

Stock Code : 4912

***LemTech***

**Lemtech Holdings Co., Limited**

**2018**

**Annual Report**

**Printed: May 17, 2019**

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

**Website for information related the Company's annual report: <http://mops.twse.com.tw>**

(This English version is a translation based on the original Chinese version. Where any discrepancy arises between the two versions, the Chinese version shall prevail.)

I. Name, Title, Contact Number and E-mail of Spokesperson, Deputy Spokesperson, and Litigation and Non-Litigation Agent in the R.O.C.:

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Name of litigation and non-litigation agent: Hsu, Chi-Feng                      Job Title: Chairman  
Tel:(886)2-8684-1618    E-mail: contact@lemtech.com

II. Headquarters, branch office, and factory addresses and telephone numbers:

(1) Headquarters of the Group

Lemtech Holdings Co., Limited  
Registered address: Genesis Building, 5th Floor, Genesis Close, PO Box 446,  
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Tel: (886)2-8684-1618

(2) Branch offices

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IV. CPAs and CPA Firm for recent financial statements:

CPA: Chih, Jui-Chuan and Lee, Li-Huang  
 CPA Firm: Deloitte & Touche  
 Address: 20 F, No. 100, Songren Rd., Xinyi Dist., Taipei City  
 Website: <http://www.deloitte.com.tw>  
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V. Name of overseas trading office of listed valuable securities and the way to inquire into information of valuable overseas securities: None.

VI. Company Website: <http://www.lemtech.com>

VII. List of Board of Directors

Position	Name	Nationality	Major Education/Experience Background
Chairman	Hsu, Chi-Feng	R.O.C.	Yang Ming Junior High School Chairman & General Manager of Lemtech Holdings Co., Limited
Vice Chairman	Chan Kim Seng Maurice	Singapore	Diploma in Management Studies (Singapore Institute of Management) Vice Chairman & Business Director of Lemtech Holdings Co., Limited
Director	Ye, Hang	Republic of China	Shanghai Electric Appliance Company Staff University Vice Director & General Manager of Lemtech Holdings Co., Limited
Director	Tan, Yong	Republic of China	Shanghai Machine Tool Electrical Apparatus Factory Technical School Director and Factory Assistant Manager of Lemtech Precision Material ( China ) Co., Ltd
Independent Director	Yang, Rui-Long	Republic of China	PhD in Economics, Renmin University of the People Professor, School of Economics, Renmin University of the People
Independent Director	Yu, Chi-Min	R.O.C.	S.J.D., Southern Methodist University Assistant Professors of Law in Soochow

			University Secretary General, Taiwan Technology Industry Legal Officers Association Director of EASYCARD CORPORATION
Independent Director	Lee, Wei-Ming	R.O.C.	Bachelor of Business Administration (BBA), University of Taiwan Chairman of Yubo International Co., Ltd. Consultant of Lightel Technologies, Inc.

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## One. Letter to Shareholders

Dear Shareholders,

Thank you all for your support to Lemtech, and thanks for making it here to attend the 2019 General Meeting. I would like to welcome your presence and opinion on behalf of Lemtech.

Upon account settlement, the company's net revenues reached NT\$6 billion in 2018, increasing by 42% compared to the amount of NT\$4.3 billion in 2017. The earnings after tax reached NT\$405,403 thousand, an increase of NT\$90,887 thousand comparing to the amount of NT\$314,516 thousand in 2017. The growth is seen in the primary product lines. The amount of mobile shipments has increased beyond expectation, contributing to revenue growth exceeding 40 percent in 2018. Other financial performance and business achievements are described in the annual financial statements and side notes.

The overall business performance of 2018 maintained the general growth as in 2017. The businesses of thermal modules, 3C, auto and mobile products have all attained 2-digit growth on average. First, for auto products, the Czech plant has started the mass production for some items. Currently, it is actively exploring new product items, including electronic parts. For other product lines, the slide factory has started to raise its revenue and earn profits. In addition to developing new products, we will add more product lines, and increase the capacity utilization rate. Although the mobile revenue is one of the main profit drivers in 2018, the mobile industry is rather unstable. The company will remain prudent, and will not blindly pursue figure increases. We would also like to tell our shareholders the server thermal module technology developed independently by us has been accepted by the market. We have received formal orders from certain major supplier, and expect this business to drive the revenue growth in the future years. The overall economy in 2019 may be rough. However, the company's management is confident, and will make efforts to maintain the growth tendency in return for the long-term support of our shareholders.

### I. Operating Performance in 2018

#### (1) Operating result of business plans

Unit: NT\$ thousands

Item \ Year	2018	2017	Increase (decrease) in amount	Variation (%)
Net operating revenue	6,043,090	4,255,549	1,787,541	42.00
Operating cost	4,757,020	3,382,778	1,374,242	40.62
Gross profit	1,286,070	872,771	413,299	47.35
Operating expenses	680,111	532,223	147,888	27.79
Net operating profit	605,959	340,548	265,411	77.94
Non-operating revenues and expenses	(63,795)	53,772	(117,567)	-218.64
Net profit before taxation	542,164	394,320	147,844	37.49
Less: Income tax expenses	136,761	79,804	56,957	71.37

Item	Year	2018	2017	Increase (decrease) in amount	Variation (%)
	Net income		405,403	314,516	90,887

Difference Analysis:

- (a) Operating revenue increased: It increased primarily due to the increase of the business growth of 3C electronic products and automobiles.
  - (b) Operating cost increased: The cost increased due to the increase of the operating revenue.
  - (c) Gross profit increased: The amount of the gross profit increased due to the increase of the operating revenue.
  - (d) Operating expense increased: It was caused by the raising of salaries and the expenses for the continuance of the new project test examinations which occurred in the current term.
  - (e) Operating income increased: The operating income increased significantly due to the increase of operating revenue and the proper management of expenses.
  - (f) Non-operating expenses increased: The exchange loss caused a larger fluctuation of the current operating revenue and operating cost.
  - (g) Pre-tax income increased: Compared to the same term of last year, the pre-tax income increased in the current term is because the growth of operating income is larger than the change of the non-operating income and expense.
  - (h) Income tax expense increased: The income tax expense of the current term is more than the same term from last year due to the deferred income tax expense generated by the undistributed earnings of the subsidiaries.
  - (i) Net income increased: The growth of the net income of the current term has a decline due to the increase of the deferred income tax expense generated by the undistributed earnings of the subsidiaries.
- (2) Implementation of budget: The Company only set the internal budget goals for 2018, and did not disclose the financial predictions to the public. This section is not applicable.
  - (3) Receipts and payments, and analysis of profitability: The Company focuses on increasing the product combination with higher gross profit, and integrating client resources, as well as enhancing cooperation with well-known companies. The company always had a stable financial operation, and a well-maintained balance between receipts and payments.

Unit: %

Item	Year	2018	2017	Increase / decrease
	Financial structure	Debt to assets ratio	65.28	65.66
Long-term capital to property, plant and equipment		199.09	169.14	29.95
Solvency	Current ratio	139.23	112.32	26.91



Item		Year		
		2018	2017	Increase / decrease
	Quick ratio	102.48	88.35	14.13
Profitability	Return on assets	8.77	8.39	0.38
	Return on shareholders' equity	23.21	20.00	3.21
	Base earnings per share (\$)	9.67	7.55	2.12

- (4) Research and development: Continuous effort in improving, strengthening and integrating current mechanisms to provide services with more humanity, width and depth.

## II. Business Plan for 2019

### (1) Operation strategies

The US-China trade war in 2018 has resulted in additional tariffs on many products. Later, the controversial communication confidentiality agreement has forced many 3C producers to move to non-China regions. Some Lemtech clients also started switching their production sites to Taiwan and ASEAN. Lemtech Group also started dispersing its production locations in recent years. Although the manufacturing activities are only in certain regions (such as Thailand and the Czech Republic), the context is to centralized the dispersed production. Considering the US clients' concerns about protecting the patents of communication technology and key technology, they have started establishing R&D centers in Taiwan, and manufacturing the key products or technology in Taiwan. To work with the clients' needs, the production sites have to have redundant mechanisms outside of China.

Lemtech's auto products are mostly for domestic sales in China, and less affected by the trade war. However, while the economy in China is slowing, the local demand of automobiles has become saturated. The sales of automobiles will drop, and buyers would bargain for a lower price. These developments are inevitable. Lemtech enhances the integration of upstream and downstream on the one hand. On the other hand, Lemtech continues to increase the percentage of semi-automated production, work on the projects of the value-added products, actively expand high-tech projects, and develop new clients to improve the company's portfolio of gross profits for all products. In addition to auto parts, accessories for cloud services and electronic communication components take up a higher percentage, and are critical items in the product portfolio. Except for dispersing the risk of client centralization, we also take into account that the dispersed industries will facilitate the company in seeking progress within stability, and polish its product technology in different industries to deepen and expanding Lemtech's technology, and increase the competitiveness of Lemtech technology.

### (2) Expected sales volume and the related reference

The production capacity has substantially increased after the second factory construction was completed, giving Lemtech a better capability to fulfill more orders.

However, the market demand for cloud service accessories continues growing, and the production technology of auto products has entered the semi-automated filed. The company will look for another production site specialized in the research and development of semi-automated production lines to manage the auto product orders that continue to grow. Although the outlook of the economy in 2019 is less optimistic, the company will make effort to achieve our self-demanded goal of continuous business growth.

- (3) Important production and sales policies
  - a. Proactively develop new products, new markets, and new usages to win orders.
  - b. Add new equipment into the production process to accelerate expansion in new product areas.
  - c. Continuously improve the cost structure, refurbish the internal management procedures, enhance production efficiency, reduce production cost, and raise market competitiveness.

### III. Development strategy of the Company in the future

- (1) We position ourselves as the comprehensive and multi-field supplier of stamping parts and components. Our core research and development lies in mold technology, and we are developing our products in diverse fields.
- (2) We will integrate the supply chain, and go beyond the field of stamping production to try some upstream and downstream production, and bring full services to our clients.
- (3) We changed some outdated production methods, and increased the application of robot in production. We changed the workstation to automated production lines and reduce the dependence on labor, increase production efficiency and secured production quality.
- (4) We pay attention to and understand the progress and trends of global technology and the market, and allocate more efforts into the field of cloud technology applications.
- (5) We are actively expanding the client base and market share.
- (6) We introduce strategic partners, increase the competitiveness of our products and clients, and step strongly into the new product field.
- (7) We continue to improve the corporate governance and pursue the sustainable development of the company.
- (8) We have stable financial planning to reduce the risk of exchange rate changes.

### IV. Impacts of the external competitive environment, regulatory environment, and the overall business environment

- (1) Influences of external competition
  1. While the competition among new industrial players is becoming severe, product prices are facing more stress now. Under the stress of intense market competition, we need to maintain not only our price competitiveness but also the required quality of the products.
  2. Since wage costs increase year by year, we raised the operating costs, and developed automated and semi-automated equipment, actively participate in the client's product development process, and take these factors of the production

process into account during product design.

3. We actively develop the strength of the company itself, clarify the company's market position to avoid unnecessary competition, and differentiate ourselves from the competitors.
4. We review and find out the best operational scale of each single factory, and conduct research regarding the new business models and organizational patterns to reach the highest operational efficiency.

(2) Influence of regulations

1. The company only hires licensed vendors to dispose of the wastes from production. The company upholds its social responsibility, and complies with the worldwide environmental quality requirements.
2. About any new statutory amendments, the company will prepare and plan the best effort to reduce the uncertainty risk of shareholder equity to the lowest.

(3) Influence of overall operating environment

1. From the analysis reports of the market, the global economy has not shown an ideal path. Under the risk of operational uncertainty, we need to control our budget more carefully and lower inventory, improve to a better financial structure, keep a close connection with clients and suppliers, stay aware of the market, and reduce the operational risk.
2. Regarding the uncertainty of future budget, we will make efforts to provide the decision makers with correct financial data, such as the break-even point, and production capacity utilization rate, to reach the most suitable judgment.

Lastly, thank you again for coming here. We wish everyone good health and prosperity.

Lemtech Holdings Co., Limited

Chairman

Chi-Feng, Hsu

President

Chi-Feng, Hsu

Accounting Managerial Personnel

Chin Yu, Lu

## Two. Company Profile

### I. Company Overview

Founded in the British Cayman Islands on Sept. 29, 2009, Lemtech Holdings Co., Ltd. (hereinafter referred to as “the Company”) primarily engages in the production and sales of precision metal molds and hardware stamping parts. Based on its development strategy, the Company has established production and operation locations in Taiwan, Republic of China, Hong Kong, Thailand, and the Czech Republic and set up offices in the United States to strengthen the layout of such overseas business markets as Europe, the United States, and Japan in order to gain more shares in overseas markets and improve the Company’s future business performance.

Since its foundation, the Company has focused on mold manufacturing and the processing and improvement of heatsinks and has adjusted its operations and development directions in a timely manner along with continuous changes in market demand. The Company has actively introduced advanced equipment and continuously developed and upgraded its processing technology, thus smoothly shifting from engineering processing to single-equipment continuous processing and continuous processing technology for mechanical assemblies using robot arms. Furthermore, the Company has conformed to customers’ demands and gradually changed from the production and manufacture of single products to the assembly and production of components, thus further improving the Company’s competitiveness and profitability.

Therefore, the Company not only focuses on manufacturing of computer heatsinks, but has also entered into the production of auto parts and construction components. Furthermore, the Company has continuously carried out market research and has constantly improved the existing production process, with dedication to developing products with higher added value.

By means of excellent mold development and design capabilities and precision stamping technology, the Company has built diversified product lines and developed diversified customer bases. Currently, the Company’s products can be applied to different industries, such as information, communication, consumer electronics, household appliances, automobile, and construction industries. Moreover, each different industry has its own customer base and is not limited to a single product, which can effectively reduce the Company’s operating risks.

### II. Company Milestones

Date	Milestones
Feb. 2012	(1) Autoliv awarded Lemtech Kunshan as the Best Supplier of the Year 2011.

Date	Milestones
	(2) Lemtech Kunshan passed the green product system certification with Pegatron Corporation and Unihan Corporation.
Mar. 2012	Lemtech Kunshan Hinge Division passed the supervision and audit of AFAQ ISO9001:2008 and the audit of Panasonic to become its qualified supplier.
Apr. 2012	<p>(1) Lemtech Kunshan passed the supervision and audit of AFAQ ISO/TS16949:2009/IATF witness audit.</p> <p>(2) Lemtech Kunshan established the Heatsink Module Division.</p> <p>(3) Lemtech Kunshan passed the supervision and audit of AFAQ ISO14001:2004.</p> <p>(4) The beam-up ceremony was held in the new factory workshop of Lemtech Kunshan on Weita Road, ZhangPu.</p> <p>(5) Lemtech Kunshan introduced the EasyFlow electronic signature system.</p>
May 2012	<p>(1) Lemtech Kunshan's Module Division passed the audit of Wistron to become its qualified supplier.</p> <p>(2) Lemtech Kunshan's research and development expenses plus deductions from tax refunds equaled more than RMB 700,000 yuan.</p> <p>(3) Lemtech Kunshan was awarded a bonus of RMB 2.5 million yuan for excellent enterprises returning to Taiwan for listing by government of Kunshan City, Jiangsu Province, China, which has already been deposited in the account.</p>
Jun. 2012	Furukawa Electric awarded Lemtech Kunshan the Best Overseas Partner Award.
Jul. 2012	Lemtech Kunshan became a qualified supplier through Google's audit.
Sep. 2012	Lemtech Kunshan successfully organized the Company's fire drill.
Nov. 2012	<p>(1) BorgWarner Morse TEC awarded Lemtech Kunshan as an Excellent Supplier of 2012.</p> <p>(2) NT \$215 million was successfully raised for cash capital increase.</p>
Dec. 2012	Lemtech Kunshan's new factory building in ZhangPu completed acceptance.
Jan. 2013	Autoliv awarded Lemtech Kunshan as Excellent Supplier of the Year 2012.
Mar. 2013	The Company set up a joint venture (Aapico-Lemtech (Thailand) Co., Ltd.) with Aapico (a large auto parts factory in Thailand) in order to expand overseas operation locations and increase customers with business contacts.

Date	Milestones
May 2013	A subsidiary (Lemtech USA INC.) was established in the United States to expand overseas markets.
May 2013	Lemtech Kunshan's factory in the town of ZhangPu was officially opened.
May 2013	Lemtech Kunshan's factory in the town of ZhangPu passed the certification of AFAQ ISO/TS16949:2009.
Jan. 2014	Autoliv awarded Lemtech Kunshan as Excellent Supplier of the Year 2013.
Feb. 2014	Shanghai TRW Automotive awarded Lemtech Kunshan the Best Quality Award of 2013.
Mar. 2014	Lemtech Kunshan's new factory in ZhangPu passed the ISO14001 Environmental Management System Certification by AFAQ.
Apr. 2014	The 1st domestic unsecured convertible corporate bond of 2014 was issued.
May 2014	According to the adjustment of the Group's organization functions, a subsidiary company (Lemtech Technology Limited) was established in Hong Kong.
Sep. 2014	The Company won the 16th Golden Peak Award of Outstanding Enterprise Managers Association.
Jan. 2015	Autoliv awarded Lemtech Kunshan as Excellent Supplier of the Year 2014.
Apr. 2015	<p>(1) Lemtech Technology Limited and CRYOMAX Cooling System Corp. established Jimao Lemtech Co., Ltd. (Taiwan) to improve the technology of server heatsink products and mutually benefit the revenue and technology of both sides.</p> <p>(2) Fujitsu Ten awarded Lemtech Kunshan the Excellent Quality Award of 2014.</p>
May 2015	The Company was listed on the TWSE on May 21, 2015.
Jun. 2015	The Company won the 12th Golden Torch Award of the Outstanding Enterprise Managers Association.
Oct. 2015	Lemtech Kunshan sold 10% stock equity to Friendly Holdings (HK).
Nov. 2015	Cancellation and repurchase of treasury shares; The paid-in capital after capital reduction is NT\$395,410,000.
Dec. 2015	<p>(1) Lemtech Technology transferred stock equity to Lemtech Kunshan (the original shareholder was Super Solution).</p> <p>(2) Lemtech USA transferred stock equity to Lemtech Kunshan (the original shareholder was Super Solution).</p>

Date	Milestones
Jan. 2016	BorgWarner awarded Lemtech Kunshan as an Excellent Supplier of 2015.
Mar. 2016	Shanghai TRW Automotive awarded Lemtech Kunshan the Best Service Supplier Award of 2015.
Apr. 2016	<p>(1) A subsidiary company “Lemtech Industrial Services Ltd” was set up in Samoa as an operation and management organization.</p> <p>(2) Lemtech Kunshan was renamed “Lemtech Kunshan Precision Materials Co., Ltd”.</p>
May 2016	<p>(1) Lemtech Global Solution Co. Ltd. and Chenlueng Co. Ltd. jointly set up Lemtech AMP Limited (Seychelles), which sells new-type fire extinguishers and highway guardrails made of plastic steel.</p> <p>(2) Super Solution Co., Ltd. was renamed “Lemtech Global Solution Co. Ltd.”</p>
Jul. 2016	<p>(1) Lemtech Kunshan was renamed “Lemtech Precision Material (China) Co., Ltd.”</p> <p>(2) BorgWarner awarded Lemtech Precision Material (China) Co., Ltd as a Global Excellent Supplier of 2015.</p>
Aug. 2016	<p>(1) A subsidiary company “Kunshan Lemtech Slide Technology Co., Ltd. (China)” was established in Republic of China to increase the diversity of the group’s products and promote the server domain layout.</p> <p>(2) According to the investment structure and flexibility of the Group, a subsidiary company “New Fortune Global Limited” was established in Samoa.</p> <p>(3) Lemtech Precision Material (China) Co., Ltd passed the audit process of ThyssenKrupp Customer VDA 6.3.</p>
Sep. 2016	<p>(1) A subsidiary company “Lemtech Precision Material (Czech) s.r.o.” was set up in the Czech Republic to strengthen the global layout and tax incentives.</p> <p>(2) Pollmann awarded Lemtech Precision Material (China) Co., Ltd the Best Partner Award.</p>
Oct. 2016	Lemtech Precision Material (China) Co., Ltd and Pollmann signed a Strategic Cooperation Agreement.
Jan. 2017	<p>(1) Lemtech Precision Material (China) Co., Ltd launched ISO14001 environmental management system revision activity.</p> <p>(2) BorgWarner awarded Lemtech Precision Material (China) Co., Ltd for Excellent Quality in 2016.</p>
Mar. 2017	Lemtech Precision Material (China) Co., Ltd obtained ISO3834 and ISO14554 International Certification for Welding Manufacturing Process.

Date	Milestones
Apr. 2017	Lemtech Precision Material (China) Co., Ltd passed ISO14001:2015 Environmental Management System Revision Certification.
Oct. 2017	Lemtech Precision Material (China) Co., Ltd launched ISO/TS16949:2009 to upgrade and revise the IATF16949:2016 project.
Nov. 2017	(1) The second phase of the Lemtech Precision Material (China) Co., Ltd plant was renovated and officially started. (2) Lemtech Precision Material (Czech) s.r.o. obtained ISO9001:2015 quality management certification.
Dec. 2017	BorgWarner awarded Lemtech Precision Material (China) Co., Ltd the Best Cooperation Award of 2017.
Jan. 2018	TRW (Wuhan) Automotive awarded Lemtech Precision Material (China) Co., Ltd the General Manager Award of 2017.
May 2018	Lemtech Precision Material (China) Co., Ltd passed the IATF16949:2016 auto quality system revision certification.
Jul. 2018	The 2nd domestic unsecured convertible corporate bond of 2018 was issued.
Oct. 2018	The Group bought back 10% stock equity of Lemtech Precision Material (China) Co., Ltd.
Nov. 2018	(1) Land located in Hwaya Section, Kueishan District, Taoyuan City was purchased, and a factory office was built on it to meet customer requirements and disperse the risk of concentrated production in a single area. (2) Lemtech Global Solution Co. Ltd. bought 50% of stock equity of Jimao Lemtech Co., Ltd. (Taiwan) in response to the Group's operational planning and future development.
Jan. 2019	(1) Due to business development needs, the Taiwan branch was set up. (2) Invest in electroplating plants "Zhenjiang Lianchuang Surface Treatment Technology Co., Ltd." in Republic of China to ensure the stability of the production supply chain of the Group's auto parts in Republic of China and increase the gross profit of products.

Note: Lemtech Kunshan was renamed Lemtech Precision Material (China) Co., Ltd in July 2016.

**III. Group Structure:** please refer to page 132 of this annual report for details.

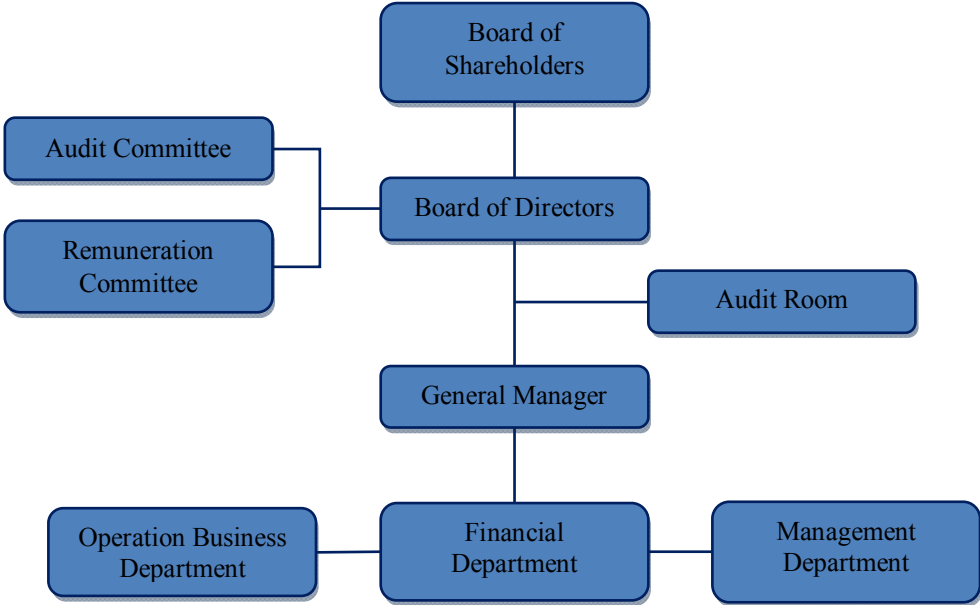
**IV. Risks:** please refer to pages 126 to 130 of this annual report for details.



### Three. Corporate Governance Report

#### I. Organization system

##### (I) Organizational chart



##### (II) Functions of each major department

Department	Functions
Audit Committee	(1) Formulate or amend the internal control system in accordance with Article 14-1 of the Securities and Exchange Act. (2) Evaluation of the effectiveness of the internal control system. (3) In accordance with Article 36-1, formulate or amend the handling procedures for major financial or operational actions such as acquisition or disposal of assets, engaging in derivatives trading, extension of monetary loans to others, endorsements or guarantees for others. (4) Matters bearing on the personal interest of a director. (5) A material asset or derivatives transaction. (6) A material monetary loan, endorsement, or provision of guarantee. (7) The offering, issuance, or private placement of any equity-type securities. (8) The hiring or dismissal of an attesting CPA, or the compensation given thereto. (9) The appointment or discharge of a financial, accounting, or internal auditing officer.

Department	Functions
	(10) Annual financial reports and semi-annual financial reports. (11) Any other material matter as required by the Company or Competent Authority.
Remuneration Committee	(1) Formulate and regularly review the policies, systems, criteria and structures of performance evaluation and remuneration for directors and managers. (2) Regularly evaluate and formulate the remuneration of directors and managers.
General Manager	The General Manager is the highest-level decision-maker of the Company, supervising the implementation and execution of the Company's various operations and carrying out the resolutions of the board of directors.
Audit Room	Be responsible for auditing, maintaining, improving and suggesting of the internal control system. Assist each department to solve problems, improve operation and increase operation efficiency.
Management Department	Be responsible for the management of personnel, general affairs, safety, information and customs affairs of the Company, and plan the meeting of the board of directors and shareholders and the management and implementation of related operations of stock affairs (In accordance with the Rules and Procedure for Directors Meetings).
Financial Department	Be responsible for the management of the Company's investment and operation capital, the arrangement of production and sales cost accounting matters, the preparation of financial statements and management of tax.
Operation Business Department	Be responsible for implementing the resolutions of the board of directors on investment, establishment and operation strategies of the Company in Taiwan, Republic of China, Hong Kong and Czech Republic. The operation and management of companies in Taiwan, Republic of China, Hong Kong and Czech Republic are actually carried out by the operation teams of companies located in their respective countries.

## II. Information of Directors and Management Team

### (I) Directors:

#### 1. Information of Directors:

April 19, 2019 Unit: 1000 Shares ; %

Position	Nationality	Name	Gender	Date elected	Term (years)	Date first elected	Shareholding when elected		Current shareholding		Spouse/minor's shareholdings		Shareholding under the name of others		Main experience (Education background)	Other position in this Company and other companies	Executives, directors or supervisors who are spouses or within the second degree of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	R.O.C.	Hsu, Chi-Feng	Male	2018.06.11	4	2009.09.29	6,083	15.38	6,033	15.25	-	-	-	-	Deputy manager of manufacturing department of Li Yao Industrial Co., Ltd Vice General Manager of Wei Yao Industrial Co., Ltd Changhua Yangming Middle School	Chairman and General Manager of the Company Director of Lemtech Global Solution Co. Ltd. Chairman of Lemtech Precision Material (China) Co., Ltd Chairman and General Manager of Lemtech Precision Industry Co., Ltd. Director of Lemtech Technology Limited Director of Aapico Lemtech (Thailand) Co., Ltd. Director of Lemtech USA INC. Director of Lemtech Industrial Services Ltd Chairman of Kunshan Lemtech Slide Technology Co., Ltd. (China) Director of Zhenjiang Lianchuang Surface Treatment Technology Co., Ltd.	NA	NA	NA

Position	Nationality	Name	Gender	Date elected	Term (years)	Date first elected	Shareholding when elected		Current shareholding		Spouse/minor's shareholdings		Shareholding under the name of others		Main experience (Education background)	Other position in this Company and other companies	Executives, directors or supervisors who are spouses or within the second degree of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Vice Chairman	Singapore	Chan Kim Seng Maurice	Male	2018.06.11	4	2009.09.29	4,329	10.95	4,279	10.81	-	-	-	-	Diploma in Management Studies (Singapore Institute of Management) Manager of Project Department in Amtek Engineering Ltd, CA SBU General Manager of Kunshan Eson Precision Engineering Co., Ltd National Trade Certificate Grade 1 in Precision Press Tool & Die Making (Precision Engineering Institute of Singapore) Master Craftsman Certificate in Precision Press Tool & Die Making (Economic Development Board of Singapore)	Vice Chairman and Business Director of the Company Director of Lemtech Global Solution Co. Ltd. Director of Lemtech Precision Material (China) Co., Ltd Director of Aapico Lemtech (Thailand) Co., Ltd. Director of Zhenjiang Lianchuang Surface Treatment Technology Co., Ltd.	NA	NA	NA
Director	Republic of China	Ye, Hang	Male	2018.06.11	4	2009.09.29	4,217	10.66	4,167	10.53	-	-	-	-	Mold design department supervisor of Amtek Engineering Ltd, CA SBU Business Department Manager of Kunshan Eson Precision Engineering Co., Ltd Shanghai Electrical Company Staff College	Director of the Company Director of Lemtech Global Solution Co. Ltd. Director and General Manager of Lemtech Precision Material (China) Co., Ltd Director of Lemtech Precision Material (Czech) s.r.o.	NA	NA	NA

Position	Nationality	Name	Gender	Date elected	Term (years)	Date first elected	Shareholding when elected		Current shareholding		Spouse/minor's shareholdings		Shareholding under the name of others		Main experience (Education background)	Other position in this Company and other companies	Executives, directors or supervisors who are spouses or within the second degree of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director	Republic of China	Tan, Yong	Male	2018.06.11	4	2009.11.24	1,744	4.41	1,744	4.41	-	-	-	-	Director of Mold Department of Japan Pioneer (Shanghai) Electroacoustic Equipment Co., Ltd. Sales Director of Shanghai Jinri Metal Products Co., Ltd. Shanghai Machine Tool Electric Apparatus Factory Technical School	Director of the Company Director and Executive Assistant of Lemtech Precision Material (China) Co., Ltd	NA	NA	NA
Independent director	Republic of China	Yang, Rui-Long	Male	2018.06.11	4	2009.11.24	-	-	-	-	-	-	-	-	Teacher of Economics Teaching and Research Section, Jiangsu Administration College, China PhD in Economics of Renmin University of China	Independent director of the Company Professor, School of Economics, Renmin University of China	NA	NA	NA

Position	Nationality	Name	Gender	Date elected	Term (years)	Date first elected	Shareholding when elected		Current shareholding		Spouse/minor's shareholdings		Shareholding under the name of others		Main experience (Education background)	Other position in this Company and other companies	Executives, directors or supervisors who are spouses or within the second degree of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Independent director	R.O.C.	Yu, Chi-Min	Male	2018.06.11	4	2010.06.17	-	-	-	-	-	-	-	-	President of Taiwan Society of health law Vice General Manager of Eastern Multimedia Technology Group S.J.D of Southern Methodist University	Independent director of the Company Associate Professor of Department of Law/Director of Electronic Calculator Center, Soochow University Secretary General of Taiwan Association of Legal Managers in Science and Technology Industry Arbitrator of China Arbitration Association Director of EasyCard Corporation Independent director of Syncomm Technology Corp.	NA	NA	NA
Independent director	R.O.C.	Lee, Wei-Ming	Male	2018.06.11	4	2010.06.17	-	-	-	-	-	-	-	-	General Manager/Consultant of Kangchu International Co., Ltd. Consultant/Deputy general manager and Financial Director of the management department of C-Tech United Corporation Bachelor of Commerce, Taiwan University	Independent director of the Company Chairman of Yubo International Co., Ltd. Consultant of Lightel Technologies, Inc.	NA	NA	NA

## 2. Professional qualifications and independence analysis of directors

Name	Criteria			Whether work experience of over 5 years and professional qualifications below are equipped										Number of public companies in which he or she also serves as an independent director
	The title ranks above lecturer in a department of commerce, law, finance, accounting, or related to company business public or private college or university	Judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Work experience in commerce, law, finance, or accounting or required by company business	1	2	3	4	5	6	7	8	9	10	
Hsu, Chi-Feng			✓				✓	✓	✓	✓	✓	✓	✓	0
Chan Kim Seng Maurice			✓				✓	✓	✓	✓	✓	✓	✓	0
Ye, Hang			✓				✓	✓	✓	✓	✓	✓	✓	0
Tan, Yong			✓				✓	✓	✓	✓	✓	✓	✓	0
Yang, Rui-Long	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Yu, Chi-Min	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Lee, Wei-Ming			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note 1: If each director meets the following conditions two years before selection and during his/her term of office, please fill “✓” in the blank below each code.

- (1) Not an employee of the Company or any its affiliates.
- (2) Not a director or supervisor of the Company or any of its affiliates. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary appointed in accordance with this Act or local laws.)
- (3) Not an individual shareholder who holds shares, together with those held by the person’s spouse, minor children, or held by the person under others’ names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the people in the preceding three paragraphs.
- (5) Not a director, supervisor, or employee of an institutional shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top 5 holdings.
- (6) Not a director, supervisor, manager, or shareholder holding 5% or more of the shares of a specified company or agency which have financial or business relationship with the Company.
- (7) Not a professional individual who is an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. Excluding members of Remuneration Committee who exercise power in accordance with Article 7 of the “Regulations Governing the Appointment and Exercise of Powers of Remuneration Committee of a Companies Whose Stock is Listed on the TWSE or Traded Over the Counter”.
- (8) Not the spouse or a relative within the second degree of kinship to any other director of the Company.
- (9) Not being involved in any conditions defined in Article 30 of the Company Law.
- (10) Not a government agency, juridical person or its representative as defined in Article 27 of the Company Law.

