



Stock Code: 2105

## **CHENG SHIN RUBBER IND. CO., LTD.**

### **2018 Annual General Meeting Handbook**

**Time and Date:** 9:30 a.m., June 14, 2018

**Place:** Conference room of the new office building of Cheng Shin Rubber Ind. Co., LTD. located at B2, No. 215, Meigang Rd., Huangcuo Village, Dacun Township, Changhua County

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# CHENG SHIN RUBBER IND. CO., LTD.

## Agenda of the 2018 Annual General Meeting

- I. Call the Meeting to Order
- II. Chairperson's Remarks
- III. Reports
- IV. Ratifications
- V. Discussions
- VI. Motions
- VII. Adjournment

# **CHENG SHIN RUBBER IND. CO., LTD.**

## **Agenda of the 2018 Annual General Meeting**

Time and Date: 9:30 a.m., Thursday, June 14, 2018

Place: Conference room of the new office building of Cheng Shin Rubber Ind. Co., LTD. (the “Company”) located at B2, No. 215, Meigang Rd., Huangcuo Village, Dacun Township, Changhua County

I. Call the Meeting to Order

II. Chairperson’s Remarks

III. Reports

- i. 2017 Business Report.
- ii. Audit Committee’s report on the review of the 2017 Financial Statements.
- iii. Report of the Company’s distribution of dividends to its directors and employees in 2017.
- iv. Reports of endorsements and guarantees of obligations provided to third parties by the Company.
- v. Reports of issuance of unsecured ordinary corporate bonds by the Company in 2017.

IV. Ratifications

- i. To ratify the Company’s 2017 Business Report and Financial Statements.
- ii. To ratify the Company’s 2017 profit distribution.

V. Discussions

- i. To discuss the amendment of the Company’s “Procedures for Acquisition or Disposal of Assets”.
- ii. Proposal to release the Directors of the Company from non-compete restrictions.

VI. Motions

VII. Adjournment

# Reports

## **Reports**

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Item No. 1 - 2017 Business Report

Explanation: The 2017 Business Report of the Company can be found on pages 4-8 of this Handbook.



# **CHENG SHIN RUBBER IND. CO., LTD.**

## **2017 Business Report**

First, we would like to thank you for all your continued support and trust over the last year. 2017 was a relatively challenging year for us. The severe fluctuations in the price of raw materials in the first half of the year and the rising of New Taiwan Dollars in the second half of the year resulted in our NT\$112.3 billion consolidated operating revenue, a 4.33% decline from the previous year. In dealing with the growing global phenomenon of M-shaped society, which attributed to synchronized polarization of sales in the tire industry, we remain optimistic as we meet the challenges of industry transformation in the process.

With the continued recovery of emerging markets and developing countries, global economy is projected to increase its growth momentum in 2018. Currently, we have 12 production bases worldwide, including 7 that are located in China. The positive growth of market demand in the China tire industry and increased brand recognition of MAXXIS are projected to boost sales volume. Our factories in India and Indonesia, which were completed and began production in the second and third quarters of 2017, are also expected to become the driving force of the Group.

In 2018, we are adopting an OEM strategy to develop our global business, which is focused on the following areas: improve customer relations by strengthening our marketing capabilities and familiarizing ourselves with the connection between customer preference and our products; create exceptional products by increasing the synergy of our research and development team; deliver revenue growth for the Group by driving the tire repair market (RE) with the vehicles assembly factories (OE), and boosting the collaboration between vehicles assembly factories (OE) with the tire repair market (RE); enhance organizational and management capabilities, talent development and use success stories to share knowledge and lessons learned. With our own version of blue ocean strategy, we are confident that we can attain the business goal of becoming the top five companies in the tire industry by 2026.

## Results of Operations in 2017 and Operating Prospects of 2018

### I. Results of Operations in 2017

(1) Results of operations based on our business plan for 2017

#### 1. Sales and Production

Unit: pcs. in thousands; %

Major Products \ Year	Produced in 2017	Sold in 2017	Sold in 2016	Percentage of increase/decrease
PCR	42,442	43,833	46,526	-5.79%
TBR	4,901	4,793	3,952	21.28%
MC	41,296	41,227	60,696	-32.08%
BC	92,545	87,037	71,610	21.54%
TUBE	130,228	131,194	139,463	-5.93%
OTHER TIRES	18,675	17,356	17,017	1.99%

#### 2. Operation Summary

IFRS Consolidated

Unit: in thousands in NT\$; %

Item \ Year	2017	2016	Percentage of increase (decrease)
Net Sales	112,309,166	117,387,519	-4.33%
Cost of Goods Sold	86,631,096	81,098,410	6.82%
Operating Expenses	17,279,578	17,617,696	-1.92%
Operating Profit	8,398,492	18,671,413	-55.02%
Net Profit	5,602,025	13,346,481	-58.03%

IFRS Individual

Unit: in thousands in NT\$; %

Item \ Year	2017	2016	Percentage of increase (decrease)
Net Sales	19,437,442	20,637,507	-5.81%
Cost of Goods Sold	14,399,280	13,889,311	3.67%
Operating Expenses	3,612,552	3,965,777	-8.91%
Operating Profit	1,338,775	2,845,044	-52.94%
Net Profit	5,541,785	13,250,903	-58.18%



## (2) Revenue Forecast and Realization

The sales revenue in 2017 totaled NT\$112.3 billion, a realization of 85% of the sales forecast, which was NT\$131.5 billion.

## (3) Financial Position and Profitability Analysis

### IFRS Consolidated

Unit: in thousands in NT\$; %

Year			2017	2016	% Change
Item					
Income Statement	Sales Revenue		112,309,166	117,387,519	-4.33%
	Gross Profit		25,678,070	36,289,109	-29.24%
	Net Profit		5,602,025	13,346,481	-58.03%
Profitability	Return on Assets (ROA) (%)		3.84	8.45	-54.56%
	Return on Equity (ROE) (%)		6.55	14.98	-56.28%
	As a % of Paid-in Capital	Operating Profit	25.91	57.60	-55.02%
		Pre-tax Profit	25.86	55.21	-53.16%
	Net Profit Margin (%)		4.99	11.37	-56.11%
	Earnings Per Share (NT\$)		1.71	4.09	-58.19%

### IFRS Individual

Unit: in thousands in NT\$; %

Year					
Item			2017	2016	% Change
Income Statement	Sales Revenue		19,437,442	20,637,507	-5.81%
	Gross Profit		5,038,162	6,748,196	-25.34%
	Net Profit		5,541,785	13,250,903	-58.18%
Profitability	Return on Assets (ROA) (%)		4.79	11.05	-56.65%
	Return on Equity (ROE) (%)		6.53	15.00	-56.47%
	As a % of Paid-in Capital	Operating Profit	4.13	8.78	-52.96%
		Pre-tax Profit	21.60	48.25	-55.23%
	Net Profit Margin (%)		28.51	64.21	-55.60%
	Earnings Per Share (NT\$)		1.71	4.09	-58.19%

(4) Research and Development

- Development of lightweight spare tires
- Development of motorcycle racing tires
- Research project on the technology of high air pressure bicycle tires
- Development projects on the new tire products for other vehicles
- Research project on the technology for TBR products and development of new TBR products
- Research project on the technology for energy-saving tire products
- Development of MAXXIS' new generation PCR products

## II. Outline of 2018 Business Plan

(1) Business Strategy

- Continuous growth of operating revenue.
- Strengthening strategies and enhancing the organization's capacities.
- Glocalization of the Global + Local headquarter.
- Enhancing existing production capacity and establishing new factories to increase the production capacity.
- Enhancing the capacity of technology R&D and equipment development to increase the profit.
- Realization of safety, hygiene, environmental protection and energy management.

(2) Sales Volume Forecast and Basis

IFRS Consolidated		(in pcs. in thousands)
Item	Year	2018 Volume Forecast
		Sales
PCR		38,618
TBR		5,477
MC		59,445
BC		81,175
TUBE		93,148
OTHER TIRES		19,009
<b>TOTAL</b>		<b>296,872</b>

IFRS Individual

(in pcs. in thousands)

Item	Year	2018 Volume Forecast
		Sales
PCR		4,945
TBR		307
MC		6,522
BC		8,006
TUBE		9,251
OTHER TIRES		5,558
<b>TOTAL</b>		<b>34,589</b>

*\*This forecast is based on the assessment made during the sales meeting of the Company held on January 25, 2018.*

### (3) Key Production and Distribution Policy

Our mission is to meet and exceed customer satisfaction. By understanding the needs of our customers and market trends, and applying a sales-oriented marketing strategy, we integrate products and production lines to enable comprehensive production planning. As we continue to refine and develop technologies, we are also lowering costs and increasing profitability to achieve efficiency optimization.

The strength of our business is the result of our unwavering commitment to excel in the tire industry. Our innovative solutions and ability to create value have enabled us to deliver high quality products and customized services while maximizing profits for our customers. Thank you for your continued support, we will endeavor to deliver business results and new value for our shareholders, customers and employees.

**Lou, Tsau-Jen**

*Chairman*



**Lou, Tsau-Jen**

*General Manager*



**Chang, Ya-Ching**

*Controller*



## **Reports**

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Item No. 2 – Audit Committee’s report on the review of the 2017 Financial Statements

Explanation:

The 2017 Financial Statements of the Company have been adopted by the resolution of the Board of Directors and audited and certified by independent auditors, Grace Hung and Steven Go, of PricewaterhouseCoopers Taiwan. The Financial Statements, along with the Business Report and the proposed profit distribution, have been reviewed by the Audit Committee of the Company. The Audit Committee’s Report can be found on page 10 of the Handbook.

# Audit Committee's Report

To the 2018 Annual General Meeting of Cheng Shin Rubber Ind. Co., LTD.:

The Board of Directors has prepared and submitted the Company's 2017 Business Report, Financial Statements (including individual and consolidated financial statements) and the proposed profit distribution, of which the Financial Statements have been audited and certified by the independent auditors, Grace Hung and Steven Go, of PricewaterhouseCoopers Taiwan, and an audit report has been issued. The Business Report, Financial Statements and the proposed profit distribution have been reviewed by us, the Audit Committee of the Company. We have not found any inconsistencies with applicable laws in our review of the aforementioned documents. Therefore, we, the Audit Committee, hereby issue this report in compliance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

A handwritten signature in black ink, consisting of three Chinese characters: 許恩得 (Hsu, En-De). The signature is written in a cursive style and is positioned above a light blue horizontal line.

Hsu, En-De  
*Chairman of the Audit Committee*

Dated: March 20, 2018

## **Reports**

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Item No. 3 - Report of the Company's distribution of dividends to its directors and employees in 2017.

Explanation:

1. The director and employee dividends in 2017 are distributed in accordance with Article 34-1 of the Company's Articles of Incorporation, taking into consideration the 2017 sales revenue and net profit in comparison with those in 2016, and the average distribution amount in 2016.
2. The profit in 2017 is NT\$7,266,514,742, setting aside 1.481% of such profit as director dividends in the amount of NT\$107,617,083, and setting aside 2% of such profit as employee dividends in the amount of NT\$145,330,295. The aforementioned dividends are distributed in cash.
3. The amount of employee dividends in 2017 is recognized as expenses in the same amount as distributed. The amount of director dividends in 2017 is recognized as expenses in the amount of NT\$118,589,521, which is NT\$10,972,438 less than the year before. Such amount will be recognized as income adjustment in 2018.

## **Reports**

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Item No. 4 – Reports of endorsement and guarantee of obligations provided to third parties by the Company.

Explanation:

As of December 31, 2017, the total amount under the endorsement and guarantee of obligations provided to third parties by the Company is US\$758,693,000, or approximately NT\$22,586,291,000; the details of which can be found on pages 13-14 of the Handbook. It is hereby reported to the annual general meeting pursuant to the Company's Rules Governing Endorsement and Guarantee.

**CHENG SHIN RUBBER IND. CO., LTD.**  
**Endorsement and Guarantee to Third Parties**

As of December 31, 2017

Obligor	Guaranteed Obligation	Type of Guarantee	Balance on Guarantee	Bank Name	Start Date	Due Date	Note
Cheng Shin Tire & Rubber (CHONGQING)	Loan Guarantee	Long-term	USD 10,000,000	Shin Kong Bank	2011.03.10	2018.03.16	
Cheng Shin Tire & Rubber (CHONGQING)	Loan Guarantee	Long-term	USD 10,000,000	Public Bank	2011.06.21	2018.06.27	
Cheng Shin Tire & Rubber (CHONGQING)	Loan Guarantee	Long-term	USD 60,000,000	Mega Bank	2011.08.25	2018.08.25	
CST RUBBER (ZHANGZHOU) IND. CO., LTD.	Loan Guarantee	Long-term	USD 15,000,000	Mega Bank	2012.08.03	2019.07.10	
CST RUBBER (ZHANGZHOU) IND. CO., LTD.	Loan Guarantee	Long-term	USD 30,000,000	First Bank	2012.01.21	2018.01.20	
Maxxis International (Thailand) Co., Ltd	Loan Guarantee	Long-term	USD 15,000,000	Shin Kong Bank	2011.02.15	2018.02.15	
Maxxis International (Thailand) Co., Ltd	Loan Guarantee	Long-term	USD 15,000,000	Jih Sun Bank	2013.04.24	2018.07.11	
Maxxis International (Thailand) Co., Ltd	Loan Guarantee	Long-term	USD 20,000,000	Mega Bank	2015.02.16	2020.02.16	
Maxxis International (Thailand) Co., Ltd	Loan Guarantee	Long-term	USD 20,000,000	HSBC Bank	2015.08.20	2019.08.18	
Maxxis International (Thailand) Co., Ltd	Loan Guarantee	Long-term	THB1,000,000,000	MIZUHO Bank	2016.02.12	2021.02.18	
Maxxis International (Thailand) Co., Ltd	Loan Guarantee	Long-term	THB1,000,000,000	SMBC Bank	2016.12.13	2021.12.27	
Maxxis International (Thailand) Co., Ltd	Loan Guarantee	Long-term	USD 20,000,000	Standard Chartered Bank	2017.08.23	2020.09.21	
Maxxis International (Thailand) Co., Ltd	Loan Guarantee	Long-term	USD 25,000,000	Bangkok Bank	2017.10.25	2019.10.25	
Cheng Shin Rubber (Vietnam) Ind. Co., Ltd	Loan Guarantee	Long-term	USD 10,000,000	Taipei Fubon Bank	2013.05.06	2018.07.23	



**CHENG SHIN RUBBER IND. CO., LTD.**  
**Endorsement and Guarantee to Third Parties**

As of December 31, 2017

Obligor	Guaranteed Obligation	Type of Guarantee	Balance on Guarantee	Bank Name	Start Date	Due Date	Note
Maxxis Rubber India Pvt. Ltd.	Loan Guarantee	Long-term	USD 50,000,000	Mega Bank	2016.01.15	2023.02.24	
Maxxis Rubber India Pvt. Ltd.	Loan Guarantee	Long-term	USD 20,000,000	Taichung Bank	2016.04.01	2021.04.28	
Maxxis Rubber India Pvt. Ltd.	Loan Guarantee	Long-term	USD 20,000,000	Yuanta Bank	2016.04.29	2021.05.17	
Maxxis Rubber India Pvt. Ltd.	Loan Guarantee	Long-term	USD 20,000,000	Shanghai Bank	2016.04.29	2021.07.19	
Maxxis Rubber India Pvt. Ltd.	Loan Guarantee	Long-term	USD 40,000,000	Cooperative Bank	2016.11.14	2023.11.29	
Maxxis Rubber India Pvt. Ltd.	Loan Guarantee	Long-term	USD 30,000,000	MUFG Bank	2016.11.22	2021.12.15	
Maxxis Rubber India Pvt. Ltd.	Loan Guarantee	Long-term	USD 40,000,000	HSBC Bank	2017.05.03	2022.05.24	
Maxxis Rubber India Pvt. Ltd.	Loan Guarantee	Long-term	USD 9,800,000	Hua Nan Bank	2017.06.30	2022.07.27	
Maxxis Rubber India Pvt. Ltd.	Loan Guarantee	Short-term	INR400,000,000	CTBC Bank	2017.06.19	2018.05.31	
Maxxis Rubber India Pvt. Ltd.	Loan Guarantee	Short-term	USD 10,000,000	HSBC Bank	2017.06.27	2018.04.30	
PT. Maxxis International Indonesia	Loan Guarantee	Long-term	USD 16,000,000	CTBC Bank	2016.01.25	2021.05.03	
PT. Maxxis International Indonesia	Loan Guarantee	Long-term	USD 100,000,000	First Bank	2016.07.26	2023.08.01	
PT. Maxxis International Indonesia	Loan Guarantee	Long-term	USD 30,000,000	Chang Hwa Bank	2017.01.18	2024.01.18	
PT. Maxxis International Indonesia	Loan Guarantee	Long-term	USD 20,000,000	The Export-Import Bank of ROC	2017.07.10	2022.09.06	
PT. Maxxis International Indonesia	Loan Guarantee	Short-term	USD 20,000,000	CTBC Bank	2017.10.01	2018.10.31	

## **Reports**

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Item No. 5 –Reports of issuance of unsecured ordinary corporate bonds by the Company in 2017.

Explanation:

1. To repay the debts and improve the Company's financial structure, the Company's Board of Directors has adopted a resolution on May 10, 2017, to issue unsecured ordinary corporate bonds with the total amount to be NT\$7,000,000,000.
2. The issuance conditions of the corporate bonds under the aforementioned Board resolution and other relevant matters have been announced on the Market Observation Post System ("MOPS") website.
3. The corporate bonds issuance under the aforementioned Board resolution has been filed with the Taipei Exchange and effective upon the ruling by the Taipei Exchange (reference number: Cheng-Kuei-Chai-Tsu no. 10600207831; date: August 1, 2017). Such corporate bonds have all been issued on August 10, 2017, with the total issuance amount to be NT\$7,000,000,000, and have been traded since August 10, 2017 after the approval by the Taipei Exchange (reference number: Cheng-Kuei-Chai-Tsu no. 10600213862; date: August 7, 2017).

