in profit                            | 5,393                                                           |
| Sales                                           | (5,564)                                                         |
| Repayment of capital reduction                  | (10,497)                                                        |
| Effect of foreign currency exchange differences | <u>(1,031)</u>                                                  |
| Balance at December 31, 2018                    | <u>\$ 89,196</u>                                                |

3) Valuation techniques and inputs used for Level 2 fair value measurement

| <u>Financial Instruments</u>                           | <u>Valuation Techniques and Inputs</u>                                                                                                                                                                                                                               |
|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Derivatives - foreign<br>exchange forward<br>contracts | Discounted cash flow.<br><br>Future cash flows are estimated on the basis of observable forward<br>exchange rates at the end of the reporting period and contract forward<br>rates, discounted at a rate that reflects the credit risk of various<br>counterparties. |

4) Valuation techniques and inputs applied for Level 3 fair value measurement

The fair values of unlisted equity securities - ROC were determined using the income approach. In this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees. The significant unobservable inputs used are listed in the table below. An increase in long-term revenue growth rates or long-term pre-tax operating margin or a decrease in WACC or discount for the lack of marketability used in isolation would result in increases in fair value.

c. Categories of financial instruments

|                                         | December 31 |            |
|-----------------------------------------|-------------|------------|
|                                         | 2017        | 2018       |
| <u>Financial assets</u>                 |             |            |
| FVTPL                                   |             |            |
| Held for trading                        | \$ 211,359  | \$ -       |
| Mandatorily classified as at FVTPL      | -           | 169,654    |
| Held-to-maturity investments            | 7,133,802   | -          |
| Loans and receivables (1)               | 29,590,650  | -          |
| Available-for-sale financial assets (2) | 4,347,325   | -          |
| Financial assets at amortized cost (3)  | -           | 56,256,818 |
| Financial assets at FVTOCI              | -           | 2,226,976  |
| Equity instruments                      |             |            |
| <u>Financial liabilities</u>            |             |            |
| FVTPL                                   |             |            |
| Held for trading                        | 82,995      | -          |
| Mandatorily classified as at FVTPL      | -           | 27,674     |
| Amortized cost (4)                      | 36,683,464  | 54,894,506 |

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, notes receivable, trade and other receivables (including related parties) and refundable deposits.
- 2) The balances included the carrying amount of held-for-trading financial assets measured at cost.
- 3) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments, notes receivable, trade and other receivables (including related parties) and refundable deposits.
- 4) The balances included financial liabilities measured at amortized cost, which comprise short-term loans, long-term loans, short-term bills payable, notes payable, trade and other payables (including related parties), long-term loans and guarantee deposits received.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, trade receivables, trade payables, and borrowings. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.



The Group's impairment financial activities are reviewed by the board of directors in accordance with related standard and internal controls. In executing financial plan, the Group have to obey the related financial operating procedures regarding financial risk management and segregation of duties.

#### 1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

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

##### a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposing to foreign currency risk at the end of the reporting period are set out in Note 37.

##### Sensitivity analysis

The Group assessed the foreign currency risk of its significant assets and liabilities as well as taking unexpired exchange forward contracts into consideration.

The Group was mainly exposed to the USD, EUR and JPY.

The following table details the Group's sensitivity to a 1% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. 1% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A negative number below indicates an increase (a decrease) in pre-tax profit associated with New Taiwan dollars strengthening 1% against the relevant currency. For a 1% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be positive.

|                | <b>USD Impact</b>                         |              | <b>EUR Impact</b>                         |             | <b>JPY Impact</b>                         |             |
|----------------|-------------------------------------------|--------------|-------------------------------------------|-------------|-------------------------------------------|-------------|
|                | <b>For the Year Ended<br/>December 31</b> |              | <b>For the Year Ended<br/>December 31</b> |             | <b>For the Year Ended<br/>December 31</b> |             |
|                | <b>2017</b>                               | <b>2018</b>  | <b>2017</b>                               | <b>2018</b> | <b>2017</b>                               | <b>2018</b> |
| Profit or loss | \$ (211,535)                              | \$ (396,589) | \$ (65,303)                               | \$ (43,516) | \$ 4,682                                  | \$ 6,458    |

The analysis of profit or loss of the table was mainly attributable to the exposure to outstanding USD, EUR and JPY which were not hedged, at the end of the reporting period.

The Group's sensitivity to foreign currency exchange increased during the current year mainly because it had more USD-denominated net assets.

b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate.

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

|                               | <b>December 31</b> |               |
|-------------------------------|--------------------|---------------|
|                               | <b>2017</b>        | <b>2018</b>   |
| Fair value interest rate risk |                    |               |
| Financial assets              | \$ 18,997,336      | \$ 20,678,559 |
| Financial liabilities         | 24,224,650         | 33,167,468    |
| Cash flow interest rate risk  |                    |               |
| Financial assets              | 5,471,062          | 15,223,019    |

The Group's fixed-term time deposits, bank borrowings and short-term bills are exposed to fair value interest rate risk; however, this expected risk is insignificant.

Sensitivity analysis

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

If interest rates had been 1% higher and all other variables were held constant, the Group's variable-rate financial assets for the years ended December 31, 2017 and 2018 would result in cash inflows by \$54,711 thousand and \$152,230 thousand, respectively.

The Group's sensitivity to interest rates increased during the current year mainly due to the increase in variable-rate financial assets from the prior year.

c) Other price risk

The Group was exposed to equity price risk through its investments in listed equity securities.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% lower, the pre-tax other comprehensive income for the years ended December 31, 2017 would decrease by \$2,100 thousand and \$42,464 thousand, respectively, as a result of the changes in fair value of available-for-sale shares.

If equity prices had been 1% lower, the pre-tax profit for the year ended December 31, 2018 would have decreased by \$601 thousand, as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the year ended December 31, 2018 would have decreased by \$22,270 thousand, as a result of the changes in fair value of financial assets at FVTOCI.

The Group's sensitivity to available-for-sale investments has not changed significantly from the prior year.

## 2) Credit risk

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

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

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

In order to minimize credit risk, management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The credit risk on liquid funds and derivatives was limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Ongoing credit evaluation is performed on the financial condition of trade receivables.

The Group did transactions with a large number of unrelated customers and, thus, no concentration of credit risk was observed.