## (II) Information of General Manager, Vice General Manager, Assistant Managers, and Directors of Departments and Branches:

April 19, 2019 Unit: 1000 Shares ; %

Title	Nationality	Name	Gender	Date effective	Shareholding		Spouse & minor shareholding		Shareholding under the names of others		Main experience (education background)	Current position(s) in other companies	Managers who are spouses or within the second degree of kinship shares			Manager obtaining of employee stock option (shares)
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship	
President	R.O.C	Hsu, Chi-Feng	Male	2015.12	6,033	15.25	-	-	-	-	Deputy manager of manufacturing department of Li Yao Industrial Co., Ltd Vice General Manager of Wei Yao Industrial Co., Ltd Changhua Yangming Middle School	Director of Lemtech Global Solution Co. Ltd. Chairman of Lemtech Precision Material (China) Co., Ltd Chairman and General Manager of Lemtech Precision Industry Co., Ltd. Director of Lemtech Technology Limited Director of Aapico Lemtech (Thailand) Co., Ltd. Director of Lemtech USA INC. Director of Lemtech Industrial Services Ltd Chairman of Kunshan Lemtech Slide Technology Co., Ltd. (China) Director of Zhenjiang Lianchuang Surface Treatment Technology Co., Ltd.	NA	NA	NA	0
Kunshan General Manager	Republic of China	Ye, Hang	Male	2003.03	4,167	10.53	-	-	-	-	Mold design department supervisor of Amtek Engineering Ltd, CA SBU Shanghai Electrical Company Staff College	Director of Lemtech Global Solution Co. Ltd. Director and General Manager of Lemtech Precision Material (China) Co., Ltd Director of Lemtech Precision Material (Czech) s.r.o.	NA	NA	NA	0



Title	Nationality	Name	Gender	Date effective	Shareholding		Spouse & minor shareholding		Shareholding under the names of others		Main experience (education background)	Current position(s) in other companies	Managers who are spouses or within the second degree of kinship shares			Manager obtaining of stock option (shares)
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship	
Business Director	Singapore	Chan Kim Seng Maurice	Male	2003.10	4,279	10.81	-	-	-	-	Diploma in Management Studies (Singapore Institute of Management) Manager of Project Department Amtek Engineering Ltd, CA SBU National Trade Certificate Grade 1 in Precision Press Tool & Die Making (Precision Engineering Institute of Singapore) Master Craftsman Certificate in Precision Press Tool & Die Making ( Economic Development Board of Singapore)	Director of Lemtech Global Solution Co. Ltd. Director of Lemtech Precision Material ( China ) Co., Ltd Director of Aapico Lemtech (Thailand) Co., Ltd. Director of Zhenjiang Lianchuang Surface Treatment Technology Co., Ltd.	NA	NA	NA	0
Marketing Director	Malaysia	Murali Nair	Male	2013.02	-	-	-	-	-	-	Embatech Sdn Bhd ( General Manager ) Circuit Sales Inc (CSI) ( Business Development and Strategy Consultant ) Bachelor of Science Degree (Honors), University of Bradford, United Kingdom Diploma in Engineering, German Singapore Institute, Singapore	NA	NA	NA	NA	0
Finance Accounting Supervisor	R.O.C	Lu, Chin-Yu	Male	2015.12	-	-	-	-	-	-	Audit leader of Ernst & Young Assistant Business Manager of Standard Chartered Bank Part-time lecturer at Mackay Junior College of Medicine, Nursing and Management Master of International Finance, University of Essex, UK	NA	NA	NA	NA	0

### III. Remuneration of Directors, General Manager and Vice General Manager

#### 1. Remuneration of Directors (Including Independent Directors)

Dec 31, 2018 Unit: NT\$ Thousand

Title	Name	Remuneration of Directors								Ratio of total remuneration (A+B+C+D) to net income after tax (%) (Note 10)		Relevant remuneration received by directors who are also employees								Ratio of total compensation (A+B+C+D+E+F+G) to net income after tax (Note 10)		Compensation paid to directors from reinvested company other than the Company's subsidiary (Note 11)			
		Remuneration (A) (Note 2)		Pension(B)		Bonus to Directors(C) (Note 3)		Business affairs expense(D) (Note 4)				Salary, bonuses, and allowances (E) (Note 5)		Pension (F)		Employees remuneration (G) (Note 6)									
		The Company	All companies in financial reports (Note 7)	The Company	All companies in financial reports (Note 7)	The Company	All companies in financial reports (Note 7)	The Company	All companies in financial reports (Note 7)	The Company	All companies in financial reports (Note 7)	The Company	All companies in financial reports (Note 7)	The Company	All companies in financial reports (Note 7)	The Company		All companies in financial reports (Note 7)		The Company	All companies in financial reports (Note 7)				
Chairman	Hsu, Chi-Feng																								
Vice Chairman	Chan Kim Seng Maurice																								
Director	Ye, Hang																								
Director	Tan, Yong	2,010	5,867	0	0	3,892	3,892	0	0	1.54	2.55	0	24,635	0	0	1,340	0	1,340	0	1.89	9.34			0	
Independent director	Yang, Rui-Long																								
Independent director	Yu, Chi-Min																								
Independent director	Lee, Wei-Ming																								
* Besides disclosed above, remuneration of the Directors of the Company for services (such as serving as a non-employee consultant) rendered to all companies in the financial statements in the most recent year: NA.																									

## Remuneration Interval Table

Interval of remuneration paid to each director of the company	Name of Director(s)			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The Company (Note8)	All companies in the financial report (Note 9) H	The Company (Note8)	All companies in the financial report (Note 9)I
Under NT\$ 2,000,000	Hsu, Chi-Feng、Chan Kim Seng Maurice、Ye, Hang、Tan, Yong、Yang, Rui-Long、Yu, Chi-Min、Lee, Wei-Ming	Hsu, Chi-Feng、Chan Kim Seng Maurice、Tan, Yong、Yang, Rui-Long、Yu, Chi-Min、Lee, Wei-Ming	Hsu, Chi-Feng、Chan Kim Seng Maurice、Ye, Hang、Tan, Yong、Yang, Rui-Long、Yu, Chi-Min、Lee, Wei-Ming	Yang, Rui-Long、Yu, Chi-Min、Lee, Wei-Ming
NT\$ 2,000,000(including)~NT\$ 5,000,000(excluding)	-	Ye, Hang	-	Tan, Yong
NT\$ 5,000,000(including)~NT\$ 10,000,000(excluding)	-	-	-	Hsu, Chi-Feng、Chan Kim Seng Maurice
NT\$ 10,000,000(including)~NT\$ 15,000,000(excluding)	-	-	-	Ye, Hang
NT\$ 15,000,000(including)~NT\$ 30,000,000(excluding)	-	-	-	-
NT\$ 30,000,000(including)~NT\$ 50,000,000(excluding)	-	-	-	-
NT\$ 50,000,000(including)~NT\$ 100,000,000(excluding)	-	-	-	-
NT\$ 100,000,000 or above	-	-	-	-
Total	7 people	7 people	7 people	7 people

Note 1: The names of directors shall be listed separately (for corporate shareholders, the names of corporate shareholders and the representatives shall be listed separately), and the payment amounts shall be disclosed in a summary manner. If the director also holds the position of General Manager or Vice General Manager, this table and the following table of “Remuneration of General Manager and Vice General Manager” shall be filled in.

Note 2: Remuneration of the directors for the latest year (including director’s salary, position plus, pension, various bonuses, incentive payments, etc.).

Note 3: Bonus of directors approved by the board of directors in the latest year.

Note 4: Business affairs expenses related to directors in the latest year (including travel expenses, special expenses, various allowances, accommodation, provision in-kind such as car distribution, etc.). When providing houses, automobiles and other means of transportation or special personal expenses, the nature and cost of the assets provided, the actual or fair-market-rate rent, fuel charges and other payments shall be disclosed. In addition, if a driver is arranged, please state in the notes the relevant payment to the driver by the Company, but not included in the remuneration.

Note 5: Refer to salary, position plus, pension, various bonuses, incentive payments, travel expenses, special expenses, various allowances, accommodation, provision in-kind such as

car distribution obtained by directors also holding other posts (Including also serving as General Manager, Vice General Manager, other managers and employees). When providing houses, automobiles and other means of transportation or special personal expenses, the nature and cost of the assets provided, the actual or fair-market-rate rent, fuel charges and other payments shall be disclosed. In addition, if a driver is provided, please state in the notes the relevant payment paid to the driver by the Company, but not included in the remuneration. Salary expenses recognized under “Share-based Payment” of IFRS 2, including acquisition of employee stock option, employee restricted new shares and subscription for shares in cash, shall also be listed in remuneration.

Note 6: In case of employee remunerations (including stock and cash) obtained by directors holding also other posts (including also serving as General Manager, Vice General Manager, other managers and employees), the amount of employee remunerations approved by the board of directors in the latest year shall be disclosed. If it cannot be estimated, the proposed allocation amount for this year shall be calculated according to the proportion of the actual allocation amount last year, and the attached table “Name of Managers Distributing Employee Remuneration and Distribution Status” shall be filled in.

Note 7: The total amount of each remuneration paid by all companies (including the Company) to the directors of the Company in the consolidated report shall be disclosed.

Note 8: For the total amount of remuneration paid by the Company to each director, the name of the director shall be disclosed in the Remuneration Interval Table.

Note 9: The total amount of various remuneration paid to the directors of the Company by all companies (including the Company) in the consolidated report shall be disclosed, and the name of every director shall be disclosed in the Remuneration Interval Table.

Note 10: Net income after tax refers to the net income after-tax of the latest year; where IFRS being adopted, net profit after tax refers to the net profit after tax of individual or standalone financial reports in the latest year.

Note 11:

a. This column should clearly list the amount of compensation paid to directors from reinvested company other than the Company’s subsidiary.

b. The compensation mentioned in Note 11-a (if any) shall be combined in column I in the “Remuneration Interval Table” and the field name shall be renamed as “All Reinvestment Business”.

c. The compensation refers to the remuneration, bonus (including remuneration of employees, directors and supervisors) and business affairs expenses received by the directors of the Company as directors, supervisors or managers in reinvested company other than the Company’s subsidiary.

\* The content of remuneration disclosed in this table is different from the concept of income in the Income Tax Law, so the purpose of this table is for information disclosure other than tax payment.

2. Remuneration of supervisors: Not applicable. (The Company has set up Audit Committee to take place of supervisors.)

### 3. Remuneration of General Manager and Vice General Manager

Dec 31, 2018 Unit: NT\$ Thousand

Title	Name	Salary(A) (Note 2)		Pension (B)		Bonus and special disbursement (C) (Note 3)		Employee remuneration (D) (Note 4)				Ratio of total remuneration (A+B+C+D) to net income after tax (%) (Note 8)		Compensation paid to directors from reinvested company other than the company's subsidiary (Note 9)
		The Company	All companies in financial reports (Note 5)	The Co mp any	All companies in financial reports (Note 5)	The Co mp any	All companies in financial reports (Note 5)	The Company		All companies in financial reports (Note 5)		The Company	All companies in financial reports (Note 5)	
								Cash	Stock	Cash	Stock			
General Manager	Hsu, Chi-Feng	0	25,667	0	0	0	2,374	1,340	0	1,340	0	0.35	7.68	NA
Kunshan General Manager	Ye, Hang													
Business Director	Chan Kim Seng Maurice													
Marketing Director	Murali Nair													

#### Remuneration Interval Table

Interval of remuneration paid to each General Manager and Vice General Manager	Name of General Manager and Vice General Manager	
	The Company (Note6)	All companies in the financial report (Note 7) E
Under NT\$ 2,000,000	Hsu, Chi-Feng、Chan Kim Seng Maurice、Ye, Hang、Murali Nair	-
NT\$ 2,000,000(including)~NT\$ 5,000,000(excluding)	-	Murali Nair
NT\$ 5,000,000(including)~NT\$ 10,000,000(excluding)	-	Hsu, Chi-Feng、Chan Kim Seng Maurice、Ye, Hang
NT\$ 10,000,000(including)~NT\$ 15,000,000(excluding)	-	-
NT\$ 15,000,000(including)~NT\$ 30,000,000(excluding)	-	-
NT\$ 30,000,000(including)~NT\$ 50,000,000(excluding)	-	-
NT\$ 50,000,000(including)~NT\$ 100,000,000(excluding)	-	-
NT\$ 100,000,000 or above	-	-
Total	4 people	4 people

Note 1: The names of General Manager and Vice General Manager shall be listed separately, and the payment amounts shall be disclosed in a summary manner. If the directors also hold the position of General Manager or Vice General Manager, this table and the previous table of “Remuneration of Directors (Including Independent Directors)” shall be filled in.

Note 2: Listing of salary, position plus, pension for General Manager and Vice General Manager in the latest year.

Note 3: Listing of various bonuses, incentive payments, travel expenses, special expenses, various allowances, accommodation, provision in-kind such as car distribution and other remunerations obtained by General Manager and Vice General Manager. When providing houses, automobiles and other means of transportation or special personal expenses, the nature and cost of the assets provided, the actual or fair-market-rate rent, fuel charges and other payments shall be disclosed. If a driver is provided, please state in the notes the relevant payment paid to the driver by the Company, but not included in the remuneration. Salary expenses recognized under “Share-based Payment” of IFRS 2, including acquisition of employee stock option, employee restricted new shares and subscription for shares in cash, shall also be listed in remuneration.

Note 4: Refer to employee remunerations (including stock and cash) allocated to General Manager and Vice General Manager approved by the board of directors for the latest year. If it is impossible to estimate, the proposed allocation amount for this year shall be calculated according to the proportion of the actual allocation amount last year, and the attached table “Name of Managers Distributing Employee Remuneration and Distribution Status” shall be filled in. Net income after tax refers to the net income after-tax of the latest year; where IFRS being applied, net profit after tax refers to the net profit after tax of individual or standalone financial reports in the latest year.

Note 5: The total amount of each remuneration paid to the General Manager and Vice General Manager of the Company by all companies (including the Company) in the consolidated report shall be disclosed.

Note 6: The name of every General Manager and Vice General Manager shall be disclosed in the Remuneration Interval Table.

Note 7: The total amount of each remuneration paid to every General Manager and Vice General Manager of the Company by all companies (including the Company) in the consolidated report shall be disclosed and the name of every General Manager and Vice General Manager shall be disclosed in the Remuneration Interval Table.

Note 8: Net income after tax refers to the net income after-tax of the latest year; where IFRS being adopted, net profit after tax refers to the net profit after tax of individual or standalone financial reports in the latest year.

Note 9:a. This column shall clearly list the amount of compensation paid to General Manager and Vice General Manager of the Company from reinvested company other than the company’s subsidiary.

b. The compensation above-mentioned in Note 9-a paid to General Manager and Vice General Manager shall be combined in column E in the “Remuneration Interval Table” and the field name shall be renamed as “All Reinvestment Business”.

c. The compensation refers to the remuneration, bonus (including remuneration of employees, directors and supervisors) and business affairs expenses received by the General Manager and Vice General Manager of the Company serving as directors, supervisors or managers in reinvested company other than the Company’s subsidiary.

\* The content of remuneration disclosed in this table is different from the concept of income in the Income Tax Law, so the purpose of this table is for information disclosure other than tax payment.

4. Name of Managers Distributing Employee Remuneration and Distribution Status

Dec 31, 2018 Unit: NT\$ Thousand

	Title	Name	Stock bonus	Cash Bonus	Total	Ratio of the total to net income after tax (%)
Managers	General Manager	Hsu, Chi-Feng	0	1,643	1,643	0.43
	Business Director	Chan Kim Seng Maurice				
	Kunshan General Manager	Ye, Hang				
	Marketing Director	Murali				
	Finance Accounting Supervisor	Lu, Chin-Yu				

Note 1: Individual names and titles shall be disclosed, but profit distribution shall be summarized and disclosed.

Note 2: Listing of employee remunerations (including stock and cash) distributed to managers approved by the board of directors in the latest year. If it is impossible to estimate, the proposed allocation amount for this year shall be calculated based on the proportion of the actual allocation amount last year. Net income after tax refers to the net income after-tax of the latest year; where IFRS being applied, net profit after tax refers to the net profit after tax of individual or standalone financial reports in the latest year.

Note 3: According to the provisions of Tai Tsai Cheng (3) No. 0920001301 dated March 27, 1993, the scope of application for managers is as follows:

- (1) General Manager and equivalents
- (2) Vice General Manager and equivalents
- (3) Assistant manager and equivalents
- (4) Finance Department Supervisor
- (5) Accounting Department Supervisor
- (6) Other people with the power to manage the affairs of the Company and signature right

Note 4: Where Directors, General Manager and Vice General Manager obtaining employee remunerations (including stock and cash), this Table as well as the Table of "Remuneration of Directors (Including Independent Directors)" and "Remuneration of General Manager and Vice General Manager" shall be filled in.

(IV) Analysis of the Ratio of the Total Remuneration Given to Directors, General Managers and Vice General Managers by the Company Hereof and All Companies in the Consolidated Statements in the Most Recent Two Fiscal Years and the Relationship between the Remuneration Policy, Standards and Packages, Procedures for Determining Remuneration, and Business Performance.

1. The ratio of total remuneration paid to directors, General Managers and Vice General Managers of the Company for the two most recent fiscal years, to the net income after tax:

Unit : %

Title	Ratio of total remuneration to net income after tax			
	2017		2018	
	This company	All companies in the Consolidated Statements	This company	All companies in the Consolidated Statements
Directors	3.22	11.28	1.89	9.34
General Managers and Vice General Managers	1.18	8.25	0.35	7.68

2. The Relationship between the Remuneration Policy, Standards and Packages, Procedures for Determining Remuneration, and Business Performance:

The remuneration of the directors of the Company has been handled by the Articles of Association of the Company, and reasonable remunerations have been determined based on the Company's operating results and the contribution or the directors to the Company. The remunerations paid to General Managers and Vice General Managers is based on the relationship between their positions, responsibilities, business performance and future risks, and the level of similar peer positions. The procedure for determining reasonable remuneration is in accordance with the "Remuneration for Directors and its Distribution Method" of the Company, and refers to the Company's overall operating performance, future business risks and development trends in the industry.



## IV. Implementation of Corporate Governance

### (I) Board of Directors

A total of 10 meetings of the Board of Directors were held in 2018, the attendance of director are as follows:

Title	Name	Attendance in Person	By proxy	Personal attendance Rate (%)	Notes
Chairman	Hsu, Chi-Feng	10	0	100.00	Serving consecutive terms on June 11, 2018
Vice Chairman	Chan Kim Seng Maurice	9	1	90.00	Serving consecutive terms on June 11, 2018
Director	Ye, Hang	9	1	90.00	Serving consecutive terms on June 11, 2018
Director	Tan, Yong	9	1	90.00	Serving consecutive terms on June 11, 2018
Independent Director	Yang, Rui-Long	9	1	90.00	Serving consecutive terms on June 11, 2018
Independent Director	Yu, Chi-Min	9	1	90.00	Serving consecutive terms on June 11, 2018
Independent Director	Lee, Wei-Ming	10	0	100.00	Serving consecutive terms on June 11, 2018

#### 1. Other mentionable items:

(1) In case of any of the following circumstances, the dates of the meetings, sessions, contents of motion, all independent directors' opinions and the Company's response should be specified:

##### ① Items listed in Article 14-3 of the Securities and Exchange Act

Board of Directors	Motion content and handling	Items listed in Article 14-3 of the Securities and Exchange Act	Objections or reservations from the Independent Directors
The 19 <sup>th</sup> session of the 3 <sup>rd</sup> meeting March 22, 2018	1.Remuneration proposal for 2017 directors and employees	✓	
	2. Proposal to distribute the Company's earnings of 2017	✓	
	3.Reelection of Directors	✓	
	4. Proposal to terminate prohibitions/restrictions on the 4th new directors participating in competitive businesses	✓	
	Opinions of independent directors: None.		
	Company's response to independent director's opinions: None.		
	Resolution: All directors present agreed to pass the motion.		
The 20 <sup>th</sup> session of the 3 <sup>rd</sup> meeting April 27, 2018	1.Review the list of candidates for directors and independent directors nominated by the 2018 shareholder meeting	✓	
	2.Revision of some articles of "Endorsement and Guarantee Procedures"	✓	
	3.Endorsement/guarantee by the Company	✓	
	Opinion of independent directors: None.		
	Company's response to independent director's opinions: None.		

Board of Directors	Motion content and handling	Items listed in Article 14-3 of the Securities and Exchange Act	Objections or reservations from the Independent Directors
	Resolution: All directors present agreed to pass the motion.		
The 22 <sup>nd</sup> session of the 3 <sup>rd</sup> meeting May 24, 2018	1.Revision of remuneration for directors of the Company in 2017	✓	
	2.Endorsement/guarantee by the Company	✓	
	3.Proposal to raise and issue the second domestic unsecured convertible corporate bond	✓	
	Opinion of independent directors: None.		
	Company's response to independent director's opinions: None.		
	Resolution: All directors present agreed to pass the motion.		
The 1 <sup>st</sup> session of the 4 <sup>th</sup> meeting June 22, 2018	1.Selection of the 4th Chairman and Vice Chairman	✓	
	Opinion of independent directors: None.		
	Company's response to independent director's opinions: None.		
	Resolution: All directors present agreed to pass the motion.		
The 2 <sup>nd</sup> session of the 4 <sup>th</sup> meeting August 09, 2018	2.Endorsement/guarantee by the Company	✓	
	3.Appointment of Remuneration Committee of the Company	✓	
	Opinion of independent directors: None.		
	Company's response to independent director's opinions: None.		
	Resolution: All directors present agreed to pass the motion.		
The 3 <sup>rd</sup> session of the 4 <sup>th</sup> meeting September 13, 2018	1.Proposal of the Company's subsidiary Lemtech Global Solution Co. Ltd of buyback 10% equity of its subsidiary Lemtech Precision Materials (China) Co., Ltd.	✓	
	2.Proposal of the Company's subsidiary Lemtech Global Solution Co. Ltd of purchasing 50% equity of Jimao Lemtech Co., Ltd.	✓	
	3.Loan to others by the Company	✓	
	Opinion of independent directors: (1) Asking for the opinions of lawyers or accountants on stock repurchase; (2) Assessing of future cross-strait issues and risks; (3) Providing written explanation for tax planning.		
	Company's response to independent director's opinions: (1) Entrust lawyers to issue written opinions on the share repurchase; (2) In response to the assessment of cross-strait issues, abnormal changes in the Group's equity, taxation and CRS issues, the Company will entrust lawyers and auditors to issue opinions on the preliminary assessment of abnormal changes in equity and changes in the Group's structure.		
	Resolution: to be discussed at the next meeting.		
The 4 <sup>th</sup> session of the 4 <sup>th</sup> meeting September 28, 2018	1. Proposal of purchasing of 10% equity of Lemtech Precision Material (China) Co., Ltd by the Group	✓	
	2.Loan to others by the Company	✓	
	Opinion of independent directors: None.		
	Company's response to independent director's opinions: None.		
	Resolution: All directors present agreed to pass the motion.		
The 5 <sup>th</sup> session of the 4 <sup>th</sup> meeting November 9, 2018	1.Motion of replacing auditors from the 3rd quarter of 2018	✓	
	2.Proposal of acquisition of real estate by the Company	✓	
	3.Proposal of issuance of new shares in cash by the Company	✓	
	4.Endorsement/guarantee by the Company	✓	
	5.Proposal of establishing a Branch by the Company	✓	

Board of Directors	Motion content and handling	Items listed in Article 14-3 of the Securities and Exchange Act	Objections or reservations from the Independent Directors
	6.Proposal of revision of some articles of “Procedures for Acquisition or Disposal Assets”	✓	
	7.Proposal to terminate prohibitions/restrictions on managers in competitive businesses	✓	
	8.Proposal to terminate prohibitions/restrictions on directors in competitive businesses	✓	
	Opinion of independent directors: None.		
	Company’s response to independent director’s opinions: None.		
	Resolution: All directors present agreed to pass the motion.		
The 6 <sup>th</sup> session of the 4 <sup>th</sup> meeting December 21, 2018	1.Proposal for 2019 Budget	✓	
	2.Proposal for 2019 internal audit plan	✓	
	3.Endorsement/guarantee by the Company	✓	
	4.Proposals for adjustment of the Group’s organization structure	✓	
	5.Proposal of the Company to invest in electroplating factory in Republic of China	✓	
	6.Proposal of the Company’s subsidiary Lemtech Global Solution Co. Ltd. to increase capital for Jimao Lemtech Co., Ltd.	✓	
	7.Proposal to terminate prohibitions/restrictions on managers in competitive businesses	✓	
	8.Proposal to terminate prohibitions/restrictions on directors in competitive businesses	✓	
	Opinion of independent directors: None.		
	Company’s response to independent director’s opinions: None.		
Resolution: All directors present agreed to pass the motion.			

② Other than the previous items, resolutions of the directors’ meetings objected to by independent directors or subject to qualified opinion and recorded or declared in writing: None.

(2) For the implementation of the directors’ avoidance from motions/proposals involving personal interests, the directors’ names, contents of motion/proposal, reasons for avoidance and voting participation should be specified clearly:

① The date of the directors’ meeting: November 9, 2018

Meeting content: Proposal to terminate prohibitions/restrictions on managers in competitive businesses

Avoidance director: Hsu, Chi-Feng, Chairman

Reasons for avoidance and voting participation: In accordance with Article 206 of the Company Law, except that Chairman HSU, Chi-Feng was not allowed to take part in the voting, the other directors present unanimously agreed to terminate prohibitions/restrictions on General Manager HSU, Chi-Feng in competitive businesses, without damage to the interests of the Company.

②The date of the directors' meeting: November 9, 2018

Meeting content: Proposal to terminate prohibitions/restrictions on directors in competitive businesses

Avoidance director: Hsu, Chi-Fen, Chairman

Reasons for avoidance and voting participation: In accordance with Article 206 of the Company Law, except that Chairman HSU, Chi-Feng was not allowed to take part in the voting, the other directors present unanimously agreed to terminate prohibitions/restrictions on Chairman HSU, Chi-Feng in competitive businesses, without damage to the interests of the Company.

③The date of the directors' meeting: December 21, 2018

Meeting content: Proposal to terminate prohibitions/restrictions on managers in competitive businesses

Avoidance director: Hsu, Chi-Feng, Chairman

Reasons for avoidance and voting participation: In accordance with Article 206 of the Company Law, except that Chairman HSU, Chi-Feng was not allowed to take part in the voting, the other directors present unanimously agreed to terminate prohibitions/restrictions on General Manager HSU, Chi-Feng in competitive businesses, without damage to the interests of the Company.

④The date of the directors' meeting: December 21, 2018

Meeting content: Proposal to terminate prohibitions/restrictions on directors in competitive businesses

Avoidance director: Hsu, Chi-Feng, Chairman; Chan Kim Seng Maurice, Vice Chairman; Ye, Hang, Director

Reasons for avoidance and voting participation: In accordance with Article 206 of the Company Law, except that Chairman HSU, Chi-Feng, Vice Chairman Chan Kim Seng Maurice and director Ye, Hang were not allowed to take part in the voting, the other directors present unanimously agreed to terminate prohibitions/restrictions on them in competitive businesses, without damage to the interests of the Company.

(3) Evaluation of completion of goals set to strengthen the functions of the board of directors (For example, establishing the Audit Committee and increasing information transparency) in this and the last few years: In order to improve governance of corporate and strengthen the relevant functions of the board of directors, the Company has set up Audit Committee and Remuneration Committee. Please refer to "Corporate Governance Implementation Status" and "Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons" for implementation.

## (II) Audit Committee Implementation Status

A total of 9 meetings of the Audit Committee were held in 2018, and the attendance of independence directors was as follows:

Title	Name	Attendance in Person	By proxy	Personal attendance Rate (%)	Notes
Independent director (coordinator)	Yang, Rui-Long	8	1	88.89	Serving consecutive terms on June 11, 2018
Independent director	Yu, Chi-Min	8	1	88.89	Serving consecutive terms on June 11, 2018
Independent director	Lee, Wei-Ming	9	0	100.00	Serving consecutive terms on June 11, 2018

Other mentionable items:

1. For any of the following circumstances of Audit Committee, the date, term, content of the motions, resolutions of the Audit Committee and how the Company responded to the opinions of the Audit Committee shall be specified clearly:

(1) Items listed in 14-5 of the Securities and Exchange Act

Board of Directors	Motion content and handling	Items listed in 14-5 of the Securities and Exchange Act	Motions not adopted by Audit Committee but agreed upon by over 2/3 of all the directors	
The 19th session of the 3rd meeting March 22, 2018	1. Remuneration proposal for 2017 directors and employees	✓		
	2. Proposal of Operating Report and Consolidated Financial Statement for 2017	✓		
	3. Proposal to distribute the Company's earnings of 2017	✓		
	4. Reelection of Directors	✓		
	5. proposal to terminate prohibitions/restrictions on the 4th new directors participating in competitive businesses	✓		
	Opinion of independent directors: None.			
	Company's response to independent director's opinions: None.			
Resolution: All directors present agreed to pass the motion.				
The 20th session of the 3rd meeting April 27, 2018	1. Review the list of candidates for directors and independent directors nominated by the 2018 shareholder meeting	✓		
	2. Revision of some articles of "Endorsement and Guarantee Procedures"	✓		
	3. Endorsement/guarantee by the Company	✓		
	Opinion of independent directors: None.			
	Company's response to independent director's opinions: None.			
Resolution: All directors present agreed to pass the motion.				
The 22th session of the 3rd meeting May 24, 2018	1. Revision of remuneration for directors of the Company in 2017	✓		
	2. Endorsement/guarantee by the Company	✓		
	3. Proposal to raise and issue the second domestic unsecured convertible corporate bond	✓		
	Opinion of independent directors: None.			

Board of Directors	Motion content and handling	Items listed in 14-5 of the Securities and Exchange Act	Motions not adopted by Audit Committee but agreed upon by over 2/3 of all the directors
	Company's response to independent director's opinions: None.		
	Resolution: All directors present agreed to pass the motion.		
The 1st session of the 4th meeting June 22, 2018	1.Selection of the 4th Chairman and Vice Chairman	✓	
	Opinion of independent directors: None.		
	Company's response to independent director's opinions: None.		
	Resolution: All directors present agreed to pass the motion.		
The 2nd session of the 4th meeting August 9, 2018	1.Proposal of Consolidated Financial Statements for the Second Quarter of 2018		
	2.Endorsement/guarantee by the Company	✓	
	3.Appointment of Remuneration Committee of the Company	✓	
	Opinion of independent directors: None.		
	Company's response to independent director's opinions: None.		
	Resolution: All directors present agreed to pass the motion.		
The 3rd session of the 4th meeting September 13, 2018	1.Proposal of the Company's subsidiary Lemtech Global Solution Co. Ltd of buyback 10% equity of its subsidiary Lemtech Precision Materials (China) Co., Ltd.	✓	
	2.Proposal of the Company's subsidiary Lemtech Global Solution Co. Ltd of purchasing 50% equity of Jimao Lemtech Co., Ltd.	✓	
	3.Loan to others by the Company	✓	
	Opinion of independent directors: (1) Obtaining the opinions of lawyers or accountants on stock repurchase; (2) Assessing of future cross-strait issues and risks; (3) Providing written explanation for tax planning.		
	Company's response to independent director's opinions: (1) Entrust lawyers to issue written opinions on the share repurchase; (2) In response to the assessment of cross-strait issues, abnormal changes in the Group's equity, taxation and CRS issues, the Company commissioned lawyers and accountants to issue opinions on the preliminary assessment of abnormal changes in equity and changes in equity and changes in the Group's structure.		
	Resolution: to be discussed at the next meeting.		
The 4th session of the 4th meeting September 28, 2018	1.Proposal of purchasing of 10% equity of Lemtech Precision Material ( China ) Co., Ltd by the Group	✓	
	2.Loan to others by the Company	✓	
	Opinion of independent directors: None.		
	Company's response to independent director's opinions: None.		
	Resolution: All directors present agreed to pass the motion.		
The 5th session of the 4th meeting November 09, 2018	1.Motion of replacing auditors from the 3rd quarter of 2018	✓	
	2.Proposal of acquisition of real estate by the Company	✓	
	3.Proposal of issuance new shares in cash by the Company	✓	
	4.Endorsement/guarantee by the Company	✓	
	5.Proposal of establishing a Branch by the Company	✓	
	6.Proposal of revision of some articles of "Procedures for Acquisition or Disposal Assets"	✓	
	7.Proposal to terminate prohibitions/restrictions on managers in competitive businesses	✓	

Board of Directors	Motion content and handling	Items listed in 14-5 of the Securities and Exchange Act	Motions not adopted by Audit Committee but agreed upon by over 2/3 of all the directors
	8.Proposal to terminate prohibitions/restrictions on directors in competitive businesses	✓	
	Opinion of independent directors: None.		
	Company's response to independent director's opinions: None.		
	Resolution: All directors present agreed to pass the motion.		
The 6th session of the 4th meeting December 21, 2018	1.Proposal for 2019 Budget	✓	
	2.Proposal for 2019 internal audit plan	✓	
	3.Endorsement/guarantee by the Company	✓	
	4.Proposals for adjustment of the Group's organization structure	✓	
	5.Proposal of the Company to invest in electroplating factory in Republic of China	✓	
	6.Proposal of the Company's subsidiary Lemtech Global Solution Co. Ltd. to increase capital for Jimao Lemtech Co., Ltd.	✓	
	7.Proposal to terminate prohibitions/restrictions on managers in competitive businesses	✓	
	8.Proposal to terminate prohibitions/restrictions on directors in competitive businesses	✓	
	Opinion of independent directors: None.		
	Company's response to independent director's opinions: None.		
Resolution: All directors present agreed to pass the motion.			

(2) Other than the previous items, motions/proposals not adopted by Audit Committee but agreed upon by over 2/3 of all the directors: None.

2. Implementation of the director's avoidance from motions/proposals involving personal interests: None.
3. Communication between independent directors and internal audit supervisors and accountants (it should include communication about corporate finance and business status, and way and results of such communication): The internal audit supervisor of the Company regularly submit audit reports and inquiries with members of the Audit Committee, and the communication between them is good. The certified public accountants communicate with the members of the Audit Committee of the Company on the results of the audit or review of the financial statements and other matters required by relevant laws. Their communication is in good condition.