# **Ratifications**

## **Ratifications**

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Item No. 1 – To ratify the 2017 Business Report and Financial Statements (submitted by the Board of Directors)

Explanation:

1. The 2017 Business Report and Financial Statements have been prepared by the Board of Directors and the Financial Statements have been audited and certified by independent auditors, Grace Hung and Steven Go, of PricewaterhouseCoopers Taiwan. The Business Report and the Financial Statements have been adopted by resolution of the Board of Directors and reviewed by the Audit Committee of the Company. The Audit Committee has not found any inaccuracies in their review of these documents and delivered a report accordingly. The Business Report, Audit Committee's Report, and Financial Statements can be found on pages 4-8, 10, and 18-42 of this Handbook.
2. The proposal is hereby submitted for ratification.

Resolution:

To the Board of Directors and Shareholders of Cheng Shin Rubber Ind. Co., Ltd. and subsidiaries

***Opinion***

We have audited the accompanying consolidated balance sheets of Cheng Shin Rubber Ind. Co., Ltd. and subsidiaries (the “Group”) as at December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

***Basis for opinion***

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Key audit matters***

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

### ***Cut-off on sales revenue***

#### Description

For the accounting policy on revenue recognition, please refer to Note 4(30). For the year ended December 31, 2017, the sales revenue was NT\$112,309,166 thousand.

The Group's main business is manufacturing and sales of various rubber products and tires. The main sources of sales revenue are from the assembly plant and dealers. Sales revenue from the assembly plant are recognised upon shipment of merchandise. In accordance with the contract terms with the assembly plant, as inspections are completed in the assembly plant, the transfer of risk and reward is completed and sales revenue is recognised.

#### How our audit addressed the matter

The procedures that we have conducted in response to the above key audit matter are summarized as follows:

1. We obtained an understanding of the Group's sales revenue cycle, reviewed internal control process and contracts of assembly plant sales in order to assess the effectiveness of managements' control of revenue recognition on assembly plant sales.
2. We tested the Group's sales transactions around the year-end date to check whether assembly plant sales are recorded in the proper period. We also tested whether changes in inventory and cost of goods sold were carried over and recorded in the proper period in order to assess the reasonableness of the sales revenue recognition.
3. We tailored our audit over sales cutoff through accounts receivable testing based on the confirmation process in order to check whether sales revenue and accounts receivable are recorded in the proper period.

### ***Timing of reclassification of unfinished construction and uninspected equipment to property, plant and equipment.***

#### Description

For the accounting policy on property, plant and equipment, please refer to Note 4(15). For the details of property, plant and equipment, please refer to Note 6(8). As of December 31, 2017, the unfinished construction and equipment under acceptance was NT\$ 11,133,630 thousand.

To maintain market competitiveness, the Group continuously replaces old production lines with new ones and incurs significant amounts of capital expenditures every year. The unfinished construction and uninspected equipment are measured at cost. When the finished construction's inspection report is issued and the uninspected equipment is ready for use, they are reclassified to property, plant and equipment and starts accrual of depreciation expense. The inspection process involves human judgement, thus, the timing of reclassification and accrual of depreciation expense could be

inappropriate. Therefore, we indicated that the audit of timing of depreciation recognition after reclassification of unfinished construction and uninspected equipment to property, plant and equipment as one of the key areas of focus for this year.

#### How our audit addressed the matter

The procedures that we have conducted in response to the above key audit matter are summarized as follows:

1. We obtained an understanding of the Group's property, plant and equipment process cycle, reviewed the internal control process and purchase contracts of property, plant and equipment in order to assess the effectiveness of managements' control of timing of reclassification of unfinished construction and uninspected equipment to property, plant and equipment.
2. We tailored our audit over fixed asset classification to check whether reclassification of assets are accurate and recorded in the proper period.
3. We verified the status of unfinished construction and uninspected equipment and assessed the reasonableness of the recognition of unfinished construction and uninspected equipment.

### ***Changes of ERP system***

#### Description

The ERP system of the Company changed from a self-developed system to the SAP system in 2017. This changed the Company's operating platform and involved changes in information environment of primary activity, thus we listed the change of ERP system as a key audit matter.

#### How our audit addressed the matter

The procedures that we have conducted in response to the above key audit matter are summarized as follows:

1. Interviewed with management to discuss about the operating process which affected the new system, internal controls and introduction plan to assess the effectivity of the change in the system.
2. Obtained an understanding of control of data transfer when the system changed, and checked the accuracy of account balances at the beginning date.
3. Obtained an understanding and tested the internal controls of primary operation and the system which was relied upon by the financial reporting to assess the effectiveness of internal controls after the data was transferred.

### ***Other matter – Scope of the audit***

We did not audit the financial statements of certain consolidated subsidiaries, which statements reflect total assets of NT\$4,390,772 thousand and NT\$4,699,832 thousand, representing 2% and 3% of the consolidated total assets as of December 31, 2017 and 2016, respectively, and the total liabilities of NT\$1,820,861 thousand and NT\$1,894,862 thousand, both constituting 2% of the consolidated total liabilities as of December 31, 2017 and 2016, respectively, and total operating revenues of NT\$5,198,435 thousand and NT\$5,369,799 thousand, both representing 5% of consolidated total net operating revenue for the years then ended, respectively. Those financial statements and the information

disclosed in Note 13 were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein is based solely on the audit reports of the other independent accountants.

***Other matter – Parent company only financial statements***

We have audited and expressed an unqualified opinion on the parent company only financial statements of the Group as at and for the years ended December 31, 2017 and 2016.

***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 Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee, are responsible for overseeing the Group’s financial reporting process.

***Auditor’s 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 auditor’s 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 ROC GAAS 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 ROC GAAS, we exercise professional judgement 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 auditor's 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 auditor's 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 appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

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Hung, Shu-Hua

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Wu, Der Feng

For and on behalf of PricewaterhouseCoopers, Taiwan

March 20, 2018

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

**CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2017 AND 2016**  
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 30,923,979	17	\$ 28,893,546	17
1125	Available-for-sale financial assets	6(3)				
	- current		69,188	-	141,404	-
1150	Notes receivable, net	6(4)	2,298,485	1	1,445,339	1
1170	Accounts receivable, net	6(5)	9,852,585	6	10,330,385	6
1180	Accounts receivable - related parties	7	119,288	-	129,733	-
130X	Inventories, net	6(6)	19,184,340	11	13,850,002	9
1410	Prepayments		2,400,926	1	1,900,089	1
1470	Other current assets	8	1,814,833	1	1,463,436	1
11XX	Current Assets		66,663,624	37	58,153,934	35
Non-current assets						
1523	Available-for-sale financial assets	6(3)				
	- noncurrent		58,187	-	58,187	-
1550	Investments accounted for under equity method	6(7)(20)	171,020	-	177,313	-
1600	Property, plant and equipment, net	6(8)	105,007,683	59	103,156,284	61
1760	Investment property, net	6(9)	612,656	-	291,785	-
1840	Deferred income tax assets	6(25)	1,076,959	1	831,631	1
1900	Other non-current assets	6(10) and 8	5,494,126	3	5,495,592	3
15XX	Non-current assets		112,420,631	63	110,010,792	65
1XXX	Total assets		\$ 179,084,255	100	\$ 168,164,726	100

(Continued)

**CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2017 AND 2016**  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2017		December 31, 2016	
		AMOUNT	%	AMOUNT	%
<b>Current liabilities</b>					
2100 Short-term borrowings	6(11)	\$ 18,508,493	10	\$ 12,656,467	8
2120 Financial liabilities at fair value through profit or loss - current	6(2)	408	-	-	-
2150 Notes payable		822,160	1	483,645	-
2170 Accounts payable		8,511,030	5	8,260,392	5
2200 Other payables	6(12)	7,022,033	4	7,003,144	4
2230 Current income tax liabilities	6(25)	1,277,640	1	1,377,757	1
2300 Other current liabilities	6(13)(14)(15) and 7	5,936,600	3	10,005,293	6
21XX <b>Current Liabilities</b>		<u>42,078,364</u>	<u>24</u>	<u>39,786,698</u>	<u>24</u>
<b>Non-current liabilities</b>					
2530 Corporate bonds payable	6(14)	16,800,000	9	11,700,000	7
2540 Long-term borrowings	6(15) and 7	32,659,178	18	22,888,990	14
2550 Provisions for liabilities - noncurrent		122,071	-	120,299	-
2570 Deferred income tax liabilities	6(25)	1,348,631	1	1,836,061	1
2600 Other non-current liabilities	6(16)	3,184,708	2	3,563,290	2
25XX <b>Non-current liabilities</b>		<u>54,114,588</u>	<u>30</u>	<u>40,108,640</u>	<u>24</u>
2XXX <b>Total Liabilities</b>		<u>96,192,952</u>	<u>54</u>	<u>79,895,338</u>	<u>48</u>
<b>Equity</b>					
<b>Equity attributable to owners of parent</b>					
<b>Share capital</b>	6(17)				
3110 Share capital - common stock		32,414,155	18	32,414,155	19
<b>Capital surplus</b>	6(18)				
3200 Capital surplus		52,576	-	52,576	-
<b>Retained earnings</b>	6(19)				
3310 Legal reserve		14,280,767	8	12,955,677	8
3320 Special reserve		3,307,822	2	2,604,163	2
3350 Unappropriated retained earnings		36,580,033	20	42,774,502	25
<b>Other equity interest</b>	6(20)				
3400 Other equity interest		( 4,430,061 )	( 2 )	( 3,307,822 )	( 2 )
31XX <b>Equity attributable to owners of the parent</b>		<u>82,205,292</u>	<u>46</u>	<u>87,493,251</u>	<u>52</u>
36XX <b>Non-controlling interest</b>		<u>686,011</u>	<u>-</u>	<u>776,137</u>	<u>-</u>
3XXX <b>Total equity</b>		<u>82,891,303</u>	<u>46</u>	<u>88,269,388</u>	<u>52</u>
<b>Significant contingent liabilities and unrecognised contract commitments</b>	9				
<b>Significant events after the balance sheet date</b>	11				
3X2X <b>Total liabilities and equity</b>		<u>\$ 179,084,255</u>	<u>100</u>	<u>\$ 168,164,726</u>	<u>100</u>

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

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars, except earning per share)

Items	Notes	Year ended December 31			
		2017		2016	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	7	\$ 112,309,166	100	\$ 117,387,519	100
5000 Operating costs	6(6)	( 86,631,096)	( 77)	( 81,098,410)	( 69)
5900 Net operating margin		25,678,070	23	36,289,109	31
Operating expenses	7				
6100 Selling expenses		( 8,497,746)	( 8)	( 9,291,874)	( 8)
6200 General and administrative expenses		( 3,690,739)	( 3)	( 3,495,704)	( 3)
6300 Research and development expenses		( 5,091,093)	( 5)	( 4,830,118)	( 4)
6000 Total operating expenses		( 17,279,578)	( 16)	( 17,617,696)	( 15)
6900 Operating profit		8,398,492	7	18,671,413	16
Non-operating income and expenses					
7010 Other income	6(21)	1,722,315	1	1,168,424	1
7020 Other gains and losses	6(22)	( 454,136)	-	( 1,045,758)	( 1)
7050 Finance costs	6(23)	( 1,292,476)	( 1)	( 924,222)	( 1)
7060 Share of profit of associates and joint ventures accounted for under equity method	6(7)	7,674	-	25,129	-
7000 Total non-operating income and expenses		( 16,623)	-	( 776,427)	( 1)
7900 Profit before income tax		8,381,869	7	17,894,986	15
7950 Income tax expense	6(25)	( 2,779,844)	( 2)	( 4,548,505)	( 4)
8200 Profit for the year		\$ 5,602,025	5	\$ 13,346,481	11

(Continued)

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars, except earning per share)

		Year ended December 31			
		2017		2016	
Items	Notes	AMOUNT	%	AMOUNT	%
<b>Other comprehensive income</b>					
<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>					
8311	Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans	\$ 19,804	-	(\$ 80,322)	-
8320	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	304	-	( 1,035)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	( 3,367)	-	13,655	-
8310	<b>Components of other comprehensive income(loss) that will not be reclassified to profit or loss</b>	16,741	-	( 67,702)	-
<b>Components of other comprehensive income that will be reclassified to profit or loss</b>					
8361	Financial statements translation differences of foreign operations	( 1,492,148)	( 1)	( 6,255,531)	( 5)
8362	Unrealized loss on valuation of available-for-sale financial assets	( 9,226)	-	( 24,010)	-
8370	Total share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	727	-	( 3,298)	-
8399	Income tax relating to the components of other comprehensive income	228,042	-	1,045,110	1
8360	<b>Components of other comprehensive loss that will be reclassified to profit or loss</b>	( 1,272,605)	( 1)	( 5,237,729)	( 4)
8300	<b>Other comprehensive loss for the year</b>	(\$ 1,255,864)	( 1)	(\$ 5,305,431)	( 4)
8500	<b>Total comprehensive income for the year</b>	\$ 4,346,161	4	\$ 8,041,050	7
<b>Profit, attributable to:</b>					
8610	Owners of the parent	\$ 5,541,785	5	\$ 13,250,903	11
8620	Non-controlling interest	60,240	-	95,578	-
		\$ 5,602,025	5	\$ 13,346,481	11
<b>Comprehensive income(loss), attributable to:</b>					
8710	Owners of the parent	\$ 4,436,287	4	\$ 8,056,360	7
8720	Non-controlling interest	( 90,126)	-	( 15,310)	-
		\$ 4,346,161	4	\$ 8,041,050	7
<b>Earnings per share (in dollars)</b>					
9750	<b>Basic earnings per share</b>	\$ 1.71		\$ 4.09	
9850	<b>Diluted earnings per share</b>	\$ 1.71		\$ 4.08	

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

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Equity attributable to owners of the parent											
Notes	Capital Surplus			Retained Earnings			Other equity interest		Total	Non-controllin g interest	Total equity
	Share capital - common stock	Treasury stock transactions	Gain on sale of assets	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation	Unrealized gain or loss on available-for-sa le financial assets			
							differences of foreign operations				
<u>Year ended December 31, 2017</u>											
Balance at January 1, 2017	\$ 32,414,155	\$ 9,772	\$ 42,804	\$ 11,678,012	\$ 2,604,163	\$ 40,593,212	\$ 1,744,319	\$ 74,700	\$ 89,161,137	\$ 791,447	\$ 89,952,584
Appropriations of 2016 earnings:											
Legal reserve	-	-	-	1,277,665	-	( 1,277,665 )	-	-	-	-	-
Cash dividends 6(19)	-	-	-	-	-	( 9,724,246 )	-	-	( 9,724,246 )	-	( 9,724,246 )
Profit for the year	-	-	-	-	-	13,250,903	-	-	13,250,903	95,578	13,346,481
Other comprehensive loss for the year 6(20)	-	-	-	-	-	( 67,702 )	( 5,102,593 )	( 24,248 )	( 5,194,543 )	( 110,888 )	( 5,305,431 )
Balance at December 31, 2016	<u>\$ 32,414,155</u>	<u>\$ 9,772</u>	<u>\$ 42,804</u>	<u>\$ 12,955,677</u>	<u>\$ 2,604,163</u>	<u>\$ 42,774,502</u>	<u>(\$ 3,358,274 )</u>	<u>\$ 50,452</u>	<u>\$ 87,493,251</u>	<u>\$ 776,137</u>	<u>\$ 88,269,388</u>
<u>Year ended December 31, 2016</u>											
Balance at January 1, 2017	\$ 32,414,155	\$ 9,772	\$ 42,804	\$ 12,955,677	\$ 2,604,163	\$ 42,774,502	(\$ 3,358,274 )	\$ 50,452	\$ 87,493,251	\$ 776,137	\$ 88,269,388
Appropriations of 2015 earnings:											
Legal reserve	-	-	-	1,325,090	-	( 1,325,090 )	-	-	-	-	-
Special reserve	-	-	-	-	703,659	( 703,659 )	-	-	-	-	-
Cash dividends 6(19)	-	-	-	-	-	( 9,724,246 )	-	-	( 9,724,246 )	-	( 9,724,246 )
Profit for the year	-	-	-	-	-	5,541,785	-	-	5,541,785	60,240	5,602,025
Other comprehensive income (loss) for the year 6(20)	-	-	-	-	-	16,741	( 1,113,380 )	( 8,859 )	( 1,105,498 )	( 150,366 )	( 1,255,864 )
Balance at December 31, 2016	<u>\$ 32,414,155</u>	<u>\$ 9,772</u>	<u>\$ 42,804</u>	<u>\$ 14,280,767</u>	<u>\$ 3,307,822</u>	<u>\$ 36,580,033</u>	<u>(\$ 4,471,654 )</u>	<u>\$ 41,593</u>	<u>\$ 82,205,292</u>	<u>\$ 686,011</u>	<u>\$ 82,891,303</u>

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

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 8,381,869	\$ 17,894,986
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(8)(24)	11,539,729	11,545,063
Depreciation on investment property	6(9)(24)	12,308	727
Amortization expense	6(24)	25,859	5,301
Rental expenses for land use right	6(10)	86,624	91,597
Share of profit of associates and joint ventures accounted for using equity method	6(7)	( 7,674 )	( 25,129 )
Net gain on financial assets or liabilities at fair value through profit or loss	6(22)	( 2,538 )	( 18,829 )
Loss on disposal of property, plant and equipment	6(8)(22)	29,237	151,637
Provision for bad debt expense	6(5)	4,808	-
Interest expense	6(8)(23)	1,292,476	924,222
Interest income	6(21)	( 265,335 )	( 179,998 )
Gain on disposal of investment	6(22)	( 19,828 )	( 475 )
Deferred government grants revenue		( 330,449 )	( 151,920 )
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable, net		( 853,146 )	797,597
Accounts receivable - related parties		10,445	31,756
Accounts receivable		473,193	363,774
Inventories		( 5,228,854 )	( 636,849 )
Prepayments		( 603,439 )	( 774,043 )
Other current assets		( 354,025 )	175,644
Other non-current assets		( 2,778 )	28,010
Changes in operating liabilities			
Notes payable		338,515	276,634
Accounts payable		250,638	1,515,760
Other payables		( 1,183,978 )	426,110
Other current liabilities		( 332,185 )	316,526
Accrued pension liabilities		( 5,671 )	( 162,691 )
Other current liabilities		10,723	-
Cash inflow generated from operations		13,266,524	32,595,410
Interest received		267,855	166,549
Dividends received		15,000	25,152
Interest paid		( 1,239,501 )	( 918,391 )
Income tax paid		( 3,408,985 )	( 4,596,725 )
Net cash flows from operating activities		8,900,893	27,271,995