## 3) Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2017 and 2018, the Group had available unutilized short-term bank loan facilities of \$4,697,768 thousand and \$8,911,414 thousand, respectively.

a) Liquidity and interest risk rate tables for nonderivative financial liabilities

The table below summarizes the maturity profile of the Group's financial liabilities based on undiscounted contractual payments but did not include the financial liabilities with carrying amounts that approximated contractual cash flows:

|                          | <b>Carrying<br/>Value</b> | <b>Contractual<br/>Cash Flows</b> | <b>Within<br/>1 Year</b> | <b>More than<br/>1 Year</b> |
|--------------------------|---------------------------|-----------------------------------|--------------------------|-----------------------------|
| <u>December 31, 2017</u> |                           |                                   |                          |                             |
| Short-term borrowings    | \$ 17,624,878             | \$ 17,668,377                     | \$ 17,668,377            | \$ -                        |
| Short-term bills payable | 1,099,772                 | 1,100,000                         | 1,100,000                | -                           |
| Long-term borrowings     | <u>5,500,000</u>          | <u>5,507,853</u>                  | <u>-</u>                 | <u>5,507,853</u>            |
|                          | <u>\$ 24,224,650</u>      | <u>\$ 24,276,230</u>              | <u>\$ 18,768,377</u>     | <u>\$ 5,507,853</u>         |
| <u>December 31, 2018</u> |                           |                                   |                          |                             |
| Short-term borrowings    | \$ 23,667,981             | \$ 23,768,211                     | \$ 23,768,211            | \$ -                        |
| Short-term bills payable | 499,487                   | 500,000                           | 500,000                  | -                           |
| Long-term borrowings     | <u>9,000,000</u>          | <u>9,043,648</u>                  | <u>-</u>                 | <u>9,043,648</u>            |
|                          | <u>\$ 33,167,468</u>      | <u>\$ 33,311,859</u>              | <u>\$ 24,268,211</u>     | <u>\$ 9,043,648</u>         |

b) Liquidity and interest risk rate tables for derivative financial liabilities

The following table detailed the Group's liquidity analysis for its derivative financial instruments. The table was based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

December 31, 2017

|                                    | <b>On Demand or<br/>Less than<br/>3 Months</b> | <b>3 Months to<br/>6 Months</b> | <b>Over 6<br/>Months to<br/>12 Months</b> |
|------------------------------------|------------------------------------------------|---------------------------------|-------------------------------------------|
| <u>Gross settled</u>               |                                                |                                 |                                           |
| Foreign exchange forward contracts |                                                |                                 |                                           |
| Inflows                            | \$ 9,902,711                                   | \$ -                            | \$ 895,440                                |
| Outflows                           | <u>(9,937,688)</u>                             | <u>-</u>                        | <u>(919,056)</u>                          |
|                                    | <u>\$ (34,977)</u>                             | <u>\$ -</u>                     | <u>\$ (23,616)</u>                        |

December 31, 2018

|                                    | <b>On Demand or<br/>Less than<br/>3 Months</b> | <b>3 Months to<br/>6 Months</b> | <b>Over 6<br/>Months to<br/>12 Months</b> |
|------------------------------------|------------------------------------------------|---------------------------------|-------------------------------------------|
| <u>Gross settled</u>               |                                                |                                 |                                           |
| Foreign exchange forward contracts |                                                |                                 |                                           |
| Inflows                            | \$ 18,108,376                                  | \$ 37,587                       | \$ -                                      |
| Outflows                           | <u>(18,138,450)</u>                            | <u>(36,389)</u>                 | <u>-</u>                                  |
|                                    | <u>\$ (30,074)</u>                             | <u>\$ 1,198</u>                 | <u>\$ -</u>                               |

### 34. TRANSACTIONS WITH RELATED PARTIES

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

- a. The Company's related parties and their relationships were as follows:

| <u>Related Party</u>                   | <u>Relationships with the Group</u> |
|----------------------------------------|-------------------------------------|
| Chilisin Electronics Corp.             | Associates                          |
| Teapo Electronics Corp.                | Associates                          |
| Teapo Electronics (H.K.) Ltd.          | Subsidiary of associates            |
| Teapo Electronics (Dongguan) Co., Ltd. | Subsidiary of associates            |
| Dongguan Zhiguo Electronics Co., Ltd.  | Subsidiary of associates            |
| Ralec Electronic Corporation           | Subsidiary of associates            |
| ASJ Pte. Limited (ASJ Pte.)            | Subsidiary of associates            |
| ASJ Components (M) Sdn. Bhd.           | Subsidiary of associates            |
| CRL Components (S) Pte. Ltd.           | Subsidiary of associates            |
| Guo Chuang Electronics (Dongguan)      | Associates                          |
| Ferroxcube International Holding B.V.  | Subsidiary of associates            |
| Hsin Bung International Co., Ltd.      | Substantial related parties         |
| Yixin International Co., Ltd.          | Substantial related parties         |

- b. Sales of goods

| <b>Line Items</b> | <b>Related Party Categories</b> | <b>For the Year Ended December 31</b> |                   |
|-------------------|---------------------------------|---------------------------------------|-------------------|
|                   |                                 | <b>2017</b>                           | <b>2018</b>       |
| Sales             | Substantial related parties     | \$ 431,376                            | \$ 766,539        |
|                   | Associates                      | <u>164,944</u>                        | <u>200,195</u>    |
|                   |                                 | <u>\$ 596,320</u>                     | <u>\$ 966,734</u> |

c. Purchases of goods

| Related Party Categories    | For the Year Ended December 31 |                   |
|-----------------------------|--------------------------------|-------------------|
|                             | 2017                           | 2018              |
| Substantial related parties | \$ 378,654                     | \$ 534,782        |
| Associates                  | <u>623,959</u>                 | <u>188,189</u>    |
|                             | <u>\$ 1,002,613</u>            | <u>\$ 722,971</u> |

d. Receivables from related parties (excluding loans to related parties)

| Line Items        | Related Party Categories              | December 31       |                  |
|-------------------|---------------------------------------|-------------------|------------------|
|                   |                                       | 2017              | 2018             |
| Trade receivable  | Substantial related parties           | \$ 329,902        | \$ 62,399        |
|                   | Associates                            | <u>29,055</u>     | <u>36,727</u>    |
|                   |                                       | <u>\$ 358,957</u> | <u>\$ 99,126</u> |
| Other receivables | Associates/Chilisin Electronics Corp. | \$ 89,544         | \$ 92,206        |
|                   | Associates/Others                     | <u>7,641</u>      | <u>7,661</u>     |
|                   |                                       | <u>\$ 97,185</u>  | <u>\$ 99,867</u> |