(III) Corporate Governance Implementation Status and Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”

Evaluation item	Implementation status		Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and reasons	
	Yes	No		Abstract description
I. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”?	✓		The Company has established the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”, which has been disclosed on the Company’s website and the market observation post system.	None
II. Shareholding structure & shareholders’ rights (I) Does the company establish an internal operating procedure to deal with shareholders’ suggestions, doubts, disputes and litigations, and implement based on the procedure? (II) Does the company possess the list of its major shareholders as well as the ultimate owners of those shareholders? (III) Does the company establish and execute the risk management and firewall mechanism between it and affiliated companies?  (IV) Does the company establish internal rules against insiders trading with undisclosed information?	✓		(I) The Company has designated a professional shareholder service agency to handle shareholder affairs, and has formulated “Procedures for Spokesmen and Deputy Spokesmen” to deal with shareholders’ suggestions. (II) The Company knows the list of its major shareholders as well as the ultimate owners of those shareholders, and regularly tracks and checks them when reporting monthly abnormal changes in equity. (III) In addition to the criteria provided in the “Regulations Governing the Establishment of Internal Control Systems” by public companies issued by the FSC, the Company has also formulated "Supervision and Management of Subsidiaries" and "Related Party Transaction Management" to achieve a risk control mechanism. Asset management among the related enterprises is independent, and the risk control mechanism and firewall mechanism are actually implemented. (IV) The company has established “Procedure for Internal Significant Information Processing and Precaution against Insider Trading” to expressly prohibit insiders from trading marketable securities using undisclosed information and from revealing such information to others for insiders trading.	None
III. Composition and Responsibilities of the Board of Directors (I) Does the Board of Directors develop and implement a	✓		(I) The Company has formulated the “Corporate Governance Best-Practice Principles” has disclosed the diversified policy on the Company’s website and the market observation post system. Directors Hsu,	None



<p>diversified policy for its members?</p> <p>(II) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?</p> <p>(III) Does the company establish a standard to measure the performance of the Board of Directors, and implement it annually?</p> <p>(IV) Does the company regularly evaluate the independence of CPAs?</p>		<p>Chi-Feng, Chan Kim Seng Maurice, Ye, Hang, Tan, Yong have experience in operation management and actual business management. Independent director Lee, Wei-Ming has professional skills in financial planning and financial report review. Independent director Yu, Chi-Min has professional skills in e-commerce law. Independent director Yang, Rui-Long has professional skills in overall economics.</p> <p>(II) The Company has set a Remuneration Committee and an Audit Committee and no other functional committees at present, but they may be set up as required in the future.</p> <p>(III) The Company has not yet formulated the “Board Performance Evaluation Protocols” but has discussed the contents and evaluation method within the Company.</p> <p>(IV) The Company regularly evaluates the independence and competency of CPAs. The accounting firm and CPAs elected by the Company have no interest relationship to the Company and strictly observe their independence. They have not served as directors or independent directors or managers of the Company, are not shareholders of the Company, and have not paid by the Company. And the Company has not designated the same CPA for seven consecutive years, so the CPAs auditing the Company’s financial report are sufficiently objective and independent.</p>	
<p>IV. Does TWSE/TPEX Listed Company set a full/part time unit or person for corporate governance to be in charge of related issues (including but not limited to providing data needed by directors to perform business, handling issues related to the board meeting and shareholders’ meeting according to the law, registering the Company and changing the registration, and taking minutes in the board meeting and shareholders’ meeting)?</p>	<p>✓</p>	<p>The Company designates the Management Department as a part-time unit for corporate governance and its related affairs, including providing data required by directors to perform business, handling issues related to board meetings and the shareholders' meeting in accordance with the law, registering the Company and changing the registration, and taking minutes in the board meeting and shareholders’ meeting.</p>	<p>None</p>

V. Does the company establish a communication channel and build a designated section on its website for interested parties, as well as handle all the issues they care for in terms of corporate social responsibilities?	✓		The company has set a spokesman system and an area of “Stakeholder Engagement” on the Company's website. Stakeholder can contact the Company by telephone, letter, fax and e-mail if needed.	None
VI. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	✓		The Company has designated the Agency Department of CTBC Bank to be responsible for handling shareholder affairs.	None
VII. Information Disclosure (I) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?  (II) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	✓		(I) The company has established Chinese/English website and has disclosed financial business and corporate governance information. The website is <a href="http://www.lentech.com">http://www.lentech.com</a> with information personnel responsible for maintaining and updating the website information.  (II) The Company has “Procedures for Spokesmen and Deputy Spokesmen” to answer relevant questions, and corporate information shall be collected and disclosed by relevant business departments. Information of webcasting investor conferences has been disclosed on the Company’s website for investors’ reference. The Company has disclosed the latest financial and business information about the Company on the designated information reporting website in accordance with the provisions of the law.	None
VIII. Is there any other important information to facilitate a better understanding of the company’s corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors’ training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors)?	✓		1. Employee rights: The Company comply with the Labor Standards Act. Please refer to pages 111 to 113 of this annual report for other employee welfare, retirement system, further education and various employee rights.  2. Employee care: The Company provides diversified communication channels to facilitate communication within the Company to ensure real-time transmission and transparency of information. The Company allows employees to fully express their suggestions to the company as the basis for improvement of various measures.  3. Investor relations: The Company attaches great importance to the interests of investors. In addition to posting the information on the market observation post system designated	None

		<p>by the competent authority in accordance with relevant regulations, the Company also discloses relevant information on the Company's website.</p> <p>4. Shareholders' rights: In order to protect the interests of shareholders, the Company has established spokesmen and deputy spokesmen to respond to investors' questions and handle relevant issues properly in good faith and with a responsible attitude.</p> <p>5. Implementation of risk management policy and risk measuring standards: The Company has formulated various internal management rules and regulations according to law, and performed various risk management and assessment according to the rules and regulations.</p> <p>6. Implementation of customer policy: In order to provide all-round service and protection to customers, the Company communicates with customers in real time to understand customers' needs in response to their complaints, so as to promote the interaction effect between the Company and customers, and conduct meeting review and improvement within the Company.</p> <p>7. Situation of directors' further education: Please refer to the table below. Relevant information has been announced at the market observation post system.</p>	
<p>IX. Please explain the improvements that have been made in accordance with the results of the Corporate Governance Evaluation System issued by the Corporate Governance Center of TWSE and provide the priority enhancement measures for items not yet improved:  The Company's 2016 Corporate Governance Evaluation System results ranked 51-65% of all evaluated companies.</p> <p>(I) Improved items according to the evaluation: prepare the Company's English annual report, meeting notice, handbook for meeting, annual financial report, and insurance of directors and supervisors.</p> <p>(II) Enhancement measures: implement corporate social responsibility.</p>			

Attached Table: Status of Directors' Further Education

Position	Name	Date	Organization	Course title	Hours
Chairman	Hsu, Chi-Feng	2018/12/26 2018/12/27	Corporate Governance Association	Global Trend Analysis-Risks and Opportunities  Responsibilities of BOD in Mergers and Acquisitions	6
Vice Chairman	Chan Kim Seng Maurice				
Director	Ye, Hang				
Director	Tan, Yong				
Independent director	Yang, Rui-Long				
Independent director	Yu, Chi-Min	2018/07/10	Security and Future Institute	Orientation on the Law Governing Insider Trading of Listed (or Non-listed) Public Company	3
		2018/12/21	Corporate Governance Association	The Last Line of Defense in Corporate Governance-BOD Liability Insurance	3
Independent director	Lee, Wei-Ming	2018/07/27	Corporate Governance Association	Tax Issues Before and After Mergers and Acquisitions	3
		2018/09/04		Analyzing the Connotation and Practical Cases of Taiwan's Anti-tax Avoidance	3

(IV) Composition, Responsibilities and Implementation of the Remuneration Committee:

1. Information of Remuneration Committee Members

Identity	Name	Having over 5 years of work experience and the following professional qualifications			Conformity to Independence ( Note 1 )								Number of Other Public Companies in Which the Individual is Concurrently Serving as an Remuneration Committee Member	Notes
		Having the title ranking above lecturer in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private college or university	Judge, public prosecutor, attorney, accountant, or other professional or technical specialist (having national certificate) related to Company business	Having work experience in commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8		
Independent director	Yang, Rui-Long	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent director	Yu, Chi-Min	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent director	Lee, Wei-Ming			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

Note 1 : If each member meets the following conditions two years before selection and during his/her term of office, please fill “✓” in the blank below each code.

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company or affiliated companies. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary appointed in accordance with this Act or local laws.)
- (3) Not an individual shareholder who holds shares, together with those held by the person’s spouse, minor children, or held by the person under others’ names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the people in the preceding three paragraphs.
- (5) Not a director, supervisor, or employee of an institutional shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top 5 holdings.
- (6) Not a director, supervisor, manager, or shareholder holding 5% or more of the shares of a specified company or agency which have financial or business relationship with the Company.
- (7) Not a professional individual who is an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
- (8) Not being involved in any conditions defined in Article 30 of the Company Act.

## 2. Implementation of Remuneration Committee

(1) There are 3 members in the Remuneration Committee of the Company.

(2) Term for the current Remuneration Committee Members: August 9, 2018~June 10, 2021.

A total of 3 Remuneration Committee meetings were held in 2018. The attendance records of the Remuneration Committee members are as follows:

Title	Name	Attendance in Person	By proxy	Personal attendance Rate (%)	Notes
Independent director (coordinator)	Yu, Chi-Min	3	0	100.00	Serving consecutive terms on August 9, 2018
Independent director	Lee, Wei-Ming	3	0	100.00	Serving consecutive terms on August 9, 2018
Independent director	Yang, Rui-Long	3	0	100.00	Serving consecutive terms on August 9, 2018
<p>Other mentionable items:</p> <p>I. If the board of directors does not adopt or revise the proposals of the Remuneration Committee, the Board meeting date, session, motion content, the Board decision, and the Company's response to the Remuneration Committee's opinions shall be specified clearly (if the remuneration package approved by the board of directors is superior to that suggested by the Remuneration Committee, the differences and reasons shall be stated clearly): None.</p> <p>II. If members oppose or reserve their opinions regarding any decision made by the Remuneration Committee and such opinions have been recorded and with a written statement, the committee meeting date, session, contents of the motion, opinions of all members and response to the opinions shall be specified clearly: None.</p>					

## (V) Fulfillment of Social Responsibility

Evaluation item	Implementation status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract description	
<p>I. Corporate Governance Implementation</p> <p>(I) Does the Company establish its corporate social responsibility policy or system and review the results of the implementation?</p> <p>(II) Does the Company provide periodically educational training on corporate social responsibility?</p>	✓		<p>(I) The Company has formulated the "Practical Code for Corporate Society Responsibility" and regularly reviewed the implementation results or progress.</p> <p>(II) The Company attaches great importance to the lifelong learning of all employees, and provides various education and training according to the needs of work, and arranges employees to attend relevant courses and orientation on corporate social responsibility.</p>	None

Evaluation item	Implementation status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Abstract description	
<p>(III) Does the Company establish dedicated (or non- dedicated) department in the charge of senior managers authorized by the board of directors to promote corporate social responsibility and report to the BOD?</p> <p>(IV) Does the Company formulate a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?</p>			<p>(III) The Company has designated Management Department as a part-time unit to promote corporate social responsibility, which is in the charge of senior managers authorized by the board of directors and reports to the BOD.</p> <p>(IV) The Company has formulated the “Rules for Remuneration Management” and has regularly made adjustments according to relevant laws and regulations and market demands, and has also established a reward and punishment mechanism.</p>	
<p>II. Sustainable Environment Development</p> <p>(I) Does the Company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?</p> <p>(II) Does the Company establish proper environmental management systems based on the features of their industries?</p> <p>(III) Does the Company notice the impacts of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?</p>	✓		<p>(I) The Company has established “Procedures for Conflict Mineral Control” to manage conflict materials.</p> <p>(II) The Company has passed and abided by the environmental management system (ISO14001:2015).</p> <p>(III) During the construction of the second-phase plant in Kunshan, the Company added an air compressor heat recovery system to supply some plants with heating in winter, effectively reducing energy consumption. The Company advocates air conditioning temperature control in summer to make rational use of energy. The company also advocates saving water, electricity and paperless operation to achieve the goal of energy saving and carbon reduction.</p>	None
<p>III. Preserving Public Welfare</p> <p>(I) Does the Company formulate appropriate management</p>	✓		<p>(I) The Group attaches great importance to the interests of all employees, and</p>	None

Evaluation item	Implementation status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Abstract description	
<p>policies and procedures in accordance with relevant laws, regulations and the International Conventions on Human Rights?</p> <p>(II) Does the Company establish an employee channel or mechanism to handle complaints with appropriate solutions?</p> <p>(III) Does the Company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?</p>			<p>abides by the labour laws and regulations of various countries, and has established a “Management Procedure for Business Conduct and Ethical Norms”.</p> <p>(II) The Company has established an employee channel and “Employee Complaint System” and has properly handle complaints.</p> <p>(III) Protection measures for working environment and personal safety of employees are as follows:</p> <ol style="list-style-type: none"> <li>1. Provide all kinds of protective equipment for employees in special positions.</li> <li>2. Formulate “Operation Specification for Safety Processing” and “Safety Management Regulations”.</li> <li>3. Carry out regular inspection of mechanical equipment according to regulations. The operators have obtained the qualification and have regular on-the-job training to insure the operation safety.</li> <li>4. All accident work injuries are reported, tracked and improved to eliminate potential hazards.</li> <li>5. Establish a factory safety inspection team to inspect the operation of the factory from time to time. Prepare a safety audit table for safety supervision and inspection and record the inspection results. The person in charge of safety will monthly sign the report, make statistics, analyze and improve the problems.</li> <li>6. Health and Care Management: According to the “Occupational Disease Prevention Act”, the Company is required to carry out health examination for general operation and special post respectively. The examination items include chest X-ray,</li> </ol>	



Evaluation item	Implementation status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Abstract description	
<p>(IV) Does the company establish a regular communication mechanism with employees, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?</p> <p>(V) Does the Company provide its employees with career capability development training program?</p> <p>(VI) Does the Company establish any consumer protection mechanisms and appealing procedures regarding R&amp;D, purchasing, producing, operating and service?</p> <p>(VII) Does the Company follow relevant laws, regulations and international norms in terms of the marketing and labeling of products and services?</p> <p>(VIII) Does the Company evaluate the records of suppliers’ impacts on the environment and society before doing business with them?</p> <p>(IX) Do the contracts between the Company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable</p>			<p>blood pressure, electrocardiogram, urine routine, blood and biochemical serum examination, etc. For workers exposed to dust and noise especially harmful to health, special examinations such as electro-audiometry and lung function shall be conducted.</p> <p>7. Carry out automatic inspection: when employees face different operating environments, processes, and operations, they may suffer physical injuries due to unsafe factors such as operations, equipment or management. Therefore, the company actively promotes automatic inspection to discover potential hazardous factors, and strives to improve and effectively control them.</p> <p>8. Measurement of working environment : in accordance with the “Occupational Disease Prevention Act”, the Company has designated a qualified agency for working environment measurement to regularly carry out environmental measurement of dust and noise, and to judge whether the measurement results conform to the laws and regulations. If there is any abnormality in the measurement results, improvement and correction shall be made to ensure the health of personnel.</p> <p>(IV) The Company has established “Communication Control Procedures” and will hold regular meetings to advocate relevant policies of the Company, so the communication channels are in good condition.</p> <p>(V) The Company has formulated “Human Resources Control Procedures” to conduct systematical training and assessment for employees.</p>	

Evaluation item	Implementation status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract description	
impact on the environment and society?			<p>(VI) The Company has established “Customer Complaint and Return Control Procedures”. As the company is a component manufacturer and its products are not directly facing consumers, it is unnecessary to formulate a consumer rights policy.</p> <p>(VII) The Company abides by relevant laws, regulations and international norms, and has established “Management Procedures for Laws, Regulations and Other Requirements” and “Implementation Regulations for Law Compliance System”.</p> <p>(VIII) The Company has established “Management Procedures for Related Parties” and requires the supplier to provide raw materials free of harmful substances.</p> <p>(IX) The company will sign an Letter of Commitment with the supplier</p>	
IV. Enhancing Information Disclosure (I) Does the Company disclose relevant and reliable information regarding its corporate social responsibility on its website and the MOPS?	✓		The Company will regularly disclose relevant information on corporate social responsibility in its annual report and its website: <a href="http://www.lemtech.com">http://www.lemtech.com</a>	None
<p>V. If the Company has established the Practical Code for Corporate Society Responsibility based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies”, please specify clearly any discrepancy between the Principles and their implementation:</p> <p>The Company has formulated the Practical Code for Corporate Society Responsibility and the management team has followed the outline of the corporate social responsibility principles to implement and promote the operation of corporate social responsibility. There is no significant difference between the Principles and their implementation.</p>				
<p>VI. Other important information useful a better understanding of the Company’s corporate social responsibility practices (e.g. the systems and measures and implementation for environmental protection, community participation, social contribution, social services, social welfare, consumer rights, human rights, safety and health and other social responsibility activities by the Company):</p> <p>(I) Human Rights: The Company attaches great importance to human rights. Employees, regardless of race, gender and age, enjoy the same right to work. The Company provides opportunities for individual freedom of expression and development.</p> <p>(II) Safety and health: the Company takes zero disaster as its goal, and strives to promote safety and health</p>				

Evaluation item	Implementation status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract description	
			<p>policies and continuously improve the manufacturing process and operating environment, and achieves the goal of occupational safety and health through the joint efforts of all employees</p> <p>(III) Employee Health Care: The Company regularly conducts physical examination for employees to let them know their health status, and then protect and strengthen their physical and mental health. In the workplace, in order to understand the actual state of employees’ working environment and assess the exposure of hazardous factors, the Company regularly carries out working environment testing as the basis for improving it.</p>	
<p>VII. A clear statement shall be made if the Company’s corporate social responsibility reports have been verified by relevant certification bodies: None.</p>				

(VI) Implementation of Ethical Corporate Management, and measures:

Evaluation item	Implementation status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract description	
<p>I. Establishment of ethical corporate management policies and programs:</p> <p>(I) Does the company expressly state its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?</p> <p>(II) Does the company establish policies to prevent dishonesty conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?</p> <p>(III) Does the company make appropriate precautions against high-potential dishonesty conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies?</p>	✓		<p>(I) The Company has defined the principle and procedures of the Company’s ethical management in the “Procedures for Ethical Management and Guidelines for Conduct” The board of directors and managers all take honesty as the Company’s business philosophy.</p> <p>(II) The Company has formulated the “Procedures for Ethical Management and Guidelines for Conduct”, and specified the procedures for the relevant personnel of the Company to prevent dishonest behaviors.</p> <p>(III) The Company has formulated the “Code of Ethics for Directors and Officers”, and encourages employees to report any violation of laws or ethical codes. For the relevant personnel with high risk of dishonest conduct within the business scope The Company will timely advocate to prevent the occurrence of dishonest behavior.</p>	None
<p>II. Implementation of ethical corporate management</p> <p>(I) Does the Company evaluate business partners’ ethical records and include ethics-related clauses in business contracts?</p> <p>(II) Does the Company establish a dedicated (or non-dedicated) unit supervised by the board of directors to promote ethical corporate management and report to BOD regularly?</p> <p>(III) Does the Company formulate policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?</p>	✓		<p>(I) The Company will evaluate the ethical record of its partners and customers, and specify the relevant contents notes in the business contract.</p> <p>(II) The Management Department is designated by the Company as a part-time unit to promote ethical corporate management, conduct the revision and implementation of the Procedures and Guidelines and to report regularly to the Chairman.</p> <p>(III) The Company has formulated policies to prevent conflicts of interest and provided and implemented appropriate communication channels in the “Procedures for Ethical Management and Guidelines for</p>	None

Evaluation item	Implementation status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract description	
<p>(IV) Has the Company established effective systems for both accounting and internal control to implement ethical corporate management, and are they audited by either internal auditors or CPAs regularly?</p> <p>(V) Does the Company regularly provide internal and external educational trainings on ethical corporate management?</p>			<p>Conduct”</p> <p>(IV) In order to ensure the implementation of ethical management, the Company has established an effective accounting system and internal control system, and internal auditors will regularly check the compliance of various systems.</p> <p>(V) The Company will provide education courses on ethical management from time to time.</p>	
<p>III. Implementation of the Company’s offence reporting system</p> <p>(I) Does the Company establish both a specific offence reporting and reward system and convenient offence reporting channels? Does the Company appoint an appropriate person for the one who has been reported?</p> <p>(II) Does the Company formulate standard operating procedures as well as a confidential mechanism on investigating accusation cases?</p> <p>(III) Does the Company take measures for proper whistleblower protection?</p>	✓		<p>(I) The Company has incorporated ethical management into its employee performance appraisal and human resources policies, and has established a clear and effective offence reporting and reward system. The offence reporting will be handled by the Management Department and Audit Room.</p> <p>(II) The Company has designated the Management Department as a part-time unit in charge of business secrets, which is responsible for formulating and performing the Procedures for the management, preservation and confidentiality of business secrets.</p> <p>(III) The Company will provide protection to personnel who report behaviors violating ethical management, to avoid unfair treatment.</p>	None
<p>IV. Enhancing information disclosure</p> <p>(I) Does the Company disclose its ethical corporate management policies and the implementation results on its website and MOPS?</p>	✓		The Company will disclose relevant information of the principles of ethical management on its website and annual report for investors’ reference.	None
<p>V. If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, please describe any differences between the policies and their implementation.</p> <p>The Company has formulated the “Operating Procedures and Behavior Norms for Ethical Corporate Management” in accordance with the “Ethical Corporate Management Best-Practice Principles”. There is no</p>				

Evaluation item	Implementation status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Abstract description	
significant difference in its policies and implementation, and the implementation is normal.				
<p>VI. Other important information for a better understanding of the company’s ethical corporate management practices (e.g., advocating of ethical corporate management to the partners of the Company and inviting them to take part in relevant education and training; review and revision of the “Operating Procedures and Behavior Norms for Ethical Corporate Management” of the Company).</p> <p>In order to establish a corporate culture of ethical management, develop sound business operation models, the board of directors has passed the “Procedures for Ethical Management and Guidelines for Conduct”, which stipulates that the directors, managers, employees or people with substantial control ability of the Company, in the process of engaging in business activities, shall not directly or indirectly offer, promise, demand or accept any improper benefits or conduct other dishonest behaviors violating good faith, illegal or breach of fiduciary obligations for the purpose of obtaining or maintaining interests.</p>				

(VII) Should there are Corporate Governance Guidelines and Regulations of the Company, their inquiry method shall be disclosed:

The Company has formulated relevant regulations such as “Rules and Procedure for Shareholders Meetings”, “Procedures for Election of Directors”, “Rules Governing the Scope of Powers of Independent Directors”, “Code of Ethics for Directors and Officers” and “Procedures for Ethical Management and Guidelines for Conduct”, has implemented relevant norms of corporate governance according to the spirit of corporate governance, and has promoted the operation of corporate governance through revising relevant management regulations and strengthening information transparency and the functions of the board of directors. Relevant regulations have been posted on the company's website for shareholders' reference.

(VIII) Other important information helpful for enhancing understanding of the corporate governance of the Company:

1. The Company has formulated “Code of Ethics for Directors and Officers” to guide the behavior of the directors and officers of the Company to conform to the ethical standards, and to make the shareholders of the Company know more about the ethical standards of the Company. In addition, the Company has established “Rules and Procedure for Directors Meetings” , which stipulates the avoidance of directors involving interests to protect the interests of the Company and the investors.
2. In order to stimulate shareholders to participate in the shareholders' meeting, the Company not only hears their motions at the shareholders' meeting every year according to laws and regulations, but also announces that shareholders can exercise their voting rights in writing. Please refer to the market observation post system for relevant exercise methods and implementation.

(IX) Implementation of the internal control system:

1. Statement on internal control

**Lemtech Holdings Co., Limited**

Internal Control Statement

Date: Mar 27, 2019

The Company hereby, based on self-assessment results, makes the following statement with regard to its internal control system for the year 2018:

- I. The Company is fully aware that it is the Board of Directors' and managers' responsibility to establish, implement, and maintain an internal control system and the Company has established such a system. The purpose of the system is to provide reasonable assurance in achieving objectives related to the effectiveness and efficiency (including profitability, performance, and safeguarding of assets) of operations of the Company, and the reliability, timeliness and transparency of financial reporting, and compliance with applicable laws and regulations
- II. An internal control system has inherent limitations. An effective internal control system, no matter how perfectly designed, can only reasonably ensure achievement of the three goals mentioned above. In addition, the effectiveness of an internal control system may change as circumstances change. The internal control system of the Company contains self-monitoring mechanisms and the Company takes corrective actions as soon as a deficiency is identified.
- III. The Company determines whether the design and implementation of its internal control system is effective based on the evaluation criteria for effectiveness of internal control system provided in the "Regulations Governing the Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as "Regulations"). The internal control system evaluation criteria stated in the Regulations classify internal control into five components based on the management control process: 1. Control environment, 2. Risk assessment, 3. Control operation, 4. Information and communications, 5. Monitoring. Each component consists of several items. Please refer to the Regulations for details on the above items.
- IV. The Company has assessed the design and operating effectiveness of its internal control system according to the above-mentioned criteria.
- V. Based on the results of the evaluation mentioned above paragraphs, the Company believes that as of December 31, 2018, its internal control system (including its supervision of subsidiaries) is effectively designed and performed and can reasonably assure the achievement of the above-stated objectives, which include awareness of the degree of achieving operational effectiveness and efficiency objectives, reliability of financial reporting, and compliance with applicable laws and regulations,.

- VI. This statement will become a major part of the Company's annual report and prospectus and will be made available to the public. If there are any false, concealment or other illegal matters in the above content made public, the Company shall be held liable pursuant to Articles 20, 32, 171 and 174 of the Securities and Exchange Act.
- VII. This statement has been passed on March 27, 2019 by the Board meeting, with none of the seven directors present opposing it.

Lemtech Holdings Co., Limited

Chairman: Hsu, Chi-Feng

General Manager: Hsu, Chi-Feng



2. Commission of external auditors to review the Company's internal control system: None.

(X) In the last year and up to the publication date of the annual report, any disciplinary measures taken against the Company or its internal employees according to law or taken against its employees by the Company due to violations of the internal control system, the major deficiency and improvement: None.

(XI) Major resolutions at the shareholders' meeting and Board meetings in the last year and up to the publication date of the annual report

1. Important resolutions and their implementation at the 2018 Shareholders' meeting

Date	Important resolution	Implementation status
June 11, 2018 General Shareholders Meeting	Approved Business Report and Financial Statement 2017	Passed.
	Approved proposal to distribute the Company's earnings of 2017	Passed, and set record date of ex-dividend on August 14, 2018, cash payment on August 30, 2018 (with NT\$ 2.5 dividend per share)
	Passed amendments to the Articles of the Company	Passed, and completed registration in Cayman and filing on June 22, 2018.
	Passed amendments to Procedures for Election of Directors of the Company	Passed, and amended according to the resolution.
	Passed amendments to Procedures for Endorsement & Guarantee of the Company	Passed, and amended according to the resolution.
	Approved the election of the directors of the 4 <sup>th</sup> Board	<u>Directors:</u> Hsu, Chi-Feng; Chan Kim Seng Maurice; Ye, Hang; Tan, Yong. <u>Independent director:</u> Yang, Rui-Long; Yu, Chi-Min; Lee, Wei-Ming.
	Lifted restrictions on non-competition of the new directors	Passed, and implemented according to the resolution.
December 28, 2018 Provisional Shareholders' Meeting	Passed amendments to the Articles of Incorporation of the Company	Passed, and implemented according to the resolution.
	Passed amendments to the Procedures for Acquisition or Disposal of Asset of the Company	Passed, and implemented according to the resolution.
	Passed proposal to terminate prohibitions/restrictions on directors in competitive businesses	Passed, and implemented according to the resolution.

2. Major resolutions at the Board meetings in 2018 and up to the publication date

Date	Important resolution
2018.03.22	1. Passed remuneration proposal for 2017 directors and employees 2. Passed Business Report and Consolidated Financial Statement 2017 3. Passed proposal to distribute the Company's earnings of 2017

Date	Important resolution
	<ol style="list-style-type: none"> <li>4. Passed 2017 Internal Control Statement</li> <li>5. Passed amendments to the Articles of Incorporation</li> <li>6. Passed Reelection of Directors</li> <li>7. Passed proposal to terminate prohibitions/restrictions on the 4th new directors participating in competitive businesses</li> <li>8. Passed Agenda of 2018 General Shareholder meeting and shareholders' proposals and the right to nominate directors (including independent directors), and other related issues</li> </ol>
2018.04.27	<ol style="list-style-type: none"> <li>1. Passed Review the list of candidates for directors and independent directors nominated by the 2018 shareholder meeting</li> <li>2. Passed Revision of some articles of "Procedures for Endorsement &amp; Guarantee"</li> <li>3. Passed proposal to apply for a line of credit</li> <li>4. Passed Endorsement/guarantee by the Company</li> </ol>
2018.05.24	<ol style="list-style-type: none"> <li>1. Passed Revision of remuneration for directors of the Company in 2017</li> <li>2. Passed Endorsement/guarantee by the Company</li> <li>3. Passed proposal to raise and issue the second domestic unsecured convertible corporate bond</li> </ol>
2018.06.22	<ol style="list-style-type: none"> <li>1. Passed Selection of the 4th Chairman and Vice Chairman</li> </ol>
2018.08.09	<ol style="list-style-type: none"> <li>1. Passed proposal of Consolidated Financial Statements for the Second Quarter of 2018</li> <li>2. Passed proposal to apply for a line of credit</li> <li>3. Passed Endorsement/guarantee by the Company</li> <li>4. Passed Appointment of Remuneration Committee of the Company</li> <li>5. Passed proposal to change the agency for shareholders' affairs of the company as of December 1, 2018</li> </ol>
2018.09.13	<ol style="list-style-type: none"> <li>1. Passed proposal of the Company's subsidiary Lemtech Global Solution Co. Ltd of buyback 10% equity of its subsidiary Lemtech Precision Materials (China) Co., Ltd.</li> <li>2. Passed proposal of the Company's subsidiary Lemtech Global Solution Co. Ltd of purchasing 50% equity of Jimao Lemtech Co., Ltd.</li> <li>3. Passed proposal to apply for renewing a line of credit</li> <li>4. Passed Loan to others by the Company</li> </ol>
2018.09.28	<ol style="list-style-type: none"> <li>1. Proposal of purchasing of 10% equity of Lemtech Precision Material (China) Co., Ltd by the Group</li> <li>2. Passed Loan to others by the Company</li> </ol>
2018.11.09	<ol style="list-style-type: none"> <li>1. Passed Motion of replacing auditors from the 3rd quarter of 2018</li> <li>2. Passed proposal of acquisition of real estate by the Company</li> <li>3. Passed proposal of issuance new shares in cash by the Company</li> <li>4. Passed Endorsement/guarantee by the Company</li> <li>5. Passed proposal of establishing a Branch by the Company</li> <li>6. Passed proposal of revision to Articles of Incorporation of the Company</li> <li>7. Passed proposal of revision of some articles of "Procedures for Acquisition or Disposal Assets"</li> <li>8. Passed proposal to terminate prohibitions/restrictions on managers in competitive businesses</li> <li>9. Passed proposal to terminate prohibitions/restrictions on directors in competitive businesses</li> <li>10. Passed Agenda of the 1st Provisional Shareholders' Meeting 2018 and other</li> </ol>

Date	Important resolution
	related issues
2018.12.21	<ol style="list-style-type: none"> <li>1. Passed proposal for 2019 Budget</li> <li>2. Passed proposal for 2019 internal audit plan</li> <li>3. Passed Endorsement/guarantee by the Company</li> <li>4. Passed proposals for adjustment of the Group's organization structure</li> <li>5. Passed proposal of the Company to invest in electroplating factory in Republic of China</li> <li>6. Passed proposal of the Company's subsidiary Lemtech Global Solution Co. Ltd. to increase capital for Jimao Lemtech Co., Ltd.</li> <li>7. Passed proposal to terminate prohibitions/restrictions on managers in competitive businesses</li> <li>8. Passed proposal to terminate prohibitions/restrictions on directors in competitive businesses</li> </ol>
2019.01.15	<ol style="list-style-type: none"> <li>1. Passed proposal for the Company to Invest in Electroplating Plants in Republic of China</li> <li>2. Passed proposal to apply for a line of credit</li> </ol>
2019.03.27	<ol style="list-style-type: none"> <li>1. Passed proposal for the Company and Taiwan Branch to apply for a line of credit</li> <li>2. Passed 2018 Internal Control Statement</li> <li>3. Passed amendments to Internal Control Statement</li> <li>4. Passed proposal for 2018 employee remuneration and director remuneration</li> <li>5. Passed operating results in 2018 and consolidated financial statements</li> <li>6. Passed Earnings Distribution Statement 2018</li> <li>7. Passed the issuance of new shares for capital increase out of earnings for 2018</li> <li>8. Passed amendments to the Articles of Incorporate of the Company</li> <li>9. Passed amendments to some provisions of Procedures for Acquisition or Disposal of Asset</li> <li>10. Passed amendments to some provisions of Procedures for Lending Capital to other Parties</li> <li>11. Passed amendments to some provisions of Procedures for Endorsement &amp; Guarantee</li> <li>12. Passed proposal for the formulation of Standard Procedures for Handling Directors' Requirements</li> <li>13. Passed amendments to some provisions of Practice Principle of Corporate Governance</li> <li>14. Passed agenda of the 2019 General Shareholders Meeting and Proposal Rights of Shareholders and Other Related Issues</li> </ol>
2019.04.25	<ol style="list-style-type: none"> <li>1. Going to set up a factory case in the Philippines</li> <li>2. By dissolving the director's non-compete case</li> </ol>
2019.05.08	<ol style="list-style-type: none"> <li>1. Through the company's proposed non-distribution of the first quarter surplus of 2019</li> </ol>

(XII) Different opinions in records or written statements from directors regarding major resolutions passed by the Board Meeting in the last year and up to the publication date of the annual report: None.

(XIII) Resignation or Dismissal of the people (including the Chairman, General Manager, Accounting Supervisor, Finance Supervisor, Internal Audit Supervisor and R&D Supervisor) related to financial reports in the last year and up to the to the publication date of the annual report: None.

## V. CPA service fees

2018 Interval Table of CPA Service Fees

Name of the Accounting Firm	Name of Accountants		Audit Period	Notes
Deloitte & Touche	Lin, Yi-Hui	Lee, Li-Huang	2018/01/1 ~ 2018/03/31	
	Lin, Yi-Hui	Lee, Li-Huang	2018/04/1 ~ 2018/06/30	
	Chih, Jui-Chuan	Lee, Li-Huang	2018/07/1 ~ 2018/09/30	Internal adjustment of accounting firms
	Chih, Jui-Chuan	Lee, Li-Huang	2018/10/1 ~ 2018/12/31	

Note: Where change of Accountants or Accounting Firms this year of the Company, the audit periods shall be stated respectively and reasons for change shall be specified in the column of Notes.