(Continued)



CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Net changes in financial liabilities at fair value through profit or loss		\$ 2,946	\$ -
Proceeds from capital reduction of available-for-sale financial assets		-	2,408
Proceed from sale of available-for-sale financial assets		82,818	-
Proceeds from disposal of property, plant and equipment		132,815	61,892
Payment for capitalized interests	6(8)(23)(27)	( 23,870 )	( 43,328 )
Acquisition of property, plant and equipment	6(8)(27)	( 13,923,156 )	( 14,044,132 )
Acquisition of intangible assets		( 22,984 )	( 7,502 )
Decrease (increase) in refundable deposits		35,192	( 52,855 )
Acquisition of land use rights		( 192,971 )	-
Net cash flows used in investing activities		( 13,909,210 )	( 14,083,517 )
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term loans		30,124,923	17,575,154
Decrease in short-term loans		( 24,097,520 )	( 20,155,605 )
Proceeds from issuing bonds	6(14)	7,000,000	5,000,000
Repayments of bonds	6(14)	( 1,900,000 )	-
Increase in long-term loans		17,491,609	10,525,645
Decrease in long-term loans		( 10,720,689 )	( 8,931,033 )
Decrease in guarantee deposits received		( 9,634 )	( 23,777 )
Increase (decrease) in other payables to related parties	7	169,005	58,188
Decrease in other non-current liabilities		4,531	( 3,019 )
Cash dividends paid	6(19)	( 9,724,246 )	( 9,724,246 )
Net cash flows from (used in) financing activities		8,337,979	( 5,678,693 )
Effect of exchange rate changes on cash and cash equivalents		( 1,299,229 )	( 937,406 )
Net increase in cash and cash equivalents		2,030,433	6,572,379
Cash and cash equivalents at beginning of year	6(1)	28,893,546	22,321,167
Cash and cash equivalents at end of year	6(1)	<u>\$ 30,923,979</u>	<u>\$ 28,893,546</u>

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

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of CHENG SHIN RUBBER IND. CO., LTD.

### ***Opinion***

We have audited the accompanying balance sheets of CHENG SHIN RUBBER IND. CO., LTD. as at December 31, 2017 and 2016, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CHENG SHIN RUBBER IND. CO., LTD. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers”.

### ***Basis for opinion***

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Key audit matters***

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

## ***Cut-off on sales revenue***

### **Description**

For the accounting policy on revenue recognition, please refer to Note 4(29). For the year ended December 31, 2017, the sales revenue was NT\$19,437,442 thousand. The operating income for the consolidated financial statements amounted to NT\$112,309,166 thousand.

The Company's main business is manufacturing and sales of various rubber products and tires. The main sources of sales revenue are from the assembly plant and dealers. Sales revenue from the assembly plant are recognised upon shipment of merchandise. In accordance with the contract terms with the assembly plant, as inspections are completed in the assembly plant, the transfer of risk and reward is completed and sales revenue is recognised. The sales revenue recognition process involves many manual controls and adjustments are likely to occur. As a result, the timing of sales revenue recognition could be inappropriate. Therefore, we indicated that the audit of timing of sales revenue recognition as one of the key areas of focus for this year.

### **How our audit addressed the matter**

The procedures that we have conducted in response to the above key audit matter are summarized as follows:

1. We obtained an understanding of the Company's sales revenue cycle, reviewed internal control process and contracts of assembly plant sales in order to assess the effectiveness of managements' control of revenue recognition on assembly plant sales.
2. We tested the Company's sales transactions around the year-end date to check whether assembly plant sales are recorded in the proper period. We also tested whether changes in inventory and cost of goods sold were carried over and recorded in the proper period in order to assess the reasonableness of the sales revenue recognition.
3. We tailored our audit over sales cutoff through accounts receivable testing based on the confirmation process in order to check whether sales revenue and accounts receivable are recorded in the proper period.

## ***Timing of reclassification of unfinished construction and uninspected equipment to property, plant and equipment.***

### **Description**

For the accounting policy on property, plant and equipment, please refer to Note 4(14). For the details of property, plant and equipment, please refer to Note 6(7). As of December 31, 2017, the unfinished construction and equipment under acceptance was NT\$829,999 thousand. Unfinished construction and uninspected equipment amounted to NT\$11,133,630 thousand.

To maintain market competitiveness, the Company continuously replaces old production lines with new ones and incurs significant amounts of capital expenditures every year. The unfinished construction and uninspected equipment are measured at cost. When the finished construction's inspection report is issued and the uninspected equipment is ready for use, they are reclassified to property, plant and equipment and starts accrual of depreciation expense. The inspection process involves human judgement, thus, the timing of reclassification and accrual of depreciation expense could be inappropriate. Therefore, we indicated that the audit of timing of depreciation recognition after

reclassification of unfinished construction and uninspected equipment to property, plant and equipment as one of the key areas of focus for this year.

#### How our audit addressed the matter

The procedures that we have conducted in response to the above key audit matter are summarized as follows:

1. We obtained an understanding of the Company's property, plant and equipment process cycle, reviewed the internal control process and purchase contracts of property, plant and equipment in order to assess the effectiveness of managements' control of timing of reclassification of unfinished construction and uninspected equipment to property, plant and equipment.
2. We tailored our audit over fixed asset classification to check whether reclassification of assets are accurate and recorded in the proper period.
3. We verified the status of unfinished construction and uninspected equipment and assessed the reasonableness of the recognition of unfinished construction and uninspected equipment.

### ***Changes of ERP system***

#### Description

The ERP system of the Company changed from a self-developed system to the SAP system in 2017. This changed the Company's operating platform and involved changes in information environment of primary activity, thus we listed the change of ERP system as a key audit matter.

#### How our audit addressed the matter

The procedures that we have conducted in response to the above key audit matter are summarized as follows:

1. Interviewed with management to discuss about the operating process which affected the new system, internal controls and introduction plan to assess the effectivity of the change in the system.
2. Obtained an understanding of control of data transfer when the system changed, and checked the accuracy of account balances at the beginning date.
3. Obtained an understanding and tested the internal controls of primary operation and the system which was relied upon by the financial reporting to assess the effectiveness of internal controls after the data was transferred.

### ***Other matter – Scope of the audit***

As described in Note 6(6), we did not audit the financial statements of certain investments accounted for using equity method and related amounts disclosed in Note 13. The balances of investments accounted for using equity method were NT\$2,569,911 thousand and NT\$2,804,969 thousand, both representing 2% of the total assets as of December 31, 2017 and 2016, respectively; and the share of profit of subsidiaries, associates and joint ventures accounted for using equity method were NT\$679,796 thousand and NT\$1,043,489 thousand, representing 14% and 13% of the total

comprehensive income for the years then ended, respectively. These financial statements and the information disclosed in Note 13 were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein, is based solely on the audit reports of the other independent accountants.

### ***Responsibilities of management and those charged with governance for the financial statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee, are responsible for overseeing the Company’s financial reporting process.

### ***Auditor’s responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s 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 ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.
7. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

Hung, Shu-Hua

Wu, Der Feng

For and on behalf of PricewaterhouseCoopers, Taiwan

March 20, 2018

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The accompanying parent company only financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying parent company only financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

CHENG SHIN RUBBER IND. CO., LTD.  
PARENT COMPANY ONLY BALANCE SHEETS  
DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 12,002,673	10	\$ 11,754,387	10
1125	Available-for-sale financial assets	6(2)				
	- current		69,188	-	66,147	-
1150	Notes receivable, net	6(3) and 7	23,503	-	22,314	-
1170	Accounts receivable, net	6(4)	1,181,128	1	1,369,219	1
1180	Accounts receivable - related parties, net	7	1,648,216	1	1,318,036	1
130X	Inventories, net	6(5)	3,446,903	3	1,717,092	1
1410	Prepayments		416,157	-	438,764	-
1470	Other current assets	7 and 8	646,276	1	644,523	1
11XX	Total current assets		19,434,044	16	17,330,482	14
Non-current assets						
1523	Available-for-sale financial assets	6(2)				
	non - current		58,187	-	58,187	-
1550	Investments accounted for using equity method	6(6)	84,129,266	70	88,625,721	72
1600	Property, plant and equipment, net	6(7)(26)	15,747,604	13	16,052,715	13
1760	Investment property, net	6(8)	291,173	-	291,785	-
1780	Intangible assets		94,890	-	-	-
1840	Deferred income tax assets	6(24)	726,996	1	458,853	1
1900	Other non-current assets		1,515	-	1,251	-
15XX	Total non-current assets		101,049,631	84	105,488,512	86
1XXX	Total assets		\$ 120,483,675	100	\$ 122,818,994	100

(Continued)



CHENG SHIN RUBBER IND. CO., LTD.  
PARENT COMPANY ONLY BALANCE SHEETS  
DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity			December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(9)	\$ -	-	\$ 450,000	-
2120	Financial liabilities at fair value through profit or loss - current	6(10)	408	-	-	-
2170	Accounts payable		1,313,171	1	957,958	1
2180	Accounts payable - related parties	7	34,919	-	19,683	-
2200	Other payables	6(11) and 7	2,316,803	2	2,561,326	2
2230	Current income tax liabilities	6(24)	971,856	1	971,551	1
2300	Other current liabilities	6(13)(14)	3,141,719	3	4,447,598	4
21XX	Total current Liabilities		7,778,876	7	9,408,116	8
Non-current liabilities						
2530	Bonds payable	6(13)	16,800,000	14	11,700,000	10
2540	Long-term borrowings	6(14)	11,548,000	9	11,548,998	9
2570	Deferred income tax liabilities	6(24)	1,348,631	1	1,836,061	1
2600	Other non-current liabilities	6(15)	802,876	1	832,568	1
25XX	Total non-current liabilities		30,499,507	25	25,917,627	21
2XXX	Total liabilities		38,278,383	32	35,325,743	29
Equity						
Share capital						
3110	Ordinary shares	6(16)	32,414,155	27	32,414,155	26
Capital surplus						
3200	Capital surplus	6(17)	52,576	-	52,576	-
Retained earnings						
		6(18)(25)				
3310	Legal reserve		14,280,767	12	12,955,677	11
3320	Special reserve		3,307,822	3	2,604,163	2
3350	Unappropriated retained earnings		36,580,033	30	42,774,502	35
Other equity interest						
		6(19)				
3400	Other equity interest		( 4,430,061 )	( 4 )	( 3,307,822 )	( 3 )
3XXX	Total equity		82,205,292	68	87,493,251	71
Significant contingent liabilities and 9 unrecognised contract commitments						
Significant events after the balance sheet date						
		11				
3X2X	Total liabilities and equity		\$ 120,483,675	100	\$ 122,818,994	100

The accompanying notes are an integral part of these parent company only financial statements.

CHENG SHIN RUBBER IND. CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars, except earnings per share)

	Items	Notes	Year ended December 31			
			2017		2016	
			AMOUNT	%	AMOUNT	%
4000	Sales revenue	7	\$ 19,437,442	100	\$ 20,637,507	100
5000	Operating costs	6(5)	( 14,399,280)	( 74)	( 13,889,311)	( 67)
5900	Net operating margin		5,038,162	26	6,748,196	33
5910	Unrealized (profit) loss from sales		( 86,835)	-	62,625	-
5950	Gross profit from operation		4,951,327	26	6,810,821	33
	Operating expenses					
6100	Selling expenses		( 1,848,802)	( 10)	( 2,229,808)	( 11)
6200	General and administrative expenses		( 649,194)	( 3)	( 751,999)	( 3)
6300	Research and development expenses		( 1,114,556)	( 6)	( 983,970)	( 5)
6000	Total operating expenses	6(23)	( 3,612,552)	( 19)	( 3,965,777)	( 19)
6900	Operating profit		1,338,775	7	2,845,044	14
	Non-operating income and expenses					
7010	Other income	6(20) and 7	1,444,222	8	1,491,751	7
7020	Other gains and losses	6(21)	( 531,557)	( 3)	( 127,257)	-
7050	Finance costs	6(22)	( 338,104)	( 2)	( 359,095)	( 2)
7070	Share of profit of associates and joint ventures accounted for using equity method	6(6)				
			5,089,259	26	11,790,290	57
7000	Total non-operating income and expenses		5,663,820	29	12,795,689	62
7900	Profit before income tax		7,002,595	36	15,640,733	76
7950	Income tax expense	6(24)	( 1,460,810)	( 7)	( 2,389,830)	( 12)
8200	Profit for the year		\$ 5,541,785	29	\$ 13,250,903	64
	Other comprehensive income	6(19)(24)				
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Other comprehensive income, before tax, actuarial losses on defined benefit plans	6(15)	\$ 19,804	-	( \$ 80,322)	-
8330	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss		304	-	( 1,035)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(24)	( 3,367)	-	13,655	-
8310	Components of other comprehensive income that will not be reclassified to profit or loss		16,741	-	( 67,702)	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Other comprehensive income, before tax, exchange differences on translation		( 1,341,422)	( 7)	( 6,147,703)	( 30)
8362	Other comprehensive income, before tax, available-for-sale financial assets		3,041	-	( 31,974)	-
8380	Total share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss		( 11,900)	-	7,726	-
8399	Income tax relating to the components of other comprehensive income	6(24)	228,042	1	1,045,110	5
8360	Components of other comprehensive loss that will be reclassified to profit or loss		( 1,122,239)	( 6)	( 5,126,841)	( 25)
8300	Other comprehensive loss for the year		( \$ 1,105,498)	( 6)	( \$ 5,194,543)	( 25)
8500	Total comprehensive income for the year		\$ 4,436,287	23	\$ 8,056,360	39
9750	Basic earnings per share	6(25)	\$ 1.71		\$ 4.09	
9850	Diluted earnings per share	6(25)	\$ 1.71		\$ 4.08	

The accompanying notes are an integral part of these parent company only financial statements.

CHENG SHIN RUBBER IND. CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

		Capital Surplus			Retained Earnings			Other equity interest		
	Notes	Share capital - common stock	Treasury stock transactions	Gain on sale of assets	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Total equity
Year ended December 31, 2016										
Balance at January 1, 2016		\$ 32,414,155	\$ 9,772	\$ 42,804	\$ 11,678,012	\$ 2,604,163	\$ 40,593,212	\$ 1,744,319	\$ 74,700	\$ 89,161,137
Appropriations of 2015 earnings (Note 1):										
Legal reserve		-	-	-	1,277,665	-	( 1,277,665 )	-	-	-
Cash dividends	6(18)	-	-	-	-	-	( 9,724,246 )	-	-	( 9,724,246 )
Profit for the year		-	-	-	-	-	13,250,903	-	-	13,250,903
Other comprehensive loss for the year	6(19)	-	-	-	-	-	( 67,702 )	( 5,102,593 )	( 24,248 )	( 5,194,543 )
Balance at December 31, 2016		<u>\$ 32,414,155</u>	<u>\$ 9,772</u>	<u>\$ 42,804</u>	<u>\$ 12,955,677</u>	<u>\$ 2,604,163</u>	<u>\$ 42,774,502</u>	<u>( \$ 3,358,274 )</u>	<u>\$ 50,452</u>	<u>\$ 87,493,251</u>
Year ended December 31, 2017										
Balance at January 1, 2017		\$ 32,414,155	\$ 9,772	\$ 42,804	\$ 12,955,677	\$ 2,604,163	\$ 42,774,502	( \$ 3,358,274 )	\$ 50,452	\$ 87,493,251
Appropriations of 2016 earnings (Note 2):										
Legal reserve		-	-	-	1,325,090	-	( 1,325,090 )	-	-	-
Special reserve		-	-	-	-	703,659	( 703,659 )	-	-	-
Cash dividends	6(18)	-	-	-	-	-	( 9,724,246 )	-	-	( 9,724,246 )
Profit for the year		-	-	-	-	-	5,541,785	-	-	5,541,785
Other comprehensive loss for the year	6(19)	-	-	-	-	-	16,741	( 1,113,380 )	( 8,859 )	( 1,105,498 )
Balance at December 31, 2017		<u>\$ 32,414,155</u>	<u>\$ 9,772</u>	<u>\$ 42,804</u>	<u>\$ 14,280,767</u>	<u>\$ 3,307,822</u>	<u>\$ 36,580,033</u>	<u>( \$ 4,471,654 )</u>	<u>\$ 41,593</u>	<u>\$ 82,205,292</u>

Note 1: The directors' loss on available-for-sale financial assets and employee's loss on available-for-sale financial assets ended December 31, 2015 have been eliminated from parent company only financial statements.

Note 2: The directors' 2015 have been eliminated from parent company only financial statements. Issuance of \$324,446 thousand for the year ended December 31, 2016 have been eliminated from parent company only financial statements.

The accompanying notes are an integral part of these parent company only financial statements.