The outstanding trade receivable from related parties are unsecured. For the years ended December 31, 2017 and 2018, no impairment loss was recognized for trade receivable from related parties.

e. Payables to related parties (excluding loans from related parties)

| Line Items     | Related Party Categories  | December 31       |                   |
|----------------|---------------------------|-------------------|-------------------|
|                |                           | 2017              | 2018              |
| Trade payable  | Substantial related party | \$ 38,567         | \$ 98,661         |
|                | Associates                | <u>107,538</u>    | <u>36,508</u>     |
|                |                           | <u>\$ 146,105</u> | <u>\$ 135,169</u> |
| Other payables | Associates                | <u>\$ 2</u>       | <u>\$ 2</u>       |

The outstanding trade payable from related parties are unsecured.

The payment terms for the trade receivable from (trade payable to) related parties were based on the terms of the related contracts. Other related-party transactions were conducted under normal terms.

f. Disposals of property, plant and equipment

| Related Party Category/Name | Proceeds           |             | Gain on Disposal   |             |
|-----------------------------|--------------------|-------------|--------------------|-------------|
|                             | For the Year Ended |             | For the Year Ended |             |
|                             | December 31        |             | December 31        |             |
|                             | 2017               | 2018        | 2017               | 2018        |
| Associates                  | <u>\$ 435</u>      | <u>\$ -</u> | <u>\$ 219</u>      | <u>\$ -</u> |

g. Disposals of other assets

| Related Party Category/Name           | Proceeds           |      | Gain on Disposal   |      |
|---------------------------------------|--------------------|------|--------------------|------|
|                                       | For the Year Ended |      | For the Year Ended |      |
|                                       | December 31        |      | December 31        |      |
|                                       | 2017               | 2018 | 2017               | 2018 |
| Associates/Chilisin Electronics Corp. | \$ 4,329,425       | \$ - | \$ -               | \$ - |

On August 1, 2017, the Company sold 100% of its interest of Ferroxcube International Holding B.V. in a cash settlement amounting to €133,188 thousand.

h. Other transactions with related parties

| Line Items    | Related Party Categories                          | For the Year Ended December 31 |                  |
|---------------|---------------------------------------------------|--------------------------------|------------------|
|               |                                                   | 2017                           | 2018             |
| Rental income | Associates/Teapo Electronics (Dongguan) Co., Ltd. | \$ 11,321                      | \$ 24,525        |
|               | Associates/Others                                 | <u>3,861</u>                   | <u>1,100</u>     |
|               |                                                   | <u>\$ 15,182</u>               | <u>\$ 25,625</u> |
| Other expense | Associates                                        | <u>\$ -</u>                    | <u>\$ 239</u>    |

All the terms and conditions of above rental contracts conformed to normal business practice.

i. Compensation of key management personnel

|                              | For the Year Ended December 31 |                     |
|------------------------------|--------------------------------|---------------------|
|                              | 2017                           | 2018                |
| Short-term employee benefits | \$ 316,973                     | \$ 1,257,296        |
| Post-employment benefits     | <u>432</u>                     | <u>432</u>          |
|                              | <u>\$ 317,405</u>              | <u>\$ 1,257,728</u> |

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

### 35. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank loans:

|                                    | December 31         |                     |
|------------------------------------|---------------------|---------------------|
|                                    | 2017                | 2018                |
| Property, plant and equipment, net | <u>\$ 2,788,239</u> | <u>\$ 2,792,249</u> |



### 36. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2017 and 2018, were as follows:

#### a. Significant commitments

Unrecognized commitments were as follows:

|                                              | <b>December 31</b>  |                     |
|----------------------------------------------|---------------------|---------------------|
|                                              | <b>2017</b>         | <b>2018</b>         |
| Acquisition of property, plant and equipment | <u>\$ 1,660,649</u> | <u>\$ 2,110,530</u> |

#### b. Contingencies

##### Contingent liabilities

- 1) Please refer to Table 2 about the endorsements/guarantees and between the Company and subsidiaries.
- 2) The Securities and Future Investors Protection Center (SFIPC) alleged that Far Eastern Air Transport Ltd. (FEATL) had been involved in exaggerating the turnover and trade receivable. The SFIPC charged that FEATL window-dressed its financial reports and thus harmed its investors' welfare. Under these investors' authorization, the SFIPC sued 33 defendants, including the FEATL and its management, directors and supervisors, certified public accountant, its accounting firm, etc., (excluding the Company) and filed a civil action lawsuit to demand compensation for damages with the district court of Taipei on June 23, 2009.

In January 2010, the SFIPC included in its lawsuit the Company and two other companies because they were FEATL's directors and supervisors from 2005 to 2007. Since the joint defendants increased to 36, SFIPC appealed for a compensation amounted of \$296,989 thousand. Since the Company has business liability insurance, the Company believes that if the court's ruling is not favorable to the Company, the compensatory damages would not significantly affect its finance and business status.