Unit: NT\$ Thousand

Interval		Items	Audit fees	Non-audit fees	Total
1	Below 2,000			✓	
2	2,000 (including) ~4,000		✓		✓
3	4,000 (including) ~6,000				
4	6,000 (including) ~8,000				
5	8,000 (including) ~10,000				
6	Above 10,000 (including)				

Unit: NT\$ Thousand

Name of the Accounting Firm	Name of Accountants	Audit fees	Non-audit fees					Audit period	Notes
			System design	Business registration	Human resource	Other (Note 2)	Subtotal		
Deloitte & Touche	Chih, Jui-Chuan Lee, Li-Huang	3,050	0	0	0	100	3,150	2018/01/01 2018/12/31	Computer audit

Note1: In case of change of Accountants or Accounting Firms this year of the Company, the audit periods shall be stated respectively, reasons for change shall be specified in the column of Notes and the audit/non-audit fees paid shall be disclosed in sequence.

Note2: Non-audit fees should be stated separately by items. If the "Other" of Non-audit fees amounts to 25% of the total amount of non-audit fees, the service contents should be stated in the Notes column.

(I) If non-audit fees paid to CPAs, their accounting firm and its affiliates are more than 1/4 of audit fees, the amount of non-audit fees, as well as the content of non-audit services should be disclosed: Not applicable.

(II) For CPA firms changes, if the audit fees in the year of change are lower than that of the prior year, the audit fees before and after the change and the reasons shall be disclosed: Not applicable.

(III) If audit fees dropped by more than 15%, the amount and percentage of decline and reasons shall be disclosed: Not applicable.

## VI. Information on CPA changes

### (I) Regarding the former CPA

Change date	November 09, 2018		
Change reasons and explanations	Due to the internal adjustment of Deloitte & Touche, the Company's CPA was changed from Lin, Yi-Hui to Chih, Jui-Chuan from the third quarter of 2018.		
Describe whether the Company terminated or the CPA did not accept the appointment	Parties	CPA	The Company
	Status		
	The Company terminated the appointment.	Not applicable	Not applicable
	The CPA rejected being appointed.	Not applicable	Not applicable
Opinions and reasons of the audit report except for unqualified opinions issued within the last two years	Not applicable		
Having different opinions from the issuer?	Yes	-	Accounting principles or practices
		-	Disclosure of Financial Statements
		-	Audit scope or steps
		-	Others
	NA	✓	
	Notes		
Other Revealed Matters (according to Sub-item 4~7 of Item 1, Paragraph 6, Article 10 of these principles)	NA		

### (II) Regarding the succeeding CPA

CPA Firm	Deloitte & Touche
CPA	Chih, Jui-Chuan
Date of appointment	November 9, 2018 approved by the Boarding Meeting of the Company

Consultation results and opinions on accounting treatments or principles with respect to specified transactions and the company's financial reports that the CPA might issue prior to the engagement	NA
Succeeding CPA's written opinion of disagreement toward the former CPA	NA

(III) Former accountant's response to Item 1 and Sub-item 3 of Item 2, Paragraph 6, Article 10 of these principles: Not applicable due to internal job adjustment of CPA firm.

**VII. If the Company's Chairman, General Manager and Managers Responsible for Financial and Accounting Affairs Have held office in the cpa firm or any of its affiliated companies within the latest year, their names, job titles and the periods during which they have held such office should be disclosed: None.**

**VIII. Transfer and Pledge of Shares by the Chairman, Managers and Shareholders Holding Over 10% of the Company's Shares within the Latest Year and up to the Publication Date of Annual Report**

(I) Changes in Shareholding of Directors, Managers and Major Shareholders

Title	Name	2018		As of April 19, 2019	
		Increase (Decrease) in Shares Held	Increase (Decrease) in Shares Pledged	Increase (Decrease) in Shares Held	Increase (Decrease) in Shares Pledged
Chairman & General Manager	Hsu, Chi-Feng	(50,000)	0		
Vice Chairman & Business Director	Chan Kim Seng Maurice	(50,000)	0		
Director & Kunshan General Manager	Ye, Hang	(50,000)	0		
Director	Tan, Yong	0	0		
Independent director	Yang, Rui-Long	0	0		
Independent director	Yu, Chi-Min	0	0		
Independent director	Lee, Wei-Ming	0	0		
Marketing Director	Murali Nair	0	0		
Finance Accounting Supervisor	Lu, Chin-Yu	0	0		

(II) Stock transferred by Directors, Managers and Major Shareholders to related parties:  
None.

(III) Stock rights pledged by Directors, Managers and Major Shareholders to related parties:  
None.

**IX. Information of the Top 10 Shareholders Who Are Related, or Spouses or Relatives within the Second Degree of Kinship**

April 19, 2019 Unit: Share, %

Name	Shares held personally		Spouse's/minor's shareholding		Combined shares held in the name of others		Name and relationship of the Company's top 10 shareholders who are related, couples or relatives within the second degree of kinship		Notes
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Hsu, Chi-Feng	6,033,000	15.25	0	0	0	0	NA	NA	
Chan Kim Seng Maurice	4,278,500	10.81	0	0	0	0	NA	NA	
Ye, Hang	4,167,000	10.53	0	0	0	0	NA	NA	
Tan, Yong	1,744,000	4.41	0	0	0	0	NA	NA	
HSBC in custody for Morgan Stanley & Co. International Plc	1,279,104	3.23	0	0	0	0	NA	NA	
Liao, Mu	1,113,000	2.81	0	0	0	0	NA	NA	
Zhaoxing Investment Co., Ltd.	972,000	2.46	0	0	0	0	NA	NA	
Principal: Chen, Li-Bai	0	0	0	0	0	0	NA	NA	
LGT Bank AG	960,000	2.43	0	0	0	0	NA	NA	
LiaoZhou, Jin-Lian	853,000	2.16	0	0	0	0	NA	NA	
Yang Ming Management Consulting Co., Ltd.	523,000	1.32	0	0	0	0	NA	NA	
Principal: Cai, Zhong-Xin	0	0	0	0	0	0	NA	NA	

**X. The Shareholdings and Joint Shareholding Held by the Company, its Directors, its Managers and Affiliates Controlled Directly or Indirectly by the Company in the Same Reinvested Enterprise**

Dec 31, 2018 Unit: Share, %

Reinvested enterprise	Invested by the Company		Investment of enterprise directly or indirectly controlled by Directors and Managers		Comprehensive Investment	
	Shares	%	Shares	%	Shares	%
Lemtech Global Solution Co. Ltd.	2,500,000	100	0	0	2,500,000	100
Lemtech Precision Material (China) Co., Ltd	126,000	0.2	62,874,000	99.8	63,000,000	100
Lemtech Precision Industry Co., Ltd.	0	0	(Note 1)	100	(Note 1)	100
Lemtech Technology Limited	0	0	(Note 1)	100	(Note 1)	100
Aapico Lemtech (Thailand) Co., Ltd.	0	0	160,000 (Note 2)	40	160,000 (Note 2)	40
Lemtech USA Inc.	0	0	(Note 1)	100	(Note 1)	100
Lemtech Industrial Services Ltd	0	0	1,425,000	57	1,425,000	57
Kunshan Lemtech Slide Technology Co., Ltd. (China)	0	0	(Note 1)	100	(Note 1)	100
Lemtech Precision Material (Czech) s.r.o.	0	0	(Note 1)	100	(Note 1)	100
Lemtech Cryomax Corporation	0	0	500,000 (Note 2)	50	500,000 (Note 2)	50

Note 1: Limited company no shares and no booking value.

Note 2: Long-term investment adopting equity method by the Company.



## Four. Capital Overview

### I. Capital and shares

#### (I) Source of capital

##### 1. Formation of capital stock:

Unit: NT\$ 1000; 1000 Shares

Date	Issue price	Authorized capital		Paid-in capital		Notes		
		Shares	Amount	Shares	Amount	Source of capital	Subscription paid with property other than cash	Others
2009.09	10	30,000	300,000	10	100	Creation of capital	NA	-
2009.11	10	30,000	300,000	25,000	250,000	Capital conversion 24,990,000	NA	TWD249,900,000 share exchanged with Mauritius SUPER SOLUTION CO., LTD.
2011.04	36	30,000	300,000	27,800	278,000	Cash capital increase	NA	Jin Kuan Cheng (1) No. 1000009515 dated March 17, 2011
2012.11	43	45,000	450,000	32,800	328,000	Cash capital increase	NA	Jin Kuan Cheng (1) No. 1010039209 dated September 12, 2012
2013.07	10	100,000	1,000,000	32,800	328,000	NA	NA	Adjustments to authorized capital
2015.07	10	100,000	1,000,000	39,828	398,281	Corporate bond conversion	NA	Jin Kuan Cheng (1) No. 1020054882 dated January 17, 2014
2015.11	10	100,000	1,000,000	39,541	395,411	Cancellation and repurchase of treasury shares	NA	Authorization No. 1040023685 dated November 20, 2015
2018.03	10	100,000	1,000,000	39,563	395,638	Corporate bond conversion	NA	-

##### 2. Capital type:

April 19, 2019 Unit: Share

Capital type	Authorized capital			Notes
	Listed shares	Unissued shares	Total	
Common stock	39,563,846	60,436,154	100,000,000	Shares of listed companies

Note: The above reflect shares of listed companies, and the statistics are as of book closure on April 19, 2019.

## (II) Shareholder structure

April 19, 2019

Shareholder structure	Government agencies	Financial institutions	Other legal people	Individuals	Foreign institutions & individuals	Republic of China investment institutions	Total
Quantity							
No. of shareholders	0	0	28	1,916	27	4	1,975
Total shares held	0	0	1,868,000	23,481,742	7,430,604	6,783,500	39,563,846
Shareholding ratio	0	0	4.72	59.35	18.78	17.15	100.00

## (III) Equity dispersion (NT \$10 per share)

### 1. Dispersion of common shares

April 19, 2019 Unit: Share, %

Shareholding range	No. of shareholders	Total shares held	Shareholding ratio
1~ 999	165	18,049	0.05
1,000~ 5,000	1,330	2,566,071	6.49
5,001~ 10,000	183	1,437,622	3.63
10,001~ 15,000	76	977,000	2.47
15,001~ 20,000	43	806,000	2.04
20,001~ 30,000	47	1,185,000	3.00
30,001~ 50,000	56	2,225,000	5.63
50,001~ 100,000	36	2,657,000	6.72
100,001~ 200,000	21	3,097,000	7.82
200,001~ 400,000	6	1,777,500	4.49
400,001~ 600,000	3	1,418,000	3.58
600,001~ 800,000	0	0	0.00
800,001~1,000,000	3	2,785,000	7.04
1,000,000 above	6	18,614,604	47.04
Total	1,975	39,563,846	100.00

### 2. Dispersion of preferred shares: not applicable.

## (IV) List of major shareholders

April 19, 2019 Unit: Share, %

Name	Shares	Total shares held	Shareholding ratio
Hsu, Chi-Feng		6,033,000	15.25
Chan Kim Seng Maurice		4,278,500	10.81
Ye, Hang		4,167,000	10.53
Tan, Yong		1,744,000	4.41
HSBC in custody for Morgan Stanley & Co. International Plc		1,279,104	3.23
Liao, Mu		1,113,000	2.81
Zhaoxing Investment Co., Ltd.		972,000	2.46
LGT Bank AG		960,000	2.43
LiaoZhou, Jin-Lian		853,000	2.16
Yang Ming Management Consulting Co., Ltd.		523,000	1.32

## (V) Market price, net value, earnings, dividends, and related information for the last two years

Item		Fiscal year	2017	2018	As of March 31, 2019
Market price per share	Highest		264.0	240.5	158.5
	Lowest		77.6	107.0	136.0
	Average		166.93	173.38	149.2
Net value per share	Before distribution		37.30	46.98	48.83
	After distribution		34.80	(Note9)	(Note9)
Earnings per share	Weighted average number of shares		39,541,119	39,541,119	39,543,392
	Earnings per share	Before retroactive adjustment	7.55	9.67	1.08
		After retroactive adjustment	7.55	(Note9)	-
Dividends per share	Cash dividends		2.50	2.50 (Note9)	-
	Stock dividends	Dividends from earnings	-	2.00	-
		Dividends from capital surplus	-	-	-
	Accumulated unpaid dividends		-	-	-
Analysis of return on investment	Price earnings ratio (Note 5)		22.11	17.93	-
	Price to cash dividend (Note 6)		66.77	69.35	-
	Cash dividend yield (Note 7)		1.50	1.44	-

\* In case of capital increase coming from earnings or capital reserves, information regarding market price after retroactive adjustment by outstanding shares and cash dividends shall be disclosed.

Note 1: List the highest and lowest market price of common shares in each year, and calculate the average market price in each year according to the transaction value and volume in each year.

Note 2: Please list subject to number of shares issued at the end of the year and based on resolutions approved at the annual shareholders' meetings in the subsequent year

Note 3: In case of retroactive adjustment due to stock dividends, earnings per share before and after adjustment shall be listed.

Note 4: If the equity securities issuance terms stipulates that unpaid dividends in the current year can be accumulated and paid to a surplus year, the accumulated unpaid dividends as of the current year shall be disclosed separately.

Note 5: Price earnings ratio = Average closing price/earnings per share

Note 6: Price to cash dividend = Average closing price/cash dividend per share

Note 7: Cash dividend yield = Cash dividend per share/average closing price

Note 8: Net value per share and earnings per share shall be filled in with the information audited (reviewed) by the auditor for the latest quarter up to the publication date of the annual report; the remaining fields shall be filled in with the information for the current year as of the publication date of the annual report.

Note 9: The earnings distribution for 2018 has been approved by resolution of the board of directors but has not yet been approved by the shareholders' meeting.

## (VI) Dividend policy and implementation

### 1. Dividend policy

(1) If the Company has earnings at the end of a fiscal year, the remuneration of employees and directors shall be allocated according to the following proportions. The allocation plan for the remuneration of employees and directors shall be submitted to the shareholders' meeting. However, in case of accumulated loss, the Company shall reserve a certain amount of the earnings to cover the loss.

(a) A minimum of 0.5% for employee remuneration shall be allocated in the form of cash or stock. The allocated objects shall include employees of affiliated companies that meet certain conditions set or revised by the board of directors.

(b) A maximum of 2% for the remuneration of directors.

(2) According to the rules for listed companies, the Company shall allocate earnings or cover losses at the end of each quarter. The plan for allocating earnings or covering losses in the first three quarters of the Company shall be submitted to the independent directors of the Audit Committee for review, together with the operating report and financial statements, and then submitted to the board of directors for resolution.

Before allocating earnings in accordance with the preceding provisions, the Company shall first estimate and reserve the tax payable and cover losses in

accordance with the law.

When allocating earnings in accordance with the provisions (1), the Company shall allocate all or part of the dividends and bonuses to be distributed in the way of issuing new shares by special resolution of the shareholders' meeting in accordance with the rules for listed companies. Any amount less than one share shall be allocated in cash. The issue of cash shall be approved by the board of directors.

When allocating earnings or covering losses in accordance with the provisions of the preceding three paragraphs, the Company shall comply with the financial statements audited or reviewed by auditors.

- (3) If the Company has earnings at the end of a fiscal year, it should first pay all taxes and cover previous losses and then deposit a special reserve (if any). With any remaining earnings, except for undistributed earnings reserved by the board of directors, the Company shall allot dividends and bonuses to shareholders according to their shareholding ratio. The allocation plan shall be prepared by the board of directors and submitted to the shareholders' meeting for resolution.

The dividends policy of the Company is based on such factors as the Company's stable growth, sustainable operation, capital demand, sound financial structure, and protection of shareholders' rights. The total shareholder bonus shall be no less than 10% of the distributable earnings. The dividends allocated to shareholders shall be paid in the form of cash or shares, of which the cash dividends shall be no less than 50% of the total dividends. In the case of no loss, the Company shall allot all or part of the legal surplus reserve and capital reserve based on such factors as the Company's finance, business, and operation in accordance with the law or regulations of the competent authority.

- (4) When distributing dividends or bonuses in accordance with the article of provisions, the Company shall allocate all or part of the dividends and bonuses to be distributed in the way of issuing new shares by special resolution of the shareholders' meeting in accordance with the rules for listed companies. Any amount less than one share shall be distributed in cash.

If dividends or bonuses are distributed in accordance with the previous article, the Company shall allot all or part of the dividends or bonuses in cash by resolution of the board of directors with the attendance of more than two-thirds of the directors and the approval of more than half of the directors present and then submit it to the shareholders' meeting.

## 2. Implementation:

The 2018 earnings distribution plan of the Company was approved by the board of directors on March 27, 2019 and will be submitted to the shareholders' meeting for resolution on June 17, 2019. The board of directors has proposed to allot cash dividends of NT\$ 98,852,798 (NT\$ 2.5 per share) and stock dividends of NT\$ 79,082,230 (NT\$ 2

per share).

(VII) Impact of the bonus shares proposed at the shareholders' meeting on the Company's business performance and EPS:

Not applicable because the Company is not required to prepare financial forecasts for 2018.

(VIII) Remunerations of employees and directors

1. Percentage or scope of remunerations of employees and directors provided for in the Articles of Incorporation:

If the Company has earnings at the end of a fiscal year, the remuneration of employees and directors shall be allocated according to the proportions shown below. The allocation plan for the remuneration of employees and directors shall be submitted to the shareholders' meeting. However, in case of existing accumulated loss, the Company shall reserve a certain amount of the earnings to cover the loss.

(a) A minimum of 0.5% for employee remuneration shall be allocated in the form of cash or stock. The allocated objects shall include employees of affiliated companies that meet certain conditions set or revised by the board of directors.

(b) A maximum of 2% for the remuneration for directors.

2. Basis for estimating the remuneration of employees and directors, basis for calculating the number of shares to be distributed as employees' remuneration, and the accounting treatment of the discrepancy between the actual distributed amount and the estimated figure of the current period:

The 2018 Company's remuneration for employees was estimated at the ratio of the pre-tax income of the current year before deducting the remuneration of employees and directors. If the amount approved after the publication of the annual financial statement should change, the difference should be treated as a "change in accounting estimation" and be charged to the earnings of the following year.

3. Information on proposal passed by the board of directors regarding distribution of compensation:

(1) In case of a difference between the amount of remuneration of employees and directors in cash or stock and the estimated amount listed as annual expenses, the difference amount, the reason, and the handling method shall be disclosed:

According to the resolution of the board of directors, the Company proposes to allocate 0.5% for employees' remuneration and 1% for directors' remuneration in 2018, with the amounts of NT\$ 1,946,020 for employees and NT\$ 3,892,039 for directors, all paid in cash.

(2) The proportion of the number of shares for employees as remuneration to net after-tax profits and the total of employee remuneration of the standalone or individual financial reports in the current period: not applicable due to no allotment

of shares as remuneration for employees.

4. The actual distribution of remuneration of employees and directors in the previous year (including number of shares, amount, and share price), the difference between the remuneration of the employee and the director, and the difference amount, reason, and handling method to be disclosed:

The shareholders' meeting of the Company on June 11, 2018 passed a resolution to allocate NT\$ 1,510,402 for employees and NT\$ 823,856 for directors as proposed by the board of directors on March 22, 2018; it did not differ with the amount actually allocated in the resolution of the shareholders' meeting.

(IX) Stock buyback: None.

## II. Corporate bond issuance

### (I) Corporate bonds

April 19, 2019

Type of corporate bond	2nd domestic unsecured convertible corporate bond
Issue date	July 30, 2018
Denomination	NT\$ 100,000
Issuance and listing	Taipei Exchange (TPEX)
Issue price	100%
Total amount	NT\$ 600,000,000
Discount	0%
Term	3 years; maturing on July 30, 2021
Guarantor	None
Trustee	KGI Bank, Trust Division
Underwriter	KGI Securities
Legal counsel	Jhih-Ding International Law Firm Chen, Yu-Liang, Attorney
Auditor	Deloitte & Touche Lin, Yi-Hui and Lee, Li-Huang
Repayment method	Except for redemption by the Company, sale or conversion by bondholders, or repurchase and cancellation by the securities firm's business offices, the Company will repay the bonds in cash upon their maturation.
Outstanding balance	NT\$ 600,000,000
Early repayment clause	Please refer to the issuance and conversion rules for domestic 2nd unsecured convertible bonds.
Covenants	None
Credit rating agency, rating date, company credit rating	None

Ancillary rights	Amount converted/exchanged into common shares, ADRs, or other securities as of the publication date	As of April 19, 2019, conversion of 22,727 common shares, with an amount of NT\$ 227,270.
	Rules governing issuance or conversion (exchange or subscription)	For details, please refer to the Public Information Observatory-Investment Area-Debt and Credit Area ( <a href="http://mops.twse.com.tw/mops/web/index">http://mops.twse.com.tw/mops/web/index</a> ).
Issuance and conversion, exchange or subscription methods, issuance conditions for possible dilution and impact on shareholders' equity		If the outstanding convertible bonds are fully converted, the increased number of shares is 2,704,545, which accounts for 6.84% of the current issued shares. Holders of convertible bonds are usually gradually converted into common shareholders, which will not immediately dilute the Company's equity. Furthermore, the earnings per share of convertible bonds is higher than the form of cash capital increase. Therefore, dilution and other effects on shareholders' equity is limited.
Custodian		None

(II) Convertible bond information

Types of corporate bond		2nd domestic unsecured convertible corporate bond	
Item	Fiscal year		As of April 19, 2019
Bond price	High	126.00	104.00
	Low	98.70	100.00
	Average	115.37	101.74
Conversion price		220	220
Issue (handling) date and conversion price		Date: July 30, 2018 Conversion price: NT\$ 220	
Performance methods		Issuance of new shares	Issuance of new shares

**III. Preferred shares issuance: None.**

**IV. Global depositary receipts issuance: None.**

**V. Exercise of employee stock option plan: None.**



**VI. Acquisition of new restricted stock: None.**

**VII. Shares issued for merger and acquisition: None.**

**VIII. Execution of capital utilization plan**

1. Plan contents: As of the quarter before the publication date of the annual report, the Company's previous issuance or private placement of securities has not been completed or has been completed within the last three years but has not obtained yields: None.
2. Implementation: As of the quarter before the publication date of the annual report, the capital utilization plan of securities previously issued by the Company has been completed.

## Five. Business Overview

### I. Business Content

#### (I) Business scope

1. The main content of the Company's business: The Company is mainly engaged in R&D, manufacturing and sales of precision metal stamping components. Its main products include various heatsink modules for electronic products, electronic product components, automobile components and construction components made by stamping, and it also provides matching stamping molds for automobile and electronic product manufacturers. At the same time, the Company provides supporting equipment for stamping moulds for automobile and electronic products manufacturers. The products manufactured by the Company are standardized or non-standardized customized component products.

#### 2. Business proportion

Unit: NT\$ Thousand

Item	2018	
	Net revenue	%
3C electronic products	3,871,686	64.07%
Automobile parts	1,705,041	28.21%
Construction components	76,076	1.26%
Molds and others	390,287	6.46%
Total	6,043,090	100.00%

#### 3. Current products items and new products to be developed

##### (1) Current products items

Product category	Scope of application
3C electronic products	Stamping parts of related mechanisms of computers and heatsinks, server slide rails
	Metal stamping parts for domestic air conditioners, ice makers and motors
	Internal keyboard and shielding cans of smartphones
	Metal stamping parts for medical equipment
Automobile parts	Metal parts of airbags, seat belt buckles, engines, steering systems, sunroofs, door hinges, seat brackets
Construction components	Fixed metal tools for inclined roof skylight and exterior wall decorative plate
Molds and others	Mold tooling, sports equipment

##### (2) New products/services to be developed

The company is positioned as an all-round and multi-domain supplier of stamping parts and components. In order not to be affected by changes in the rise and fall of a single industry, the Company has gradually changed the previous production mode of a single product. Its industrial development focuses on the R&D of mold technology and develops products in diversified directions in different fields. At present, apart from the existing three product fields, the Company has continuously developed different products, such as LED lamp heatsink module, automobile safety system, transmission system, engine parts and NB hinge and other related metal stamping products.

## (II) Industry overview

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

The Company is a manufacturer specializing in the design and manufacture of heatsink modules, with the main business of designing, producing and selling various heatsink module products. The scope of application of the products includes 3C electronic products stamping components such as heatsink for notebooks and desktop computers, heatsink components, shielding covers for smartphones, computer server brackets, and automotive stamping parts such as door hinges, power steering wheels, sunroofs, airbags and safety belts, as well as construction components such as fixed metal tools for inclined roof skylight and exterior wall decorative plate.

One of the Company's core technologies is the development and manufacture of molds, which are mainly applied to metal stamping process. According to the definition of Stamping Molds made by Metal Industries R&D Center: the stamping molds is a processing tool for forming a thin sheet metal through a stamping process. According to this, the shape of the metal sheet can generally be determined by the shape of a mold, which is divided into an upper mold and a lower mold (generally, the upper mold is movable while the lower mold is stationary). Simpler shapes can be processed from just one mold. However, in general, more complex shapes require more than one set of molds to complete their processing. The Company is mainly committed to the development and manufacture of continuous molds.

#### (1) Metal stamping industry

Stamping is a processing method of forming workpieces (stamping parts) with required shapes and sizes by exerting external force to plates, strips, pipes and section bar through stamping equipment and molds to cause plastic deformation or separation. The connotation of the word "precision" in precision metal stamping mainly refers to high precision of molds and stamping machines, high precision requirements of testing equipment and finished products.

Stamping process can be used to manufacture meter parts of very small size, as well as large parts such as automobile frame and pressure container heads. It can manufacture parts not only with common dimensional tolerance grade and simple shape,

but also with precision (micron tolerance) grade and complex shape. Therefore, metal stamping process plays a very important role in the manufacture of automobiles, machinery, household appliances, motors, meters, aerospace equipment, weapons, etc. The characteristics of precision stamping products are as follows: 1. The quality consistency of products, i.e. the quality of all products of the same model is highly consistent, and all products of the same model are completely interchangeable; 2. Assembly suitability, i.e. all parts must fit perfectly with other parts in assembly, especially precision components of high-precision electromechanical equipment, requiring very strict dimensional tolerance; 3. High efficiency of production, i.e. stamping process, compared with other metal forming processes such as casting and forging, has obvious advantages in production efficiency.

China has now become the World's Manufacturing Center. In the past decades, it has made rapid development in industries such as automobile, communication electronics and household appliances, which has resulted in a rapid growth in the demand for metal stamping components. Many multinational enterprises have transferred their complete machine manufacturing to China as well as supporting factories. Their purchases of domestic accessories have also increased rapidly year by year, promoting the rapid development of related industries in China. Under such circumstances, the metal stamping industry, as one of the basic industries in manufacturing, has also achieved rapid development.

The Company is mainly engaged in the production of stamping parts for various 3C electronic products, including heatsink and other parts of heat dissipation module. In recent years, the Company has actively developed the market of automotive parts, manufacturing stamping parts such as door hinges, airbags, safety belts and handbrake for automobiles. In addition, the Company also obtained the business of construction components such as fixed metal tools for skylight and exterior wall. In a word, the Company has gradually expanded its business from focusing on precision stamping parts to other stamping parts.

## (2) Heatsink industry

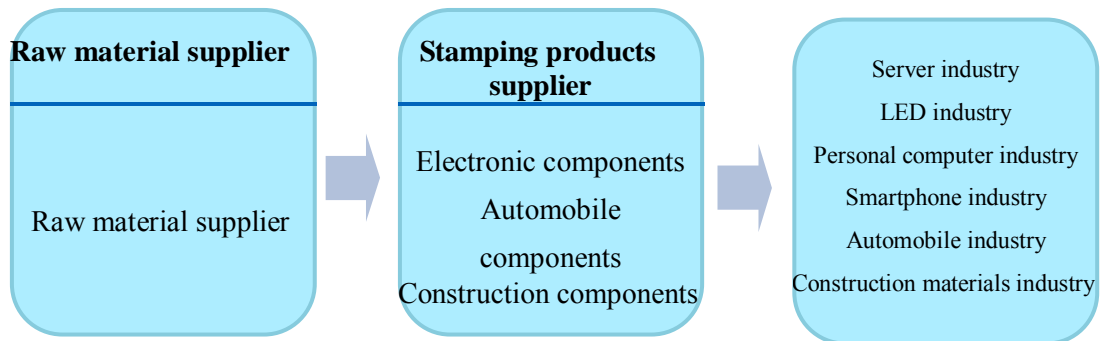
With the increasingly powerful function of high-tech products, the power required is also higher and higher, resulting in more and more heat generated. Therefore, how to dissipate heat to maintain the stable operation of the system is becoming more and more important. In recent years, for various 3C products, such as computers (desktop computers, notebook computers, servers, etc.), DVD recorders/reproducers, plasma displays panel (PDP), LED modules, etc., the issue of heat dissipation has become an increasingly important technical topic in product design and manufacture. And the vast heat dissipation market has developed into an independent "Thermal Management Industry". Thermal management products are generally called Thermal Module, with

their main application to 3C electronic products including computer industry.

Furthermore, the continuous increased operating frequency of the central processing unit (CPU) and the graphics chipset has resulted in a rapid increase in heat generation, so the cooling solution has become very important in the personal computer (PC) industry. At present, the thermal module is made by properly designing and combining components such as heatsinks, heat pipes, fans and the like. Its main design concept is to tightly adhere metal materials (such as copper or aluminum) with high coefficient of heat conductivity to the surface of the CPU, conducting heat generated by the CPU to the heatsinks at the end through the heat pipes, then blowing with the fans. This way of air convection allows the CPU to operate at a certain working temperature without computer crash due to overheating.

At present, thermal modules are widely used in PC product lines such as desktop computers (DT), notebook computers (NB), and Servers. This is the most mature application field, so the growth of the thermal industry is closely related to the rise and fall of the global information and computer industry. With the advancement of science and technology and the improvement of product development technology, the heat dissipation demand of many electronic products or equipment are gradually coming into being, such as communication equipment and light emitting diode (LED) products newly applied in the lighting field.

2. The relevance of the upper stream, midstream and lower stream of the industry:



The relevance of the upper, middle and lower streams of the industries to which the company belongs is shown in the above figure. The Company is a professional manufacturer of metal stamping and molds making, with the main raw materials of aluminum, iron and copper. The upper streams are mainly manufacturers, agents, processors or distributors of raw metal materials, and the middle streams include stamping product manufacturers and components manufacturers in various industries. The Company hereby is a stamping parts manufacturer, whose manufactured products are transferred to various components manufacturers for assembling and then sold to OEM or manufacturer of various products in lower stream. The lower stream industries have a wide range of applications, including computers and their peripheral products, automobiles, consumer electronics and

various mechanical instruments.

(1) The relevance of the upper stream of the industry

A. Situation of steel plate industry

Data released by China's National Development and Reform Commission show that, the steel industry has realized a profit of RMB 470.4 billion yuan in 2018, up 39.3% from the previous year. In 2018, the iron and steel industry has achieved steady and better development, which is highlighted in the obvious improvement of market environment, full use of advantageous production capacity and remarkable progress of enterprise benefits. Data show that throughout 2018, the national outputs of pig iron, crude steel and steel are 771.05 million tons, 928.26 million tons and 1.105,52 billion tons respectively, with YoY growth of 3%, 6.6% and 8.5% respectively.

In 2018, the steel industry basically reached a balance between production and demand. Yu Yong, Rotating Chairman of China Iron and Steel Association, pointed out that the continuous growth of steel production is due to the factors that meet the market demand after the removal of "substandard steel", as well as the growth of domestic market demand and the excessive release of production capacity. The relatively stable steel price also strongly supports this view. In the first 10 months of 2018, CSPI (China's Steel Price Index) basically fluctuated between 110 and 120 points.

Thanks to the better market circumstances and sound improvement in the industry's operation, throughout 2018, the member enterprises of China Iron and Steel Association have realized sales revenue of RMB 4.11 trillion yuan, with YoY growth of 13.04%; the profit of RMB 286.272 billion yuan, with YoY growth of 41.12%; asset-liability ratio of 65.02%, with YoY decrease of 2.63%. The sound improvement in the profitability of the iron and steel industry is mainly due to structural reforms on the supply side. In 2018, the iron and steel industry has overfulfilled its annual target of 30 million tons and completed the 150 million tons ceiling target of the 13th Five-Year Plan for cutting overcapacity of iron and steel two years ahead of schedule.

In 2018, China will continue to maintain a zero-tolerance and high-pressure attitude with respect to "substandard steel", and make offence reporting channels smooth. Every production and sale of substandard steel products must be strictly investigated, dealt with and notified, in order to strengthen the warning effect and prevent the resurgence of "substandard steel". With capacity replacement as the effective method, strictly prohibit adding new steel capacity. Through supervision and on-site inspection, a number of typical cases of illegal production capacity increase have been investigated and dealt with. However, the motivation to increase production capacity in violation of regulations still exists, and problems such as

weakness of environmental protection, unreasonable layout and lower innovation ability still hinder the development of the industry. The China Iron and Steel Association emphasized that, in 2019, the key work of supply-side structural reform should transfer from cutting overcapacity to preventing the resumption of production of already cutted capacity, and preventing the resurgence of “substandard steel” and prohibiting the addition of new capacity. The main solution is to shift from the adjustment of total production capacity to the optimization of existing production capacity structure, layout adjustment and merger and reorganization.

The China Iron and Steel Association pointed out that it would take three to five years to reduce the asset-liability ratio to below 60%, and make full use of favorable opportunities to take more measures simultaneously to deleverage. Industry insiders believe that only by changing the idea of relying on scale expansion in the past, can the industry not return to the old way of oversupply and can the benefits be sustained. “As a basic industry supporting the development of manufacturing industry, the iron and steel industry should take the lead in achieving high-quality development.” Yu Yong said, and point out that, the vast iron and steel enterprises should study and find their own transformation and upgrading strategies and paths according to their own characteristics. Strengthening the capability of self-dependent innovation and improving the technological content of products are the key factors for China’s iron and steel industry to change from large-scale to high-quality.