CHENG SHIN RUBBER IND. CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 7,002,595	\$ 15,640,733
Adjustments			
Adjustments to reconcile profit (loss)			
Unrealised (gain) loss on inter-company transaction		60,927	( 35,944 )
Depreciation	6(7)	1,591,687	1,624,454
Amortization expense	6(23)	18,165	-
Depreciation on investment property	6(8)	612	727
Net gain on financial assets or liabilities at fair value through profit or loss	6(10)(21)	( 2,538 )	( 7,415 )
Loss on disposal of investments accounted for using equity method		1,946	-
Gain on disposal of investments		-	( 475 )
Gain on disposal of property, plant and equipment		( 161,814 )	( 206,811 )
Share of profit of associates and joint ventures accounted for using equity method	6(6)	( 5,089,259 )	( 11,790,290 )
Interest income	6(20)	( 154,215 )	( 104,899 )
Interest expense	6(22)	338,104	368,259
Effect of exchange rate changes on cash and cash equivalents		( 549,719 )	( 359,834 )
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable, net		( 1,189 )	2,895
Accounts receivable		188,091	37,034
Accounts receivable - related parties		( 330,180 )	( 383,446 )
Inventories		( 1,729,811 )	360,794
Other current assets		( 84,396 )	( 141,507 )
Other non-current assets		( 38 )	-
Changes in operating liabilities			
Accounts payable		355,213	( 6,410 )
Accounts payable - related parties		15,236	4,738
Other payables		( 697,732 )	79,568
Accrued pension liabilities		( 12,334 )	( 164,341 )
Other current liabilities		21,454	( 2,347 )
Cash inflow generated from operations		780,805	4,915,483
Interest received		156,860	86,879
Dividends received		8,912,898	7,781,595
Interest paid		( 327,623 )	( 350,801 )
Income tax paid		( 1,991,403 )	( 2,523,708 )
Net cash flows from operating activities		7,531,537	9,909,448

(Continued)

The accompanying notes are an integral part of these parent company only financial statements.

CHENG SHIN RUBBER IND. CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Net changes in financial instruments at fair value through profit or loss	6(2)(10)	\$ 2,946	\$ -
Proceeds from capital reduction of available-for-sale financial assets		-	2,408
Acquisition of investments accounted for using equity method		( 878,101 )	( 44,502 )
Proceed returned from liquidation of investee accounted for using equity method		97,000	-
Proceeds from disposal of property, plant and equipment		218,839	766,139
Acquisition of property, plant and equipment	6(7)(26)	( 859,902 )	( 1,530,309 )
Acquisition of intangible assets		( 10,453 )	-
Payment for capitalized interests	6(7)(26)	-	( 9,141 )
(Increase) decrease in refundable deposits		( 226 )	50
Net cash flows used in investing activities		( 1,429,897 )	( 815,355 )
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term loans		2,440,000	450,000
Decrease in short-term loans		( 2,890,000 )	-
Proceeds from issuing bonds	6(13)	7,000,000	5,000,000
Repayments of bonds		( 1,900,000 )	-
Increase in long-term loans		5,700,000	2,000,000
Decrease in long-term loans	6(14)	( 7,028,331 )	( 4,358,002 )
Decrease in guarantee deposits received		( 496 )	( 340 )
Cash dividends paid	6(18)	( 9,724,246 )	( 9,724,246 )
Net cash flows used in financing activities		( 6,403,073 )	( 6,632,588 )
		549,719	359,834
Net increase in cash and cash equivalents		248,286	2,821,339
Cash and cash equivalents at beginning of year	6(1)	11,754,387	8,933,048
Cash and cash equivalents at end of year	6(1)	<u>\$ 12,002,673</u>	<u>\$ 11,754,387</u>

The accompanying notes are an integral part of these parent company only financial statements.

## **Ratifications**

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Item No. 2 – Proposal of the 2017 profit distribution (submitted by the Board of Directors)

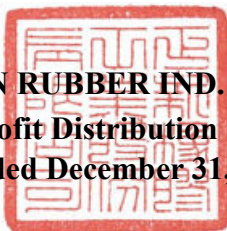
Explanation:

1. The Board has adopted a proposal for the distribution of the Company's 2017 profits, which has been reviewed and reported by the Audit Committee and hereby submitted to the meeting of the shareholders for ratification.
2. After setting aside the legal reserve, the 2017 after-tax earnings together with the undistributed earnings from the previous year shall amount to a total distributable earnings of NT\$34,903,614,898. In accordance with the Articles of Incorporation of the Company, the Board of Directors proposes to distribute cash dividends in the amount of NT\$5,834,547,965 to the shareholders at NT\$1.8 per share. The profit distribution shall be allocated out of the 2017 earnings. If the 2017 earnings are insufficient for the current profit distribution, then the distribution shall be allocated out of the 2016 undistributed earnings. The cumulative undistributed earnings after distribution will be NT\$29,069,066,933. (The details of which may be found on page 44 of the Earnings Allocation Table in this Handbook.)
3. It is proposed that after the profit distribution has been approved at the shareholders' meeting, the Board of Directors will be authorized to set the ex-dividend date. Dividends will be distributed pro rata according to the shareholder register as of the record date. Cash dividends to shareholders that are under NT\$1 shall be categorized as "other income" of the Company.
4. The proposal is hereby submitted for ratification.

Resolution:

**CHENG SHIN RUBBER IND. CO., LTD.**

**Profit Distribution  
Year Ended December 31, 2017**



	(NT\$)
Beginning balance of retained earnings	31,021,503,489
Less adjustment of 2017 retained earnings	<u>16,744,438</u>
Adjusted beginning balance of retained earnings	<u>31,038,247,927</u>
Net Income of 2017	<u>5,541,784,938</u>
Less 10% legal reserve appropriated	(554,178,494)
Less 10% special reserve appropriated	<u>(1,122,239,473)</u>
Earnings available for distribution	<u>34,903,614,898</u>
<u>Distribution items:</u>	
Cash dividends (at NT\$1.80 per share)	<u>(5,834,547,965)</u>
Balance of 2017 retained earnings	<u>29,069,066,933</u>

**Lou, Tsau-Jen**  
*Chairman*



**Lou, Tsau-Jen**  
*General Manager*



**Chang, Ya-Ching**  
*Controller*



# **Discussions**



## **Discussions**

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Item No. 1 – Proposal of the amendment of the Company’s “Procedures for Acquisition or Disposal of Assets” (submitted by the Board of Directors)

Explanation:

1. To comply with the ruling promulgated by the Financial Supervisory Commission (reference number: Jin-Guan-Cheng-Fa-Tsu no. 1060001296; date: February 9, 2017), relevant provisions under the Company’s “Procedures for Acquisition or Disposal of Assets” are hereby amended. For more details, please refer to the provisions comparison table on page 47~53 of this Handbook.
2. The “Procedures for Acquisition or Disposal of Assets” shall be effective upon the approval by the Audit Committee and resolutions adopted at the Board of Directors’ meeting and the shareholders’ meeting. The proposal is hereby submitted for resolution.

Resolution:

**Cheng Shin Rubber Ind. Co., Ltd.**  
**Comparison Table for Amendment of the Company's Procedures for**  
**Acquisition or Disposal of Assets**

<p><b>Article 5 Announcement and Filing Procedures:</b></p> <p>I. In the event of any of the following occurs when the Company acquires or disposes of its assets, the Company shall, based on the nature of the transaction announce and file relevant documents on the website designated by the competent authority within two days from the Date of Occurrence according to the format and content provided by the appendices (see Appendix II to Appendix VIII):</p> <ol style="list-style-type: none"> <li>i. ...</li> <li>ii. ...</li> <li>iii. ...</li> <li>iv. ...</li> <li>v. ...</li> <li>vi. Where an asset transaction other than any of those referred to in subparagraphs i, to v, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20% or more of the Company's paid-in capital or NTD 300 million or more; provided that this shall not apply to any of the following circumstances: <ol style="list-style-type: none"> <li>A. Trading of government bonds.</li> <li>B. Trading of securities at the domestic or foreign stock exchange or over the counter, or purchase of the ordinary corporate bonds or the general bank debentures without equity characteristics that are offered and issued in the domestic primary</li> </ol> </li> </ol>	<p><b>Article 5 Announcement and Filing Procedures:</b></p> <p>I. In the event of any of the following occurs when the Company acquires or disposes of its assets, the Company shall, based on the nature of the transaction announce and file relevant documents on the website designated by the competent authority within two days from the Date of Occurrence according to the format and content provided by the appendices (see Appendix II to Appendix VIII):</p> <ol style="list-style-type: none"> <li>i. ...</li> <li>ii. ...</li> <li>iii. ...</li> <li>iv. ...</li> <li>v. ...</li> <li>vi. Where an asset transaction other than any of those referred to in subparagraphs i to v, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20% or more of the Company's paid-in capital or NTD 300 million or more; provided that this shall not apply to any of the following circumstances: <ol style="list-style-type: none"> <li>A. Trading of government bonds.</li> <li>B. Trading of securities at the domestic or foreign stock exchange or over the counter, or purchase of the ordinary corporate bonds or the general bank debentures without equity</li> </ol> </li> </ol>	<p>Amended as required by the operations of the Company.</p>
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<p>market <u>as investment professionals</u>.</p> <p>(The rest of this Article omitted)</p>	<p>characteristics that are offered and issued in the domestic primary market.</p> <p>(The rest of this Article omitted)</p>	
<p><b>Article 6 Asset Appraisal Procedures:</b> In the event of the Company's acquisition or disposal of real property or equipment where the transaction amount reaches 20% of the Company's paid-in capital or NTD 300 million or more, except for the transactions with governments, engaging others to build on their own lands, engaging others to build on rented land, or acquiring or disposing of equipment for business use, the Company shall obtain an appraisal report from a professional appraiser prior to the Date of Occurrence and shall comply with the following provisions. In the event that the Company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may serve as a substitute for the appraisal report or the certified public accountant's opinion.</p> <p>I. ... II. ... III. ... IV. ... V. <del>In the event that the Company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may serve as a substitute for the appraisal report or the certified public accountant's opinion.</del></p>	<p><b>Article 6 Asset Appraisal Procedures:</b> In the event of the Company's acquisition or disposal of real property or equipment where the transaction amount reaches 20% of the Company's paid-in capital or NTD 300 million or more, except for the transactions with governments, engaging others to build on their own lands, engaging others to build on rented land, or acquiring or disposing of equipment for business use, the Company shall obtain an appraisal report from a professional appraiser prior to the Date of Occurrence and shall comply with the following provisions. In the event that the Company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may serve as a substitute for the appraisal report or the certified public accountant's opinion.</p> <p>I. ... II. ... III. ... IV. ... V. In the event that the Company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may serve as a substitute for the appraisal report or the certified public accountant's opinion.</p>	<p>Amended as required by the operations of the Company.</p>
<p><b>Article 10 Basis of Definition and Determination:</b> The Company's acquisition of assets from its related party includes the Company's acquisition of assets by purchasing or exchanging. The</p>	<p><b>Article 10 Basis of Definition and Determination</b> The Company's acquisition of assets from its related party includes the Company's acquisition of assets by purchasing or exchanging. The</p>	<p>Amended to reflect the amendment of relevant laws.</p>

<p>definition of a related party shall refer to the regulations under the Regulations Governing the Preparation of Financial Reports by Securities Issuers. When determining whether a trading counterparty is a related party, both the legal formalities and the substance of the relationship shall be considered. <b><u>In the event that the Company engages in any acquisition or disposal of assets from or to a related party, in addition to following the resolution procedures and evaluating the reasonableness of the terms of the transaction in accordance with Chapter 2 of these Procedures, if the transaction amount reaches 10% of the Company's total assets, the Company shall also obtain an appraisal report from a professional appraiser or the opinion of a certified public accountant in accordance with the preceding provisions.</u></b></p>	<p>definition of a related party shall refer to the regulations under the Regulations Governing the Preparation of Financial Reports by Securities Issuers. When determining whether a trading counterparty is a related party, both the legal formalities and the substance of the relationship shall be considered.</p>	
<p><b>Article 11 Resolution Procedures:</b> In the event that the Company engages in any acquisition or disposal of real property from or to a related party or engages in any acquisition or disposal of assets other than real property from or to a related party, and the transaction amount reaches 20% or more of the Company's paid-in capital, 10% or more of the Company's total assets, or NTD 300 million or more, except for the trading of government bonds, bonds under repurchase and resale agreements, or subscription or repurchase of money market funds issued by domestic securities investment trust enterprises, the Company may not proceed to enter into a transaction agreement or make a payment until the implementation unit has submitted the following matters to the Board of Directors and the Audit Committee and the matters has been</p>	<p><b>Article 11 Resolution Procedures:</b> In the event that the Company engages in any acquisition or disposal of real property from or to a related party or engages in any acquisition or disposal of assets other than real property from or to a related party, and the transaction amount reaches 20% or more of the Company's paid-in capital, 10% or more of the Company's total assets, or NTD 300 million or more, except for the trading of government bonds, bonds under repurchase and resale agreements, or subscription or repurchase of money market funds issued by domestic securities investment trust enterprises, the Company may not proceed to enter into a transaction agreement or make a payment until the implementation unit has submitted the following matters to the Board of</p>	<p>Amended as required by the operations of the Company.</p>

<p>approved by the Board of Directors and Audit Committee: (omitted)</p> <p>VII. The restrictive terms of this transaction and other important agreements in connection with the transaction.</p> <p>i. The transaction amount in the preceding paragraph shall mean the transaction amount of the year preceding the Date of Occurrence of this transaction, <b><u>which shall be calculated according to Article 5, paragraph 1 herein</u></b>. Items that have been approved by the Audit Committee and Board of Directors according to these Procedures shall not be counted in when calculating the transaction amount.</p> <p>ii. With respect to the acquisition or disposal of machinery or equipment for business use between the Company and its subsidiary, the Board of Directors may <b><u>proceed with the transaction</u></b> according to the provisions in <b><u>Article 4, paragraph 1, subparagraph v of these Procedures, which</u></b> shall subsequently be submitted to and ratified at the next Board of Directors' meeting.</p> <p>In the event that matters are submitted to the Board of Directors for discussion according to the preceding paragraph, the Board of Directors shall take each Independent Director's opinion into full consideration. If an Independent Director objects to or expresses</p>	<p>Directors and the Audit Committee and the matters has been approved by the Board of Directors and Audit Committee: (omitted)</p> <p>VII. The restrictive terms of this transaction and other important agreements in connection with the transaction.</p> <p>i. The transaction amount in the preceding paragraph shall mean the transaction amount of the year preceding the Date of Occurrence of this transaction. Items that have been approved by the Audit Committee and Board of Directors according to these Procedures shall not be counted in when calculating the transaction amount.</p> <p>ii. With respect to the acquisition or disposal of machinery or equipment for business use between the Company and its subsidiary, the Board of Directors may <b><u>authorize</u></b>, according to the provisions in <b><u>Chapter 1 of these Procedures, the Chairman to approve the transaction within certain amount. The Chairman's approval</u></b> shall subsequently be submitted to and ratified at the next Board of Directors' meeting.</p> <p>In the event that matters are submitted to the Board of Directors for discussion according to the preceding paragraph, the Board of Directors shall take each Independent Director's</p>	
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<p>reservation about any matter, it shall be recorded in the minutes of the Board of Directors' meeting.</p> <p><b><u>If the Company has established an Audit Committee, matters which require the ratification of the Audit Committee pursuant to the preceding paragraph shall be approved by a majority of all members of the Audit Committee and submitted to the Board for resolution. If the Company fails to obtain the approval of a majority of all members of the Audit Committee, such matters may be adopted by the approval of at least two-thirds of all members of the Board. The resolution of the Audit Committee shall be recorded in the meeting minutes of the Board.</u></b></p>	<p>opinion into full consideration. If an Independent Director objects to or expresses reservation about any matter, it shall be recorded in the minutes of the Board of Directors' meeting.</p>	
<p><b>Article 13 Procedures to be complied with when the Estimated Transaction Costs are Lower than the Transaction Price:</b> (omitted) I. ... II. ...</p> <p><b><u>If there is any other evidence indicating that the acquisition of real property by the Company from a related party involves transaction irregularities, the procedures provided in the preceding two paragraphs shall apply.</u></b></p>	<p><b>Article 13 Procedures to be complied with when the Estimated Transaction Costs are Lower than the Transaction Price:</b> (omitted) I. ... II. ...</p>	<p>Amended to reflect the amendment of relevant laws.</p>
<p><b>Article 14 Principles and Guidelines for the Transaction:</b> I. Types of derivatives: the types of derivatives the Company may transact include forward contracts, options, interest or foreign exchange rates swaps, futures and compound contracts combining the</p>	<p><b>Article 14 Principles and Guidelines for the Transaction:</b> I. Types of derivatives: the types of derivatives the Company may transact include forward contracts, options, interest or foreign exchange rates swaps, futures and compound contracts</p>	<p>Amended as required by the operations of the Company.</p>

products mentioned above. If the Company intends to transact other types of derivatives, the transaction shall **comply with the authorized amount and authorization level provided in Article 4, paragraph 1 herein** ~~be adopted at the Board of Directors' meeting in advance.~~

II. ...

III. Transaction Amount:

i. ...

ii. ...

**Level of authorization for hedge and non-hedge transaction amount:**

Authorized persons	Transaction amount per day	Net cumulative position
Foreign currency trading personnel	USD 5M or less	USD 10M or less
Head of financial department	USD 20M or less	USD 30M or less
General manager	Above USD 20M	USD 50M or less

iii....

IV. ...

i. **Upper limit of loss for an individual contract and all contracts shall be 20% of the transaction amount.**

ii. **If the transaction is entered for a specific purpose, a stop-loss point shall be established to avoid losses exceeding the above limit after the position is created. The stop-loss point shall be**

combining the products mentioned above. If the Company intends to transact other types of derivatives, the transaction shall be adopted at the Board of Directors' meeting in advance.

II. ...

III. Transaction Amount:

i. ...

ii. ...

iii. ...

IV. ...

i. Hedge transaction: there is no upper limit of loss for hedge transactions because hedge transactions are conducted based on the Company's actual needs and the potential risks of such transactions are already under prior assessment and control.

ii. Non-hedge transaction: after the position is created, a stop-loss point shall be established to avoid losses exceeding the above limit. The stop-loss point shall be 20% of the transaction amount, and the amount of the cumulative loss for the year shall not exceed USD 500,000.