### 37. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2017

|                         | <b>Foreign<br/>Currencies<br/>(In Thousands)</b> | <b>Exchange Rate</b> | <b>Carrying<br/>Amount</b> |
|-------------------------|--------------------------------------------------|----------------------|----------------------------|
| <u>Financial assets</u> |                                                  |                      |                            |
| Monetary items          |                                                  |                      |                            |
| USD                     | \$ 605,129                                       | 29.8480 (USD:NTD)    | \$ 18,061,890              |
| USD                     | 528,402                                          | 6.5120 (USD:RMB)     | 15,771,612                 |
|                         |                                                  |                      | (Continued)                |

|                                               | Foreign<br>Currencies<br>(In Thousands) | Exchange Rate        | Carrying<br>Amount   |
|-----------------------------------------------|-----------------------------------------|----------------------|----------------------|
| USD                                           | \$ 318,432                              | 7.8147 (USD:HKD)     | \$ 9,504,637         |
| USD                                           | 106,716                                 | 0.8361 (USD:EUR)     | 3,185,448            |
| USD                                           | 1,496                                   | 1,065.2900 (USD:KRW) | 44,623               |
| EUR                                           | 181,044                                 | 1.1961 (EUR:USD)     | 6,463,487            |
| EUR                                           | 15,398                                  | 35.7012 (EUR:NTD)    | 549,727              |
| EUR                                           | 710                                     | 7.7890 (EUR:RMB)     | 25,348               |
| JPY                                           | 1,811,186                               | 0.0074 (JPY:EUR)     | 478,495              |
| JPY                                           | 182,363                                 | 0.2651 (JPY:NTD)     | 48,344               |
| JPY                                           | 178,037                                 | 0.0578 (JPY:RMB)     | 47,167               |
| RMB                                           | 24,182                                  | 0.1536 (RMB:USD)     | 110,866              |
| HKD                                           | 43,456                                  | 3.8195 (HKD:NTD)     | 165,980              |
| HKD                                           | 29,083                                  | 0.1280 (HKD:USD)     | 111,113              |
|                                               |                                         |                      | <u>\$ 54,568,737</u> |
| Non-monetary items                            |                                         |                      |                      |
| Investments accounted for using equity method |                                         |                      |                      |
| USD                                           | 13,826                                  | 29.8480 (USD:NTD)    | \$ 412,670           |
| RMB                                           | 6,979                                   | 1.2000 (RMB:HKD)     | <u>31,986</u>        |
|                                               |                                         |                      | <u>\$ 444,656</u>    |
| Available-for-sale financial assets           |                                         |                      |                      |
| JPY                                           | 2,909,068                               | 0.2651 (JPY:NTD)     | \$ 771,194           |
| JPY                                           | 5,148,220                               | 0.0089 (JPY:USD)     | 1,364,793            |
| JPY                                           | 1,811,045                               | 0.0074 (JPY:EUR)     | 480,108              |
| JPY                                           | 2,030,132                               | 0.0694 (JPY:HKD)     | <u>538,186</u>       |
|                                               |                                         |                      | <u>\$ 3,154,281</u>  |
| <u>Financial liabilities</u>                  |                                         |                      |                      |
| Monetary items                                |                                         |                      |                      |
| USD                                           | 318,660                                 | 29.8480 (USD:NTD)    | \$ 9,511,364         |
| USD                                           | 357,087                                 | 6.5120 (USD:RMB)     | 10,658,244           |
| USD                                           | 160,564                                 | 7.8147 (USD:HKD)     | 4,792,554            |
| USD                                           | 15,162                                  | 0.8361 (USD:EUR)     | 452,582              |
| EUR                                           | 936                                     | 35.7012 (EUR:NTD)    | 33,416               |
| EUR                                           | 13,300                                  | 1.1961 (EUR:USD)     | 474,826              |
| JPY                                           | 1,825,667                               | 0.2651 (JPY:NTD)     | 483,984              |
| JPY                                           | 2,107,151                               | 0.0578 (JPY:RMB)     | 558,240              |
| HKD                                           | 634                                     | 0.8333 (HKD:RMB)     | 2,422                |
| RMB                                           | 220,458                                 | 0.1536 (RMB:USD)     | <u>1,010,723</u>     |
|                                               |                                         |                      | <u>\$ 27,978,355</u> |
|                                               |                                         |                      | (Concluded)          |

December 31, 2018

|                                               | Foreign<br>Currencies<br>(In Thousands) | Exchange Rate      | Carrying<br>Amount   |
|-----------------------------------------------|-----------------------------------------|--------------------|----------------------|
| <u>Financial assets</u>                       |                                         |                    |                      |
| Monetary items                                |                                         |                    |                      |
| USD                                           | \$ 1,043,120                            | 30.7330 (USD:NTD)  | \$ 32,058,207        |
| USD                                           | 405,755                                 | 6.8637 (USD:RMB)   | 12,470,029           |
| USD                                           | 307,233                                 | 7.8311 (USD:HKD)   | 9,442,238            |
| USD                                           | 105,924                                 | 0.8733 (USD:EUR)   | 3,255,418            |
| USD                                           | 977                                     | 69.9160 (USD:INR)  | 30,028               |
| EUR                                           | 564                                     | 1.1451 (EUR:USD)   | 19,848               |
| EUR                                           | 125,389                                 | 35.1924 (EUR:NTD)  | 4,412,740            |
| EUR                                           | 3,688                                   | 25.7350 (EUR:CZK)  | 129,790              |
| JPY                                           | 838,986                                 | 0.2782 (JPY:NTD)   | 233,406              |
| JPY                                           | 1,244,366                               | 0.0091 (JPY:USD)   | 348,012              |
| RMB                                           | 56,797                                  | 0.1457 (RMB:USD)   | 254,325              |
| HKD                                           | 8,125                                   | 0.8765 (HKD:RMB)   | <u>31,887</u>        |
|                                               |                                         |                    | <u>\$ 62,685,928</u> |
| Non-monetary items                            |                                         |                    |                      |
| Investments accounted for using equity method |                                         |                    |                      |
| USD                                           | 10,150                                  | 30.7330 (USD:NTD)  | \$ 311,943           |
| RMB                                           | 7,019                                   | 1.1409 (RMB:HKD)   | <u>31,429</u>        |
|                                               |                                         |                    | <u>\$ 343,372</u>    |
| Investments in equity instruments at FVTOCI   |                                         |                    |                      |
| JPY                                           | 839,029                                 | 0.2782 (JPY:NTD)   | \$ 233,418           |
| JPY                                           | 2,381,207                               | 0.0091 (JPY:USD)   | <u>665,953</u>       |
|                                               |                                         |                    | <u>\$ 899,371</u>    |
| <u>Financial liabilities</u>                  |                                         |                    |                      |
| Monetary items                                |                                         |                    |                      |
| USD                                           | 434,443                                 | 30.7330 (USD:NTD)  | \$ 13,351,737        |
| USD                                           | 128,457                                 | 6.8637 (USD:RMB)   | 3,947,857            |
| USD                                           | 9,677                                   | 0.8733 (USD:EUR)   | 297,408              |
| EUR                                           | 811                                     | 35.1924 (EUR:NTD)  | 28,541               |
| EUR                                           | 3,239                                   | 25.7350 (EUR:CZK)  | 113,989              |
| EUR                                           | 1,504                                   | 80.0608 (EUR:INR)  | 52,933               |
| EUR                                           | 434                                     | 118.1630 (EUR:RSD) | 15,272               |
| JPY                                           | 2,410,354                               | 0.2782 (JPY:NTD)   | 670,560              |
| JPY                                           | 2,002,097                               | 0.0621 (JPY:RMB)   | 556,701              |
| HKD                                           | 16,521                                  | 0.8765 (HKD:RMB)   | 64,839               |
| HKD                                           | 5,500                                   | 0.1277 (HKD:USD)   | 21,585               |
| RMB                                           | 113,621                                 | 0.1457 (RMB:USD)   | 508,772              |
| SGD                                           | 16,377                                  | 22.4804 (SGD:NTD)  | <u>368,162</u>       |
|                                               |                                         |                    | <u>\$ 19,998,356</u> |