#### B. Situation of non-ferrous metals industry

- ① Steady growth in output and a recovery in investment. The output of ten non-ferrous metals in 2018 was 56.88 million tons, with a YoY growth of 6%, of which the outputs of copper, aluminum, lead and zinc were 9.03 million tons, 35.8 million tons, 5.11 million tons and 5.68 million tons respectively, with YoY growth of 8.0%, 7.4%, 9.8% and -3.2% respectively. The outputs of copper and aluminum were 17.16 million tons and 45.55 million tons respectively, with YoY growth 14.5% and 2.6% respectively. In 2018, the YoY growth of investment in fixed assets in the non-ferrous metal industry was 1.2%, of which the investment in mining and mineral processing fell by 8% year-on-year and the investment in smelting and processing increased by 3.2% year-on-year. This industry has changed from scale expansion to technology innovation such as environmental protection and safety and R&D of high-end materials and new technologies.
- ② Price falling from high levels and sharply declining industry benefits. In 2018, the average spot prices of copper and lead were RMB 50,689 yuan/ton and 19,126 yuan/ton respectively, with YoY growth of 2.9% and 4.1% respectively, and the rate of increase dropped 26 and 22 percentage points year on year. The average spot prices of aluminum and zinc were RMB 14,262 yuan/ton and RMB 23,674 yuan/ton respectively, with YoY decrease of 1.8% and 1.7% respectively.

Operating income of non-ferrous metal enterprises above designated size was RMB 5,428.9 billion yuan, with YoY growth of 8.8%; the profits of which were RMB 185.5 billion yuan, with YoY decrease of 6.1%. Among them, the profits from mining and mineral processing were RMB 41.6 billion yuan, the same as that of the previous year, and the profits of smelting and processing were RMB 67.9 billion yuan and RMB 75.6 billion yuan respectively, with YoY decrease of 10.2% and 5.6%. In particular, the profit of aluminum industry decreased 40.1% year on year, which is the main reason to drag down the industry's benefit.

- ③ Changes in the import and export situation and positive progress in overseas investment. The export volume of unforged aluminum and aluminum products in the whole year was 5.8 million tons, with YoY growth of 20.9%. With the implementation of the policy of prohibiting the import of overseas garbage, the import of scrap copper decreased by 32.2% year on year and the import of refined copper increased by 15.5% year on year. The development of overseas resources has been actively promoted. Overseas projects of Aluminum Corporation of China, China Minmetals Corporation, Shenzhen Zhongjin Lingnan Nonfermet Company Limited and Shandong Weiqiao Pioneering Group Company Limited have made new progress.
- ④ Deepening structural reform on the supply side and accelerating industrial transformation and upgrading. The industry has achieved good results in controlling production capacity and adjusting structure. The production capacity of more than 3.3 million tons of electrolytic aluminum has been transferred to energy-rich areas such as Inner Mongolia and Yunnan in China through capacity replacement. Joint restructuring projects, such as the integration of Yunnan Metallurgical Group by Aluminum Corporation of China, and Shandong Weiqiao Pioneering Group Company Limited's holding of Loften group's shares have been continuously promoted. De-leverage has also made progress, with the industry's asset-liability ratio at 62.2%, decreased 0.6 percentage points year on year. The industry has been accelerating to make up for its own shortcomings. 7,050 full-size aluminum alloy thick plates have been licensed for installation, aluminum-air cell and nano-ceramic aluminum alloys have been industrialized, energy consumption for copper and aluminum smelting has been continuously reduced, and the level of green development has been continuously improved.

(2) The relevance of the lower stream of the industry

The application field of metal stamping forming technology is very broad, and its lower stream industries cover almost all manufacturing industries, mainly including: automobile manufacturing, motorcycle manufacturing, communication electronics, aeronautics and astronautics, instrument industry, household appliances, etc. Generally speaking, most metal forming components of electromechanical products are produced



by stamping sheet metal process, of which stamping process is most suitable for mass production. The Company's main products include heatsink modules, stamping parts and molds, of which the application fields of heatsink modules are 3C, stamping parts are automotive, 3C and construction components, and molds are automotive and 3C.

### 3. Product development trend:

The Company is a professional metal stamping and mold manufacturer. At present, the main application of the products of the Company are in heatsink modules such as NB, smartphones, servers, automobiles. The analysis of the future development trend of the products is as follows:

#### (1) Information industry

Due to the Sino-US trade conflict and the shortage of Intel CPU, the global amount of shipment of PC in the fourth quarter of 2018 fell 3.7% year on year. In addition, HP's sales declined slightly and Lenovo and Dell's sales increased.

According to IDC's quarterly report, the total amount of shipments of traditional PCs including desktops, notebooks and workstations was more than 68.1 million units in the fourth quarter, with YoY decrease of 3.7%. IDC pointed out that this figure was slightly higher than the expected 4.7%, but PCs shipments amount for the whole year fell 0.4% year on year.

<b>The global amount of shipment of PC in the fourth quarter of 2018</b>					
Company	4Q18 Shipments	4Q18 Market Share	4Q17 Shipments	4Q17 Market Share	4Q18/4Q17 Growth
1. Lenovo*	16,757	24.6%	16,549	23.4%	1.3%
2. HP	16,055	23.6%	16,581	23.4%	-3.2%
3. Dell Inc	11,259	16.5%	11,078	15.7%	1.6%
4. Apple	4,922	7.2%	5,119	7.2%	-3.8%
5. Acer Group	4,548	6.7%	4,970	7.0%	-8.5%
Others	14,594	21.4%	16,425	23.2%	-11.1%
<b>Total</b>	<b>68,134</b>	<b>100.0%</b>	<b>70,722</b>	<b>100.0%</b>	<b>-3.7%</b>
Lenovo (excluding Fujitsu volume in 4Q17) **	16,757	24.6%	15,691	22.2%	6.8%

Source: IDC Quarterly Personal Computing Device Tracker, January 10, 2019

Table 1: The global amount of shipment of PC in the fourth quarter of 2018

Gartner, another research and advisory company, stressed that the amounts of shipments fell 4.3% in the fourth quarter of 2018.

From the perspective of PC industry, Lenovo maintains a leading position in the global PCs market, while HP's sales volume declined slightly year on year. From the perspective of region, sales in the US have increased slightly since last year (2018), while Europe, the Middle East, Africa (EMEA) and the Asia Pacific region (excluding Japan) saw a single-digit decline, mainly due to the Sino-US trade conflict. However, due to Japan, all major original equipment manufacturers (OEM) achieved sales growth.

IDC stressed that Lenovo has maintained its leading position in the fourth quarter, with a market share of 24.6% and YoY growth of 1.3%, becoming one of the only two top five PC manufacturers maintaining growth with Dell. However, HP ranked second with a market share of 23.6% but its sales fell 3.2% year-on-year due to challenges in the America region. Compared with the top five OEM's, Dell realized the strongest year-on-year growth, with quarterly shipments growth of 1.6%, acquiring a market share of 15.7% in the fourth quarter.

Apple ranked fourth, with a market share of 7.2% and YoY decrease of 3.8%. Acer ranked fifth with a market share of 6.7% and YoY decrease of 8.5%.

In addition, according to Gartner, a research and advisory company, the amount of total PC shipments in 2018 reached 259.4 million, with a decrease of 1.3% per year and the seventh consecutive year of decline.

The global amount of shipment of PCs in 2018					Source: Gartner, 2019/1
					Unit: In Thousand
Company	2018 Shipments	2018 Market Share (%)	2017 Shipments	2017 Market Share (%)	2018-2017 Growth (%)
Lenovo	58,467	22.5	54,669	20.8	6.9
HP Inc.	56,332	21.7	55,179	21.0	2.1
Dell	41,911	16.2	39,793	15.1	5.3
Apple	18,016	6.9	18,963	7.2	-5.0
Acer Group	15,729	6.1	17,087	6.5	-7.9
ASUS	15,537	6.0	17,952	6.8	-13.5
Others	53,393	20.6	59,034	22.5	-9.6
<b>Total</b>	<b>259,385</b>	<b>100.0</b>	<b>262,676</b>	<b>100.0</b>	<b>-1.3</b>

Table 2: The global amount of shipment of PCs in 2018 (Unit: In Thousand)

(2) Smartphone industry

According to Gartner's statistics, in the fourth quarter of 2018, the growth of global smartphone sales to ultimate consumer stagnated, with an annual increase of only 0.1%, of which Apple suffered the largest decline, while Huawei achieved growth of 37.6% against the trend.

According to Gartner, an international research and advisory company, the growth of global smartphone sales to ultimate consumer stagnated in the fourth quarter of 2018, with a total amount of 408.4 million, increasing only 0.1% compared with the same period of 2017. Apple's sales fell 11.8% in the fourth quarter, the biggest decline since the first quarter of 2016.

Anshul Gupta, senior research director of Gartner, pointed out that the the global market demand for entry-level and mid-priced smartphones remained strong in the fourth quarter of 2018, but the market demand for high-end smartphones continued to slow down. The slow pace of innovation and rising prices have led consumers not to consider replacing high-end smart phones, so the market growth in the fourth quarter of 2018 was flat year on year.

Global smartphone sales increased 1.2% year-on-year in 2018, with sales amount of 1.6

billion. From a full-year perspective, North America, the mature Asia-Pacific region (Australia, New Zealand, Singapore and South Korea) and Greater China suffered the largest declines, with decrease of 6.8%, 3.4% and 3.0% respectively. Gupta said that in mature markets, the demand for smartphones mainly depends on the attractiveness of Samsung, Apple and Huawei, but the sales of the first two showed a downward trend in 2018.

In the fourth quarter of 2018, among the top five smartphone manufacturers, Apple performed the worst, with iPhone sales amount of 64.5 million, with a YoY decrease of 11.8%. The sales amount of iPhone in 2018 was only 209 million, with a YoY decrease of 2.7%. Samsung ranked first in the industry, but its smartphone sales amount in the fourth quarter of 2018 was 70.78 million, with a YoY decrease of 4.4%; sales amount in 2018 was 295 million, with a YoY decrease of 8.2%.

In the fourth quarter of 2018, Huawei's smartphone sales exceeded 60.4 million, with the strongest growth among the world's top five smartphone manufacturers, with an annual increase of 37.6%, and its annual sales amount reached 202 million, with an annual increase of 34.6%.

The sales volume of OPPO and Xiaomi in the fourth quarter of 2018 were 31.589 million and 27.843 million respectively, up 23% and down 1.2% respectively. The sales volume of the two companies in 2018 were 118 million and 122 million respectively, with annual increase of 5.3% and 37% respectively. Xiaomi surpassed OPPO to become the 4th brand in the market.

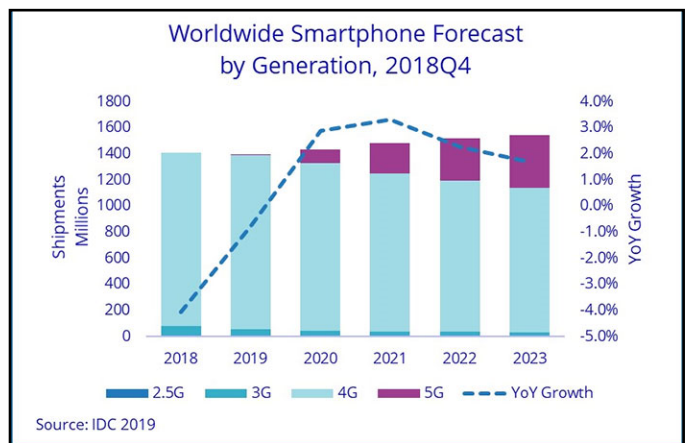
5G was the focus of the World Mobile Communications Conference (MWC) in 2019. Many major mobile phone manufacturers have successively published or displayed 5G mobile phones, and many models will enter the market in the first half of the year. However, as the construction of 5G network is still not widespread, the sales volume of 5G mobile phones in 2019 will still not occupy the main position. According to a report by IDC, a market research and advisory company, sales of 5G mobile phones in 2019 will be only 6.7 million, and the number will not account for 26% of the global market share until 2023.

According to the latest smartphone market research report issued by IDC, it is expected that the smartphone sales market will still face challenges in 2019 and its sales volume will decline for the third consecutive year. It is estimated that smartphone sales in 2019 will be only 1.39 billion, with a decrease of 1% compared with 1.404 billion in 2018. However, demand for smartphones will rise in the second half of 2019. Moreover, in the long run, the sales volume of smartphones will recover to the level of 1.54 billion in 2023.

Generation	2019 Shipment Volume*	2019 Market Share*	2019 Year-Over-Year Growth*	2023 Shipment Volume*	2023 Market Share*	2023 Year-Over-Year Growth*
3G	57.5	4.1%	-25.4%	34.6	2.2%	-3.4%
4G	1,330.6	95.4%	0.2%	1,105.9	71.7%	-4.4%
5G	6.7	0.5%	N/A	401.3	26.0%	23.9%
<b>Total</b>	<b>1,394.9</b>	<b>100.0%</b>	<b>-0.8%</b>	<b>1,541.8</b>	<b>100.0%</b>	<b>1.7%</b>

IDC further analyzed and pointed out that the lack of power to promote the growth of the smartphone market in the future is due to the decline of the smartphone market in the past two years, is also related to the longer change cycle, the challenges faced by the Chinese market, and geopolitical risks and other problems. However, with the arrival of 5G technology, the mobile phone market will usher in a new round of mobile phone replacement, promoting the growth of the overall market.

In addition, IDC also provided expectations for the 5G market. IDC pointed out that the sales volume of 5G mobile phones in 2019 is expected to be only 6.7 million, accounting for only 0.5% of the overall smartphone market, while the sales volume of 4G mobile phones is still expected to be 1.33 billion, accounting for 95.4% of the market share. However, the growth rate of 5G mobilephones will be much faster than that of 3G and 4G mobilephones in the next 4 years. That is to say, by 2023, the sales volume of 5G mobile phones will reach 400 million, with a market share rising to 26%, i.e., 1 out of 4 mobile phones will be 5G. However, 4G mobile phones will still be the mainstream at that time, with annual sale amount of 1.1 billion and accouting for 71.7% of market share.



### (3) Server Industry

DRAMeXchange, the memory and storage division of TrendForce, pointed out that the global server market continued to grow in 2018, with an estimated shipment volume of 12.42 million for the whole year, and an annual increase of about 5%. From the perspective of the ranking of the shipments market share of brand manufacturers, the top three are Dell EMC, HPE (including H3C) and Inspur, with the market share of 16.7%, 15.1% and 7.8% respectively.

Senior analysts from DRAMeXchange pointed out that the growth momentum of global server shipments in 2018 was still mainly contributed by North American brand manufacturers, accounting for more than 30%. From the point of view of server’s characteristics, Enterprise Server was still the mainstream of shipments, while the proportion of Internet Data Center has increased to nearly 35%. The main reason is that the demand of Internet Data Center is less affected by low season and peak season. In the first half of the year, the scale of direct OEM in North America increased by 17%, while in the second half of the year, demand slowed down slightly due to inventory adjustment and slowing capital

expenditure, the scale increased by about 12%.

From the perspective of brand, the first quarter of 2018 was affected by the slack season and the shipments declined slightly, but the market conditions improved significantly from the second quarter, with shipments growing by more than 10%. In the third quarter, the shipments of Integrated servers reached a peak of 3.2 million. Looking ahead to 2019, due to the advance of stock cycle in new platform, most of the demand has been met in 2018, the layout of manufacturers will be conservative, and the growth rate of shipments in the first half of 2019 is estimated to be reduced to 2%. Only after the new platforms of Intel's Gen2 and AMD's Rome come out in the second half of the year, will it be possible to promote market demand again.

#### Cloud and business demand give rise to strong shipments of North American brands

At present, the shipping performance of North American brand manufacturers is still quite eye-catching, and Dell EMC and HPE, the top two in the global market share, are still performing steadily in commercial servers. Moreover, with the emerging of cloud computing, Dell EMC has taken a place in the global market of cloud infrastructure and gradually expanded the proportion of storage servers, currently accounting for about 10% of the global cloud storage market.

In addition, the profit-oriented HPE gradually gave up the OEM of low-gross-margin Hyperscale Server Infrastructure and began to focus on the integration scheme of enterprise and cloud Hyper coverage to increase revenue.

Annual shipments nearly one million of Inspur group; annual shipments growth of 20% of Huawei

Inspur group, one of China's two major brands, benefiting from government policies and increased orders for Data Center this year, will realize an overall shipments nearly 1 million, accounting for about 30% of the market share in China. In terms of product planning, most of Inspur group's server OEM and brand shipments are concentrated in China's domestic network customers, with the first-tier network companies-BAT (Baidu, Alibaba and Tencent) of the largest scale. Meanwhile, with the support of the sharp rising second-tier network companies such as Headlines, Meituan, Jingdong and Didi, orders are still continuously increasing in the second half of this year. DRAMeXchange predicts that Inspur group's strategic plan next year will focus on the development of new customer groups, with North America market as its main target.

With the support of a steady tender case for telecom operators, Huawei's overall shipment reached a record high, with a 20% growth for this year. From the perspective of shipment planning, the demand for servers in China accounts for about 70% of Huawei's total shipments, while the rest of the shipments are mainly based on the construction schemes of servers and data centers (5G, telecom server) by European car manufacturers and telecom operators.

The top 5 in the servermarket ranking in 2018-2019

Rank	Company	Market Share	
		2018(E)	2019(F)
1	Dell EMC	16.7%	15.6%
2	HPE	15.1%	14.3%
3	Inspur	7.8%	8.8%
4	Huawei	6.4%	7.7%
5	Lenovo	5.7%	5.0%

Source: DRAMeXchange, Dec, 2018

( Source of the picture : pixabay )

#### (4) Automobile industry

##### A. Poor growth rate of automobile production and sales

In 2018, China's automobile industry faced great pressure. The growth rate of production and sales was lower than expectations at the beginning of the year. The industry's main economic benefits slowed down and the growth rate fell back.

In 2018, the amount of automobile production and sales were 27.809 million and 28.081 million respectively, with YoY decrease of 4.2% and 2.8% respectively.

In the first half of the year, except February, the sales volumes were higher than that in the same period last year. In the second half of the year, the automobile market experienced negative growth continuously, with the annual growth rate dropping to 2.8%. The cumulative growth rate continued to decline in the second half of the year, resulting in greater overall pressure.

##### B. Production and sales of passenger vehicles were lower than the industry as a whole.

In 2018, the production and sales of passenger vehicles were 23.529 million and 23.71 million respectively, down 5.2% and 4.1% year on year respectively. Passenger vehicles production and sales accounted for 84.6% and 84.4% of the total car production and sales respectively, with YoY decrease of 0.9% and 1.2% respectively. Compared with the same period last year, the growth rate of the first half year was obviously higher than that in the second half of the year.

Production and sales of the four types of passenger vehicles all experienced negative growth, and the crossover market continued to decline. Among them, car production and sales dropped 4% and 2.7% respectively year on year; SUV dropped 3.2% and 2.5% respectively YoY; MPV dropped 17.9% and 16.2% respectively YoY; crossover passenger vehicles dropped 20.8% and 17.3% respectively YoY.

##### C. Production and sales of commercial vehicles increased year on year and growth rate dropped

In 2018, the production and sales of commercial vehicles continued to grow year on year, while the growth rate dropped significantly. Influenced by the growth of the truck market, commercial vehicle sales hit a record high. The production and sales of commercial vehicles were 4.28 million and 4.731 million respectively, up 1.7% and 5.1%

year on year, while the growth rate dropped 12.1% and 8.9% respectively. Except for February, September and October, the monthly sales volumes of commercial vehicles were higher than that of the same period last year.

From the perspective of production and sales by vehicle type, the production and sales of passenger vehicles were 489,000 and 485,000 respectively, down 7% and 8% year on year respectively; trucks were 3.791 million and 3.886 million respectively, up 2.9% and 6.9% YoY respectively, among which, heavy trucks reached 1.112 million and 1.148 million respectively, reaching a record high. However, the production and sales of semi-trailer tractors declined by 19.6% and 17.2% year on year respectively.

D. New energy vehicles achieved high growth year on year.

In 2018, the production and sales of new energy vehicles were 1.27 million and 1.256 million respectively, with YoY growth of 59.9% and 61.7% respectively, among which, the pure electric vehicles were 986,000 and 984,000 respectively, up 47.9% and 50.8% YoY respectively, the plug-in hybrid electric vehicles were 283,000 and 271,000 respectively, up 122% and 118% YoY respectively, while the production and sales of fuel cell vehicles were both 1,527.

From the perspective of new energy classification, the production and sales of pure electric passenger cars were 792,000 and 788,000 respectively, up 65.5% and 68.4% respectively year on year; plug-in hybrid passenger cars were 278,000 and 265,000 respectively, up 143.3% and 139.6% YoY respectively; pure electric commercial vehicles were 194,000 and 196,000 respectively, up 3% and 6.3% respectively year on year; and the production and sales of plug-in hybrid commercial vehicles were both 6,000, down 58% year-on-year.

E. The market share of Chinese brand passenger cars experienced a year-on-year decline.

In 2018, the total sales volume of Chinese brand passenger cars was 9.98 million, down 8% year on year, accounting for 42.1% of the total sales volume of passenger cars, down 1.8 percentage points year on year. Among them, the sales volume of Chinese brand cars was 2.399 million, up 1.9% year-on-year, accounting for 20.8% of the total sales volume of cars, up 0.9% year on year. The sales volume of Chinese brand SUV was 5.8 million, down 6.7% year on year, accounting for 58% of the total sales volume of SUV, down 2.6 percentage points year on year. The sales volume of Chinese brand MPV was 1.328 million units, down 23.1% year on year, accounting for 76.6% of the total sales volume of MPV, down 6.9% year on year.

F. Sales volume of the top ten enterprises experienced a year-on-year decline

In 2018, the sales volume of the top ten automobile enterprise groups totaled 25.036 million, with a decrease of 2.1% year on year, which was lower than the industry average. The sales volume accounted for 89.2% of the total automobile sales volume, up 0.6 percentage points from the same period of last year.

G. Car exports experienced rapid growth year on year

In 2018, the export volume of automobiles was 1.041 million, up 16.8% year-on-year, continuing to grow rapidly, while the growth rate slowed down somewhat year-on-year. Among them, the export volume of passenger cars was 758,000, up 18.5% year on year. The export volume of commercial vehicles was 283,000, up 12.5% year on year. Except for the fourth quarter, the monthly export volume of automobiles was higher than that of the previous year.

#### 4. Competitive situation

The Company is a manufacturer specializing in the design and manufacture of metal precision molds and the stamping of hardware precision components. Since foundation, the Company has been focusing on the improvement of mold manufacturing, processing and heatsinks. With the ever-changing market demand, the Company has adjusted its operation and development strategy in a timely manner, has actively introduced advanced equipment, and has continuously developed and upgraded its processing technology. Therefore, the Company successfully transformed from engineering processing to single-equipment continuous processing and integrated equipment using robot arms continuous processing technology. At the same time, in line with customer demand, the Company has gradually shifted from the production and manufacture of single products to the assembly of components, thus further improving the Company's competitiveness and profitability.

Therefore, the Company has expanded its business from focusing on manufacturing computer heatsinks to automotive components and construction components products. In addition, the Company has continuously conducted market research and surveys, continuously improved existing production process, and made efforts to develop products with higher added value.

To sum up, with excellent mold opening technology and sensitivity of quick insight into market opportunities, the Company will gradually adjust its operation strategy in line with the competitive situation in the industry, and will focus on products with higher added value in the future. The Company will actively develop new-type notebook computer hubs, auto parts and other fields of business, and continuously improve the technology of weldless heatsink modules and vertical integration of heatsink module manufacturing process. The Company hopes to cope with the increasingly fierce competition in the computer heatsink module market by diversified product line, and reduce the negative impact of competitive imitation of patented heatsink technology and profit reduction on the Company.



(III) Technology and R&D overview

1. R&D expenses in the last year and as of March 31, 2019

Unit: NT\$ Thousand

Item \ Year	2017	2018	2019.03.31
R&D expenses	124,602	151,893	30,017
Net Operating Revenue	4,255,549	6,043,090	1,071,934
Proportion of R&D expenses to net operating income	2.93%	2.51%	2.80%

2. New products developed successfully

Year	R&D results	Description of R&D results	Application scope
2014	Device for measuring temperature of heat pipe and automatically determining structure	The automatic performance testing process saves a lot of manpower as well as much time, and can effectively avoid misjudgment caused by manual operation.	Computer, learning machine, TV and sound equipment
2014	Automatic riveting equipment for automobile airbag shell	Achieving the goal of automatic riveting of automobile airbag shells, improving processing efficiency, and saving a lot of manpower, and semi-finished product pass box, sites, etc.	Auto parts and other products
2014	Automatic riveting and detecting equipment for automobile safety belt locker	Achieving the detection function after the automatic riveting of the automobile safety belt locker, improving processing efficiency, and saving a lot of manpower, and semi-finished product pass box, sites, etc.	Auto parts and other products
2014	Series connection mechanism of large LED lamp groups heatsink module	Achieving the aim of automatically connecting the heatsink modules of the LED lamp groups in series, improving processing efficiency, and saving a lot of manpower, and semi-finished product pass box, sites, etc.	LED heatsink module
2014	Automatic welding mechanism for automobile safety belt rotating shaft frame	Solving the problem of low efficiency of manual operation, and improving the working efficiency by arranging vibrating plates and automatically positioning the inserted nuts for welding	Auto parts and other products
2014	Device for automatically buckling the Moss chain baffle plate of the automobile	Achieving the aim of automatically buckling the Moss chain baffle plate of the automobile, improving processing efficiency, and saving a lot of manpower, and semi-finished product pass box, space, etc.	Auto parts and other products

Year	R&D results	Description of R&D results	Application scope
2014	Automatic temperature measuring device for heatsink module	The automatic performance detecting process can save a lot of manpower as well as much time, and can effectively avoid misjudgment caused by manual operation.	Computer, learning machine, TV and sound equipment
2015	Stamping forming mold for VCT powder metallurgy parts	It is simple in structure and convenient to use, and effectively solves the problem that traditional VCT powder metallurgy parts cannot be stamped and formed, thus effectively enhancing the working efficiency of VCT powder metallurgy part forming processing, reducing the processing cost, and simultaneously greatly improving the operation safety and reliability of stamping and forming processing..	Auto parts and other products
2015	Stamping device of linear sewing machine	Ralizing the rapid stamping forming of the linear sewing machine, avoiding the waste of manpower and material, with high production efficiency	Medical Equipment
2015	Riveting fin set	The fin can be rapidly processed and produced by adopting a continuous mold or matching a synchronous riveting mold, with the main advantage of no minimum height requirement. One-sided riveting allows the other side to be flexibly designed, which makes the appearance more beautiful and diverse, and the fastening is tight. The technology can be applied to fin combination structures of various shapes.	Computer, learning machine, TV and sound equipment
2015	Riveting device for ring-shaped trimming NUT	The NUT process is completed by one-step turnery of the trimming sectional material, thus omitting the trimming process and greatly reducing the production cost of NUT. Then it is riveted with the plate by using the naturally formed NUT trimming notch. Due to the regular shape and build-in fool-proofing guiding appearance, it is convenient to apply the riveting process of automatic feeding in continuous mold, with high degree of automation.	Computer, learning machine, TV and sound equipment
2015	Automatic buckling heatsink component on copper-aluminum composite base	Through the stamping and forming process with a thickness of 0.2-0.8mm, the automatic single-sheet buckling in the stamping mold can be realized, thus increasing the radiating area and improving the radiating efficiency. The device has the characteristics of high production	Computer, learning machine, TV and sound equipment

Year	R&D results	Description of R&D results	Application scope
		efficiency, small buckling point size, stable buckling, beautiful appearance and the like.	
2015	Transmission equipment for automobile steering transmission assembly	The combination of single welding process into a composite and automatic welding mechanism, reducing the times of mold opening, can complete the welding process of multiple parts in a set of automatic welding mechanisms. This equipment can save a lot of manpower and material resources, meet the requirements of mass production of components, with high efficiency, have the function of checking solder skips, and the output is nearly five times higher than previous.	Auto parts and other products
2015	Equipment of three-dimensional robot arm	Increasing the grabbing and conveying mechanism in multi-position progressive mold, can realize an integral stamping mold and reduce the number of mold opening times, and the production process of the whole parts can be completed in a set of progressive mold. This equipment can save a lot of manpower and material resources, meet the requirements of mass production of components, with high efficiency, and the output is nearly five times higher than previous.	Auto parts and other products
2015	Processing equipment for height adjuster of safety belt	The combination of single riveting process into a composite and automatic riveting mechanism, reducing the times of mold opening, can complete the riveting process of multiple parts in a set of automatic riveting mechanisms. This equipment can save a lot of manpower and material resources, meet the requirements of mass production of components, with high efficiency, have the function of detecting riveting skips, and the output is nearly five times higher than before.	Auto parts and other products
2015	Automatic riveting equipment for fixing nuts of safety belt frame	The equipment comprises angle divider, press machine, servo motor, robot, nut feeder, cylinder, optical fiber detection mechanism, riveting mechanism, bottom base, product conveying belt and the like, with the aim of reducing mold opening times by automatic riveting equipment	Auto parts and other products

Year	R&D results	Description of R&D results	Application scope
		for fixing nuts of safety belt frame. The equipment improves dimensional accuracy, realizes mass production in a stamping mold in a short time, saves cost and strengthens market competitiveness.	
2015	Transmission mechanism of automobile horn contact	Increasing the conveying mechanism in multi-position progressive mold, can make an integral stamping mold and reduce the number of mold opening times, and the production process of the whole parts can be completed in a set of progressive mold. This mechanism can save a lot of manpower and material resources, meet the requirements of mass production of components with high efficiency, and the output is nearly five times higher than previous.	Auto parts and other products
2015	In-mold swing rod shaping mechanism	Increasing this mechanism in multi-position progressive mold to complete all the production process of the whole parts can make an integral stamping mold and reduce the number of mold opening times, and can complete the production process of the whole parts in one set of progressive mold. This mechanism can save a lot of manpower and material resources, meet the requirements of mass production of components with high efficiency, and the output is nearly three times higher than previous.	Auto parts and other products
2016	Production process of components of automobile steering system	The process includes shrinkage, punching, boring and welding, which can complete the production of components of the whole steering system. The process reduces the number of mold opening times, improves dimensional accuracy, realizes mass production in a short time, saves cost and strengthens market competitiveness.	Auto parts and other products
2016	Production process for components of automobile sunroofs guide rails	The process replaces a single-process mold and adopts a large-scale multi-position progressive mold integrated with more than one process including piercing, bending, embossing, riveting, de-burring, drawing, flanging and the like for production, thereby reducing the number of mold opening and improving the production efficiency. This process hereby can complete the production of multiple components in a short time, save a lot	Auto parts and other products

Year	R&D results	Description of R&D results	Application scope
		of manpower and material resources, meet the requirements of mass production of components with high efficiency, and the output is nearly five times higher than before.	
2016	Production process of automobile airbag components	The process replaces a single-process mold and adopts a large-scale multi-position progressive mold integrated with more than one process including piercing, bending, embossing, riveting, de-burring, drawing, flanging and the like for production, thereby reducing the number of mold opening and improving the production efficiency. This process hereof can produce multiple components in a short time, save a lot of manpower and material resources, meet the requirements of mass production of components with high efficiency, and the output is nearly five times higher than previous.	Auto parts and other products
2016	Three-dimensional robot arm equipment	The equipment replaces a single-process mold. This technology adopts a continuous in-mold automatic robot arm integrating multiple functions such as grabbing, rotating, positioning, fixing and the like in a mold, thus reducing the number of mold opening times and improving the production efficiency, Using “continuous in-mold robot arm automation technology” can produce multiple components in a short time, save a lot of manpower and material resources, meet the requirements of mass production of components with high efficiency, and the output is nearly five times higher than before.	Auto parts and other products
2016	Laser automatic welding system	The combination of single-process welding into a composite and automatic welding process can reduce turnover times. Using the “laser automatic welding system” can produce multiple parts in a short time, save a lot of manpower and material resources, meet the requirements of mass production of components with high efficiency, have the function of checking processing skips and the output is nearly five times higher than previous, with a great prospect.	Auto parts and other products
2016	Processing equipment	The combination of single-process riveting into a	Auto parts and

Year	R&D results	Description of R&D results	Application scope
	for height adjuster of safety belt	composite and automatic riveting process can reduce the number of employees and improve production efficiency. Adopting “automatic riveting technology for nuts of the automobile height adjuster” can produce large batch of parts in a short time, save a lot of manpower and material resources, meet the requirements of mass production of components with high efficiency, have the function of checking riveting skips and the output is nearly seven times higher than previous	other products
2016	Swing rod bending mechanism in large progressive mold	The mechanism improves the stability and controllability of product size for the production of large-scale parts and large-angle springback shaping process. It replaces a single-process mold and realizes bending of high-strength materials in a progressive mold, thus reducing the number of mold opening times and improving the production efficiency. Adopting “swing rod bending mechanism in large progressive mold” can produce multiple parts in a short time, save a lot of manpower and material resources, meet the requirements of mass production of components with high efficiency, and the output is nearly three times higher than before.	Auto parts and other products
2017	High-precision automobile sunroofs guide rail assembly based on new side stamping and backfilling process	The key process in the whole process flow is to drive the material belt through string, and then complete all the production process of parts in one set of mold. In order to ensure the relative position of the side positioning holes, side stamping must be adopted, i.e. placing the punch on the side of the product and pierce the positioning hole through inclined wedge mechanism. Then directly remove the burrs of the side holes in the mold through the de-burring mechanism, thus saving the second process of removing burrs. As the side surface of the sunroofs guide rail assembly will be bent and the bottom is required to be formed into an arc surface, material distortion will occur during the forming process. Many tests have proved that the	Auto parts and other products

Year	R&D results	Description of R&D results	Application scope
		parallelism of the two sides of the guide rail assembly can reach the requirement of 0.5mm through the backfilling process.	
2017	Flexible robot production line for automobile steering column	This production line combines single-process of welding, punching, shrinking, forming and boring into a composite and automatic production line, thus reducing the number of mold opening, and can complete the whole production process of parts in one production line.	Auto parts and other products
2017	Multi-head multi-position automatic tube crimping equipment	The improvement of the single-process mold production process to hydraulic multi-head multi-position rapid tube crimping process greatly improves the tube crimping efficiency and can complete the tube crimping process of parts in one set of equipment. This equipment can save a lot of manpower and material resources, meet the requirements of mass production of components with high efficiency and inspection function, and the output is nearly five times higher than the previous single-process production	Auto parts and other products
2017	Automatic visual detecting equipment for automobile parts	The evolution of tools detecting and manual detecting process into visual detecting process can greatly improve the inspection efficiency and realize the inspection of large quantities of parts in a short period of time. The inspection equipment can screen out punching skips, deformation and functional failure. This equipment can save a lot of manpower and material resources, meet the requirements of mass detection of components with high efficiency, and the efficiency is nearly four times higher than before.	Auto parts and other products
2017	Robot-arm forming mold for automobile seat guide rail	The evolution of the single-process mold production process to continuous mold production process can complete all the processes of punching, bending, extruding, drawing, raising in one set of mold, thus greatly improving production efficiency. This mold can save a lot of manpower and material resources, meet the requirements of mass production of	Auto parts and other products