<p><b><u>20% of the transaction amount for all contracts or an individual contract. Once the amount of losses exceeds the stop-loss point, the situation shall be promptly reported to the general manager and the Board of Directors, who shall then devise an action plan.</u></b></p>		
<p><b>Article 21 Share Exchange Ratio and Acquisition Price:</b> Except for any of the following circumstances, the share exchange ratio and acquisition price for the merger, spin-off, acquisition or Share Transfer shall not change; <b><u>clauses specifying conditions where changes are permitted shall be included in the merger, spin-off, acquisition or Share Transfer agreements:</u></b> (The rest of this Article omitted)</p>	<p><b>Article 21 Share Exchange Ratio and Acquisition Price:</b> Except for any of the following circumstances, the share exchange ratio and acquisition price for the merger, spin-off, acquisition or Share Transfer shall not change: (The rest of this Article omitted)</p>	<p>Amended to reflect the amendment of relevant laws.</p>
<p><b>Article 29</b> These Procedures are adopted at the annual general meeting of shareholders on May 27<sup>th</sup>, 2003. These Procedures are adopted at the annual general meeting of shareholders on June 15<sup>th</sup>, 2007. These Procedures are adopted at the annual general meeting of shareholders on June 4<sup>th</sup>, 2009. These Procedures are adopted at the annual general meeting of shareholders on June 15<sup>th</sup>, 2012. These Procedures are adopted at the annual general meeting of shareholders on June 18<sup>th</sup>, 2013. These Procedures are adopted at the annual general meeting of shareholders on June 17<sup>th</sup>, 2014. These Procedures are adopted at the annual general meeting of shareholders on June 15<sup>th</sup>, 2017. <b><u>These Procedures are adopted at the annual general meeting of shareholders on June 14<sup>th</sup>, 2018.</u></b></p>	<p><b>Article 29</b> These Procedures are adopted at the annual general meeting of shareholders on May 27<sup>th</sup>, 2003. These Procedures are adopted at the annual general meeting of shareholders on June 15<sup>th</sup>, 2007. These Procedures are adopted at the annual general meeting of shareholders on June 4<sup>th</sup>, 2009. These Procedures are adopted at the annual general meeting of shareholders on June 15<sup>th</sup>, 2012. These Procedures are adopted at the annual general meeting of shareholders on June 18<sup>th</sup>, 2013. These Procedures are adopted at the annual general meeting of shareholders on June 17<sup>th</sup>, 2014. These Procedures are adopted at the annual general meeting of shareholders on June 15<sup>th</sup>, 2017.</p>	<p>Amendment date added.</p>



## Discussions

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Item No. 2 –Proposal to release the Directors of the Company from non-compete restrictions  
(submitted by the Board of Directors)

Explanation:

1. According to Article 209 paragraph 1 of the Company Act, “a director, who does anything for himself or on behalf of others that falls within the scope of the Company’s business, shall explain at the shareholders’ meeting the essential contents of such act and secure the approval from the shareholders’ meeting”. Therefore, this proposal is submitted for resolution by the 2018 Annual General Meeting.
2. It is proposed to the 2018 Annual General Meeting that Director Chiu, Li-Ching should be released from non-compete restrictions in acting on behalf of other companies that falls within the same scope of the Company’s business. The details are as follows:

The Company		Concurrent Position at Other Companies	
Title	Name	Name of the Company	Title
Director	Chiu, Li-Ching	Cheng Shin Tire & Rubber (China) Co., Ltd.	Director
Director	Chiu, Li-Ching	Cheng Shin Tire & Rubber (Chong Qing) Co., Ltd.	Director
Director	Chiu, Li-Ching	MAXXIS International Co., Ltd.	Director
Director	Chiu, Li-Ching	Cheng Shin Rubber USA, Inc	Director
Director	Chiu, Li-Ching	Cheng Shin Rubber Canada, Inc	Director

3. The proposal is hereby submitted for resolution.

Resolution:

**Motions**

**Adjournment**

## **Other Matters**

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Details of accepting shareholder proposals for the 2018 Annual General Meeting:

Explanation:

1. According to Article 172-1 of the Company Act, a shareholder who holds 1% or more of the total issued and outstanding shares may submit one proposal in writing to the Company to be discussed at the shareholders' meeting; the proposal may only address one matter, and may not contain more than 300 Chinese characters.
2. Shareholder proposals must be submitted during the period from April 8, 2018 to April 18, 2018. As required by law, the Company has posted information regarding shareholder proposals on the MOPS website.
3. As of April 18, 2018, the Company has not received any written submission of shareholder proposals.

## **Annex I**

### **Cheng Shin Rubber Ind. Co., LTD.**

### **Articles of Incorporation**

#### **Section I**

#### **General Provisions**

##### **Article 1**

The name of the company is CHENG SHIN RUBBER IND. CO., LTD. (正新橡膠工業股份有限公司) (the “Company”), which is duly organized as a company limited by shares under the Company Act of Taiwan.

##### **Article 2**

The business to be operated by the Company is as follows:

1. C801990 Manufacturing of other chemical materials
2. C802160 Manufacturing of sticky tapes
3. C804010 Manufacturing of tires
4. C804020 Manufacturing of industrial rubber products
5. C804990 Manufacturing of other rubber products
6. CB01010 Manufacturing of machinery and equipment
7. F112040 Wholesale of Petrochemical Fuel Products
8. F212050 Retail of petroleum products
9. F401010 International trade
10. ZZ99999 All business not prohibited or restricted by law, except for those subject to special approval

##### **Article 3**

The total amount of investments by the Company may exceed forty percent of the paid-in capital of the Company.

##### **Article 4**

The headquarters of the Company is located in Changhua County, Taiwan. The Company may establish branches or subsidiaries in Taiwan or overseas as the Company may require upon resolution by the board of directors of the Company (“Board” or “Board of Directors”).

## **Article 5**

The Company may act as a guarantor for companies in the same industry.

## **Section II**

### **Shares**

## **Article 6**

The registered capital of the Company shall be thirty two billion four hundred fourteen million one hundred fifty five thousand three hundred sixty New Taiwan Dollars (NT\$32,414,155,360), divided into three billion two hundred forty one million four hundred fifteen thousand five hundred thirty six (3,241,415,536) shares, with a par value of ten New Taiwan Dollars (NT\$10) per share, which are fully issued.

## **Article 7**

The Company's shares shall be registered and numbered, and shall bear the signatures or personal seals of at least three directors, and be issued upon certification in accordance with the law.

The Company may issue shares without certificates, and such shares shall be registered with a central securities depository.

## **Article 8**

The Company's shares shall be handled according to the "Regulations Governing the Administration of Shareholder Service of Public Companies" prescribed by the competent authority.

## **Article 9**

Registration for the transfer of shares shall be completed sixty (60) days before the date of each annual meeting, thirty (30) days before the date of each special meeting, or five (5) days before the date on which dividends, bonus, or any other distributions will be paid or made by the Company.

## **Section III**

### **Shareholders' Meeting**

## **Article 10**

There are two types of shareholders' meeting of the Company, the annual meeting and special meeting.

Annual meetings shall be convened by the Board of Directors annually within six (6) months after the end of each fiscal year.

Special meetings shall be convened as required in accordance with applicable laws and regulations.

## **Article 11**

Notice shall be given to the shareholders by mail or electronic transmission at least thirty (30) days prior to an annual meeting, and at least fifteen (15) days prior to a special meeting, stating the date, place, and purpose of the meeting. Notice to shareholders holding less than a thousand (1,000) shares may be given by public announcement.

### **Article 11-1**

A shareholder holding one percent or more of the total issued and outstanding shares may submit a proposal in writing to be discussed at the annual meeting, provided that only one matter may be included in such proposal. Any proposal that includes more than one matter shall be disregarded and excluded from the meeting agenda. The relevant process shall comply with the Company Act and all applicable laws and regulations.

## **Article 12**

A shareholder who is unable to attend the shareholders' meeting may authorize another person to attend as proxy using the form provided by the Company affixed with the seal that such shareholder left in the Company's safekeeping, which sets forth the scope of the authorization. The proxy process is governed by Article 177 of the Company Act and the "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies" prescribed by the competent authority.

## **Article 13**

The shareholders' meetings shall be presided by the Chairman of the Board. If the Chairman of the Board is on leave or unable to exercise his powers and duties for any reason, the chairperson of the meetings shall be appointed pursuant to Article 208 of the Company Act. If the meeting is convened by a person with the authority to convene other than the Board of Directors, such person shall act as the chairperson at that meeting; if there are more than one person with the authority to convene, the chairperson for the meeting shall be appointed from among them.

#### **Article 14**

Except as otherwise provided by applicable law, the shareholders' resolutions shall be adopted upon the approval of a majority of the voting shares present at the meeting, which is attended by holders of a majority of the total issued and outstanding shares of the Company.

The shareholders may exercise their voting rights by mail or electronic transmission in accordance with the applicable laws and regulations. The notice of the shareholders' meeting shall specify the instructions for voting by mail or electronic transmission.

#### **Article 15**

Except for the shares with restricted voting right or without voting rights under the Company Act, each share of the Company is entitled to one vote.

A shareholder who exercises his voting rights by mail or electronic transmission will be deemed to have waived his rights to vote on any ad hoc motions and amendments to the original proposals at such meeting.

#### **Article 16**

The resolutions adopted at the shareholders' meeting shall be made into minutes, which shall be signed by or affixed with seal of the chairperson of the meeting and distributed to all shareholders within 20 days after the meeting. The distribution of the meeting minutes shall comply with Article 183 of the Company Act.

Minutes of the meeting shall include the date and place of the meeting, the name of the chairperson at the meeting, the method for adopting the resolutions, and summary and results of the proceedings. Minutes of the meetings shall be kept for as long as the Company is in existence.

The attendance register and proxy forms shall be kept for at least one year; provided, however, records concerning an action initiated by a shareholder pursuant to Article 189 of the Company Act shall be kept until the conclusion of the lawsuit.

### **Section IV Board of Directors**

#### **Article 17**

Subject to Article 26-3 of the Securities and Exchange Act, the Company shall have nine to eleven directors, who shall be elected from legally competent persons at the shareholders' meeting and hold office for three years; re-elected directors may serve consecutive terms.

There shall be at least three independent directors among the number of directors to be elected referred to in the preceding paragraph, and the independent directors shall represent at least one-fifth of the Board. The independent directors shall be elected at the shareholders' meeting using

the candidate nomination system and from among a list of candidates. The restrictions on professional qualifications, share ownership, concurrent positions held, the manner of nomination, the election of the independent directors, and other related matters shall comply with applicable laws and regulations prescribed by the competent authority.

The election of independent directors and non-independent directors shall be held concurrently, provided that the number of independent directors and non-independent directors elected are calculated separately.

The directors shall comply with the rules of the securities regulatory authorities concerning minimum share ownership.

## **Article 18**

The Chairman of the Board shall be elected from among the directors, and the Vice Chairman may be elected in the same manner. The Chairman of the Board shall have the authority to represent the Company and preside at the shareholders' meeting and Board meeting of the Company.

## **Article 19**

The Board of Directors shall have the following powers and duties:

1. Review and adopt material rules of the Company;
2. Decide on the business directions of the Company;
3. Approve budgets and financial statements;
4. Submit proposals regarding distribution of profits;
5. Submit proposals regarding capital increase or reduction;
6. Sale and purchase and investment of real property;
7. Appoint and remove key management of the Company;
8. Guarantee for companies in the same industry;
9. Decide on adjustment of the organizational structure and other important matters of the Company;
10. Prepare and review annual and quarterly financial statements; and
11. Other powers and duties conferred by the Company Act or by the shareholders at the shareholders' meeting.
12. According to the Company Act, actions taken under the aforementioned powers and duties of the Board shall be reported to or approved by the shareholders at shareholders' meeting whenever necessary.

## **Article 20**

In case that the vacancies in the office of directors reach one-third of the Board, the Board of Directors shall convene a special meeting of the shareholders within sixty (60) days to elect new directors to fill the vacancies. A director elected to fill such vacancy shall hold office for the unexpired term of the director whose office was vacant.



## **Article 21**

The meeting of the Board of Directors shall be held at least once every quarter and may be called in case of emergency or upon the request of more than one-half of the directors. The meeting of the Board of Directors shall be convened by delivery a notice to each director via mail, email, or fax.

## **Article 22**

The Chairman of the Board shall preside at all meetings of the Board of Directors. If the Chairman of the Board is on leave or cannot exercise his powers and duties for any reason, a chairperson shall be appointed pursuant to Article 208 of the Company Act.

## **Article 23**

The directors shall attend all meetings of the Board of Directors in person. If a director is unable to attend the meeting due to special circumstances, such director may appoint another director as his proxy. If participation by means of video conferencing is made available at a meeting, directors who participate in the meeting by such means shall be deemed to have attended such meeting in person. A director who appoints another director as his proxy to attend the meeting shall fill out a proxy form setting forth the scope of authorization with respect to the matters to be discussed at such meeting. A director may only be appointed as a proxy by one other director. A director who resides overseas may, in writing, appoint a shareholder residing in Taiwan as his proxy to regularly attend the meetings of the Board of Directors.

## **Article 24**

Except as otherwise provided by the Company Act, resolutions of the Board of Directors shall be adopted by at least a majority of the directors present at a meeting attended by at least a majority of the directors holding office.

Minutes of the Board meetings shall be signed by or affixed with seals of the chairperson and the secretary for the meeting. A copy of the minutes shall be distributed to each director within 20 days after the meeting and shall be classified as important company records and properly maintained for as long as the Company is in existence.

The preparation and distribution of the meeting minutes specified in paragraph 1 may be done through electronic means.

## **Article 24-1**

The Board of Directors is authorized to determine the compensation of the directors by referencing the standards within the industry; provided, however, independent directors shall not participate in the distribution of earnings as set forth in Article 34-1 herein.

## **Article 25**

The Company may purchase liability insurance for the directors during their tenures, which shall cover the directors' liabilities arising from the performance of their duties.

## **Section V**

### **Audit Committee**

## **Article 26**

The Company establishes the Audit Committee in accordance with relevant laws. The Audit Committee consists of all the Independent Directors, and the number of committee members shall be 3 persons or more. Among the committee members, one should be the convener, and there should be at least 1 person with accounting or financial expertise.

The number of Audit Committee members, their term, duties, meeting rules and the resources to be provided when exercising their duties shall be regulated by the organizational rules of the Audit Committee.

## **Article 27**

The Company establishes the Audit Committee in accordance with Article 14-4 of the Securities and Exchange Act. The duties of the Supervisors provided under the Company Act, the Securities and Exchange Act and other relevant laws shall become duties of the Audit Committee.

## **Article 28**

The Company's Board of Directors may establish all types of functional committees. The functional committee of each type shall, in accordance with the regulations provided by the competent authority, enact the rules governing the exercise of its duties. These rules shall be effective upon the resolution adopted by the Board of Directors' meeting.

## **Section VI**

### **Managerial Personnel and Employees**

## **Article 29**

The Company may have one or more managers. The managers shall manage all the Company's businesses in accordance with the decisions adopted by the Company's Board of Directors' meeting.

The engagement, discharge and remuneration of the managers shall be adopted by at least a

majority of the Directors present at a meeting attended by at least a majority of the Directors holding office.

### **Article 30**

The general manager shall have the power of general supervision on the business and operations of the Company, subject, however, to the directions of the Board of Directors. In the event that the general manager is unable to carry out his duties, the vice president(s) shall assume such duties of the general manager.

### **Article 31**

The Company's organizational structure, headcounts and employment of employees at all job levels shall be determined by the Board of Directors.

With the resolutions adopted by the Company's Board of Directors' meeting, the Company may engage one or more consultant.

## **Section VII Accounting**

### **Article 32**

The fiscal year of the Company shall begin on January 1 and end on December 31 of each year. At the end of the fiscal year, the accounts of the Company shall be closed.

### **Article 33**

After the end of each fiscal year, the Board of Directors shall prepare the reports provided under Article 228 of the Company Act and submit such reports to the annual general meeting for ratification.

#### **Article 34**

If the Company has pre-tax earnings for the fiscal year after the accounts are closed, the Company shall first set aside an amount to pay any business income tax due, offset the losses of previous years, and set aside ten percent (10%) of the residual amount as the legal reserve, and shall, pursuant to applicable laws and regulations, set aside a portion of the after-tax earnings for its special reserve. To the extent that there is any balance of the Company's after-tax earnings remaining, the total earnings available for distribution shall consist of the remainder of such balance and the retained earnings from the previous year. The Board of Directors may propose a profit distribution plan for approval at the shareholders' meeting.

The dividends to the shareholders under such plan shall be ten to eighty percent (10-80%) of the total distributable earnings, from which the cash dividends shall not be lower than ten percent (10%) of the total dividends declared.

#### **Article 34-1**

To the extent that the Company has profit in the year, the Company shall set aside at least 2% of such profit as employee dividends and no more than 3% of such profit as director dividends, provided that the Company shall first offset the cumulative losses, if any.

Employee dividends shall be distributed in the form of shares or cash, and director dividends shall be distributed in the form of cash. The distribution of dividends shall be approved by more than one half of the Directors present at the Board of Directors' meeting attended by at least two-thirds of all Directors, and shall be reported at the shareholders' meeting.

The recipients of employee dividends in the form of shares or cash in accordance with the preceding subparagraph may include the employees of the Company's subsidiaries who meet certain conditions; the terms of the distribution shall be decided by the Board of Directors.

### **Section VIII Miscellaneous**

#### **Article 35**

The organizational charter and by-laws of the Company shall be separately adopted by the Board of Directors.

#### **Article 36**

Matters not specified in this Articles of Incorporation shall be governed by the Company Act.

### **Article 37**

The original Articles of Incorporation were adopted on December 15, 1969.