For the years ended December 31, 2017 and 2018, realized and unrealized net foreign exchange gains or losses were \$(524,163) thousand and \$1,363,987 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

### 38. SEGMENT INFORMATION

#### a. Basic information

Information reported to the chief operating decision maker for resource allocation and the assessment of segment performance is solely based on the financial information of each plant owned by the Group. Each plant has similar economic features as well as manufacturing procedures. In addition, products are sold by the Group in a centralized way. Thus, the Group is reported as a single segment. The Group's revenues and operating results in 2017 and 2018 are shown in the consolidated statements of comprehensive income for 2017 and 2018.

#### b. Revenue from major products

The following is an analysis of the Group's revenue from its major products.

|            | <b>For the Year Ended December 31</b> |                      |
|------------|---------------------------------------|----------------------|
|            | <b>2017</b>                           | <b>2018</b>          |
| Capacitors | \$ 16,624,037                         | \$ 46,609,294        |
| Resistors  | 13,128,572                            | 26,032,119           |
| Others     | <u>2,505,990</u>                      | <u>4,514,198</u>     |
|            | <u>\$ 32,258,599</u>                  | <u>\$ 77,155,611</u> |

#### c. Geographical information

The Group's revenue from external customers by location of operations and information about its noncurrent assets by location of assets are detailed below:

|          | <b>Revenue from<br/>External Customers</b> |                      | <b>Noncurrent Assets</b> |                      |
|----------|--------------------------------------------|----------------------|--------------------------|----------------------|
|          | <b>Year Ended December 31</b>              |                      | <b>December 31</b>       |                      |
|          | <b>2017</b>                                | <b>2018</b>          | <b>2017</b>              | <b>2018</b>          |
| Domestic | \$ 6,278,301                               | \$ 17,349,383        | \$ 6,788,370             | \$ 6,223,536         |
| Europe   | 2,104,123                                  | 5,668,332            | 2,065,895                | 2,021,857            |
| Asia     | 23,797,557                                 | 53,258,270           | 9,857,471                | 13,312,483           |
| USA      | -                                          | 761,074              | -                        | 22,392,064           |
| Others   | <u>78,618</u>                              | <u>118,552</u>       | <u>19,474</u>            | <u>19,203</u>        |
|          | <u>\$ 32,258,599</u>                       | <u>\$ 77,155,611</u> | <u>\$ 18,731,210</u>     | <u>\$ 43,969,143</u> |

Noncurrent assets exclude financial instruments and deferred tax assets.

#### d. Information about major customers

No single customer contributed 10% or more to the Group's revenue for both 2017 and 2018.

## THE SECURITIES MARKETS OF THE ROC

*The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by us, the Initial Purchasers or any of our respective affiliates or advisors in connection with this Offering.*

In September 1960, the ROC government established the ROC Securities and Exchange Commission to supervise and control all aspects of the existing domestic securities market and the TWSE began to take shape soon thereafter. In the 1970s and the early 1980s, the ROC government implemented a number of steps designed to upgrade the quality and importance of the ROC securities markets, such as encouraging listing on the TWSE and establishing an over-the-counter securities exchange. In the mid-1980s, the ROC government began to revise its laws and regulations in a manner designed to facilitate the gradual internationalization of the ROC securities markets. In 1997, the ROC Securities and Exchange Commission was renamed the ROC Securities and Futures Commission. Effective July 1, 2004, the ROC Securities and Futures Commission has been renamed the ROC Securities and Futures Bureau of the FSC, and its supervisory authority has been transferred from the Ministry of Finance to the FSC.

### The Taiwan Stock Exchange

In 1961, the ROC SFB established the TWSE to provide a marketplace for securities trading. The TWSE is a corporation owned by government-controlled and privately owned banks and enterprises. The TWSE is independent of the entities transacting business through it, each of which pays to the TWSE a user's fee. Subject to limited exceptions, all transactions in listed securities by brokers, traders and integrated securities firms must be made through the TWSE.

The TWSE commenced operations in 1962. During the early 1980s, the ROC SFB actively encouraged new listings on the TWSE and the number of listed companies has grown from 119 in 1983 to 942 as of December 31, 2019. As of December 31, 2019, the market capitalization of companies listed on the TWSE was approximately NT\$36.4 trillion.

Historically, ROC companies have listed only shares and bonds on the TWSE. However, the ROC SFB has encouraged companies to list other types of securities. In 1988, the Ministry of Finance permitted the issuance of ROC's first exchangeable bonds. Since 1989, there have been offerings of domestic convertible bonds and convertible preferred shares. In addition, beneficiary units evidencing beneficiary interests in closed-end investment funds and bonds issued by super-national financial institutions are also listed on the TWSE. The ROC SFB also has promulgated regulations which permit foreign issuers to list certain securities on the TWSE.

The TWSE considers the following factors when evaluating a company for listing:

- the number and distribution of stockholders, including the diversification of such stockholders;
- length of time in business;
- amount of paid-in capital; and
- profitability.

However, special listing criteria apply to technology companies and key businesses that are engaged in the national economic development.