Year	R&D results	Description of R&D results	Application scope
		components with high efficiency, and the output is nearly five times higher than the previous single-process production.	
2017	Automatic drawing forming mold for parts of automobile turbo system	The improvement of the single-process mold production process to continuous mold production process can complete all the processes of punching, bending, extruding, drawing, raising in one set of mold, thus greatly improving production efficiency, saving a lot of manpower and material resources, meeting the requirements of mass production of components with high efficiency, and the output is nearly five times higher than the previous single-process production.	Auto parts and other products
2017	Production line for position adjusting slide block of automobile safety belt and seat guide rail	The single-process mold production process is improved to continuous mold production process, which includes the integration of stamping components and injection molding. The production line first develops the robot-arm continuous stamping mold for automobile seat guide rail, to produce the automobile seat stamping parts, and develops continuous stamping mold for the safety belt keyhole and multiple sets of stamping molds for supporting parts, and applies injection molding line to greatly improve the production efficiency. This product line can save a lot of manpower and material resources, meet the requirements of mass production of components with high efficiency, and the output is nearly five times higher than the previous single-process production.	Auto parts and other products
2018	Rivet nut or rivet screw for ultra-thin plate	The nuts and screws can be riveted on the plate with the thinnest thickness of 0.05 mm.	Computer, learning machine, TV and sound equipment
2018	Pitch positioning for stamping mold	Compared with the previous technology, the operation of this technology hereof is simple, safe and reliable. It can effectively solve the employee injury and the damage of production tools caused by improper operation of employees. At the same time, it can save a lot of physical strength and time for operators.	Auto parts and other products



Year	R&D results	Description of R&D results	Application scope
2018	Multi-head multi-position indoor temperature tube crimping equipment	<p>The results of this technology can solve the problems of high mold cost and low processing efficiency existing in the existing tube crimping method. The tube fitting to be crimped is horizontally positioned and held by the positioning holder in a transverse direction, and two groups of pipe crimping mechanisms are symmetrically arranged at two lateral sides of the positioning holders respectively. The tube crimping mechanism consists of a single-axis robot, a transverse pushing cylinder, a first tube crimping mold and a second tube shrinking mold. The guide rails of the single-axis robot are arranged along the longitudinal direction. The slide block is slidably mounted on the guide rail, and the slide block is sequentially provided with a first support base, a second support base and a third support base from front to back along the longitudinal direction which are parallel to each other and can transversely move. The first tube crimping mold and the second tube crimping mold are correspondingly installed on the first support base and the third support base respectively and face the positioning holder. The transverse pushing cylinder is arranged on the transverse outer side of the single-axis robot, and the push rod of which can form dismountable transverse axial connection with the first supporting base, the second supporting base and the third supporting base respectively.</p>	Auto parts and other products
2018	Automatic welding of welded nuts	<p>In order to ensure the quality of welding products, a higher level of welding technical work is required. The technology of this achievement can prevent the skipped welding and redundant welding of nut, thus ensuring the welding quality and improving the dimensional accuracy and stability.</p>	Auto parts and other products
2018	Automatic waste collection of upward blanking mold	<p>The invention relates to a mold waste collection device, in particular to an automatic waste collection device for upward blanking molds. It comprises components as follows: a stripper plate connected with an upper mold base and a blade edge insertion block fixed on the stripper plate; a large stripping plate, which is fixed between the stripping plate and the upper mold base; a waste groove, which is a through groove, connected with the blanking hole of the blade edge insertion block, and positioned at the bottom of the large stripping plate or the top of the stripping plate; a blowing tube, which is connected with a high-pressure air source, fixed at one end of the waste groove, and used for blowing away waste in the waste groove; a material guide tube, which is positioned at the</p>	Auto parts and other products

Year	R&D results	Description of R&D results	Application scope
		other end of the waste groove, used for collecting waste into the waste box. The device hereby cleans waste materials by high-pressure air, and realizes real-time cleaning, without accumulation of waste materials and no affect on production. It is characterized by no need of manual cleaning, high production efficiency, simple structure and convenient for use.	
2018	Robot-arm conveying mechanism of progressive mold for automobile seat guide rail	The invention relates to a robot-arm conveying mechanism of progressive mold for automobile seat guide rail, which can solve the problems of low processing efficiency, unstable product processing size and high production cost existing in processing the automobile seat guide rail by traditional progressive mold conveying mechanism. The mechanism hereby comprises a stamping machine tool and a progressive mold, wherein the lower-mold structure of the progressive mold is amounted on the lower surface of the stamping machine tool, and materials and parts are horizontally conveyed along the transverse direction of the progressive mold; two robot arms are arranged on the lower surface of the stamping machine tool and are respectively positioned on the longitudinal two-side of the lower mold structure, which are horizontally and parallelly arranged along the transverse direction; clamping grippers of robot arms corresponding to each other one by one are respectively arranged on one side facing the lower mold structure, each of which is opposite to a processing position of the progressive mold; two ends of the robot arm are connected with a driving device for driving the robot arm to move transversely, longitudinally and vertically.	Auto parts and other products
2018	Tube enlarge mold for circular tube	The invention can achieve the following three beneficial effects: 1. It is unnecessary to adjust the concentricity (precise tube enlarge mold can guarantee good concentricity) 2. It is unnecessary to reshape, a single tube enlarge can meet the requirements (tolerance is about $\pm 0.05\text{mm}$ ) 3. It is easy to strip materials.	Auto parts and other products
2018	Multi-hole automatic punching mold for circular tube	The invention relates to multi-hole automatic punching mold for circular tube, wherein a punch is fixed at one end of a sliding base, the sliding base is slidably mounted on a lower mold and positioned at two sides of a steering circular tube; there are a plurality of punches, and each punch is opposite to the hole on the steering circular tube respectively; the positioning block is arranged between the two sliding bases, the	Auto parts and other products

Year	R&D results	Description of R&D results	Application scope
		<p>center of the positioning block is provided with a positioning round hole, and a plurality of punch holes are arranged on two sides of the positioning block. The punch hole is connected with the positioning round hole and matched with the punch, and the punch is movably inserted in the punch hole; The round rod of the mold core is installed on the lower mold through the fixing base, and is arranged in and coaxial with the positioning round hole of the positioning block; the center of the round rod of the mold core is provided with a discharging hole, which is connected with the punching hole, and the punching hole is matched with the punch; the loading and unloading device is used for inserting and pushing the steering circular tube out of the positioning round hole. The mold hereof can realize rapid loading, feeding, punching and stripping, and is characterized by high processing size accuracy, good punching stability, high production efficiency and low production cost.</p>	

#### (IV) Long-term and short-term plans in business development

##### Short-term plans:

1. Metal stamping technology has a wide range of applications. The Company has stabilized the existing 3C electronic product market and actively expanded the product line. With regard to auto parts, the Company has continued to seek new customers and actively research and develop other products in order to reduce operational risks.
2. The Company has not only actively maintained cooperative relationships with existing customers, seized market information, and strived for new product orders, but has also worked closely with customers to provide customer information in the early stage of development and strengthen the cooperative customer relationship.
3. Following the ever-changing trends of automobile manufacturing technology, the Company has actively developed laser welding technology to meet the market demand.
4. Due to the rapid development of new energy vehicles in mainland China, the Company will actively strive for orders of stamping parts for electric vehicle platforms and prioritize the production of parts for new energy vehicles.
5. The Company has expanded the plastic covering business of stamping parts to provide customers with more convenient and comprehensive services.
6. The Company has continuously strengthened the R&D capability of Taiwan's R&D centers and increased its investment in R&D expenses.
7. Taking advantage of up-to-date technologies, the Company has actively strived to develop specific application fields of heatsink modules, such as servers, medical equipment, AR, and VR.
8. The Company has focused on strengthening its R&D investment in server slide rails, further improving the production capacity of slide rails and production management capacity in order to meet the increasing market demand for server slide rails.
9. The Group's plant in Czechoslovakia has started small-scale production. Based on that, the Company will take geographical advantage of its proximity to customers to actively participate in the customers' new product development process, acquire follow-up orders for the Group, and seize market opportunities.

##### Long-term plans:

1. Based on the manufacturing of parts and components, the Company will enter the production of assembly and finished products, providing customers with one-stop service and expanding its business scale.
2. Regarding the current product line (for productions such as heatsink modules, hinges, and slide rails), the Company will continue to invest in research and development, introducing brand-new products to gain a greater market share.
3. The Company will not only continue to improve the service quality for overseas customers to obtain more shares in overseas markets but also strengthen the layout of overseas business markets such as Europe, America, and Japan to promote the Company's future business performance.
4. The Company will try to introduce strategic partners to enhance its competitive advantage.

## II. Market, Production and Sales Status

### (I) Market analysis

#### 1. Sale regions of major commodities

Unit: NT\$ Thousand

Region \ Year	2017		2018	
	Amount	%	Amount	%
Asia	4,204,142	98.79	5,689,541	94.15
America	49,883	1.17	164,330	2.72
Europe	1,524	0.04	189,219	3.13
Total	4,255,549	100.00	6,043,090	100.00

#### 2. Market share

The main products of the Company and its subsidiaries include heatsink components for smart phones, notebook computers and servers, as well as automobile parts and construction parts. At present, the Company and its subsidiaries have changed from the previous production mode of focusing on cooling fins to the production of complete heatsink modules. The target customers of the Company and its subsidiaries are high-end and medium-end customers in Japan and the United States, with a good market share in these customer groups. In addition, the Company and its subsidiaries have continuously conducted market research and investigation, improved the existing production process, and worked hard to develop products with higher added value, thus further enhancing the competitiveness and profitability of the Company and helping the Company maintain its market position and share.

#### 3. Future market supply, demand and growth, and competition niche:

##### (1) Situation of supply and demand:

There are many manufacturers of metal stamping products, but there are great differences in production scale and products precision. At present, the Company's major products include components of 3C electronic products, automotive stamping components and other stamping products. The components of 3C electronic products are mainly the heatsink components for smartphones, notebook computers and servers, and the market supply and demand situation is closely related to the lower stream industries.

##### (2) Growth

###### A. Information

According to the preliminary findings of Gartner, a research and advisory company, global PC shipments totaled 58.5 million in the first quarter of 2019, down 4.6% year on year. On the other hand, despite the shortage of entry-level CPU, Chromebook shipments still have double-digit growth compared with the same period in 2018.. If Chromebook shipments were included, the global PC market fell 3.5% in the first quarter of 2019.

Mikako Kitagawa, senior chief analyst at Gartner, pointed out that PC shipments began to raise again in mid-2018, but the recovery of PC shipments in the overall market was interrupted due to the expected shortage of central processing units (CPU). As a result, manufacturers have allocated resources to higher-margin commercial and Chromebook departments, which has made the consumer market still weak. In addition, diversified product choices are also one of the possible reasons that hinder the growth of market demand.

Preliminary Evaluation of Unit Shipments of Global PC Manufacturers in the First Quarter of 2019  
(Unit: 1,000)

Manufacturer	1Q19 Shipments	1Q19 Market share(%)	1Q18 Shipments	1Q18 Market share(%)	1Q19-1Q18 Grow rate(%)
Lenovo	13,196	22.5	12,343	20.1	6.9
HP	12,826	21.9	12,727	20.7	0.8
Dell	9,989	17.6	9,841	16.0	1.5
Apple	3,977	6.8	4,078	6.6	-2.5
ASUS	3,603	6.2	3,887	6.3	-7.3
Acer	3,322	5.7	3,829	6.2	-13.2
Others	11,610	19.8	14,671	23.9	-20.9
<b>Total</b>	<b>58,523</b>	<b>100.0</b>	<b>61,375</b>	<b>100.00</b>	<b>-4.6</b>

Note: The above data includes desktop PC, notebook PC and top-level ultramobile models (such as Microsoft Surface), but excludes Chromebook and iPad. All data are estimated based on preliminary investigation results, and the final estimated value may change. The statistics are based on the shipments to the channel. Figures may differ slightly from the integer due to rounding.

Source: Gartner (April 2019)

Mikako Kitagawa further pointed out that the tight supply of CPU has affected the competition pattern among manufacturers. Major manufacturers have comparative advantages in allocating chip resources and have started to order CPU from AMD that can replace Intel's. Under the circumstance of shortage of CPU supply, the global top three PC manufacturers have shifted their focus to high-end products, their shipments are still increasing, and they have gained market share from small factories that are more difficult to obtain CPU supply. These major PC manufacturers are expected to continue to make profits by matching high-end products with components of favorable price trends.

According to relevant analysis, PC shipments from Lenovo, HP and Dell, the top three manufacturers, accounted for 61.5% of global PC shipments in the first quarter of 2019, a slight increase compared with the first quarter of 2018, which is 56.9%.

Lenovo's PC shipments continued to be the first in the first quarter of 2019 and its annual growth rate also topped the list, mainly due to the inclusion of Fujitsu's shipments after the acquisition in the second quarter of 2018. Lenovo shipments have increased in Europe, Africa, the Middle East and Japan, where Fujitsu has a higher market share.

In the first quarter of 2019, HP's global PC shipments increased by 0.8% year on year. Among them, desktop PC shipments increased, while notebook PC shipments were the same as in the same period last year. HP's shipments in Europe, Africa and the Middle East increased slightly, but declined in other regions. Dell, ranking third, achieved a 5-straight-quarter growth in PC shipments in the first quarter of 2019. Its PC shipments increased in Europe, Africa, the Middle East, Latin America and Japan, but declined in North America and the Asia-Pacific region. Dell's desktop PC shipments have performed well in all regions of the world, fully demonstrating its strength in the commercial sector.

In addition, Gartner pointed out that in the first quarter of 2019, the demand for commercial PC in all major regions continued to grow. Due to Windows 10, there has been a replacement wave of PC, which has been the driving force for the growth of commercial PC in the past three years. However, Gartner predicts 2019 will be the last year of this trend. Mikako Kitagawa said that although the results of PC shipments in the first quarter of 2019 showed that the demand of the commercial PC sector was still strong, but the demand of notebook computers was weak, which meant that the PC replacement wave due to Windows 10 might have reached its peak and its growth rate would begin to decline gradually.

Preliminary Evaluation of Unit Shipments of PC Manufacturers in US in the First Quarter of 2019  
(Unit: 1,000)

Manufacturer	1Q19 Shipments	1Q19 Market share(%)	1Q18 Shipments	1Q18 Market share(%)	1Q19-1Q18 Grow rate(%)
HP	3,243	29.4	3,404	28.9	-4.7
Dell	3,162	28.7	3,404	28.9	-7.1
Lenovo	1,497	13.6	1,619	13.7	-7.5
Apple	1,437	13.0	1,489	12.6	-3.5
Microsoft	449	4.1	458	3.9	-2.0
Others	1,237	11.2	1,400	11.9	-11.7
<b>Total</b>	<b>11,025</b>	<b>100.0</b>	<b>11,773</b>	<b>100.0</b>	<b>-6.3</b>

Note: The above data includes desktop PC, notebook PC and top-level ultramobile models (such as Microsoft Surface), but excludes Chromebook and iPad. All data are estimated based on preliminary investigation results, and the final estimated value may change. The statistics hereof are based on the shipments to the channel. Figures may differ slightly from the integer due to rounding.

Source: Gartner (April 2019)

Affected by weak PC demand in China, PC shipments in the Asia-Pacific region totaled 20.1 million this quarter, down 5.1% year on year. However, driven by the demand for light-and- thin top-level Ultramobiles devices, the Asia-Pacific consumer market is still growing. Manufacturers including Huawei and Xiaomi are pushing light-and-thin notebook computers to the consumer market through aggressive pricing strategies.

In addition, Japan was the only region where PC shipments increased in the first quarter of 2019, up 6.8% year on year. The main reason is the increase in commercial PC shipments. Latin America saw the largest decline in shipments this quarter, down

16.6% year-on-year. Due to the unstable political and economic environment and the tight supply of CPU, small system suppliers in the region have been seriously affected. In the first quarter of 2019, US PC shipments totaled 11 million, down 6.3% from the same period in 2018. HP led the U.S. market with a market share increased to 29.4%, while Dell ranked second with a 7.1% drop in shipments and a 28.7% market share.

## B. Mobile phone

Gartner estimates that mobile phone shipments will reach 1.8 billion in 2019, down 0.5% year-on-year. Roberta Cozza, senior research director of Gartner, believes that users have higher requirements for new technologies and applications of mobile phones, which means that users will not want to replace mobile phones unless the new model of mobile phones have novel usage, high efficiency or excellent experience. Therefore, it is expected that sales of high-end mobile phones will continue to decline in mature markets in 2019.

Gartner estimates that the mobile phone market will renew to increase in 2020, with a YoY growth of 1.2%. However, manufacturers must be aware that consumers have already begun to extend the life of mobile phones. Gartner predicts that the average service life of high-end mobile phones will increase from 2.6 years to 2.8 years in 2023.

Many manufacturers at the 2019 World Mobile Communications Conference (MWC) have shown their foldable mobile phones and will launch them by the end of 2019. Gartner analysts believe that foldable mobile phones are expected to add innovative elements to the smart phone market, but considering many other factors, they are still cautious about short-term market acceptance. Gartner estimates that foldable mobile phones will account for 5% of the high-end mobile phone market in 2023, with a total of 30 million.

Roberta Cozza said that users will use foldable mobile phones in the same way as ordinary smart phones, that is, they may watch the phones hundreds of times a day and occasionally type them on plastic screens. Due to the foldable method, the plastic screen may be scratched soon. Since foldable mobile phones still face many difficulties in manufacturing technology, it is expected that such phones will be niche products in the next 5 years. In addition to the screen panel, price will also be a major obstacle for users to purchase. Currently, foldable mobile phones are priced at about 2,000 US dollars, which is still a little too expensive for many early users even though the price will decline over time.

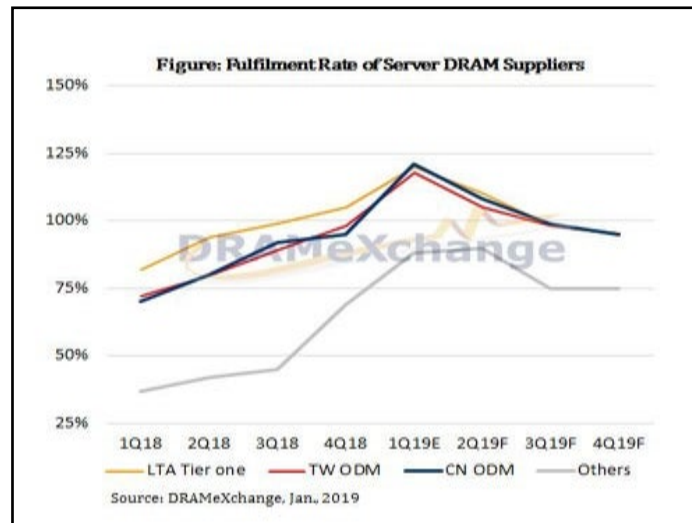
Analysts of Gartner predict that manufacturers will continue to test different appearance of foldable mobile phones in a short time, so as to find the best usability and user experience. Roberta Cozza points out that product managers must make usability a key factor in the product development process to ensure that all foldable screens can provide a continuous and smooth user experience.

## C. Servers

According to the latest survey of DRAMeXchange, the memory and storage division of TrendForce, the server memory market will continue to suffer from low demand due to the influence of inventory pressure and off-season effect. With the expectation of Sino-US trade dispute, market demand will be more conservative in the first half of 2019. The contract price of server memory in the first quarter of 2019 will fall to more than 20% from the previous quarter, other than the original estimate of 15%.



Senior analysts at DRAMeXchange said the main problem was the difficulty to reduce the number of unsold server memory. From the perspective of the Supplier Fulfilment Rate, the average demand satisfaction has increased from 90% in the fourth quarter of last year to 120% in the first quarter of this year, thus the overall market situation is oversupply. At present, the inventory level of North American data center customers is generally over 5 to 6 weeks, while that of traditional brand manufacturers is about 4 weeks. Based on the analysis of previous production line configuration, the inventory is obviously more than twice as high as before.



From the perspective of demand, after the past two years of strong stocking-up in server industry, the demand for new platform servers has been met, and parts inventory has been prepared. Due to the influence of the negative attitude towards overall economy of 2019 and Sino-US trade disputes, both data center practitioners and brand manufacturers tend to be conservative in their expectations of market demand in the first half of the year. Under the expectation that memory prices will continue to fall in the coming quarters, the momentum of shipment will be even weaker.

In order to avoid the continuous deterioration of supply and demand problems, DRAM manufacturers have no active production expansion plan this year. Progress in the processing of server memory and plans to switch production to high-capacity chips have also slowed down to reduce excess supply.

In order to speed up the destocking, suppliers generally negotiated and determined the contract price in a “monthly” manner starting from the fourth quarter of 2018. Under the circumstances of increased production capacity and sales pressure, the mode of bargaining with quantity has begun to replace the traditional mighty Quarterly Lock-in Deal of manufacturers. The trend of small quantities and low prices is becoming more and more obvious, which means that the contract price will continue to decline.

DRAMeXchange expects that server demand (such as shipments from China’s data centers and global brand manufacturers) will continue to rise after the second quarter. If destocking is implemented properly, the price decline in the third and fourth quarters is expected to decrease. However, it is estimated that the price drop for the whole year will still be nearly 50%.

**Table: Server DRAM Contract Prices for 2019**

	1Q19(E)	2Q19(F)	3Q19(F)	4Q19(F)
Server DRAM ASP	>-20%	>-10%	>-8%	~-5%

Source: DRAMeXchange, Jan., 2019

#### D. Automobile

Due to the simultaneous decline of the Chinese and American auto markets and the lack of market support by the same scale, the global auto market sales in 2018 is estimated to be 91.17 million, with an annual decrease of 1.6%. On the premise of China’s proposal to stimulate the market and the peaceful ending of trade disputes between China, the United States and other countries, the annual growth rate is estimated to be 1% in 2019. However, if the trade negotiations between various countries including China and the United States are not successful, the auto market may not recover from 2019 to 2021.

From the perspective of the layout of the global automobile market, there is no special change. China’s market share is 30%, still ranking first, followed by the United States with 19%. China and the United States account for about half of the global automobile market, showing their great influence.

China’s auto market experienced several changes in 2018. Firstly, the auto acquisition tax incentives was cancelled at the end of 2017, and the auto acquisition tax will be adjusted back to 10% from 7.5%. The purpose of this policy is to make the 1.6-litre economic auto market return to rationality, but on the contrary, it urges consumers to advance the purchase time to November-December of 2017, which unexpectedly contributes to the prosperity of the auto market at the end of 2017. Secondly, the Chinese government has rectified the illegal Peer-to-Peer (P2P) network loan platform to make loans no longer easy to obtain. Thirdly, the Sino-US trade dispute has affected people’s confidence in economic growth, resulting in the absence of the traditional “golden nine silver ten” peak season. As the auto industry accounts for a high proportion of China’s GDP, the Chinese government is expected to propose policies to stimulate consumption in 2019.

As far as the United States is concerned, although the overall economy has recovered somewhat, the automobile market is relatively mature. In 2017, the number of cars per capita in the United States was 910 for every 1,000 people, the highest in developed countries. Moreover, the full introduction of steel and aluminum tariffs in the second half of 2017 has raised the terminal selling price. So auto sales in 2018 are estimated at 17.1 million, down 3.3% annually. The sales situation in 2019 depends on whether the loan interest rate will be lowered or not and the results of trade negotiations between various countries.

#### Development trend of electric vehicles

(I) The global electric vehicle market continues to expand and the pure electric vehicle market is growing at an accelerated pace

In 2018, the total number of all kinds of electric vehicles (BEV, PHV, FCV and HEV) is estimated to be 3.73 million, with an annual growth rate of 18%, accounting for 4% of the global vehicle market. In 2019, under the condition of continuously falling battery prices and under the promotion of policies of various countries and vehicle manufacturers, the growth rate of the electric vehicle market is expected to accelerate to 33%, and the sales proportion of the global car market

will reach 5.2%.

In terms of vehicle type changes, the proportion of HEV that used to account for more than 65% of the total electric vehicle Market dropped to 53% in 2018, while the proportion of BEV and PHV continued to increase. In particular, all vehicle manufacturers regard BEV as the ultimate goal in the future, so the proportion of BEV is growing fastest. The proportion of BEV was only 15% in 2015, reaching 31% by 2018, and is expected to reach about 50% by 2021.

- (II) New energy vehicle policy in China has been continuously upgraded, and the double points system has doubled the pressure on vehicle manufacturers

Driven by the subsidy policy, China's new energy vehicles have rapidly gained their share in the global market. HEV are energy-saving vehicles in China, not new energy vehicles. Therefore, in terms of new energy vehicles (BEV, PHV and FCV), the sales volume in China in 2018 is estimated to be 900,000, accounting for 3.3% of the total vehicle sales volume in China.

China's subsidies for new energy vehicles will gradually stop from 2017. Apart from curbing cheating on subsidies, the main purpose is to encourage consumers to buy high-endurance vehicles and to push vehicle manufacturers to upgrade. In 2018, China abolished subsidies for vehicles with a endurance of 100-150 km, while subsidies for vehicles with a endurance of 400 km or more increased from RMB 44,000 yuan to RMB 50,000 yuan. The subsidy plan will be completely stopped by 2020.

China began to implement the plan of double-point system in April 2018, with the aim of encouraging vehicle manufacturers to actively develop electric vehicles and produce low-pollution fuel vehicles. The target of the plan in 2019 and 2020 is that the market share of new energy vehicles will reach 10% and 12% respectively. The double-point system can not only further increase the sales volume of new energy vehicles, but also promote local vehicle manufacturers to cooperate more with foreign vehicle manufacturers. Therefore, China's new energy vehicles will continue to grow in 2019 despite the uncertainty caused by the Sino-US trade dispute, with an estimated penetration rate of 5% in 2019.

- (III) Accelerated localized production of power batteries , and increased business form of joint ventures, sole proprietorship and state investment

The design of power battery is complicated and the technical circuit is diversified. In the past, vehicle manufacturers and battery manufacturers divided their work according to professional technology. That is, large battery manufacturers such as Panasonic, LG Chem, Samsung SDI and CATL will supply the products to global vehicle manufacturers. However, this supply chain began to change after Tesla built its own battery factory. Vehicle manufacturers will accelerate the overall development and design of electric vehicles after they gradually mass-produce electric vehicles and introduce more and more models. The low cost and high quality of power batteries are the key to popularize electric vehicles, so it is important to master battery technology.

Another driving factor is international trade negotiations. The Sino-US trade dispute has affected the entire automobile supply chain, and the increased automobile cost due to the tariff increase will be reflected in the terminal selling price. In addition, even if automobile manufacturers or suppliers are willing to bear the new tariffs, the supply chain will be greatly uncertain due to the time-consuming customs clearance process caused by the relevant document

review process and the tight Sino-US trade relations.

Based on the above factors, vehicle manufacturers and governments of various countries have begun to attach importance to the problem of long-term out-of-balance in the supply of power batteries for electric vehicles. At present, most power batteries are produced in China, Japan and South Korea. Whether from the perspective of material preparation or future technological development, excessive dependence on other countries is a risk that vehicle manufacturers must face and solve. Therefore, various vehicle manufacturers have also incorporated battery supply into their development plans for electric vehicles, including strategic purchase, joint ventures and sole proprietorship to build factories.

The advantages of self-built factories are that vehicle manufacturers can control the cost and quality, manage the core technology and supply chain. However, compared with professional battery manufacturers, it is difficult to realize scale merit and the huge amount of investment is also a big challenge. Therefore, only the first-tier large manufacturers are more likely to invest in self-built factories. Many non-first-tier manufacturers have chosen joint ventures to reduce their own burdens while effectively increasing the stability of battery supply. In addition, many car manufacturers adopt compatible plans to spread risks, such as purchasing, joint venture and sole proprietorship.

#### Develop trend of self-driving car

- (I) Level 2 is the mainstream, Level 3 is the starting point, and Level 4 is the long-term target

Various countries have successively required the installation of various advanced driving assistance systems (ADAS) in vehicles and added mandatory items. For example, the United States has announced that new cars must be equipped with Autonomous Emergency Braking (AEB) from September 2022. South Korea has required cars to be equipped with AEB and lane departure warning system (LDWS) from 2019. The European Commission has also proposed a new motion (to be discussed) requiring cars to be equipped with 11 safety systems such as driver fatigue detection system, distraction detection system, emergency braking warning system, automatic speed control system and lane maintenance assistance system after 2021.

In addition to mandatory laws and regulations, the ADAS system has been incorporated into the safety evaluation scores of new cars in various countries, so as to promote the willingness of vehicle manufacturers to install these systems. Euro NCAP began to adjust the ADAS scoring weight from 10% to 20% in 2014, and listed ADAS as the standard equipment for four-star new cars or above in 2017. The 2018 edition of C-NCAP has also added active safety scoring items with a weight of 15%, which has increased the number of Level 2 cars due to the introduction of various ADAS systems.

Most vehicle manufacturers produce mid and high-end cars according to Level 2 standard. Level 2 is expected to be the mainstream of autonomous vehicles from 2018 to 2020. Level 3 belongs to conditional autonomous vehicles, the traffic liability shall be borne by the human driver, but the surrounding environment monitoring, control of steering wheel and brake shall be handled by the automatic driving system. Therefore, various vehicle manufacturers have different plans in Level 3.

It is estimated that from 2019 to 2020, some vehicle manufacturers will

gradually produce Level 3 semi-automatic driving cars, but the models and quantity are limited. Level 3 is subject to the laws and regulations of various countries, so even if vehicle manufacturers produce Level 3 self-driving vehicles, the driver must still take the driving role if not allowed by local laws and regulations. Level 4 is the ultimate goal of traditional vehicle manufacturers. It is expected that unmanned driving will be realized in a specific scenario between 2019 and 2021 under the conditions of trial operation, accumulated data and technology demonstration. Since Level 4 needs to meet specific conditions and requires longer testing in more complex environments, the time of mass production is expected to be after 2023.

(II) 3D LiDAR and V2X are the keys to high-level automatic driving

The key components of unmanned vehicle in sensing technology include on-board lens, millimeter-wave radar and 3D LiDAR. It is expected that the carrying rate and number of these components will be increased when the Level 3 self-driving vehicle is launched in 2019. 3D LiDAR technology is regarded as the key to high-level automatic driving. Currently, it is mostly used for Level 4 testing vehicles to collect road information and draw high-precision maps. With the gradual mass production of small-size all-solid 3D LiDAR, it is expected to be applied to mass production vehicles in the future.

The next key of development of vehicle lens, millimeter-wave radar and 3D LiDAR is to improve the accuracy of identification. For example, the vehicle-mounted system is responsible for surrounding monitoring of Level 3 vehicles, in the event of an accident, the vehicle manufacturer will assume the responsibility. In addition, the characteristics of these three key components are different from each other and can complement each other in many aspects.

Another condition for automatic driving is the V2X technology. After obtaining real-time road information through wireless communication, V2X will combine the algorithm to make path planning and decision, which will not be affected by weather and distance and can make up for the deficiency of sensors. The key to V2X technology lies in the improvement and popularization of communication infrastructure. The high network efficiency, high reliability and low delay of 5G technology are beneficial to the development of V2X. It is expected that the C-V2R16 based on 5G NR can support high-level automatic driving after 2020.

(III) Enterprise alliance becomes the development strategy of self-driving industry

The ultimate goal of a self-driving vehicle is that the vehicles are only moving tools, and human beings are only passengers without driving. The change that car manufacturers have to face is not simply upgrading their performance, but recreating a brand-new product. Therefore, although many manufacturers have involved in the field of self-driving, there are no new manufacturers of self-driving cars. Each manufacturer has made its own efforts in different fields, continuously expanding its own strength through exploration, trial and experiment, and finding the best cooperative partners. Only through large-scale data collection, in-depth learning and simulation can the self-driving technology realize good sensing, analysis, judgment, decision-making and execution. The process requires the cooperation of numerous software and hardware, which will lead to the continuous alliances, cross-industry cooperation and acquisitions in different fields.

(3) Competition niche

#### A. Excellent mold R&D and design capability

Metal stamping is a process of forming metal by applying external force to metal through stamping equipment and molds. The design and manufacture of molds are the key to this process. Since foundation, the Company has been focusing on the design, R&D and manufacturing of precision molds and has established a special mold development department. Through cooperation and communication with large mold development enterprises in Europe and America, the Company has continuously improved its mold development level. At present, the Company can complete 100% independent development of its own molds.

The advanced characteristics of the Company's mold R&D and design technology are mainly reflected in two aspects: firstly, in terms of mold design time, the Company carries out simulation analysis of the mold by using PressCAD and Keycreator software, so as to simulate the problems in the actual assembly and testing stage in advance. At the same time, in order to realize the standardized operation procedures of mold development and manufacturing, the Company developed ERP software for mold R&D and manufacturing together with software development company, which significantly improved the mold development efficiency of the Company. For example, the normal mold-open time in the industry of heatsink module products is approximately three weeks, while according to the Company's mold production standard, the mold-open time can be shortened to 12 days. Secondly, the Company has advanced high-precision mold production and manufacturing equipment, such as Japan's OKUMA CNC processing center and Switzerland's CHARMILLES linear cutting machine, to guarantee the quality and precision of the molds produced by the Company are in the leading level in the industry.

The three-plate large-scale multi-position progressive mold, developed by our Company, is able to, according to the structure and forming characteristics of parts, complete all the forming processes such as beading, piercing, bending, deburring, embossing and drawing with only one set of such molds. The mold has a high-precision guide system and an accurate distance system, and is equipped with devices used for automatic feeding and conveying, and safety detection, thus realizing automatic continuous stamping production. Compared with the traditional single stamping production process, the mold hereof has improved the working efficiency by more than seven times, reduced the labor input by more than 70%, and the service life of this mold can reach 10 million times, reaching the mold's technological level of developed countries.

#### B. Excellent quality control capability

The quality of the complete machine product is directly determined by the quality of metal stamping parts. Since foundation, the Company has passed the ISO14001:2015 and ISO/TS16949:2009 quality management system certifications of the AFAQ, and has carried out quality control and management in strict accordance with the quality management system and the special requirements of customers. In addition, the Company is equipped with high-precision product quality measuring and testing equipment such as HEXAGON's Coordinate Measuring Machine and profiler from Japan, Switzerland and other countries to strictly measure and control the process quality of the Company's raw materials, production and delivery, thus ensuring that the company's product quality meets the certification requirements. The Company has deployed Minitab process analysis software to guarantee the effective operation of the quality system and the effective control of product quality.