Amended thereafter on June 25, 1971; April 25, 1972; October 25, 1972; November 25, 1973; May 1, 1974; May 30, 1975; September 16, 1976; May 16, 1977; June 30, 1977; March 16, 1978; August 16, 1978; February 20, 1979; August 20, 1980; May 24, 1981; June 13, 1982; May 15, 1983; April 8, 1984; April 21, 1985; April 27, 1986; April 25, 1987; May 9, 1988; April 20, 1989; April 20, 1990; April 23, 1991; April 23, 1992; April 17, 1993; April 21, 1994; April 21, 1995; April 23, 1996; April 24, 1997; April 24, 1998; April 23, 1999; April 25, 2000; April 25, 2001; May 29, 2002; May 27, 2003; May 25, 2004; June 14, 2005; June 13, 2006; June 15, 2007; June 13, 2008; June 4, 2009; June 15, 2010; June 15, 2011; June 15, 2012; June 18, 2013; June 17, 2014. June 15, 2016; June 15, 2017.

Lo, Tsai-Jen

*Chairman of the Board*

CHENG SHIN RUBBER IND. CO., LTD.

Cheng Shin Rubber Ind. Co., LTD.  
Procedures for Acquisition or Disposal of Assets  
(non-amended)

**Chapter 1    General Provisions**

**Article 1    Purpose and Legal Basis:**

To enhance asset management and implement information disclosure, Cheng Shin Rubber Ind. Co., LTD. (the “Company”) hereby enacts and amends the Procedures for Acquisition or Disposal of Assets (the “Procedures”) in accordance with Article 36-1 of the Securities and Exchange Act and the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies” by the Securities and Futures Bureau, Financial Supervisory Commission.

**Article 2    Scope of Assets:**

- I. Investments in stocks, government bonds, corporate bonds, financial bonds, securities representing interests in a fund, domestic beneficial interest certificates, domestic and foreign funds, depositary receipts, call (put) warrants, beneficial interest securities, and asset-backed securities.
- II. Real property (including land, houses and buildings, investment property, rights to use land, and construction enterprise inventory) and equipment.
- III. Memberships.
- IV. Patents, copyrights, trademarks, franchise rights and other intangible assets.
- V. Derivatives: forward contracts, options contracts, futures contracts, leverage contracts, and swap contracts and compound contracts combining the above products, whose value is derived from assets, interest rates, foreign exchange rates, indexes or other interests. The term "forward contracts" does not include insurance contracts, performance contracts, after-sales service contracts, longterm leasing contracts, or long-term purchase (sales) agreements.
- VI. Assets acquired or disposed of through mergers, spin-offs, acquisitions, or transfers of shares in accordance with the law: refers to assets acquired or disposed of through mergers, spin-offs, or

acquisitions conducted under the Business Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institution Merger Act and other acts, or transfer of shares from another company through the issuance of new shares of its own as the consideration ( “Share Transfer”) under Article 156, paragraph 8 of the Company Act.

VII. Other major assets.

### **Article 3    Evaluation Procedures:**

- I. In the event of the Company’s acquiring or disposing of securities investment or conducting derivative product transactions, the Company’s financial and accounting department shall conduct relevant benefit analysis and assess potential risks. In the event of the Company’s acquiring or disposing of real property and other assets, each unit shall propose a capital expenditure plan in advance providing the feasibility analysis regarding the purpose of such acquisition or disposal and expected benefits. In the event that the Company engages in any acquisition or disposal of assets from or to a related party, in addition to evaluating the reasonableness of the terms of the transaction in accordance with Chapter 2 of these Procedures, if the transaction amount reaches 10% of the Company’s total assets, the Company shall also obtain an appraisal report from a professional appraiser or the opinion of a certified public accountant in accordance with the preceding provisions.
- II. In the event of the Company’s acquisition or disposal of securities, the Company shall obtain the most recent financial statements of the target company, which has been audited or reviewed by a certified public accountant, or other relevant information prior to the Date of Occurrence as a reference to the evaluation of the transaction price. If the transaction amount reaches 20% of the Company’s paid-in capital or NTD 300 million or more, the Company shall engage a certified public accountant prior to the Date of Occurrence of the event to provide an opinion regarding the reasonableness of the transaction price. If the certified public accountant needs to use the report of an expert, he certified public accountant shall do so in accordance with the provisions of Statements of Auditing Standards No. 20 published by the Accounting Research and Development Foundation. However, this requirement does not apply to publicly quoted prices of securities that have an active market, or where otherwise provided by the regulations announced by the Financial Supervisory Commission.
- III. In the event of the Company’s acquisition or disposal of real property

or other fixed assets where the transaction amount reaches 20% of the Company's paid-in capital or NTD 300 million or more, the Company shall, prior to the Date of Occurrence, obtain an appraisal report from a professional appraiser who is objective and unbiased, and shall comply with the asset appraisal procedures specified in these Procedures.

- IV. When the Company participates in merger, spin-off, acquisition or Share Transfer, the Company shall, prior to convening the Board of Directors to resolve on the relevant matters, engage a certified public accountant, an attorney or an underwriter to provide an opinion on the reasonableness of the share exchange ratio, acquisition price or distribution of cash or other property to shareholders, and shall submit it to the Board of Directors for deliberation and resolution.
- V. The price determination methods and reference for the Company's acquisition or disposal of assets shall, in addition to referring to the professional appraisals and the certified public accountant's and other professional's opinions under the preceding paragraphs, be in accordance with the following provisions:
  - i. In the event of the Company's acquisition or disposal of securities listed on the Taiwan Stock Exchange or Taipei Exchange, the price shall be determined by the price of the shares or the bonds during the transaction.
  - ii. In the event of the Company's acquisition or disposal of securities not listed on the Taiwan Stock Exchange or Taipei Exchange, the price shall be determined by taking into account the earnings per share, techniques and profitability, future development potential, market interest, coupon rate of the bonds and credibility of the debtor, as well as the most recent transaction prices.
  - iii. In the event of the Company's acquisition or disposal of memberships, the price shall be determined by taking into account the potential benefits and the most recent transaction prices. In the event of the Company's acquisition or disposal of patents, copyrights, trademarks, franchise rights and other intangible assets, the price shall be determined by taking into account the international or market practice, service life and such asset's influence on the Company's techniques and business.
  - iv. In the event of the Company's acquisition or disposal of real property and other fixed assets, the price shall be determined by taking into account the announced current value, appraised value, actual transaction price or book value of neighboring real



property and supplier's quotation. In the event of the Company's acquisition of real property from a related party, the Company shall calculate the price in accordance with the provisions in Chapter 2 of the Procedures to evaluate the reasonableness of the transaction price.

- v. In the event of the Company's transaction of derivatives, the price shall be determined by taking into account the futures market conditions and the trend of the, exchange rate and interest rate.
  - vi. In the event of the Company's participation in merger, spin-off, acquisition or Share Transfer, the price shall be determined by taking into account the nature of business, earnings per share, asset value, techniques and profitability, capacity and future growth potential.
- VI. Date of Occurrence: refers to the earlier of the date of contract execution, date of payment, date of consignment trade, date of transfer, date of Board of Directors resolution, or other date that can confirm the counterparty and monetary amount of the transaction, whichever date is earlier; however, in the event that investments require the approval of the competent authority, the earlier of the aforementioned date or the date of receiving approval by the competent authority shall apply.

#### **Article 4    Operation Procedures:**

- I. Authorized amount and authorization level
  - i. Securities: the Company's general manager is authorized to decide the transaction price within the amount specified under Article 7 of the Procedures. If the transaction price meets the announcement and filing standard under Article 5, such a transaction shall be submitted to the Chairman or the general manager for record on the next day, and shall also be submitted to the most recent Board of Directors' meeting for recognition. In the event of the Company's acquisition or disposal of shares, corporate bonds that are not listed on the Taiwan Stock Exchange or Taipei Exchange or the securities from the private placement, and the transaction price meets the announcement and filing standard, such a transaction may only be conducted after the resolution is adopted at the Board of Directors' meeting. In addition, the Company's investment in China may only be conducted after the resolution is adopted at the shareholders' meeting, or after the shareholders' meeting authorizes the Board of Directors to conduct such an investment, and with the

approval of the Investment Commission, the Ministry of Economic Affairs.

- ii. Transaction of derivatives
  - A. Hedge transactions: the Chairman or the person designated by the general manager is authorized to, taking into account the Company's revenue and the changes of risk exposure, conduct the transaction with the single or cumulative transaction amount to be USD 200 million (including equivalent currency) or less. If the transaction amount exceeds USD 200 million, such a transaction may only be conducted with the Chairman's or the general manager's approval.
  - B. Non-hedge transactions: to lower the risks, the transaction with the single or cumulative transaction amount to be USD 50 million (including equivalent currency) or less shall be approved by the Chairman or the general manager. If the transaction amount exceeds USD 50 million, such a transaction may only be conducted after the resolution is adopted at the Board of Directors' meeting.
  - C. In order for the Company's authorization to be under the supervision of the bank, the authorized persons shall notify the bank of the authorization.
  - D. The derivative transactions conducted in accordance with the preceding provisions shall be submitted to the Board of Directors' meeting after the transaction.
- iii. Transaction with the related parties or the Company's subsidiary (as defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers): the Company may only execute the transaction agreement and pay the transaction price after it prepares relevant documents in accordance with the provisions in Chapter 2 of these Procedures, which shall be adopted at the Audit Committee and the Board of Directors' meeting.
- iv. The Company participates in merger, spin-off, acquisition or Share Transfer: the Company shall comply with the relevant procedures and prepare relevant documents in accordance with the provisions in Chapter 4 of these Procedures. In the event of the Company's participation in merger, spin-off or acquisition, except as otherwise provided by other laws, such a transaction shall be adopted at the shareholders' meeting. In the event of the Company's participation in Share Transfer, such a transaction

shall be adopted at the Board of Directors' meeting.

- v. Others: the Company shall comply with the operating procedures provided by its rules regarding its internal control system and levels of authorization. In the event that the transaction amount reaches the announcement and filing standard under Article 5, except for the acquisition or disposal of machinery and equipment for business use, which may be reported to the Board of Directors' meeting for ratification after the transaction is made, other types of transaction shall be adopted at the Board of Directors' meeting before the transaction is made. In the event of any transaction that falls into the scope of the transaction under Article 185 of the Company Act, such a transaction shall be adopted at the shareholders' meeting before the transaction is made.

II. Implementation unit and transaction procedures

The implementation unit for the Company's securities investment and derivative transactions shall be the financial and accounting department and the Chairman or the person designated by the general manager. The implementation unit for the Company's real property and other asset transaction shall be the department using the asset and the unit with relevant duties. The implementation unit for the Company's participation in merger, spin-off, acquisition or Share Transfer shall be the Chairman or the implementation unit designated by the general manager. After the acquisition or disposal of assets is evaluated and approved in accordance with relevant regulations, the implementation unit may proceed with the contract execution, transaction price payment or receipt, delivery and examination and shall comply with the relevant internal control procedures based on the nature of the assets. For the Company's acquisition of real property from related parties, derivative transactions and participation in merger, spin-off, acquisition or Share Transfer, the Company shall comply with the relevant provisions in Chapter 2 to Chapter 4 of these Procedures.

**Article 5 Announcement and Filing Procedures:**

- I. In the event of any of the following occurs when the Company acquires or disposes of its assets, the Company shall, based on the nature of the transaction announce and file relevant documents on the website designated by the competent authority within two days from the Date of Occurrence according to the format and content provided by the appendices (see Appendix II to Appendix VIII):
  - i. Acquisition or disposal of real property from or to a related party,

or acquisition or disposal of assets other than real property from or to a related party where the transaction amount reaches 20% or more of the Company's paid-in capital, 10% or more of the Company's total assets or NTD 300 million or more; provided that this shall not apply to the trade of government bonds or bonds under repurchase and resale agreements, or subscription or repurchase of money market funds issued by domestic securities investment trust enterprises.

- ii. Merger, spin-off, acquisition or Share Transfer.
- iii. Losses from derivative transactions reaching the upper limits on aggregate losses of all transactions or the loss of individual transactions set forth in Chapter 3 Article 14 paragraph 4 of the Procedures.
- iv. Where the type of asset acquired or disposed of is equipment for business use, the counterparty is not a related party, and the transaction amount is NTD 1 billion or more.
- v. Where land is acquired under an arrangement on engaging others to build on the Company's own lands, engaging others to build on rented lands, joint construction and allocation of housing units, joint construction and allocation of ownership percentages or joint construction and separate sale, and the amount the Company expects to invest in the transaction is NTD 500 million or more.
- vi. Where an asset transaction other than any of those referred to in the preceding five subparagraphs, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20% or more of the Company's paid-in capital or NTD 300 million or more; provided that this shall not apply to any of the following circumstances:
  - A. Trading of government bonds.
  - B. Trading of securities at the domestic or foreign stock exchange or over the counter, or purchase of the ordinary corporate bonds or the general bank debentures without equity characteristics that are offered and issued in the domestic primary market.
  - C. Trading of bonds under repurchase/resale agreements, or subscription or repurchase of money market funds issued by domestic securities investment trust enterprises.

The above transaction amount shall be calculated as follows:

- A. The amount of any individual transaction.
- B. The cumulative transaction amount of the acquisitions or disposals of the same type of assets with the same counterparty within the preceding year.
- C. The cumulative transaction amount of real property acquisitions and disposals (cumulative acquisitions and disposals respectively) under the same development project within the preceding year.
- D. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals respectively) of the same security within the preceding year.
- E. The 10% of the Company's total assets under these Procedures shall be calculated according to the value of total assets specified in the most recent individual financial report prepared under the Regulations Governing the Preparation of Financial Reports by Securities Issuers. In the event that the Company's share has no par value or has the par value other than NTD 10, the transaction amount as 20% of the Company's paid-in capital shall be calculated as 10% of the equity owned by the Company's parent company.

The term "within the preceding year" as used in the preceding subparagraph refers to the year preceding the Date of Occurrence of the current transaction. Items duly announced in accordance with the regulations under the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" shall not be counted into the transaction amount.

- II. The Company shall compile monthly reports on the status of derivative transactions engaged in up to the end of the preceding month by itself and the subsidiary which are not domestic public companies and upload the information in the format prescribed in the appendix hereto, by the 10th day of each month, onto the information filing website designated by the competent authority.
- III. When the Company at the time of public announcement makes an error or omission in an item required by the regulations to be publicly announced and so is required to correct it, all the items shall be publicly announced again in their entirety within two days from the day the Company knows of such error or omission.
- IV. Where any of the following circumstances occurs with respect to a transaction that the Company has already announced and filed in accordance with paragraph I of this Article, a public report of relevant information shall be made on the website designated by the competent

authority within two days from the Date of Occurrence:

- i. Changes, termination or rescission of an executed contract relating to the original transaction.
- ii. The merger, spin-off, acquisition or Share Transfer is not completed by the scheduled date set forth in the contract.
- iii. Changes to the information originally publicly announced and filed.

#### **Article 6 Asset Appraisal Procedures:**

In the event of the Company's acquisition or disposal of real property or equipment where the transaction amount reaches 20% of the Company's paid-in capital or NTD 300 million or more, except for the transactions with governments, engaging others to build on their own lands, engaging others to build on rented land, or acquiring or disposing of equipment for business use, the Company shall obtain an appraisal report from a professional appraiser prior to the Date of Occurrence and shall comply with the following provisions. In the event that the Company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may serve as a substitute for the appraisal report or the certified public accountant's opinion.

- I. In the event that, due to special circumstances, the transaction price shall refer to a limited price, a specified price or a special price, the transaction shall be adopted at the Board of Directors' meeting, and the same procedure shall apply to the future changes to the terms and conditions of the transaction.
- II. In the event that the transaction amount is NTD 1 billion or more, the Company shall obtain appraisals from two or more professional appraisers.
- III. In the event that the appraisal results of the professional appraisers encounter any of the following circumstances, except for all of the appraisal results of the assets to be acquired exceeding the transaction amount, or all of the appraisal results of the assets to be disposed of less than the transaction amount, a certified public accountant shall be engaged to perform the appraisal in accordance with the provisions of the Statements of Auditing Standards No. 20 published by the ROC Accounting Research and Development Foundation and to provide a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:
  - i. Where the discrepancy between the appraisal result and the transaction amount is 20% or more of the transaction amount.
  - ii. Where the discrepancy between the appraisal results of two or more professional appraisers is 10% or more of the transaction

amount.

- IV. The period between the date of the appraisal report issued by a professional appraiser and the execution date of the agreement shall not exceed three months; provided, however, where the publicly announced current value for the same period is used and not more than 6 months have elapsed, the original professional appraiser may still issue an opinion.
- V. In the event that the Company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may serve as a substitute for the appraisal report or the certified public accountant's opinion.

**Article 7    Scope and Amount of Investment:**

In addition to the acquisition of assets for business use, the Company and its subsidiary may also invest in real property for non-business use and in securities within the following amount. In calculating the amount under paragraph IV and V, the investment made to set up a company or to be the director or supervisor as long term investment may be excluded.

- I. For the Company's investment in the real property for non-business use, the total investment amount shall not exceed 50% of the Company's net value in the most recent financial statements. If the investment is made by the Company's subsidiary, the total investment amount shall not exceed 30% of its net value in the most recent financial statements.
- II. For the Company's investment in securities, the total investment amount shall not exceed 30% of the Company's net value in the most recent financial statements. If the investment is made by the Company's subsidiary, the total investment amount shall not exceed 20% of its net value in the most recent financial statements.
- III. For the Company's investment in a specific security, the investment amount shall not exceed 20% of the Company's net value in the most recent financial statements. If the investment is made by the Company's subsidiary, the investment amount shall not exceed 10% of its net value in the most recent financial statements.
- IV. For the investment in the company listed on the Taiwan Stock Exchange or Taipei Exchange by the Company or the Company's subsidiary, the net investment amount shall not exceed 10% of the net value of the Company or the Company's subsidiary respectively in the most recent financial statements of the entity making such investment.
- V. The shares of individual company listed on the Taiwan Stock Exchange or Taipei Exchange held by the Company and the Company's subsidiaries collectively shall not exceed 10% of the

invested company's issued and outstanding shares.