The following table shows for the periods indicated information relating to the TWSE.

| Period                        | No. of Listed<br>Companies<br>at Period<br>End | Stock<br>Trading<br>Values<br>(in NT\$<br>billions) | Index High | Index Low | Index at<br>Period End |
|-------------------------------|------------------------------------------------|-----------------------------------------------------|------------|-----------|------------------------|
| 1996                          | 382                                            | 12,907.6                                            | 6,982.81   | 4,690.22  | 6,933.94               |
| 1997                          | 404                                            | 37,241.1                                            | 10,116.84  | 6,820.35  | 8,187.27               |
| 1998                          | 437                                            | 29,619.0                                            | 9,277.09   | 6,251.38  | 6,418.43               |
| 1999                          | 462                                            | 29,291.5                                            | 8,608.91   | 5,474.79  | 8,448.84               |
| 2000                          | 531                                            | 30,526.6                                            | 10,202.20  | 4,614.63  | 4,739.09               |
| 2001                          | 584                                            | 18,354.9                                            | 6,104.24   | 3,446.26  | 5,551.24               |
| 2002                          | 638                                            | 21,874.0                                            | 6,462.30   | 3,850.04  | 4,452.45               |
| 2003                          | 669                                            | 20,333.2                                            | 6,142.32   | 4,139.50  | 5,890.69               |
| 2004                          | 697                                            | 23,875.4                                            | 7,034.10   | 5,316.87  | 6,139.69               |
| 2005                          | 691                                            | 18,818.9                                            | 6,575.53   | 5,632.97  | 6,548.34               |
| 2006                          | 688                                            | 23,900.4                                            | 7,823.72   | 6,257.80  | 7,823.72               |
| 2007                          | 698                                            | 33,043.8                                            | 9,809.88   | 7,344.56  | 8,506.28               |
| 2008                          | 718                                            | 26,115.4                                            | 9,295.20   | 4,089.93  | 4,591.22               |
| 2009                          | 741                                            | 29,680.5                                            | 8,188.11   | 4,242.61  | 8,188.11               |
| 2010                          | 758                                            | 28,218.7                                            | 8,972.50   | 7,071.67  | 8,972.50               |
| 2011                          | 790                                            | 26,197.4                                            | 9,145.35   | 6,633.33  | 7,072.08               |
| 2012                          | 809                                            | 20,238.2                                            | 8,144.04   | 6,894.66  | 7,699.50               |
| 2013                          | 838                                            | 18,940.9                                            | 8,623.43   | 7,616.64  | 8,611.51               |
| 2014                          | 854                                            | 21,898.5                                            | 9,569.17   | 8,264.48  | 9,307.26               |
| 2015                          | 874                                            | 20,191.5                                            | 9,973.12   | 7,410.34  | 8,338.06               |
| 2016                          | 892                                            | 16,771.1                                            | 9,392.68   | 7,664.01  | 9,253.50               |
| 2017                          | 907                                            | 23,972.2                                            | 10,854.57  | 9,272.88  | 10,642.86              |
| 2018                          | 928                                            | 29,608.9                                            | 11,253.11  | 9,478.99  | 9,727.41               |
| 2019                          | 942                                            | 26,464.6                                            | 12,122.45  | 9,382.51  | 11,997.14              |
| 2020 (through March 31, 2020) | 942                                            | 8,369.2                                             | 12,179.81  | 8,681.34  | 9,708.06               |

Source: TWSE

### Price limits, commissions, transaction tax and other matters

The TWSE has placed limits on block trading and on the range of daily price movements. According to the TWSE's block trading guidelines, transactions in one class of securities that involve 500 or more trading lots or trading amounts exceeding NT\$15 million, and transactions involving five or more different classes of securities and trading amounts exceeding NT\$15 million must be registered and executed in accordance with the guidelines. Fluctuations in the price of stock traded on the TWSE are currently subject to a restriction of 10% above and below the previous day closing price (or reference price set by the TWSE if the previous day closing price is not available because of lack of trading activity). However, these restrictions have been modified from time to time by the ROC SFB based on market conditions. The ROC SFB has announced that limitations on price fluctuations may be relaxed with a view to eventually abolish all share price fluctuation controls. Brokerage commission can be set at any rate of the transaction price, provided that any rate exceeding 0.1425% shall be reported to the TWSE and notified to the client in advance. A securities transaction tax, currently levied at 0.3% of the transaction price, is payable by the seller of equity securities. Such securities transaction taxes are withheld at the time of the transaction giving rise to such tax. Sales of shares of companies listed on the TWSE are currently sold in round lots of 1,000 shares. Investors who desire to sell less than 1,000 shares of a listed company occasionally experience delays in effecting such sales.

## Regulation and supervision

The ROC SFB has extensive regulatory authority over public companies. Public companies are generally required to obtain the deemed approval from the ROC SFB for all securities offerings. The ROC SFB has promulgated regulations requiring, unless otherwise exempted, periodic reporting of financial and operating information by all public companies. In addition, the ROC SFB establishes standards for financial reporting and carries out licensing and supervision of participants in the ROC securities market.

The ROC SFB has responsibility for implementing ROC Securities and Exchange Law and for overall administration of governmental policies in the ROC securities market. It has extensive regulatory authority over the offering, issuance and trading of securities. In addition, ROC Securities and Exchange Law specifically empowers the ROC SFB to promulgate necessary rules. ROC Securities and Exchange Law prohibits market manipulation. For example, it permits a ROC public company to recover short-swing trading profits made through purchases and sales within six months by directors, managerial personnel, supervisors, as well as the spouses, minor children and nominees of these parties, and stockholders (together with their spouses, minor children and nominees) who hold more than 10% of the shares of the company. ROC Securities and Exchange Law prohibits trading by “insiders” based on non-public information that materially affects share price movement prior to publication of such information and within 18 hours after publication of such information. “Insiders” include:

- directors, supervisors, managers, as well as the spouses, minor children and nominees of these parties, and stockholders (together with their spouses, minor children and nominees) who hold more than 10% of a ROC public company’s shares and any individual designated by a governmental or corporate director or supervisor to act on its behalf;
- any person who has learned material, non-public information due to an occupational or controlling relationship with a ROC public company;
- any person who has discharged from the status or position in the first and second bullet points for not more than six months; and
- any person who has learned material, non-public information from any of the above.