Over the years, the Company's product quality has been highly recognized and

affirmed by customers. From 2010 to 2014, the Company has won many times Awards for Excellent Suppliers from Sweden's Autoliv, the global largest manufacturer of automotive safety systems. The Company has also been awarded from BorgWarner for Best Cooperation Award of 2017 and for Excellent Quality of 2016, and has been awarded from TRW (Wuhan) Automotive for General Manager Award of 2017, and many other awards.

#### C. Abundant product structure

The Company has created a diversified product line and customer base by means of excellent mold development and design capabilities and precise stamping and forming technology. At present, the Company's products can be applied to many different industries such as communications, consumer electronics, home appliances, automobile industry, construction, medical industry, etc. The Company has loyal customers in different industries and is not limited to a single product or a single industry, thus effectively reducing the company's operating risks. In addition, the stamping equipment of the Company includes different grades from 60 tons to 800 tons, which can meet the different needs of customers.

#### D. Continuous R&D capability

The Company is mainly engaged in R&D, production and sales of precision metal stamping components. Since foundation, the Company has been concentrating on the metal stamping field, upgrading its technical reserves through continuous R&D and innovation. Since 2010, the Company has been recognized as a high-tech enterprise by the Jiangsu Science and Technology Department, Department of Finance of Jiangsu Province, the Jiangsu Provincial Tax Service, State Taxation Administration and the Jiangsu Provincial Local Taxation Bureau. In 2013, the Company was recognized as a foreign invested R&D institution in Jiangsu Province by the Jiangsu Science and Technology Department. In 2009, the Company was recognized as a foreign invested R&D institution in Suzhou City by the Suzhou Science and Technology Bureau. In 2009, the Company was recognized as a scientific and technological R&D institution in Kunshan City by the Kunshan Science and Technology Bureau

In the future, the Company will still carry out R&D on many fields such as large-scale high-precision continuous molds, continuous molds for 3D complex forming products and continuous molds for electromechanical integration. The Company has integrated these technologies into the stamping continuous mold, thus making the mold formed by traditional mechanical theory and processing into a truly smart continuous mold with the aid of mechatronics technology, and striving for obtaining market opportunities with fast and precise mold opening technology.

### 4. Advantages and disadvantages of development prospects and the solutions

#### (1) Advantages

- A. The state has issued new policies to promote the transformation and upgrading of the industry.

On May 8, 2015, the State Council of China unveiled "Made in China 2025", which proposed to adhere to the basic policy of "innovation-driven, quality first, green development, structural optimization and human capital". Focus on achieving the strategic goal of manufacturing power, "Made in China 2025" makes clear the following nine strategic tasks and priorities: 1. Boosting the country's manufacturing innovation capacity; 2. Promoting the deep integration of informatization and industrialization; 3. Strengthening the fundamental capacity of industry; 4. Strengthening quality and brand building; 5. Comprehensively promoting green manufacturing; 6. Promoting breakthroughs in the 10 key sectors of new-generation information technology, high-end numerically controlled machine tools and robots,

aviation and aerospace equipment, ocean engineering equipment and high-tech vessels, advanced rail transport equipment, energy-saving cars and new energy cars, power equipment, agricultural machinery, new materials, and biomedicine and high-performance medical devices; 7. Promoting the in-depth restructuring of the manufacturing sectors; 8. Actively developing service-oriented manufacturing and producer services; 9. Raising the level of the internationalisation of manufacturing.

B. Global manufacturing industry transfers to China

In the past 30 years, the global manufacturing industry has continued to transfer to China. China has become one of the most important manufacturing bases in the world. The output of automobiles, electronic information, household appliances, office facilities and other products rank among the best in the world, bringing huge market opportunities to the metal stamping components industry. Based on China's tremendous market demand potential and continuous improvement of the supporting level of the industry chain, the market space of China's metal stamping parts industry will be further expanded in a certain period of time in the future.

C. The continuous development of lower stream industries opens up market space for metal stamping industry.

In the past decades, the rapid development of automobile, communication electronics and household appliances has led to a rapid growth in the demand for metal stamping components. With the release of China's 13th Five-Year Plan, relevant manufacturing industries will accelerate their transformation and upgrading, moving from "Made in China" to "Made in China with Wisdom". The metal stamping parts industry will complete transformation and upgrading with the development of its related lower stream industries, further expanding the market space.

(2) Aisadvantages and solutions

A. The short product life cycle makes enterprise management risk higher

At present, half of the Company's products are 3C consumer products. This kind of products are updated frequently, making the whole production process in a highly tense situation of preparation. The characteristics of this kind of products are short development time, variable designs, short production cycle. Moreover, customers are unable to provide accurate forecast information of output and parts are customized for specific products, with poor universality.

Solutions:

For such parts, the Company actively maintains close interaction with customers to obtain information in the first place, strengthens the continuous development of 3C new products, and disperses customers as far as possible to avoid the risk of centralized sales. At the same time, the Company actively develops stamping components for non-3C electronic products such as automobile parts and construction components to strengthen the stability of the company's product structure, thus reducing the impact that may be caused by the rapid changes of 3C electronic products. In addition, the Company will try to implement build-to-order in its production schedule, and strictly control the raw materials with special specifications to actively decrease inventory, thus reducing the loss of unsalable products.

B. There are many enterprises in this industry, but the outstanding enterprises are insufficient.

According to the "13th Five-Year Plan for the Development of Chinese Metalforming Industry" issued by the Confederation of Chinese Metalforming Industry in August 2015, there are currently more than 25,000 manufacturing



enterprises in the stamping industry in China. Although there are a large number of enterprises in the industry, the vast majority of stamping enterprises are far behind from the level of international advanced enterprises in terms of business philosophy, process R&D, product design, equipment and molds, and human resources. The entire stamping industry, regardless of affiliated to the main machine manufacturer or an independent stamping enterprise, still lags far behind developed countries in the R&D and design of molds.

Solutions:

The Company has taken measures such as continuously upgrading and introducing new technologies, shortening the mold opening time, developing high-precision products and improving service quality. The Company also maintains close cooperative relations with manufacturers and has won the trust of customers to make the existing market stable. The Company continues to enhance the management quality and effectively improves the operating efficiency. The company continuously improves its existing technology and develops diversified product categories to maintain its competitive advantage.

C. Fluctuating prices of raw materials

The Company's products have a wide range of applications, such as computers, mobile phones, automobiles, construction materials and consumer electronics. The prices of raw materials used by the Company, such as copper, aluminum, iron, stainless steel and special materials, have changed frequently in recent years due to market instability.

Solutions:

The Company implements quotation price management for raw materials. When developing new products, business personnel record the quoted price of raw materials and notify purchasing personnel. The purchasing department will calculate the inventory raw material price by weighted average of the material price purchased each time and the stock price of raw materials. After comparing and analyzing the quoted price of raw materials and the stock price of raw materials, the purchasing department can adjust the stock in real time, thus reducing the risk of fluctuation in the price of raw materials.

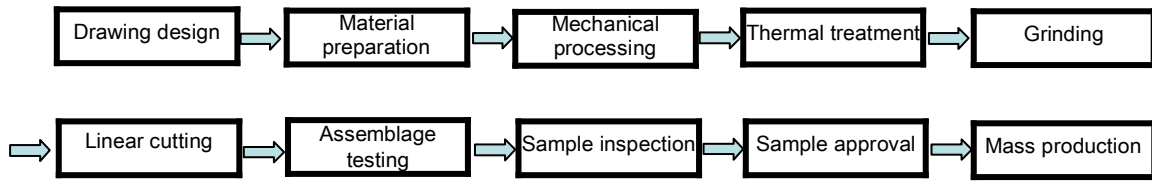
(II) Important use and manufacturing process of main products

1. Important use

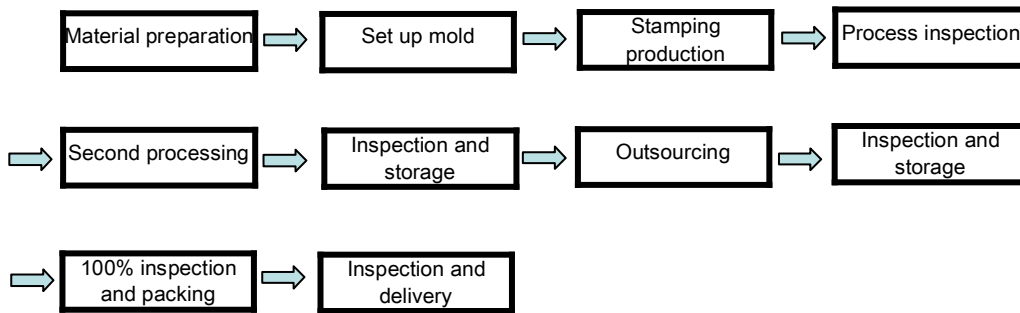
Main products	Use of goods (services)
3C electronic products	Stamping parts of related mechanisms of computers and heatsinks, server slide rails
	Metal stamping parts for domestic air conditioners, ice makers and motors
	Internal keyboard and shielding cans of smartphones
	Metal stamping parts for medical equipment
Automobile parts	Metal parts of airbags, seat belt buckles, engines, steering systems, sunroofs, door hinges, seat brackets
Construction components	Fixed metal tools for inclined roof skylight and exterior wall decorative plate
Molds and others	Mold tooling, sports equipment

## 2. Manufacturing process

### (1) Production process of mold



### (2) Production process of stamping products



### (III) Supply of main raw materials

The Company is mainly engaged in the manufacture and sale of precision metal stamping parts, with a wide range of applications (computers, mobile phones, automobiles, construction materials and consumer electronics). The materials used include copper, aluminum, iron, stainless steel and special materials, etc. In recent years, the raw materials quality in Republic of China has improved and can meet the requirements of customers. Considering the cost and the delivery date of customers, the raw materials are mainly purchased in China. Through regular evaluation of the supplier's cost, product quality and delivery date, the production quality and yield of the product are ensured. The Company maintains close partnership with major raw material suppliers, and also maintains more than two suppliers for major materials such as copper, iron and aluminum, in order to ensure the stable supply of raw materials and reduce the risk of material shortage. After evaluation, the supply of raw materials is in good condition.

(IV) Customers with over 10% of gross purchase or gross sales in any year of the last 2 years, the name of such customers and the amount and proportion, and reasons for variation

1. List of suppliers with over 10% of gross purchase in any year of the last 2 years, and the amount and proportion:

Unit: NT\$ Thousand

Item	2017				2018				First quarter of 2019			
	Name	Sum	To net purchase (%)	Relationship with the issuer	Name	Sum	To net purchase (%)	Relationship with the issuer	Name	Sum	To net purchase (%)	Relationship with the issuer
1	A	330,973	12.80	NA	A	424,781	10.35	NA	A	73,612	13.05	NA
2	K	158,470	6.13	NA	E	341,007	8.31	NA	W	36,802	6.53	NA
3	W	147,377	5.70	NA	U	268,950	6.55	NA	D	33,138	5.88	NA
	Other	1,948,010	75.37		Other	3,070,118	74.79		Other	420,346	74.54	
	Net purchase	2,584,830	100.00		Net purchase	4,104,856	100.00		Net purchase	563,898	100.00	

Major reasons for variation: Reasons for variation: The suppliers are all involved in long-term transactions, and their variation in the last two years has not been significant. However, their rankings differ slightly due to varying product proportions.

2. List of customers with over 10% of gross sales in any year of the last 2 years, and the amount and proportion:

Unit: NT\$ Thousand

Item	2017				2018				First quarter of 2019			
	Name	Sum	To net purchase (%)	Relationship with the issuer	Name	Sum	To net purchase (%)	Relationship with the issuer	Name	Sum	To net purchase (%)	Relationship with the issuer
1	f	1,100,233	25.85	NA	f	1,442,284	23.87	NA	f	340,246	31.74	NA
2	b	382,398	8.99	NA	k	571,274	9.45	NA	b	89,227	8.32	NA
3	k	323,757	7.61	NA	l	483,207	8.00	NA	s	51,269	4.78	NA
	Other	2,449,161	57.55		Other	3,546,325	58.68		Other	591,192	55.16	
	Net purchase	4,255,549	100.00		Net purchase	6,043,090	100.00		Net purchase	1,071,934	100.00	

Major reasons for variation : The first few customers are all the same, because in 2018, 3C electronic products shipped more and more, the top three are concentrated in this category of customers, not as there are other product categories in 2017.

## (V) Production quantity and value of the last 2 years

Unit: NT\$ Thousand

Main products	Unit	2017			2018		
		Capacity	Production quantity	Production value	Capacity	Production quantity	Production value
3C electronic products	Thousand PCS	52,543	41,314.65	1,031,467	149,982	142,456	1,749,797
Automobile parts	Thousand PCS	176,873	133,061.56	1,147,027	159,865	259,395	1,434,659
Construction components	Thousand PCS	7,861	5,605.00	73,711	2,773	2,545	63,252
Molds and others	PCS/set	450	410.00	209,325	313	307	386,691
Total		-	-	2,461,530	-	-	3,634,399

## (VI) Sales quantity and value of the last 2 years

Unit: NT\$ Thousand

Main products	Unit	2017				2018			
		Home sale		Export sales		Home sale		Export sales	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
3C electronic products	Thousand PCS	21,044	97,841	274,440	2,279,429	409	22,238	504,159	3,849,448
Automobile parts	Thousand PCS	111,181	1,379,429	21,400	105,140	-	-	256,315	1,705,041
Construction components	Thousand PCS	4,678	26,153	1,123	66,199	-	-	2,679	76,076
Molds and others	PCS/set	167	115,705	1,914	185,653	57	42,842	1,103	347,445
Total		-	1,619,128	-	2,636,421	466	65,080	764,256	5,978,010

## III. Employee data of the recent 2 years and up to the publication date of the annual report:

Year		2017	2018	Jan. 1, 2019-May 17, 2019
Number of employees	Direct employees	581	520	519
	Indirect employees	447	462	468
	Total	1028	982	987
Mean age		30.37	32.25	32.50
Average length of service		2.77	3.21	3.30
Proportion of education background	Doctor	0.00%	0.00%	0.00%
	Master	0.78%	1.43%	1.42%
	Junior college	31.52%	31.98%	32.22%
	High school	33.46%	34.22%	31.91%
	Below high school	34.24%	32.37%	34.45%

#### **IV. Information regarding expenditure on environmental protection**

- (I) Losses caused by environmental pollution in the last year: The Company's environmental protection expenditures are all normal expenditures (hazardous waste cleaning fees, environment monitoring fees, septic-tank cleaning fees, etc.), with a total expenditure of about NT\$ 338,400 in 2018.
- (II) Possible losses caused by environmental pollution in the future: the estimated expenditure for 2019 is about NT\$ 504,000.
- (III) Solutions: the company regulates internal management according to government requirements to avoid unreasonable expenditures.

#### **V. Labor relations**

##### (I) Employee welfare measures

##### 1. Employee welfare

##### (1) R.O.C:

Diversified employee welfare: including labor insurance, health insurance, labor pension and group insurance, employee meal subsidies, employee health examination, departmental social dinner, gift certificates for 3 main festivals, wedding and funeral subsidies, etc.

Smooth communication channels: implement employee complaint mechanism, including setting up complaint hotline, complaint suggestion box, complaint email and sexual harassment complaint email.

The Company holds regular labor-management meetings and consults employees' opinions, which serve as a reference basis for supervisor leadership, internal operation, enhancement of employee engagement and improvement of work input.

The Company regularly organizes various activities, such as staff sports meeting, family days, various sports competitions and art competitions, in order that employees can have more proper recreational activities after work.

##### (2) Republic of China:

A. Staff leave: public leave, annual leave, marriage leave, funeral leave, maternity leave, etc. wherein the national statutory holidays are paid holidays.

B. Insurance: in addition to the social insurance stipulated by laws and regulations, the Company also provides commercial insurance for some employees in special positions.

C. Health: the Company provides free physical examination and tracking and rechecking every year, and assists employees in disease-related consultation and hospital arrangements.

D. Holiday and festival welfare: the Company provides holiday allowance or holiday gifts to everyone on national legal holidays such as spring festival, the women's day, dragon boat festival, mid-autumn festival, etc. Every summer, the Company offers the staff who work outdoors or in indoor but with temperatures exceeding the law the heatstroke prevention subsidy and provides the heatstroke articles (such as sweet mung bean soup and industrial ice).

E. Marriage, maternity and birthday: personnel department of the Company prepares the list of marriages, maternities and birthdays every month, and issues wedding allowance, maternity allowance and birthday cake coupons.

F. Cultural activities:

- a. In order to enhance the understanding and harmony among employees, the Company has set up a planning office to create a harmonious working environment and a good interpersonal atmosphere for employees. The planning office will organize group activities and various kinds of sports activities from time to time. At the beginning of each year, the planning office will hold a

welcome new year party and prepare abundant bonus and year-end employee commendation meeting.

- b. The Company provides bonuses, and each department organizes its own tourism activities from time to time every year.
- c. The Company cooperates with the federation of literary and art circles of government to hold public welfare trainings such as calligraphy, painting and photography in the Company every year, in order to enrich the spare time life of employees.

(3) Czech Republic

- A. The Company pays social and health insurance for its employees, accounting for 25% and 9% of the total remuneration respectively, and conducts regular medical examinations.
- B. 20 days of legal holidays+5 additional free days.
- C. Dining subsidies.
- D. Liability insurance for machine operators.
- E. Free refreshments in the workplace.
- F. Summer BBQ and Christmas party.

2. Further education and trainings:

- (1) The Company actively cultivates employees to enhance their professional ability. In addition to conducting internal education and training irregularly and sending employees to participate in external training and study, the Company also encourages employees to continue their studies and improve their work performance, thus enabling employees to have long-term planning and investment in the Company's service.

(2) Results of the Company's education and training in the latest year:

Course item	Total training hours	Expenses (NT\$ thousand)
Internal training	54,879	7,361
External training	2,952	

(3) Relevant certificates specified by the competent authority obtained by relevant financial personnel:

Title	Name	Host unit	Course name	Hours
Finance Accounting Supervisor	Lu, Chin-Yu	Accounting research and development foundation	Special issue of financial instruments in IFRS 9: accounting treatment of financial assets/liabilities and hedging	6
			Continuous advanced study course for accounting supervisors of issuer securities firms and stock exchanges	12
			Analysis of IAS12 "Income tax"	3
			Special discussion on the preparation of consolidated financial statements: notes and schedules to consolidated financial statements	3
			Special lecture on digital finance: application of XBRL and analysis of the latest policies on financial report auditing and corporate governance.	3
			Analysis of relevant norms and solutions practices of the new version of "Corporate Governance	3

			Roadmap(2018-2020)”	
Assistant accounting Supervisor	Jian Yiling	Accounting research and development foundation	Special issue of financial instruments in IFRS 9: accounting treatment of financial assets/liabilities and hedging	6
			Special lecture on digital finance: recent tax law trends and the practice of “e-taxation”	3
			Special lecture on digital finance: looking at the development trend of enterprise application from “block chain”	3

### 3. Retirement system

#### (1) R.O.C:

The Company allocates labor pension fund according to the Labor Pension Act, and allocates pension within 6% of the insured salary. The Company has a sound financial system to ensure that employees have a stable pension allocation and payment.

#### (2) Republic of China:

The Company pays endowment insurance (included in social insurance, which includes medical insurance, maternity insurance, endowment insurance, employment injury insurance and unemployment insurance) for employees according to the local laws and regulations where the enterprise is located. The Company has already started to fulfill its obligation to pay endowment insurance after handling the procedures of social insurance expansion.

### 4. Labor agreement and employee equity protection measures

The Company has set up a staff representative assembly, an operating organization of which elected by the staff handles various staff welfare matters and labor-capital relations. The Company handles the labor-capital relations in accordance with relevant laws and regulations, which is in good condition.

Harmonious labor-capital relationship have always been one of the Company’s goals, and the Company also hopes to maintain harmonious labor-capital relationship. No major disputes or losses have occurred since the establishment of the Company. In addition, all measures to safeguard the rights and interests of employees have been handled in accordance with relevant laws and regulations.

#### (II) Losses caused by labor disputes in the last year, and estimated amount at present and in the future, and solutions:

1. The Company has always paid attention to labor-capital relationship. No losses due to labor-capital disputes occurred in the latest year and up to the publication date of the annual report.
2. The Company has established a good communication channel between employers and employees, and the relationship between them is rational and harmonious. In the future, there should be no loss if no external factors causing changes in labor-capital relationship.

## VI. Important contracts

Contract nature	Parties	Duration	Main content	Restrictions
Lease contract	Kunshan Ginlian Electronic Plastic & Metal Co., Ltd.	2018.06.01 2021.05.31	Building lease contract	NA
Lease contract	Kunshan Shanghua Electrical Equipment Ltd.	2019.04.03 2021.04.02	Building lease contract	NA
Lease contract	LCJ Invest, a.s.	2017.02.15 2022.02.14	Building lease contract	NA
Loan contract	CTBC Bank	2018.07.01 2019.06.30	Credit line contract of Lemtech Holding	NA
Loan contract	HSBC	2018.07.01 2019.06.30	Credit line contract of Lemtech Holding	NA
Loan contract	DBS Bank	2019.03.16 2020.03.15	Credit line contract of Lemtech Holding and its holding subsidiaries	NA
Loan contract	China CIITC Bank Kunshan Economic & Technological Development Zone Sub-branch	2018.12.05 2019.12.05	Loan contract of Lemtech Precision Material (China) Co., Ltd	NA
Loan contract	Merchants Bank Suzhou Branch	2018.11.29 2019.11.28	Loan contract of Lemtech Precision Material (China) Co., Ltd	NA
Loan contract	Bank SinoPac	2018.07.09 2019.08.01	Loan contract of Lemtech Czech	NA



## Six. Financial Status

### I. Condensed Balance Sheets and Income Statements for the last five years

#### (1) Condensed Balance Sheets

Unit: NT\$ Thousand

Fiscal Year Item		Financial Summary for The Past Five Years					Fiscal Year Ended March 31, 2019
		2014	2015	2016	2017	2018	
Current assets		2,195,561	2,383,015	2,301,156	3,320,411	3,805,114	3,277,608
Real Estate, Plant and Equipment		604,325	701,618	680,583	970,751	1,230,891	1,386,057
Intangible assets		8,115	23,714	23,557	22,565	22,634	47,358
Other assets		113,162	99,762	235,900	403,202	339,788	498,371
Total assets		2,921,163	3,208,109	3,241,196	4,716,929	5,398,427	5,209,394
Current liabilities	Before distribution	1,354,552	1,184,172	1,485,819	2,956,336	2,732,977	2,335,747
	After distribution	1,533,898	1,421,419	1,643,983	3,055,189	(Note 2)	(Note 2)
Non-current liabilities		356,247	235,216	229,428	140,981	791,346	928,422
Total liabilities	Before distribution	1,710,799	1,419,388	1,715,247	3,097,317	3,524,323	3,264,169
	After distribution	1,531,453	1,182,141	1,557,083	2,998,464	(Note 2)	(Note 2)
Equity attributable to shareholders of the parent company		1,210,364	1,629,876	1,396,350	1,474,912	1,857,623	1,931,760
Capital stock		332,021	395,411	395,411	395,411	395,411	395,638
Capital surplus		391,999	749,005	747,057	678,811	784,347	788,948
Retained Earnings	Before distribution	421,892	438,866	269,307	392,869	676,490	719,082
	After distribution	242,546	201,619	111,143	294,016	(Note 2)	(Note 2)
Other equity interest		64,452	46,594	(15,425)	7,821	1,375	28,092
Treasury Share		-	-	-	-	-	-
Non-controlling interest		-	158,845	129,599	144,700	16,481	13,465
Total Equity	Before distribution	1,210,364	1,788,721	1,525,949	1,619,612	1,874,104	1,945,225
	After distribution	1,031,018	1,551,474	1,367,785	1,520,759	(Note 2)	(Note 2)

Note 1 : 2014-2018 financial data have been duly audited or reviewed by independent auditors.

Note 2 : Based on the resolution of the next annual shareholders' meeting, as the 2019 regular shareholders' meeting has not yet been held.

## (II) Condensed Income Statements

Unit: NT\$ Thousand

Item \ Fiscal Year	Financial Summary for The Past Five Years					Fiscal Year Ended March 31, 2019
	2014	2015	2016	2017	2018	
Operating Revenue	3,068,330	2,927,364	3,197,375	4,255,549	6,043,090	1,071,934
Gross Profit	718,530	723,739	761,428	872,771	1,286,070	209,565
Operating Income (loss)	343,068	301,927	319,948	340,548	605,959	68,679
Non-Operating Income and Expenditure	(50,713)	(40,513)	(48,068)	53,772	(63,795)	(15,254)
Income before Tax	292,355	261,414	271,880	394,320	542,164	53,425
Profit from Continuing Operations	221,406	202,316	100,013	314,516	405,403	42,143
Loss from Discontinued Operations	-	-	-	-	-	-
Net income(loss)	221,406	202,316	100,013	314,516	405,403	42,143
Other Comprehensive Income (Income After Tax)	41,265	(17,535)	(68,301)	22,199	(9,189)	26,561
Total Comprehensive Income	262,671	184,781	31,712	336,715	396,214	68,704
Net Income Attributable to Shareholders of the Parent Company	221,406	196,320	67,688	298,368	382,474	42,592
Net Income attributable to Non-controlling Interest	-	5,996	32,325	16,148	22,929	(449)
Comprehensive Income attributable to Shareholders of the Parent Company	262,671	178,462	5,669	321,614	376,028	69,309
Comprehensive Income attributable to Non-controlling Interest	-	6,319	26,043	15,101	20,186	(605)
Earnings per Share (EPS)	6.73	5.19	1.71	7.55	9.67	1.08

Note : 2014-2018 financial data have been duly audited or reviewed by independent auditors.

## (III) Independent Auditor's report for the last five years

Year	Accounting CPA Firm	Certified CPA	Audit Opinion
2018	Deloitte & Touche	Chih, Jui-Chuan ;Li, Li-Huang	Unqualified opinion
2017	Deloitte & Touche	Lin, Yi-Hui ;Li, Li-Huang	Unqualified opinion
2016	Deloitte & Touche	Li, Li-Huang; Hsieh, Ming-Chung	Unqualified opinion
2015	Deloitte & Touche	Chen, Hui-Ming; Hsieh, Ming-Chung	Unqualified opinion
2014	Deloitte & Touche	Chen, Hui-Ming、Hsieh, Ming-Chung	Unqualified opinion

## II. Financial Analysis Summary of The Past Five Years

### (I) Financial Analysis

Fiscal Year Item		Financial Summary for The Past Five Years					Fiscal Year Ended March 31, 2019
		2014	2015	2016	2017	2018	
Financial structure (%)	Debt Ratio	58.57	44.24	52.92	65.66	65.28	62.66
	Ratio of long-term capital to real estate, plant and equipment	252.38	282.68	246.62	169.14	199.09	159.98
Solvency %	Current ratio	162.09	201.24	154.30	112.32	139.23	140.32
	Quick ratio	140.21	175.60	118.13	88.35	102.48	94.73
	Interest earned ratio (times)	13.35	19.27	23.13	18.89	12.88	4.51
Operating performance	Accounts receivable turnover (times)	3.75	3.14	3.11	2.84	2.94	2.28
	Average collection days	97.46	116.10	117.23	128.71	124.02	160.15
	Inventory turnover (times)	9.40	7.82	6.25	6.02	6.08	3.72
	Accounts payable turnover (times)	3.27	3.18	3.88	3.94	3.78	2.82
	Average days of sales	38.84	46.67	58.40	60.68	60.07	98.00
	Real estate, plant and equipment turnover (times)	5.08	4.17	4.70	4.38	4.91	2.58
	Total assets turnover (times)	1.05	0.91	0.99	0.90	1.12	0.82
Profitability	Return on total assets (%)	9.42	5.26	3.36	8.39	8.77	4.15
	Return on stockholders' equity (%)	19.85	13.49	6.03	20.00	23.21	8.83
	Pre-tax income to paid-in capital (%)	88.05	66.11	68.76	99.72	137.11	54.01
	Net profit ratio (%)	7.22	6.91	3.13	7.39	6.71	3.93
	Earnings per share (NT\$)	6.73	5.19	1.71	7.55	9.67	1.08
Cash flow	Cash flow ratio (%)	10.99	13.53	0	0.18	15.53	9.20
	Cash flow adequacy ratio (%)	50.38	43.50	32.77	18.37	23.14	28.04
	Cash reinvestment ratio (%)	2.49	0	0	0	9.99	6.11
Leverage	Operating leverage	1.38	1.57	1.47	1.43	1.35	1.94
	Financial leverage	1.07	1.05	1.04	1.07	1.08	1.28

Explanations of changes in financial ratios in the last two years (excluding if variation is less than 20%):

1. Current ratio: the current ratio increased due to the issuance of corporate bonds payable to repay short-term loans in the second half of the year.
2. Interest coverage ratio: the interest coverage ratio decreased due to the increase in borrowing for plant expansion at the beginning of the period and higher interest expenses.
3. Total asset turnover (times): the total asset turnover increased due to the increase of sales in the current period.
4. Ratio of pre-tax income to paid-in capital (%): the ratio of pre-tax income to paid-in capital increased due to the increase in profits for the current period.
5. EPS (NT\$): The EPS increased due to the increase in profits for the current period.
6. Cash flow ratio (%): it increased due to the higher pre-tax profit in the current period and the increase in cash inflow from operating activities.
7. Cash flow adequacy ratio (%): it increased due to the higher pre-tax profit in the current period and the increase in cash inflow from operating activities.
8. Cash reinvestment rate (%): it increased due to the higher pre-tax profit in the current period and the increase in cash inflow from operating activities.

Note 1 : Financial data of the above years have been duly reviewed and audited by independent auditors. EPS is the figure before retroactive adjustment.

Note 2 : The calculation formulae used for financial analysis are as follows:

1. Financial structure

(1) Ratio of liability to asset = total liability / total asset.

(2) Ratio of long-term capital to real estate, plant and equipment = (total equity + non-current liability) / real estate, plant and equipment net amount.

2. Solvency

(1) Current ratio = current asset / current liability.

(2) Quick ratio = (current asset – inventory – prepaid expenses) / current liability.

(3) Interest earned ratio = net profit before income tax and interest expenses / current interest expenses.

3. Operating ability

(1) Accounts payable (including accounts receivable and notes receivable caused by business) turnover ratio = net sales / average accounts receivable (including accounts receivable and notes receivable caused by business) balance.

(2) Average collection days = 365 / accounts payable turnover ratio.

(3) Inventory turnover ratio = sales cost / average inventory.

(4) Accounts payable (including accounts payable and notes payable caused by business) turnover ratio = sales cost / average accounts payable (including accounts payable and notes payable caused by business) balance.

(5) Average days in sale = 365 / inventory turnover ratio.

(6) Real estate, plant and equipment turnover ratio = net sales / average real estate, plant and equipment net amount.

(7) Total assets turnover ratio = net sales / average total assets.

4. Profitability

(1) Return on assets = (after-tax profit and loss + interest expense × (1 – tax rate)) / average total assets.

(2) Return on equity = after-tax profit and loss / average total equity.

(3) Net profit ratio = after-tax profit and loss / net sales.

(4) Earnings per Share (EPS) = (equity attributable to shareholders of parent company – preference dividend) / weighted average issued share number. (Note 4)

5. Cash flow

(1) Cash flow ratio = net cash flow of operations activity / current liability.

(2) Net cash flow adequacy ratio = net cash flow of operating activity in recent five years / recent five years (capital expenditure + inventory increase + cash dividend).

(3) Cash reinvestment ratio = (net cash flow of operating activity - cash dividend) / (real estate, plant and equipment gross + long-term investment + other non-current asset + working capital). (Note 5)

6. Leverage:

(1) Operating leverage = (net operating revenue – changed Operating costs and expense) / operating profit. (Note 6).

(2) Financial leverage = operating profit / (operating profit – interest expense).

### **III. Audit Committee's Review Report for Financial Report 2018**

## **Lemtech Holdings Co., Limited**

### **Audit Committee's Review Report**

The Board of Directors has prepared the Company's 2018 Annual Operating Results in 2018, consolidated financial statements, and earnings distribution proposals. The consolidated financial statements have been verified by Deloitte & Touche CPAs Chih, Jui-Chuan and Li, Li-Huang, and a verification report has been issued.

After the audits of the aforementioned Board of Directors have been verified by the Company's Audit Committee, these documents are found to have no inappropriateness. Pursuant to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby submit this report. Please review.

Sincerely yours

Lemtech Holdings Co., Limited

Chairman of the Audit Committee : Yang, Rui-Long

March 27, 2019

**IV. 2018 Financial Statements, including the auditor's Audit Report, the Two-year Balance Sheet, the Comprehensive Income Statement, the Statements of Changes in Shareholders' Equity, the Statements of Cash Flow and the Notes or Schedules:**

Refer to page 153 to page 224.

**V. 2018 Standalone Financial Report of the Company reviewed and audited by independent auditors:**

This is not applicable because the Company only issues Consolidated Financial Statements of its parent and subsidiary companies.

**VI. Financial Difficulties for the Company and its Affiliates as of the published date:**

None.

## Seven. Review and Analysis of Financial Status and Financial Performance and Risk Management

### I. Balance Sheet Analysis

(I) Reasons and impacts of significant changes in assets, liabilities, and shareholders' equity during the past two years:

Unit: NT\$ Thousand

Item	Fiscal Year		Discrepancy	
	2017	2018	Amount	%
Current Assets	3,320,411	3,805,114	484,703	14.60
Property, Plant And Equipment	970,751	1,230,891	260,140	26.80
Intangible Assets	22,565	22,634	69	0.31
Other Non-Current Assets	403,202	339,788	(63,414)	(15.73)
Total Assets	4,716,929	5,398,427	681,498	14.45
Current Liabilities	2,956,336	2,732,977	(223,359)	(7.56)
Non-current liabilities	140,981	791,346	650,365	461.31
Total liabilities	3,097,317	3,524,323	427,006	13.79
Capital stock	395,411	395,411	0	0.00
Capital surplus	678,811	784,347	105,536	15.55
Retained Earnings	392,869	676,490	283,621	72.19
Other equity interest	7,821	1,375	(6,446)	(82.42)
Non-controlling interest	144,700	16,481	(128,219)	(88.61)
Total Shareholders' Equity	1,619,612	1,874,104	254,492	15.71
<p>Explanation of significant changes-more than 20% change amounting to more than NT\$10 million:</p> <p>(1) Real estate, plant, and equipment: The variation is mainly due to the increase of many machines and equipment to expand the production capacity of Lemtech Precision Material (China) Co., Ltd.</p> <p>(2) Non-current liabilities: The variation is mainly due to the issuance of corporate bonds payable to replenish operating capital and repay bank loans in July 2018.</p> <p>(3) Retained surplus: The variation is mainly due to the increase in net profit in 2018.</p> <p>(4) Non-controlling interests: The variation is mainly due to the repurchase of 10% equity of Lemtech Precision Material (China) Co., Ltd. in October 2018.</p>				

(II) The major influencers should explain the future response plan: there is no significant impact on the company's finances and business.