**Article 8 Control of the Company's Subsidiary's Acquisition or Disposal of Assets:**

- I. The Company's subsidiary shall also enact its "Procedures for the Acquisition or Disposal of Assets" according to Tai-Tsai-Cheng-Yi No. 0910006105 announced by the, Securities and Futures Bureau, Financial Supervisory Commission. Such procedures shall be adopted at the subsidiary's Board of Directors' meeting and shareholders' meeting, and the same procedure shall apply to the future amendments to the procedures.
- II. The definition of a subsidiary shall refer to the provisions under Article 8 of the Regulations Governing the Preparation of Financial Reports by Securities Issuers (IFRS) and No. 27 and No. 28 of the International Accounting Standards.
- III. In the event of the Company's subsidiary's acquisition or disposal of assets, the subsidiary shall comply with its own "internal control system" and "Procedures for the Acquisition or Disposal of Assets". The Company's subsidiary shall submit in writing a list and the details of the assets it acquired or disposed of in the previous month to the Company in writing by the 10<sup>th</sup> day of each month. The subsidiary's acquisition or disposal of assets shall be one of the auditing items of the Company's auditing unit each month, and the auditing results of this item shall be a required item in the auditing report to the Audit Committee and the Board of Directors.
- IV. In the event that the Company's subsidiary is not a public company and that the acquisition or disposal of assets by the subsidiary reaches the announcement and filing standard, the subsidiary shall notify the Company on the Date of Occurrence, and the Company shall make the announcement and filing on the designated website in accordance with relevant regulations.

The announcement and filing standard for the subsidiary in accordance with Article 5 paragraph I of the Procedures in the preceding paragraph shall be 20% of the Company's paid-in capital or 10% of the Company's total assets.

**Article 9 Punishment:**

In the event that any of the Company's employees dealing with acquisition and disposal of assets violates these Procedures, the employee shall be periodically evaluated in accordance with the Company's rules and shall be punished based on the seriousness of the violation.



## **Chapter 2     Related Party Transaction**

### **Article 10   Basis of Definition and Determination:**

The Company's acquisition of assets from its related party includes the Company's acquisition of assets by purchasing or exchanging. The definition of a related party shall refer to the regulations under the Regulations Governing the Preparation of Financial Reports by Securities Issuers. When determining whether a trading counterparty is a related party, both the legal formalities and the substance of the relationship shall be considered.

### **Article 11   Resolution Procedures:**

In the event that the Company engages in any acquisition or disposal of real property from or to a related party or engages in any acquisition or disposal of assets other than real property from or to a related party, and the transaction amount reaches 20% or more of the Company's paid-in capital, 10% or more of the Company's total assets, or NTD 300 million or more, except for the trading of government bonds, bonds under repurchase and resale agreements, or subscription or repurchase of money market funds issued by domestic securities investment trust enterprises, the Company may not proceed to enter into a transaction agreement or make a payment until the implementation unit has submitted the following matters to the Audit Committee and the Board of Directors and the matters have been approved by the Audit Committee and the Board of Directors:

- I. The purpose, necessity and anticipated benefit of the acquisition or disposal of assets.
- II. The reasons for choosing the related party as a trading counterparty.
- III. In the event that the Company acquires real property from a related party, information regarding the evaluation of the reasonableness of the anticipated terms of the transaction in accordance with Article 12 or the proviso of Article 13.
- IV. The date and price at which the related party originally acquired the real property, its original trading counterparty, and the counterparty's relationship with the Company and the related party.
- V. Monthly cash flow forecasts for the coming year commencing from the anticipated month of executing the agreement, and the evaluation of the necessity of the transaction and the reasonableness of the funds utilization.
- VI. The appraisal report provided by a professional appraiser and the opinion of a certified public accountant obtained in accordance with the preceding Article.
- VII. The restrictive terms of this transaction and other important

agreements in connection with the transaction.

- i. The transaction amount in the preceding paragraph shall mean the transaction amount of the year preceding the Date of Occurrence of this transaction. Items that have been approved by the Audit Committee and the Board of Directors shall not be counted in when calculating the transaction amount.
- ii. With respect to the acquisition or disposal of machinery or equipment for business use between the Company and its subsidiary, the Board of Directors may authorize, according to the provisions in Chapter 1 of these Procedures, the Chairman to approve the transaction within a certain amount. The Chairman's approval shall subsequently be submitted to and ratified at the next Board of Directors' meeting.

In the event that matters are submitted to the Board of Directors for discussion according to the preceding paragraph, the Board of Directors shall take each Independent Director's opinion into full consideration. If an Independent Director objects to or expresses reservation about any matter, it shall be recorded in the minutes of the Board of Directors' meeting.

**Article 12 Evaluation of the Reasonableness of Transaction:**

In the event that the Company acquires real property from a related party, except for the situation where the related party acquired the real property through inheritance or as a gift, where more than five years has lapsed between the time the related party executed the agreement to acquire the real property and the execution date of the current transaction, or where the real property is acquired by the related party through executing a joint development agreement, or through the agreement engaging the related party to build on the real property, either on its own land or on a rented land, the reasonableness of the transaction costs shall be evaluated by the following means. The Company shall also engage a certified public accountant to check the appraisal and render a specific opinion.

- I. Based on the related party's transaction price plus necessary interest on funding and the costs to be duly borne by the buyer. The term "necessary interest on funding" is imputed as the weighted average interest rate on borrowing in the year the Company purchases the property; provided, however, that it may not be higher than the maximum non-financial industry lending rate announced by the Ministry of Finance.
- II. In the event that the related party previously created a mortgage on the real property as security for a loan from a financial institution, the total loan value evaluated by the financial institution towards the real property; provided, however, that the actual cumulative amount

loaned by the financial institution shall have reached 70% or more of the financial institution's evaluated loan value of the real property, and the period of the loan shall have been one year or more. This shall not apply if the financial institution is a related party of one of the trading counterparties.

- III. In the event that the land and the building thereupon are combined as a single property purchased in one transaction, the transaction costs of the land and the building may be evaluated separately in accordance with either of the methods listed in the preceding subparagraph I or II.

**Article 13 Procedures to be complied with when the Estimated Transaction Costs are Lower than the Transaction Price:**

In the event that the transaction costs estimated in accordance with the preceding Article are lower than the transaction price, except for any of the following circumstances and there are objective evidence and opinions on reasonableness have been obtained from a real property professional appraiser and a certified public account, the Company shall comply with the paragraph 3 of this Article.

- I. Where the related party acquires undeveloped land or leases land for development, it may provide evidence of compliance with any of the following conditions:
- i. Where undeveloped lands are evaluated in accordance with the preceding Article and where buildings are evaluated according to the related party's construction costs plus reasonable construction profit, the cumulative value exceeds the actual transaction price. The term "reasonable construction profit" shall be the average gross operating profit margin of the related party's construction division over the most recent three years, or the gross profit margin for the construction industry for the most recent period as announced by the Ministry of Finance, whichever is lower.
  - ii. Completed transactions by unrelated parties within the preceding year involving other floors of the same property or neighboring lands, where the land area and the transaction terms are similar after the calculation of reasonable price discrepancies in floor or area land prices in accordance with standard property market practices.
  - iii. Completed leasing transactions by unrelated parties for other floors of the same property within the preceding year, where the transaction terms are similar after the calculation of reasonable price discrepancies among floors in accordance with standard property leasing market practices.
- II. Where the Company acquiring real property from a related party

provides evidence that the terms of the transaction are similar to the terms of transactions completed for the acquisition of neighboring land of a similar size by unrelated parties within the preceding year.

The term “transactions completed for the acquisition of neighboring land” in the preceding paragraph refers to the land on the same or adjacent block and within a distance of no more than 500 meters from the subject matter of the transaction, or the announced value of the land being close to that of the subject matter; the term “similar land area” refers to transactions completed by unrelated parties where the land area is not less than 50% of the land area of the transaction’s subject matter. The term “within the preceding year” refers to the year preceding the date of the acquisition of the real property.

In the event that the Company acquires real property from a related party, and the evaluation of the transaction costs conducted in accordance with the preceding Article are all lower than the transaction price, and none of the circumstances in paragraph 1 of this Article applies, the following actions shall be taken:

- i. A special reserve shall be set aside in accordance with Article 41 paragraph 1 of the Securities and Exchange Act against the difference between the real property transaction price and the evaluated costs, and may not be distributed or used for capital increase or issuance of bonus shares. The Company may not utilize such special reserve until it has recognized a loss on decline in market value of the assets it purchased at a premium, or the assets have been disposed of, or adequate compensation has been made, or the status quo ante has been restored, or there is other evidence confirming that the transaction is not unreasonable, and the competent authority has granted its approval.
- ii. The Independent Director members of the Audit Committee shall deal with the matter in accordance with Article 218 of the Company Act.
- iii. Actions that have been taken in accordance with subparagraph I and II shall be reported to the shareholders’ meeting, and the details of the transaction shall be disclosed in the annual report as well as the prospectus.

### Chapter 3 Control of Derivative Transactions

#### Article 14 Principles and Guidelines for the Transaction:

- I. Types of derivatives: the types of derivatives the Company may transact include forward contracts, options, interest or foreign exchange rates swaps, futures and compound contracts combining the products mentioned above. If the Company intends to transact other types of derivatives, the transaction shall be adopted at the Board of Directors' meeting in advance.
- II. Operation or hedge strategies: the derivative transactions made by the Company can be categorized into hedge oriented and non-hedge oriented (transaction oriented) transactions. The Company's derivative transaction strategies shall be mainly focusing on avoiding the risks derived from its business operations, and thus the Company shall mainly choose the derivatives that can avoid the Company's risks derived from the foreign currency income, expenses, assets or liabilities produced during the Company's business operations. In the event of any change to the objective circumstances, the Company may also invest in non-hedge oriented derivatives when proper, so as to increase the Company's non-operating income or decrease the Company's non-operating loss. In addition, the Company shall mainly choose the financial institutions that are the Company's business counterparties as the trading counterparties, so as to avoid the credit risks. The Company shall clearly define the type of such transaction as a hedge oriented transaction or the financial operations for investment profit before the transaction is conducted, so as to serve as the basis for accounting record.
- III. Transaction amount:
  - i. Hedge transactions: the upper limit for hedge transactions shall be the net position of foreign currencies after the assets and liabilities are both considered (including the net position that is anticipated to occur in the future).
  - ii. Non-hedge transactions: the transaction amount shall not exceed USD 100 million. Before the transaction, the person responsible for conducting the transaction shall prepare a foreign currency trend analysis report, providing the analysis of the trend in the foreign currency market and the suggested trading options, and shall obtain the relevant approval before the transaction.
  - iii. Level of authorization for derivative transaction amount:

Authorized persons	Transaction amount per day	Net cumulative position
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Foreign currency trading personnel	USD 2M or less	USD 5M (included) or less
Head of financial department	USD 20M (included) or less	USD 20M (included) or less
General manager	USD 20M or more	USD 50M or less

- iv. For the transaction amount exceeding the above authorized amount, the transaction shall be submitted to the Board of Directors' meeting.

#### IV. Upper limit of loss for all and individual contract

- i. Hedge transaction: there is no upper limit of loss for hedge transactions because hedge transactions are conducted based on the Company's actual needs and the potential risks of such transactions are already under prior assessment and control.
- ii. Non-hedge transaction: after the position is created, a stop-loss point shall be established to avoid losses exceeding the above limit. The stop-loss point shall be 20% of the transaction amount, and the amount of the cumulative loss for the year shall not exceed USD 500,000.

#### V. Duties and responsibilities

- i. Trading personnel: the Company's derivative trading personnel shall be designated by the Chairman or the general manager. Such trading personnel shall be responsible for, within the scope of authorization, enacting the trading strategies, implementing trading instructions, disclosing future transaction risks and providing up-to-date information to relevant departments for their reference.
- ii. Confirmation personnel: the financial department shall be responsible for confirming the transactions, keeping the transactions on the books in accordance with relevant regulations, maintaining transaction records, conducting periodic fair market price evaluation towards the position held, providing the evaluation results to the trading personnel and disclosing the matters related to the derivatives in the financial report.
- iii. Closing personnel: responsible for derivative transaction closings.

#### VI. Performance evaluation guidelines

- i. Hedge transaction: performance shall be evaluated based on the profits and losses incurred from the costs of the foreign exchange rate and the interest rate on the Company's books and the derivative transactions which the Company is engaged in. The evaluation shall be conducted at least twice a month, and the

results of the evaluation shall be submitted to the management for their reference.

- ii. Non-hedge transaction: performance shall be evaluated based on the profits and losses actually incurred. The evaluation shall be conducted at least once a week, and the results of the evaluation shall be submitted to the management for their reference.

**Article 15 Risk Management Measures:**

The scope and measures of risk management for the Company's derivative transactions are as follows:

- I. Consideration of credit risks: the trading counterparty shall mainly be the financial institutions or the futures brokers that have business relationship with the Company, have good reputation and are able to provide professional information.
- II. Consideration of market risks: future price fluctuation in the derivative market may result in uncertain losses, and thus, after the position is created, the stop-loss point shall be strictly followed.
- III. Consideration of liquidation risks: in order to ensure the liquidity of the derivative products, the trading institution shall have sufficient equipments, information and ability to trade in any market.
- IV. Consideration of operational risks: in order to avoid operational risks, the Company shall strictly abide by the rules regarding authorized transaction amount and operating procedures.
- V. Cash flow risk management: in order to ensure stable turnover of the Company's working capital, the Company shall engage in derivative transactions with its own capital, and shall take the capital demands resulted from the anticipated revenues and expenses within the following three months into consideration.
- VI. Consideration of legal risks: in order to avoid legal risks, any contract the Company executes with financial institutions shall mainly be internationally standardized documents.
- VII. Consideration of product risks: in order to avoid the losses derived from misusing derivative products, the internal trading personnel shall have complete and accurate professional knowledge toward the derivative products to be traded.
- VIII. Consideration of risks in closing with cash: in order to ensure sufficient cash for payment upon closing, the authorized trading personnel shall not only strictly follow the rules regarding the authorization amount but also pay attention to the Company's cash flow at all times.
- IX. The trading personnel, confirmation personnel and closing personnel shall not hold concurrent positions.

- X. The confirmation personnel shall periodically confirm with the banks about the Company's account statements or request the banks to issue the letter of confirmation, and check whether the total transaction amount exceeds the upper limit provided by the Procedures at all times.
- XI. The personnel responsible for risk assessment, supervision and control shall be in the different departments and shall report to the Board of Directors or the senior management not responsible for transaction or position decision making.
- XII. The Company shall evaluate the held position at least once a week; provided that the hedge transactions entered into for business needs shall be evaluated at least twice a month. The evaluation reports shall be submitted to the senior management (general manager or head of auditing department) authorized by the Board of Directors.

**Article 16 Internal Audit System:**

- I. The internal audit personnel of the Company shall be responsible for understanding periodically the appropriateness of internal controls concerning the derivative transactions, conducting monthly audit towards the trading department's compliance status of the operating procedures regarding the derivative transactions, and preparing audit report accordingly. In the event of any material breach, the internal audit personnel shall immediately report to the Chairman or the general manager and the senior management designated by the Board of Directors and shall notify the Audit Committee of the breach in writing.
- II. The audit personnel of the Company shall incorporate the audit towards the derivative transactions into the audit plan, file to the competent authority the implementation status of annual audit plan of the previous year by the end of February each year, and file to the competent authority the improvements on any irregular situations by the end of May, at the latest, of that year.

**Article 17 Methods of Periodic Evaluation and Irregular Situation Treatment:**

- I. The Company shall conduct periodic evaluation of derivative transactions every week, prepare a report setting forth the weekly loss and profit and uncovered position of non-hedge transactions, and submit the report to the senior management authorized by the Board of Directors and the Chairman or the general manager, so as to serve as their reference for management performance evaluation and risk assessment.
- II. The senior management designated by the Company's Board of Directors shall pay attention to the supervision and control of



derivative transaction risks at all times. The Board of Directors shall evaluate whether the performance of the derivative transactions is consistent with the Company's current operational strategies and whether the risks the Company bears are under the tolerable level by the Company.

- III. The senior management authorized by the Company's Board of Directors shall manage the derivative transactions according to the following principles:
- i. Evaluate periodically whether the existing risk management measures are appropriate and strictly comply with the "Regulations Governing the Acquisition and Disposal of Assets" enacted by the competent authority and relevant regulations under these Procedures.
  - ii. Supervise the transaction and loss/benefit status, take necessary measures in response to irregular situations, and report to the Board of Directors immediately.  
(In the event that the Company has Independent Directors, the Independent Directors shall attend the aforementioned Board of Directors' meeting and give their opinions.)
- IV. When engaging in derivative transactions, the Company shall prepare a log book, in which the derivative transactions' types, amounts, the Board of Directors' approval dates, periodic evaluation reports and the matters to be periodically evaluated by the Board of Directors and the senior management authorized by the Board of Directors shall be recorded in detail.

#### **Chapter 4 Merger, Spin-off, Acquisition or Share Transfer**

**Article 18** When the Company participates in merger, spin-off, acquisition, Share Transfer, share swap or other enterprise merger and acquisition matters, it shall, prior to convening the Audit Committee' meeting to resolve the relevant matters, engage a certified public accountant, an attorney or an underwriter to provide an opinion on the reasonableness of the share exchange ratio, acquisition price or distribution of cash or other property to shareholders, and the Audit Committee shall submit it to the Board of Directors for deliberation and resolution.

The requirement of obtaining an aforesaid opinion on reasonableness issued by an expert may be exempted in the case of a merger by the Company of a subsidiary in which it directly or indirectly holds 100% of the issued shares or authorized capital, and in the case of a merger between subsidiaries in which the Company directly or indirectly holds 100% of the

respective subsidiaries' issued shares or authorized capital.