Sanctions include imprisonment. In addition, damages may be awarded to persons injured by the transaction. ROC Securities and Exchange Law also imposes criminal liability on certified public accountants and lawyers who make false certifications in their examination and audit of a company’s contracts, reports and other documents related to securities transactions. The ROC SFB regulations require that financial reports of listed companies be audited by accounting firms consisting of at least three certified public accountants and be signed by at least two certified public accountants.

The ROC SFB does not have criminal or civil enforcement powers under ROC Securities and Exchange Law. Criminal actions may be pursued only by government prosecutors. Civil actions may only be brought by plaintiffs who assert that they have suffered damages. The ROC SFB is empowered to curb abuses and violations of laws and regulations only through administrative measures including:

- issuance of warnings;
- temporary suspension of operation;
- imposition of administrative fines; and
- revocation of licenses.

In addition to providing a market for securities trading, the TWSE reviews applications by ROC issuers to list securities on the TWSE. If issuers of listed securities violate laws and regulations or encounter significant difficulties, the TWSE may, with the approval of the ROC SFB, delist the securities of these issuers.



## FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

*The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by us, the Initial Purchasers or any of our respective affiliates or advisors in connection with this Offering.*

### Foreign Investment

Foreign investments in ROC securities markets were once restricted. Since 1983, the ROC government has adopted, enacted and amended laws and regulations to enable investment in ROC securities markets by oversea Chinese, foreign nationals, and PRC nationals. Currently, the Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals, or the Securities Investment Regulations for Foreign Investors, announced on May 26, 1983 and last amended on February 11, 2014, and the Regulations Governing Securities Investment and Futures Trading in Taiwan by Mainland Area Investors, or the Securities Investment Regulations for PRC Nationals, announced on April 30, 2009 and last amended on October 6, 2010, are the two major regulations governing foreign investment in ROC securities. Foreign investors who are not PRC nationals shall follow the Securities Investment Regulations for Foreign Investors for their respective investment in ROC securities.

Under the Securities Investment Regulations for Foreign Investors, investors are classified into “Offshore General Foreign Investors”, “Onshore General Foreign Investors”, “Offshore Foreign Institutional Investors” and “Onshore Foreign Institutional Investors”, based upon whether they are institutional investors or natural persons, and whether they reside in the ROC (“**Offshore General Foreign Investors**” and “**Offshore Foreign Institutional Investors**”, hereafter “**Offshore Investor**”; “**Onshore General Foreign Investors**” and “**Onshore Foreign Institutional Investors**”, hereafter “**Onshore Investor**”). Foreign investors are required to register with the TWSE to trade securities listed on TWSE, and the TWSE may withdraw or rescind the registration if the application documents submitted by foreign investors are untrue or incomplete, or if any material violation of the relevant regulations exists. Offshore investors are required to appoint their local agent or nominee to act on their behalf in Taiwan.

An Offshore Investor may only invest in ROC securities as permitted by the FSC such as shares, certificates of bond conversion entitlement, and Taiwan Depositary Receipts publicly or privately offered by TWSE-listed, TPEX-listed or emerging market-listed companies, beneficiary certificates issued by securities investment trusts, government bonds, bank debentures, corporate bonds, convertible bonds, bonds with warrant, beneficiary securities or asset-backed securities issued by the special purpose trust or special purpose vehicle and warrants. The FSC may set a cap for the total investment amount of offshore investors, after consulting with the CBC; provided that the FSC lifted such cap in 2008.

In the past, PRC persons were prohibited from investing, whether directly or indirectly, in ROC securities. The Securities Investment Regulations for PRC Nationals promulgated in 2009 (as amended in 2010) allow PRC nationals and institutional investors to make investment in ROC securities, if they are qualified for any of the following categories: (i) qualified domestic institutional investors approved by the PRC government, also known as “QDIIIs”; (ii) PRC residents who are employees of a TWSE-listed or TPEX listed company and thereupon granted securities; (iii) companies incorporated under the laws of PRC or PRC residents who are the stockholders of a foreign company whose shares or depositary receipts are listed and traded on the TWSE or TPEX; or (iv) other categories as permitted by the competent authority. Subject to the requirements and restrictions set forth below, a PRC investor may invest in TWSE-listed or TPEX-listed securities, beneficiary certificates issued by securities investment trusts, government bonds, bank debentures, corporate bonds issued by public companies, beneficiary securities or asset-backed securities issued by the special purpose trust or special purpose vehicle, warrants and other securities as permitted by the FSC.

- PRC investors are required to appoint their agent or nominee in Taiwan for opening a securities trading account.
- PRC investors are required to appoint a custodian permitted by the competent authority to handle the custody of funds and certificates related to securities.

- In exercising the voting rights of the shares of a TWSE-listed or TPEx-listed company, unless otherwise permitted by laws and regulations, PRC investors may not substantially control or effect the operation and management of the company.
- The amount of investment remittance for each QDII is capped at US\$100 million, and the total amount remitted into Taiwan by all QDIIs shall not exceed US\$500 million.
- The PRC investor may not exceed the PRC ownership limit imposed by the Taiwan competent authority.

### **Depository receipts**

In April 1992, the ROC Securities and Futures Commission (later reformed and known as the Securities and Futures Bureau of the FSC) enacted regulations permitting ROC companies with securities listed on the TWSE, with the prior approval of the FSC, to sponsor the issue and sale to foreign investors of depository receipts. Depository receipts represent deposited shares of ROC companies. In December 1994, the ROC Ministry of Finance allowed companies whose shares are traded on the TPEx or listed on the TWSE, upon approval of the FSC, to sponsor the issue and sale of depository receipts.

After depository receipts are issued initially by a foreign depository, a holder of depository receipts may request the foreign depository to cause the underlying shares (1) to be sold in the ROC, with the proceeds from that sale distributed to the depository receipt holder after deducting tax payments and relevant costs and expenses, or (2) to be withdrawn from the depository receipt facility and transferred to the depository receipt holder.

Under existing laws and regulations relating to foreign exchange control, a depository may, without obtaining further approvals from the CBC or any other governmental authority or agency of the ROC, convert NT Dollars into other currencies, including US Dollars, in respect of the following: proceeds of the sale of shares represented by depository receipts, proceeds of the sale of shares received as stock dividends which have been deposited into the depository receipt facility and any cash dividends or cash distributions received. In addition, a depository, also without any of these approvals, may convert inward remittances of payments into NT Dollars for purchases of underlying shares for deposit into the depository receipt facility against the creation of additional depository receipts. However, a depository may be required to obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT Dollars into other currencies relating to the sale of subscription rights for new shares. Proceeds from the sale of any underlying shares by holders of depository receipts withdrawn from the depository receipt facility may be converted into other currencies without obtaining CBC approval.