**Article 19** When the Company participates in merger, spin-off or acquisition, it shall prepare a public report to shareholders setting forth the important contractual contents and the relevant matters prior to the shareholders' meeting. The above public report, together with the professional opinion prepared in accordance with the preceding Article and the notice of shareholders' meeting, shall be delivered to the shareholders for their reference regarding the resolution of the merger, spin-off or acquisition; provided that the above contents in this Article shall not apply if any provision of other laws and/or regulations exempts the Company from convening a shareholders' meeting to approve the merger, spin-off or acquisition. In the event that the shareholders' meeting of any of the companies participating in the merger, spin-off or acquisition fails to convene or resolve a resolution for any reason, or the proposal is not adopted at the shareholders' meeting, the Company shall immediately publicly explain the reason, the follow-up measures and the date of the next shareholders' meeting.

**Article 20** Unless otherwise provided by law or approved by the competent authority in advance, when the Company participates in merger, spin-off or acquisition, its Board of Directors' meeting and shareholders' meeting shall be held on the same day as other participating company's Board of Directors' meeting and shareholders' meeting to resolve the matters relating to the merger, spin-off or acquisition. When the Company participates in Share Transfer, its Board of Directors' meeting shall be held on the same day as other participating company's Board of Directors' meeting. When participating in merger, spin-off, acquisition or Share Transfer, the company listed on the Taiwan Stock Exchange or the Taipei Exchange shall prepare a complete written record including the following information and preserve the record for five years for reference:

- I. Relevant personnel's basic information: including the titles, names and ID numbers (or passport numbers in the case of foreign nationals) of all persons involved in the plan or implementation of the plan of any merger, spin-off, acquisition or Share Transfer prior to the disclosure of the information.
- II. Dates of material events: including the dates of executing the letter of intent or memorandum of understanding, engaging a financial or legal advisor, executing the contract and convening the Board of Directors' meeting.
- III. Important documents and meeting minutes: including the plans of merger, spin-off, acquisition or Share Transfer, any letter of intent or memorandum of understanding, material contracts and minutes of the

Board of Directors' meeting.

When participating in merger, spin-off, acquisition or Share Transfer, the company listed on the Taiwan Stock Exchange or the Taipei Exchange shall, within two days commencing from the date of the resolution adopted at the Board of Directors' meeting, report to the competent authority the documents prepared in accordance with subparagraph I and II of the preceding paragraph in the prescribed format and via the information system on the internet.

In the event that any of the companies participating in the merger, spin-off, acquisition or Share Transfer is not a company listed on the Taiwan Stock Exchange or the Taipei Exchange, the company listed on the Taiwan Stock Exchange or the Taipei Exchange shall execute an agreement with such a company and comply with the regulations under paragraph 3 and 4.

**Article 21 Share Exchange Ratio and Acquisition Price:**

Except for any of the following circumstances, the share exchange ratio and acquisition price for the merger, spin-off, acquisition or Share Transfer shall not change:

- I. Increase of cash capital, and issuance of convertible corporate bonds, bonus shares, corporate bonds with stock warrants, preferred stock with stock warrants, certificates of stock options and other equity securities.
- II. An action, such as disposal of major assets, that affects the Company's financial operations.
- III. An event, such as major disasters or major evolution in technology, that affects shareholders' equity or the price of securities.
- IV. An adjustment where any of the companies participating in the merger, spin-off, acquisition or Share Transfer buys back the treasury stocks in accordance with the laws.
- V. An increase or decrease in the number of entities or companies participating in the merger, spin-off, acquisition or Share Transfer.
- VI. Other terms and conditions that the contract stipulates may be amended and that have been publicly disclosed.

**Article 22 Matters Required to be Included in the Contract:**

In the event that the Company participates in merger, spin-off, acquisition or Share Transfer, the contract shall set forth the Company's rights and obligations, the amendable Share Exchange ratio or purchase price conditions under the preceding Article, and the followings matters:

- I. Handling of breach of contract.
- II. Principles for handling the previously issued equity securities or purchased treasury stocks of a company that is extinguished or spun-off.

- III. The amount and principles of the purchase of treasury stocks in accordance with the laws after the date of the participating companies' calculation of the Share Exchange ratio.
- IV. Procedures for handling the increase or decrease in the number of participating entities or companies.
- V. The estimated progress of the plan and estimated completion date.
- VI. If the plan is not completed within the scheduled timeframe, the scheduled date for convening the legally mandated shareholders' meeting and the relevant procedures.

**Article 23 Other Matters to be Attended to by the Company when the Company is Participating in Merger, Spin-off, Acquisition or Share Exchange:**

- I. Require persons who participate in or are privy to the Company's merger, spin-off, acquisition or Share Transfer to provide undertakings of confidentiality in writing, in which the persons undertake not to disclose the contents of the relevant information and not to trade, in their own names or under the name of another person, in any stocks or other equity securities of any company related to the merger, spin-off, acquisition, or Share Transfer prior to the public disclosure of information.
- II. After public disclosure of the information regarding the merger, spin-off, acquisition, or Share Transfer, if the Company intends to further carry out a merger, spin-off, acquisition or Share Transfer with another company, the Company shall carry out anew the procedures or legal actions that had originally been completed toward the merger, spin-off, acquisition or Share Transfer; except that where the number of participating companies decreases and the Company's shareholders' meeting has adopted a resolution authorizing the Board of Directors to alter the authority, the Company may be exempted from calling another shareholders' meeting to resolve on the matter anew.
- III. Where any of the companies participating in the merger, spin-off, acquisitions or Share Transfer is not a public company, the Company shall enter into an agreement with such a non-public company and shall comply with the provisions under Article 21 and the preceding two paragraphs of the Procedures.

## **Chapter 5 Other Material Matters**

**Article 24** The Company, when acquiring or disposing of assets, shall keep all relevant contracts, meeting minutes, log books, appraisal reports and opinions issued by certified public accountants, attorneys or underwriters at the Company's office. Except as otherwise provided by other laws or

regulations, such documents shall be preserved for at least 5 years.

**Article 25** Professional appraisers and their appraisal officers, certified public accountants, attorneys and securities underwriters, who provide the Company with appraisal reports or the opinions, shall not be a related person of any party to the transaction.

**Article 26** In the event that the acquisition or disposal of assets requires the approval from the Board of Directors in accordance with these Procedures or other laws, if a Director expressly objects to the transaction and such an objection is put in record or represented in writing. The Board of Directors shall take each Independent Director's opinion into full consideration; if an Independent Director raises an objection or expresses his/her reservation, such an objection or reservation shall be recorded in the minutes of the Board of Directors' meeting.

**Article 27** The Procedures shall be adopted with the approval by one half or more of the Audit Committee members, and shall be submitted to the Board of Directors' meeting. In the event that the Procedures are not approved by one half or more of the Audit Committee members, the Procedures may be adopted with the approval by two thirds or more of all the Directors. After adopted at the Board of Directors' meeting, the Procedures shall be submitted to the shareholders' meeting for its approval. The same procedures shall apply to the amendments of the Procedures. If an Independent Director raises an objection or expresses his/her reservation, such an objection or reservation shall be recorded in the minutes of the Board of Directors' meeting.

**Article 28** Relevant laws and regulations shall apply to matters not provided by these Procedures.

**Article 29** These Procedures are adopted at the annual general meeting of shareholders on May 27<sup>th</sup>, 2003. These Procedures are adopted at the annual general meeting of shareholders on June 15<sup>th</sup>, 2007. These Procedures are adopted at the annual general meeting of shareholders on June 4<sup>th</sup>, 2009. These Procedures are adopted at the annual general meeting of shareholders on June 15<sup>th</sup>, 2012. These Procedures are adopted at the annual general meeting of shareholders on June 18<sup>th</sup>, 2013. These Procedures are adopted at the annual general meeting of shareholders on June 17<sup>th</sup>, 2014. These Procedures are adopted at the annual general meeting of shareholders on June 15<sup>th</sup>, 2017.

## **Annex III**

### **Cheng Shin Rubber Ind. Co., LTD.**

#### **Rules and Procedures of the Shareholders' Meeting**

##### **Article 1**

Unless otherwise required by the law, the shareholders' meeting of Cheng Shin Rubber Ind. Co., LTD. (the "Company") shall be conducted in accordance with the Rules and Procedures of the Shareholders' Meeting (the "Rules").

##### **Article 2**

The Company shall, in the notice of the shareholders' meeting, specify the time and place for shareholder registration, and other important matters.

Registration for shareholders referred to in the preceding paragraph shall begin at least thirty minutes before the meeting. There shall be clear signs and sufficient and adequate staff at the registration desk.

The Company shall provide an attendance register for shareholders to sign in, or require the attending shareholders to submit their sign-in cards in lieu of signing the register.

The calculation of the number of shares present shall be based on the attendance register or sign-in cards submitted by the shareholders and those shares whose votes are exercised by mail or electronically via the internet.

##### **Article 3**

Each shareholder is entitled to one vote for every share held. Except for those shares without voting rights under Article 179 of the Company Act, the attendance and votes at a shareholders' meeting shall be determined based on the number of shares present.

A shareholder may exercise his voting rights by mail or electronically via the internet on those matters presented at the shareholders' meeting convened by the Company. Where the voting right may be exercised by mail or electronically via the internet, the Company shall set forth in the notice the instructions for voting by mail and electronically via the internet. A shareholder who exercises his voting rights by mail or electronically via the internet shall be deemed to have attended the shareholders' meeting in person; provided, however, such shareholder shall be deemed to have waived his voting rights to vote on any ad hoc motions and amendments to the original proposals at the shareholders' meeting.

##### **Article 4**

The shareholders' meeting shall be held in the city or county where the Company is located or at any other place that is convenient for the shareholders to attend and appropriate to convene such meeting, and shall commence at a time no earlier than 9:00 a.m. and no later than 3:00 p.m.

## **Article 5**

If a shareholders' meeting is convened by the board of directors of the Company (the "Board" or "Board of Directors"), the Chairman of the Board shall preside at such meeting. If the Chairman of the Board is on leave or unable to exercise his powers and duties for any reason, the Vice Chairman of the Board shall preside at such meeting. The Chairman of the Board shall designate a managing director to preside as the chairman if a Vice Chairman is not appointed, or if the Vice Chairman of the Board is on leave or unable to exercise his powers and duties for any reason. If no managing director of the Company is appointed, the Chairman of the Board shall designate a director to preside as the chairperson. If the Chairman of the Board fails to designate a chairperson for the meeting, the managing director or the directors shall nominate one from among themselves to preside at the meeting.

The Vice Chairman of the Board, a managing director, or a director who is designated as the chairperson for the meeting pursuant to the preceding paragraph shall have held office for at least six months and be familiar with the financial and business condition of the Company. The same requirements shall apply if the chairperson for the meeting is a director representative of a juristic person.

If the shareholders' meeting is convened by a person with the authority to convene other than the Board of Directors, such person shall act as the chairperson at that meeting.

## **Article 6**

The Company may designate legal counsels, certified public accountants, and other relevant personnel to attend and observe the shareholders' meeting.

Staff at the shareholders' meetings shall wear ID badges or arm badges.

## **Article 7**

The entire process of the shareholders' meeting shall be tape-recorded or videotaped, which must be kept for at least one year; provided, however, records concerning an action initiated by a shareholder pursuant to Article 189 of the Company Act shall be kept until the conclusion of the lawsuit.

## **Article 8**

Upon the scheduled meeting time, the chairperson shall call the meeting to order when the number of shares present constitutes more than one-half of the total issued and outstanding shares. If the number of shares present does not constitute the quorum under the law at the scheduled meeting time, the chairperson may postpone the meeting. A meeting may be postponed up to two times, with the total adjournment time not exceeding one hour. If, after two postponements, the number of shares present does not constitute more than one-third of the total issued and outstanding shares, the

chairman shall declare the adjournment of such meeting due to lack of quorum. If, after two postponements, the number of shares present does not constitute more than one-half of the total issued and outstanding shares but represent more than one-third of the total issued and outstanding shares, tentative resolutions may be adopted in accordance with Paragraph 1, Article 175 of the Company Act.

If, after the tentative resolutions have been adopted, the number of shares represented by the shareholders present reaches more than one-half of the total issued and outstanding shares before the meeting is adjourned, the chairperson may re-submit the foregoing tentative resolutions for approval at the meeting in accordance with Article 174 of the Company Act.

## **Article 9**

The agenda for the shareholders' meeting shall be set by the Board of Directors if such meeting is convened by the Board of Directors. Unless otherwise resolved by resolution at the meeting, the meeting shall be carried out in accordance with the scheduled agenda.

The preceding paragraph shall apply *mutatis mutandis* to meetings convened by any person, other than the Board of Directors, with the authority to convene such meeting.

In respect of the scheduled agenda referred to in the preceding two paragraphs, the chairman may not, absent a resolution, unilaterally announce the adjournment of the meeting before all of the items on the scheduled agenda have been resolved (including ad hoc motions).

After the meeting is adjourned, the shareholders shall not elect another chairperson to resume such meeting at the same location or seek an alternative venue.

## **Article 10**

Prior to speaking at the meeting, an attending shareholder shall submit a slip of paper summarizing his/her/its comments and/or questions and specifying his/her/its shareholder account number (or the attendance ID number) and the account name of the shareholder, in order for the chairman to determine the speaking order.

An attending shareholder who submits a slip of paper but does not speak at the meeting is deemed to have not spoken. In the event of any inconsistency between the contents of shareholder's speech and those recorded on the slip, the contents of shareholder's speech shall prevail.

When an attending shareholder is speaking at the meeting, no other shareholder shall interrupt the speaking shareholder unless otherwise permitted by the chairperson and such speaking shareholder; the chairperson shall stop any such violations.

## **Article 11**

Unless otherwise permitted by the chairperson, a shareholder may only speak, up to two times, on a single proposal, each time no more than five minutes in length.



The chairman may stop the speech of any shareholder that is in violation of the preceding paragraph or exceeds the scope of the proposal.

#### **Article 12**

If a juristic person is entrusted to attend the shareholders' meeting, such juristic person may only appoint one person to be its representative at the meeting.

If a shareholder who is a juristic person appoints two or more representatives to attend the meeting, only one representative may speak on any given proposal.

#### **Article 13**

After the speech is given by an attending shareholder, the chairman may personally respond or designate relevant personnel to respond.

#### **Article 14**

If the chairman believes that the discussion for a proposal has reached a level where a vote may be called, the chairman may make an announcement to end such discussion and call for a vote.

The counting of ballots shall be conducted in a public space at the meeting venue. Once all the ballots have been counted, the voting results, including the number of votes cast, shall be announced and recorded in writing.

#### **Article 15**

The person(s) supervising the casting of the ballots and the person(s) counting the ballots are designated by the chairperson, provided that the person(s) supervising the casting of the ballots shall be a shareholder. The voting results shall be announced at the meeting and recorded in writing.

The preparation and distribution of the minutes of the shareholders' meeting may be done by way of entering the information into the Market Observation Post System and posting it as a public announcement.

#### **Article 16**

The chairman may, at his or her discretion, set time for recess during the meeting. If the meeting venue becomes unavailable before all of the items on the agenda have been resolved (including ad hoc motions), the shareholders may, by resolution, seek an alternative venue and resume the meeting.

#### **Article 17**

Except as otherwise provided under the Company Act and/or the Company's Articles of Incorporation, a resolution shall be adopted with the approval of more than one-half of the votes of the shareholders present.

If, in the course of the vote, no objections are made by the shareholders present after an inquiry by the chairperson and no electronic votes are cast against a proposal, such proposal is deemed to be adopted with the same effect as if it had been adopted through a voting process.

Shareholders who exercise their voting rights by mail or electronically via the internet shall comply with Article 177-2 of the Company Act.

#### **Article 18**

In the event that there is an amendment to or a replacement for the original proposal, the chairperson shall decide on the order in which such proposal will be voted along with the original proposal, provided that if one of such proposal has been approved, the other proposals will be deemed to be vetoed and no further action will be necessary.

#### **Article 19**

The chairman may direct patrol personnel (or security personnel) to assist in maintaining the order of the meeting. Such patrol personnel (or security personnel) shall wear arm badges marked "Patrol Personnel" while assisting in maintaining the order of the meeting.

#### **Article 20**

The Rules and any amendments thereafter shall become effective upon resolution at the shareholders' meeting.

#### **Article 21**

The Rules became effective as of April 24, 1998 upon resolution at the shareholders' meeting.

The Rules have been amended by resolution at the shareholders' meetings held on June 4, 2009, June 15, 2012, and June 18, 2013 respectively.

**CHENG SHIN RUBBER IND. CO., LTD.**  
**Shareholding status of Directors**  
**As of April 16, 2018**

<b>Position</b>	<b>Name</b>	<b>Number of Shares</b>	<b>Ownership Percentage (%)</b>
Chairman	Luo, Tsai-Jen	283,225,502	8.74%
Director	Xie Shun Investment Co., Ltd. (Representative Chen, Shiu-Hsiung)	15,580,000	0.48%
Director	Jiu Shun Investment Co., Ltd. (Representative: Chen, Yun-Hwa)	13,391,000	0.41%
Director	Hong Jing Investment Co., Ltd. (Representative: Chiu, Li-Ching)	32,822,000	1.01%
Director	Min Xin Investment Co., Ltd. (Representative: Cheng, Han-Chi)	6,425,000	0.20%
Director	Tseng, Shung-Chu	21,688,580	0.67%
Director	Horning Yih Investment Corporation (Representative: Lee, Chin-Chang)	11,131,695	0.34%
Director	Horning Yih Investment Corporation (Representative: Lin, Hung-Yu)		
Independent Director	Hsu, En-Dz	0	0.00%
Independent Director	Too, Jui-Rze	0	0.00%
Independent Director	Chen, Shuei-Jin	0	0.00%
Share Ownership of All Directors		384,263,777	11.85%

\*The Company has an Audit Committee established, therefore, there are no supervisors.

**Minimum share ownership by all directors of the Company: 77,793,972 shares**