Proceeds from sale of the underlying shares withdrawn from the depository receipt facility may be used for reinvestment in the TWSE, the TPEx, or stock of emerging market companies, subject to limitations and restrictions set forth in “Foreign Investment” above (as applicable).

### **Overseas corporate bonds**

Since 1989, the ROC Securities and Futures Commission has approved a series of overseas bonds issued by ROC companies listed on the TWSE in offerings outside the ROC. Under current ROC law and subject to the FSC approval, overseas corporate bonds can be (i) exchanged or converted by bondholders, other than persons of the PRC except for QDIIs, into shares of ROC companies; or (ii) converted into or exchanged for depository receipts issued by the same ROC company or by the issuing company of the exchange shares, in the case of exchangeable bonds. The relevant regulations also permit ROC companies attaining public company status to issue corporate bonds in offerings outside the ROC. Proceeds from the sale of the shares converted from overseas convertible bonds may be used for reinvestment in securities listed on the TWSE or traded on the TPEx, subject to limitations and restrictions set for in “Foreign Investment” section above (as applicable).

According to the Securities Investment Regulations for Foreign Investors, a non-resident foreign converting bondholder, when exercising the conversion right to convert bonds into shares of a ROC company, will be required to register with the TWSE, and to appoint a local agent (with such

qualifications provided by the FSC) to open a securities trading account with a local brokerage firm, pay ROC taxes, remit funds, exercise stockholders' rights and perform such other matters as may be designated by such converting bondholder on behalf of and as agent for such converting bondholder. The converting holder is also required to appoint a custodian bank to hold the securities and any cash proceeds in safekeeping, to make confirmation to settle trades, and to report all relevant information. Additionally, such converting holder is required to appoint a tax guarantor for filing tax returns and making tax payments.

According to the Securities Investment Regulations for PRC Nationals, a PRC holder of overseas convertible bonds issued by a ROC company may not convert or exchange such convertible into shares unless (i) it is a qualified QDII, (ii) the businesses of the issuer are in the Positive List promulgated by the MOEA, (iii) the shares converted from overseas convertible bonds, in general, would not, jointly with the other PRC stockholders of the issuer, account for 10% or more of the issuer's shares.

Unless otherwise limited by the CBC, a ROC company may, without obtaining further approval from the CBC or any other government authority of the ROC, convert NT Dollars to other non-ROC currencies, including US Dollars, for making payments in respect of proceeds of the redemption of the bonds or repayment of principal of and interest on the bonds. A non-ROC converting bondholder may, through its local agent and without obtaining prior approval from the CBC, convert into foreign currencies net proceeds realized from the sale of certificates of bond conversion entitlement, shares or any stock dividends relating to such shares, or any cash dividend or other cash distribution in respect of such shares, as well as inward remittance of subscription payments in respect of rights offerings. However, a converting bondholder must obtain prior approval from the CBC on a payment-by-payment basis for conversion from NT Dollars into other currencies in respect of the proceeds from the sale of subscription rights for newly issued Shares.

### **Other Foreign Investment**

In addition to investments permitted under the Regulations, foreign investors (other than foreign investors who have registered with the TWSE for making investments in the ROC securities market) who wish to make direct investments in the shares of ROC companies are required to submit a Foreign Investment Approval application to the Investment Commission of the ROC Ministry of Economic Affairs or other government authority. The Investment Commission or such other government authority reviews each Foreign Investment Approval application and approves or disapproves each application after consultation with other governmental agencies (such as the CBC and the FSC).

Under current law, any non-ROC person possessing a Foreign Investment Approval may remit capital for the approved investment and is entitled to repatriate annual net profits, interest and cash dividends attributable to such investment. Dividends attributable to such investment, investment capital and capital gains attributable to such investment may be repatriated after approvals of the Investment Commission or other authorities have been obtained.

In addition to the general restriction against investment by non-ROC persons in ROC securities markets, non-ROC persons (except in certain limited cases) are currently prohibited from investing in certain industries in the ROC pursuant to a Negative List, as amended by the Executive Yuan. The prohibition on foreign investment in the prohibited industries specified in the Negative List is absolute in the absence of specific exemption from the application of the Negative List. Pursuant to the Negative List, certain other industries are restricted so that non-ROC persons (except in certain limited cases) may invest in such industries only up to a specified level and with the specific approval of the relevant competent authority which is responsible for enforcing the relevant legislation which the Negative List is intended to implement.

### **Exchange controls**

The Foreign Exchange Control Statute and regulations provide that all foreign exchange transactions must be executed by banks designated to handle such business by the FSC and by the CBC. Current regulations favor trade-related foreign exchange transactions and Foreign Investment Approval investments.

Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters, and all foreign currency needed for the importation of merchandise and services may be purchased freely from the designated foreign exchange banks.

Trade aside, ROC companies and resident individuals may, without foreign exchange approval, remit outside the ROC foreign currency of up to US\$50,000,000 (or its equivalent) and US\$5,000,000 (or its equivalent) respectively in each calendar year. In addition, ROC companies and resident individuals may, without foreign exchange approval, remit into the ROC foreign currency of up to US\$50,000,000 (or its equivalent) and US\$5,000,000 (or its equivalent) respectively in each calendar year. Furthermore, any remittance of foreign currency into the ROC by an ROC company or resident individual in a year will be offset by the amount remitted out of the ROC by the company or individual (as applicable) within its annual quota and will not use up its annual inward remittance quota to the extent of such offset. The above limits apply to remittances involving a conversion of NT Dollars to a foreign currency and vice versa. A requirement is also imposed on all enterprises to register medium-and long-term foreign debt with the CBC.

In addition, foreign persons may, subject to certain requirements, but without foreign exchange approval of the CBC, remit outside and into the ROC foreign currencies of up to US\$100,000 (or its equivalent) for each remittance. The above limit applies to remittances involving a conversion of NT Dollars to a foreign currency and vice versa.

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