## II. Income Statement Analysis

(I) Reasons for significant changes in the revenue, operating income, and income before tax during the past two years

Unit: NT\$ Thousand

Item \ Fiscal Year	2017	2018	Increase (decrease) amount	Increasing and Decreasing Ratios (%)
Net Operating Revenue	4,255,549	6,043,090	1,787,541	42.00
Cost of Revenue	3,382,778	4,757,020	1,374,242	40.62
Gross Profit	872,771	1,286,070	413,299	47.35
Operating expenses	532,223	680,111	147,888	27.79
Operating Profit	340,548	605,959	265,411	77.94
Non-Operating Income and Expenditure	53,772	(63,795)	(117,567)	-218.64
Income before Tax	394,320	542,164	147,844	37.49
Income Tax Expense	79,804	136,761	56,957	71.37
Net Income	314,516	405,403	90,887	28.90
other comprehensive income	22,199	(9,189)	(31,388)	-141.39
Comprehensive income attributable to owners of the parent	321,614	376,028	54,414	16.92
Comprehensive income attributable to Non-controlling interest	15,101	20,186	5,085	33.67
<p>Explanation of significant changes-more than 20% change amounting to more than NT\$10 million:</p> <p>(1) Operating revenue increased: It increased primarily due to the increase of the business growth of 3C electronic products and automobiles.</p> <p>(2) Operating cost increased: The cost increased due to the increase of the operating revenue.</p> <p>(3) Gross profit increased: The amount of the gross profit increased due to the increase of the operating revenue.</p> <p>(4) Operating expense increased: It was caused by the raising of salaries and the expenses for the continuance of the new project test examinations which occurred in the current term.</p> <p>(5) Operating income increased: The operating income increased significantly due to the increase of operating revenue and the proper management of expenses.</p> <p>(6) Non-operating expenses increased: The exchange loss caused a larger fluctuation of the current operating revenue and operating cost.</p> <p>(7) Pre-tax income increased: Compared to the same term of last year, the pre-tax income increased in the current term is because the growth of operating income is larger than the change of the non-operating income and expense.</p> <p>(8) Income tax expense increased: The income tax expense of the current term is more than the same term from last year due to the deferred income tax expense generated by the undistributed earnings of the subsidiaries.</p> <p>(9) Net income increased: The growth of the net income of the current term has a decline</p>				

due to the increase of the deferred income tax expense generated by the undistributed earnings of the subsidiaries.

(10) Other comprehensive gain/loss: the change is relatively large due to the exchange rate fluctuation between the US dollar and NTD.

(II) Revenue outlook and its basis, potential impact on the Company's finance and business, and preventive measures: No significant impact.

### III. Cash Flow Analysis

#### (I) 2018 Liquidity Analysis

Unit: NT\$ Thousand

Cash balance at the beginning of the year	Net cash inflow from operations	Net cash inflow	Cash balance at the end of the year	Source of funding for negative cash balance	
				Cash inflow from investment activities	Cash inflow from financing activities
609,909	424,551	(484,168)	550,292	NA	NA
2018 cash flow analysis: Operating activities: mainly due to an increase in net operating income. Investment activities: mainly due to the purchase of real estate, plant, and equipment. Financing activities: mainly due to the purchase of 10% equity of Lemtech Precision Material (China) Co., Ltd and the payment of cash dividends.					

(II) Plans to Improve Negative Liquidity: No cash shortage.

(III) Projected cash flow for 2019: The cash inflow from operating activities in 2019 will still come from the income from operating activities and depreciation expenses. The Company plans to set up an operating headquarters and R&D center in Taiwan, so the capital expenditure is relatively high. This capital will be acquired by financing from the bank at the early-stage of plant construction, and whether or not the capital increase plan is implemented will depend on the actual situation.

### IV. Analysis of Major Capex and its Impact on 2018 Finance and Operations

As a result of the Sino-US trade war, not only are products subject to higher tax rates moved out of mainland China as far as possible, but customers with a higher proportion of the US market have also gradually moved to non-Mainland China areas for production and manufacturing. Considering some products' particularity and almost-same cost in mainland China, the Company plans to purchase land and build a R&D center and operation headquarters in Taiwan, with an estimated cost of NT \$700 million to NT \$800 million. However, the plant is still under planning and construction, which is expected to take about two years. Therefore, some of the capital expenditure will be met by financing in the capital market. This R&D center focuses on the production technology of server heatsink modules, new-type products (including non-stamping), etc. in order to upgrade its own technology, thus making the Company's products more diversified and the Company's operations more stable.

### V. Investment Policies, Reasons for Profit/Loss, Plans for Improvement, and Future Investment Plans

#### (I) Investment Policies

The Company hereof is a holding company, whose main profits come from subsidiaries of its principal business. Furthermore, the Company hereof has strategic investments in industrial or business development. The profitability of the main businesses of all subsidiaries of the Company is quite good, and the strategic investment in companies is not aimed at making profits.

(II) Reasons for Profit/Loss of 2018 and Plans for Improvement

Unit: NT\$ Thousand

Invested Company	Investment Profit/Loss in 2018	Source of Income/Loss	Improvement Plans
Lemtech Global Solution Co. Ltd.	406,646	Investment income from Lemtech Precision Material (China) Co., Ltd	-
Lemtech Precision Material (China) Co., Ltd	466,048	In good operating condition	-
Lemtech Technology Limited	284,868	In good operating condition	-
LDC Precision Engineering Co., Ltd	24,347	In good operating condition	-
Lemtech Precision Material (Czech) s.r.o.	(39,561)	Due to the long operation time of customers, the product certification time is longer, leading to slower growth of revenue, so the revenue is not enough to cover the relevant costs, resulting in after-tax loss.	Customer certification has been completed, and the Company will actively strive for more product orders. Despite delays, the revenue is increasing, and it is expected to start turning from losses to profits next year.
Lemtech USA INC.	(655)	The main source of revenue is the income from market research business. After-tax losses are generated after deducting relevant operating expenses..	Starting to turn from loss to profit in 2019
Lemtech Industrial Services Ltd	(6,168)	Investment loss from Kunshan Lemtech Slide Technology Co., Ltd. (China)	Starting to turn from loss to profit in 2019
Kunshan Lemtech Slide Technology Co., Ltd.	(8,744)	Last year was still a period of adjustment. Although revenue could not cover the relevant costs, the operating conditions have improved significantly since the fourth quarter.	After adding new products and new products, the Kunshan Lemtech Slide Technology Co., Ltd. (China)'s operating conditions have begun to improve and make profits in 2019.
Aapico Lemtech (Thailand) Co., Ltd.	14,164	In good operating condition	-

Invested Company	Investment Profit/Loss in 2018	Source of Income/Loss	Improvement Plans
Lemtech Cryomax Corporation	171	In good operating condition	-

(II) Future Investment Plan

1. Mainland China: no large-scale investment plan is currently available, but the Company will replace non-productive equipment according to market changes.
2. Expansion of overseas locations: In response to the Sino-US trade war, customers have decided to set up factories in the Philippines. In order to maintain good interaction with customers and obtain orders, the Company plans to set up plants in the Philippines.

## VI. Risk Management and Analysis for 2018 and up to the Publication Date

(I) Impact of interest, inflation, and exchange rate fluctuations, as well as preventive measures:

1. Interest rate fluctuations

(1) Impact on Company's revenue and profits

The interest expenses in 2018 and 2017 accounted for about 0.76%/10.33% and 0.52%/7.01% of the Group's net revenue and net income after tax, respectively. The increase in interest expenditure in 2018 is due to borrowing from banks for capital expenditure, as well as the increase in the US dollar interest rate pushing up the benchmark interest rate for borrowing. Due to the aforementioned two reasons, the interest expenses for 2018 were increased to NT\$ 42 million.

(2) Specific preventive measures

As the interest rate for US dollar loans is still at high, efforts have been made to change some of the loans into NT dollars with lower interest rates. However, for the Company's development, the loan amount will remain at a higher level, so the Company can only seek a lower borrowing cost, without reducing the loan amount for the time being.

According to the Company's overall plan, a plant office and R&D center will be built in Taiwan this year. During the construction period, the Company will consider such factors as capital cost, bank loan, and debt ratio, and then carry out financing in the capital market or increase capital through equity projects to improve the Company's financial situation.

2. Exchange rate fluctuations

(1) Impact on Company's revenue and profits

Unit: NT\$ Thousand ; %

Year/Item	2017	2018
Exchange Net Gains or Losses	62,507	(49,300)
Net Operating Revenue	4,255,549	6,043,090
Exchange Gains or Losses /Net Operating Revenue(%)	1.47	(0.82)
Operating Income	340,548	605,959
Exchange Net Gains or Losses /Operating Income Margin (%)	18.35	(8.14)

In 2017 and 2018, the significant fluctuation in exchange rate of the US dollar against RMB and Taiwan dollar resulted in an exchange loss of about NT\$ 49 million for the whole year, which accounted for 1.47%/-0.82% of operating revenue and 18.35% and -8.14% of operating profit, respectively.

Unit: %

Item \ Year	2017		2018	
	Sales	Purchase	Sales	Purchase
Percentage by USD	56.65	49.81	63.99	53.59
Percentage by RMB	38.58	47.22	33.42	44.20
Percentage by JPY	1.50	1.44	0.96	0.91
Percentage by EUR	3.12	0.05	1.60	0.02
Percentage by NTD	0.15	1.48	0.02	1.28
Total	100.00	100.00	100.00	100.00

Currently, the Company's transaction are mainly made in US dollars and RMB. In 2018, more products were sold in US dollars, so its proportion increased.

(2) Specific preventive measures:

- A. The Company's business departments have considered the impact of exchange rate fluctuation on the sales price when quoting and adjusted the product price according to exchange rate fluctuation to ensure the profits of the Company's products.
- B. The financial department of the Company will consult with the foreign exchange department of the bank about exchange rate trends and invite external professionals to offer advice on the risky balance of the Company and adopt appropriate measures at appropriate times to reduce the exchange rate risk.
- C. Apart from liabilities for special net assets, natural risk aversion is still adopted as the main strategy of risk control for exchange rate risk exposure balance arising from routine sales, and the balance of foreign currency assets and liabilities are adjusted in a timely manner to reduce the risk of exchange rate fluctuations.

3. Impact of inflation

Inflation had a minimal impact on the Company's profit/loss in 2018. The Company will also adjust the price appropriately if purchase costs increase due to inflation. Since the Company is always concerned about the fluctuation of market prices and maintains good interaction with suppliers and customers, inflation had no significant impact.

(II) Investment policy and reasons for gains & losses for high-risk/high-leverage financial products, loans to others, guarantees of debts, and derivatives transaction and preventive measures:

The operating strategy of the Company has always been based on the principles of stability and conservatism, and the Company did not engage in high-risk/high-leverage financial products in 2018. The Company and its subsidiaries have passed the "Rules and Procedures on Lending to Others and Making Endorsements/Guarantees and Acquisition/Disposal of Assets" as the basis for relevant operations and has also considered the risk and carefully implemented the rules and procedures.

The Company's derivatives transactions are mainly long-term foreign exchanges from RMB to US dollars, the purpose of which is to avoid fluctuation of the US dollar exchange

rate. All operations are subject to the Company's internal control system "Investment Cycle" and "Rules and Procedures on the Acquisition/Disposal of Assets".

(III) Future research and development plans:

The Company has currently established research and development departments in Lemtech Precision Material (China) Co., Ltd and Lemtech Precision Industry Co., Ltd. For future development, Lemtech Precision Material (China) Co., Ltd has mainly been focusing on the research and development of mold development and process improvement of metal stamping products, such as heatsinks, automobile components, and construction components. In 2010, the Company established a mold research and development center with higher professional colleges in Republic of China for carrying out school-enterprise cooperation to train professional and technical personnel. At the end of 2011, the Company set up a research and development center in Taiwan with the aim of actively developing new core products and new heatsink systems with higher added value. By means of a complete upper, middle, and lower industrial chain and a close system of industry-official-school-research (i.e. manufacturers, government, colleges, and research departments), the Company recruits outstanding talents and obtains emerging technology and information to enhance its level of research and development and competitiveness.

In 2018, the Company invested NT\$ 151,893,000 in research and development expenses for product research and development, production technology innovation, and process improvement. The Company is expected to continue to increase its investment in research and development expenses in 2019. In response to future development, the Company will continue to invest in research and development of automatic production lines and will gradually replace manual work in technical positions with robots, thus improving production efficiency and quality, reducing manufacturing costs, coping with the rapid growth of labor costs in Republic of China, maintaining the sustainable development of enterprises, and enhancing competitiveness among peers (the following table shows the planned R&D projects and capital investment in 2019).

Project name	Project description	R&D expenses (NT\$'0000)	Planned completion time
CCD missing process detection assembly line equipment for auto parts	Used for testing the finished products of welding parts for steering brackets	606	2019-09
Disc-type automatic pulling rivet device for auto steering columns	Used in the manufacture of automobile steering system parts	216	2019-12
Laser welding tool for automobile steering column brackets	Used in the manufacture of automobile steering system parts	1,188	2019-11
Hydraulic punching workstation for pipe parts	Used in the manufacture of automobile steering system parts	2,700	2019-12
Automatic assembly line for horn bracket of automobile steering wheels	Used in the manufacture of automobile steering wheel parts	2,025	2019-08
Connecting mold for bracket of automobile handbrake assembly	Used in the manufacture of auto handbrake parts	1,755	2019-07
Welding tool assembly for automobile armrest boxes	Used in the manufacture of auto armrest box parts	540	2019-09

High-power temperature detector for computer servers	Used for testing the performance of heatsink modules	1,944	2019-10
Automatic production equipment for computer servers	For the production and use of heatsink modules	900	2019-10
Total		11,874	

(IV) Impact of important policy and regulation changes at home and abroad on the Company's financial business and preventive measures:

The Company is registered in the Cayman Islands, and the principal place of operation is in Republic of China. All businesses of the Company are conducted in accordance with important policies, laws, and regulations at home and abroad. The Company constantly pays attention to important domestic and foreign policy development trends and law changes in order to take appropriate countermeasures in accordance with the changes in the market environment. As of now, changes of important policies and regulations at home and abroad have had a minimal impact on the Company's financial business.

(V) Impact of changes in technology and industry on the Company's financial business and preventive measures:

The Company has actively strengthened interaction and communication with customers, initially obtained customer information, and maintained the continuous development of new products. The Company has diversified its customers as much as possible to avoid the risk of sales concentration. In addition to 3C auto parts and construction components, the Company has actively developed stamping component products to strengthen the stability of the Company's product structure and reduce the possible impact caused by rapid changes in electronic products. However, overall, metal stamping parts are in great demand and are at little risk of being replaced by other high-tech products in the foreseeable future.

(VI) Impact of changes in brand image on the Company's risk management policies and preventive measures:

Since its foundation, the Company has actively strengthened its internal management, improved the performance of management quality, and strived to maintain the brand image and abide by relevant laws and regulations. No significant brand image changes occurred that impacted the Company's crisis management in 2018.

(VII) Expected benefits and risks from mergers and preventive measures: None.

(VIII) Expected benefits and risks related to plant facility expansions and preventive measures:

Lemtech Precision Material (China) Co., Ltd, a subsidiary of the Company, has maintained continuous growth, the second-phase plant of which was completed in 2017 and started full production in October of the same year. The main benefits of the second-phase plant are to save the rental cost of the plant due to insufficient space, reduce unnecessary transportation time, and enhance management efficiency and benefits. The Company still primarily uses the existing production capacity and equipment to meet market demands. In addition to replacing old plants with new ones, in the future, investment plans for new equipment will be carefully evaluated based on actual market needs.

In November 2018, the Company's board of directors passed a resolution to purchase real estate. After acquiring land, the Company will build a plant and purchase machinery and equipment to prepare for the foreseeable growth of revenue in the future, with the main

items being sports equipment, heatsink modules, and server heatsink products. The revenue contributing to the Company next year is estimated to be about NT\$ 600 million to NT\$ 1 billion, and the profit will increase by NT\$ 80 million in one year, thus generating positive cash flow for the Company.

(IX) Risks from supplier and buyer concentrations and preventive measures:

In recent years, as of the publication date, the sales amount of the largest customer exceeds 20% of the revenue, and the remaining single customers of the Company and its subsidiaries account for less than 10% of the revenue for the current year. The Company continues to actively expand new customers and develop new markets to prevent risks from supplier and buyer concentrations.

In recent years and as of the publication date, the amount of each major supplier of the Company and its subsidiaries does not exceed 20% of the total purchase amount. Except for as specified by customers, at least two suppliers with good quality and reputation are arranged for primary raw materials. Major suppliers of the Company and its subsidiaries have maintained long-term cooperation with the Group, and the sources are stable.

(X) Impact and risks of significant changes in shareholdings of directors and major shareholders holding more than 10% of the shares and preventive measures:

There is no significant transfer or exchange in shareholdings of directors or major shareholders holding more than 10% of the Company's shares in the most recent year and as of the publication date of the annual report.

(XI) Impact and risks of changes in management controls as of the publication date:

There is no change in management controls in the most recent year and as of the publication date of the annual report.

(XII) Significant lawsuits, non-litigious or administrative litigation matters that have been determined or are still in the process of being adjudicated of the Company, the Company's directors, General Manager, any person with actual responsibility within the Company, any major shareholder holding more than 10 percent of the Company's shares, and the Company's subsidiaries, with a significant impact on shareholder equity or security prices, shall disclose the disputed facts, the target amount, the date of commencement of the lawsuit, the main parties involved in the lawsuit, and the handling as of the publication date:

A subsidiary of the Company received a civil complaint filed by King Slide Technology Co., Ltd. (hereinafter referred to as King Slide) on June 26, 2018 with the Jiangsu Provincial Higher People's Court. King Slide sued Lemtech Precision Material (China) Co., Ltd and Kunshan Lemtech Slide Technology Co., Ltd. (China) for infringement of its patent rights due to producing, manufacturing, and selling slide rail products without the permission of King Slide and claimed RMB 100 million yuan, rights protection fee of RMB 183,090 yuan, and NT\$ 31,748. Regarding this lawsuit, the opinions of the entrusted lawyer are as follows: Lemtech Precision Material (China) Co., Ltd is mainly engaged in the R&D, production, and sales of precision metal stamping parts and dies, and its main products are the stamps of heatsink modules, automobile parts modules, and other parts. As for slide rail products, Lemtech Precision Material (China) Co., Ltd only accepted orders to manufacture stamping parts and has not been the manufacturer or seller of slide rail products, so it should not be held liable for infringement in this lawsuit. All the slide rail products produced by Kunshan Lemtech Slide Technology Co., Ltd. (China) have relevant patents right (some of which are still in the application process). After preliminary judgment by the entrusted lawyer, they are



different from the product patents of King Slide. Furthermore, the evidence for King Slide to claim compensation is insufficient, so the possibility of compensation is not likely. The lawsuit was heard for the first time on January 25, 2019 and is still in the process of trial at first instance. The result of this lawsuit cannot be predicted at present.

King Slide filed a lawsuit against Lemtech Precision Material (China) Co., Ltd's infringement with the Higher People's Court of Jiangsu Province of China and sent a statement letter to customers of Lemtech Precision Material (China) Co., Ltd, which has resulted in a negative impact on the reputation of Lemtech Precision Material (China) Co., Ltd. Therefore, on behalf of Lemtech Precision Material (China) Co., Ltd, the Company filed a lawsuit with Taiwan Ciaotou District Court on January 15, 2019. The Company and its subsidiaries have determined that the lawsuit should have no significant impact on shareholders' rights or securities prices and have entrusted lawyers with defending the rights and interests of the Company and all of its shareholders.

(XIII) Other major risks: None.

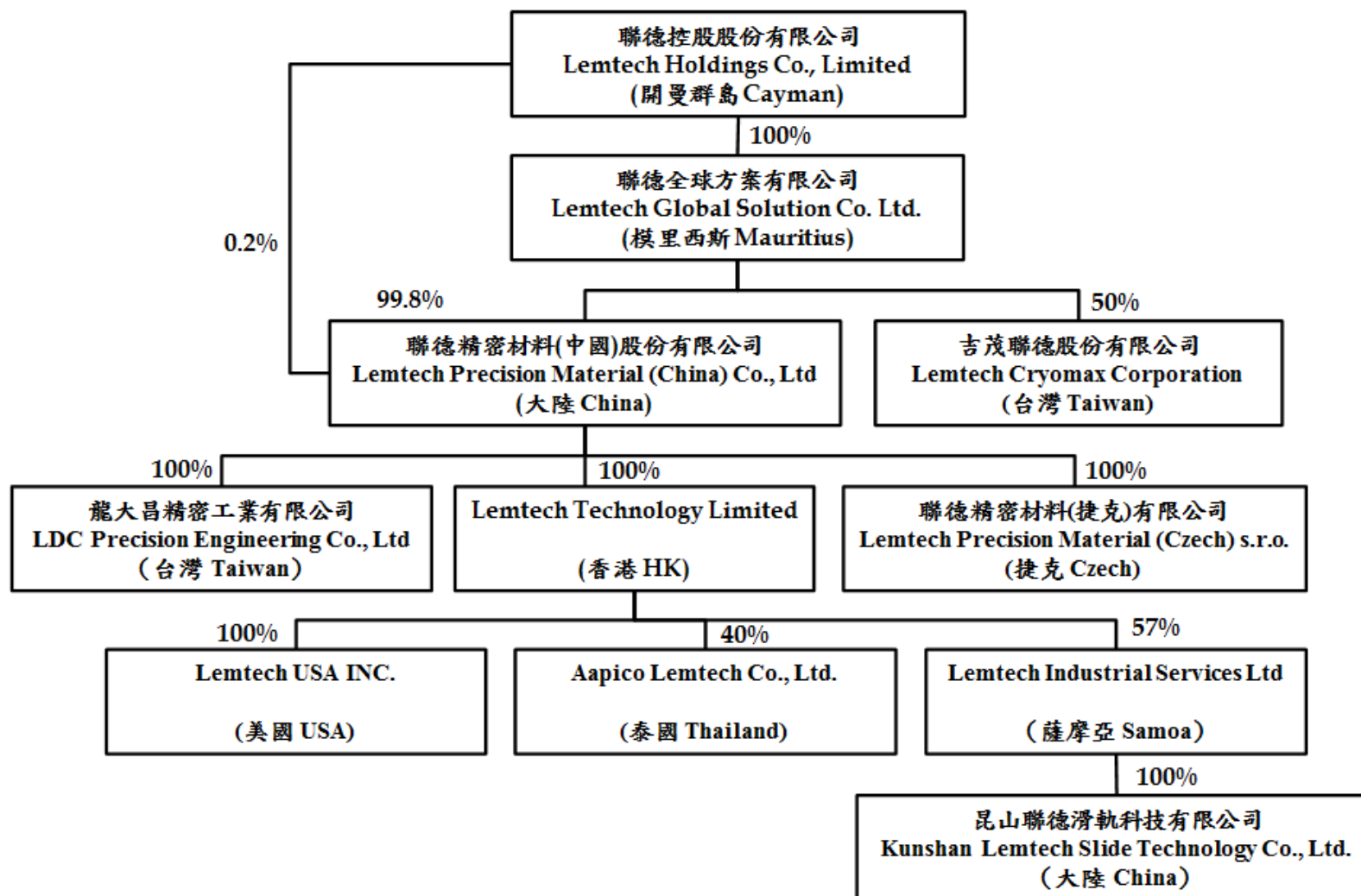
## **VII. Other significant items**

The Company hereof is registered in the British Cayman Islands, which is only the registered place of the Group. The Company has no substantial economic activities in the Cayman Islands. Its main places of operation are Republic of China, Taiwan, and Hong Kong. Therefore, the operation of the Group will be affected by changes in the overall economic and political environment of the place of registration and the place of operation, as well as fluctuations in foreign exchanges. The provisions of the British Cayman Islands Company Law differ significantly from the Company Law in Taiwan. Although the Company has amended its articles of association according to the "Checklist for Protection of Shareholders' Rights and Interests in the Place of Registration of Foreign Issuers" stipulated by TWSE, the laws of the Cayman Islands and Taiwan still differ greatly regarding the operation of the Company. Therefore, investors need to be aware of that and consult experts on the risks of relevant investments.

## Eight. Special Notes

### I. Affiliates

(I) Organization chart of affiliated enterprises



## (II) Affiliates' profile

April 19, 2019 Unit: NT\$ Thousand

Company	Date of establishment	Address	Contributed capital	Main business
Lemtech Global Solution Co. Ltd.	2003.01	3rd floor, Raffles Tower, 19 Cybercity, Ebène, Republic of Mauritius	US\$ 2,500	Investment
Lemtech Precision Material (China) Co., Ltd	2003.03	128, Weita Rd., Zhangpu Town, Kunshan City, Jiangsu, China	RMB 63,000	Production and design of computers, mobile terminals, server components, automotive components, all kinds of fine stamping molds, stamping cast molds, non-metal molds, computer connectors, computer heatsink modules, and other new-type electronic components; marketing of self-produced products
LDC Precision Engineering Co., Ltd	2010.05	Building E032, No. 1, Weiwang St., Shulin Dist., New Taipei City 23872, Taiwan	NT\$ 9,524	Manufacturing and wholesale of electrical appliances, audio-visual electronic products, other electrical machines and electronic mechanical devices, automobiles and their parts, and other optical and precision instruments
Aapico Lemtech (Thailand) Co., Ltd.	2013.03	No. 56 Moo 9, Tha-noo Subdistrict, U-Thai District, Phranakhon Si Ayutthaya Province	BT 40,000	Research and development, production, manufacture, and assembly of peripheral spare parts for automobiles, electronics, and computers
Lemtech USA INC.	2013.06	185 ESTANCIA DR SUITE 117 SAN JOSE CA 95134	US\$ 50	Expansion of US business, collection of business information, provision of market and industry information

Company	Date of establishment	Address	Contributed capital	Main business
Lemtech Technology Limited	2014.04	Room 2702-03, CC Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong	US\$ 20	Selling of peripheral spare parts for automobiles, electronics, and computers
Lemtech Industrial Services Ltd	2015.12	Offshore Chambers, P.O. Box 217, Apia, Samoa	US\$ 2,500	Selling of peripheral spare parts for electronics and computers
Kunshan Lemtech Slide Technology Co., Ltd.	2016.07	Room 3, No. 288, Jiangfeng Road, Zhangpu Town, Kunshan City, Jiangsu, P.R. China	RMB 15,000	Design and production of slide rails, rotating shafts, and related accessories; marketing of self-produced products
Lemtech Precision Material (Czech) s.r.o.	2016.09	Logistické Centrum Jihlava LCJ/Jipocar Hala B, 588 11 Střítež u Jihlavy 3, Czech	CZK 152,000	Production of auto parts (sunroof, brake and safety belt, airbag, etc.) and assembly parts (steering wheel, drive shaft, etc.), consumer electronic parts, and server products
Lemtech Cryomax Corporation	2015.04	2 F-4, No. 381, Sec. 3, Dongxing Rd., Xitun Dist., Taichung City, Taiwan	NT\$ 10,000	Manufacturing and wholesale of mechanical equipment, molds, electrical appliances and audio-visual electronic products, other electrical machines, electronic and mechanical equipment, automobile parts, and other optical and precision instruments

(III) The same shareholder information with controlling and affiliation relationship: None.

## (IV) Information of Directors, Supervisors, and General Managers of affiliated enterprises

April 19, 2019 Unit: Share ; %

Company	Title	Name or Representative	Shareholdings	
			Share	Shareholding ratio
Lemtech Global Solution Co. Ltd.	Director	Hsu, Chi-Feng	—	—
	Director	Ye, Hang	—	—
	Director	Chan Kim Seng Maurice	—	—
Lemtech Precision Material (China) Co., Ltd	Chairman	Hsu, Chi-Feng	—	—
	Director and General Manager	Ye, Hang	—	—
	Director	Chan Kim Seng Maurice	—	—
	Director	Tan, Yong	—	—
	Director	Cai, Wen Long	—	—
LDC Precision Engineering Co., Ltd	Chairman and General Manager	Hsu, Chi-Feng	—	—
	Director	Hsu, Chi-Feng	—	—
Aapico Lemtech (Thailand) Co., Ltd.	Director	Chan Kim Seng Maurice	—	—
	Director	Yeap Swee Chuan	—	—
	Director	Teo Lee Ngo	—	—
	Director	Kawee Wasarucharekul	—	—
Lemtech USA INC.	Director	Hsu, Chi-Feng	—	—
Lemtech Technology Limited	Director	Hsu, Chi-Feng	—	—
Lemtech Industrial Services Ltd	Director	Hsu, Chi-Feng	—	—

Company	Title	Name or Representative	Shareholdings	
			Share	Shareholding ratio
Kunshan Lemtech Slide Technology Co., Ltd.	Chairman	Hsu, Chi-Feng	—	—
	General Manager	CHAY CHIN TAT	—	—
Lemtech Precision Material (Czech) s.r.o.	Director	Ye, Hang	—	—
	General Manager	Stanislav Stepanek	—	—
Lemtech Cryomax Corporation	Chairman	Liu, Yen-Ti	—	—
	Director	Chiang, Pin-Chi	—	—
	Director	Lei, Hui-Ling	—	—
	Supervisor	Lo, An-Hua	—	—

(V) Situations of business operations of each affiliate enterprise

Dec 31, 2018 ; Unit: NT\$ Thousand

Company	Capital	Total Assets	Total liabilities	Net Value	Operating Revenue	Operating Income	Net Income (after tax)	EPS (NT\$) (after tax)
Lemtech Global Solution Co. Ltd.	112,397	2,361,387	120,327	2,241,059	0	(1,226)	410,904	164.36
Lemtech Precision Material (China) Co., Ltd	273,372	4,337,235	2,631,012	1,706,223	4,049,487	346,689	495,174	7.86
LDC Precision Engineering Co., Ltd	9,524	259,714	94,438	165,277	285,587	26,201	24,347	(Note 1)
Lemtech USA INC.	1,502	149	0	149	6,086	(669)	(655)	(Note 1)
Lemtech Technology Limited	597	1,188,612	762,148	426,465	1,950,587	276,760	284,868	(Note 1)
Lemtech Industrial Services Ltd	82,091	50,369	12,042	38,327	26,323	(2,149)	(10,821)	(4.42)
Kunshan Lemtech Slide Technology Co., Ltd.	69,758	82,404	50,953	31,451	108,633	(8,714)	(8,744)	(Note 1)
Lemtech Precision Material (Czech) s.r.o.	269	221,969	91,399	130,572	21,882	(37,667)	(39,561)	(Note 1)

Note 1 : The Company is not a limited liability company, so calculating earnings per share is impossible.

(VI) Consolidated financial statements of affiliated enterprises: They are the same as the consolidated financial statements of parent and subsidiary companies, please refer to page 153 to page 224.

(VII) Report on affiliated enterprises: not applicable.

**II. Private placement of company shares as of the publication date: None.**

**III. The Company's shares held/sold by subsidiaries as of the publication date: None.**

**IV. Other supplementary information: None.**

**V. The matters shall include an explanation of any material differences from the rules of the R.O.C. in relation to the protection of shareholder equity**

Shareholders' Rights/Interests Protection Checklist	Cayman law and description	AOA regulations and description of difference
<p>A company choosing to issue no par value shares shall not convert its shares into par value shares.</p>	<p>Under the Companies Law (2018 Revision) of the Cayman Islands (the "<b>Cayman Companies Law</b>") there is no provision as to the conversion between shares with or without par value.</p> <p>Section 8(1) of the Cayman Companies Law provides that an exempted company proposed to be registered may be divided into shares without nominal or par value in which case the memorandum of association of such company shall contain the amount of the aggregate consideration for which such shares may be issued and no exempted company shall divide its capital into both shares of a fixed amount and shares without nominal or par value.</p>	<p>The difference between the AOA and the Shareholders' Rights/Interests Protection Checklist is due to the reason that the Cayman Companies Law does not have specific regulations on the conversion between shares with or without par value and the Article 8 of the AOA states the Company choose to issue par value shares. The Company expects to amend the AOA to include the provision in the left column of the Shareholders' Rights/Interests Protection Checklist by the annual shareholders' meeting of 2019.</p>
<p>When conducting its business, every company shall comply with the laws and regulations as well as business ethics and may take actions which will promote public interests in order to fulfill its social responsibilities.</p>	<p>The Cayman Companies Law does not have equivalent provisions.</p>	<p>The difference between the AOA and the Shareholders' Rights/Interests Protection Checklist is due to the reason that the Cayman Companies Law does not have equivalent provisions on the Corporate Social Responsibility and the Company has promulgated the Practical Code for Corporate Society. The Company expects to amend</p>



Shareholders' Rights/Interests Protection Checklist	Cayman law and description	AOA regulations and description of difference
		the AOA to include the provision in the left column of the Shareholders' Rights/Interests Protection Checklist by the annual shareholders' meeting of 2019.
<p>Shareholder(s) holding one percent (1%) or more of the total number of outstanding shares of a company may propose to the company a proposal for discussion at an annual shareholders' meeting. Unless the subject (the issue) of the said proposal cannot be settled or resolved by a resolution to be adopted at a meeting of shareholders, the number of shares of the company in the possession of the shareholder making the said proposal is less than one percent (1%) of the total number of outstanding shares at the time when the share transfer registration is suspended by the company, the said proposal is submitted on a day beyond the deadline fixed and announced by the company for accepting shareholders' proposals, the said proposal containing more than 300 words or more than one matters in a single proposal, the board of directors of the company shall include the proposal submitted by a shareholder in the list of proposals to be discussed at a regular meeting of shareholders. A shareholder proposal proposed for urging a company to promote public interests or fulfill its social responsibilities may still be included in the list of proposals to be discussed at a</p>	<p>The Cayman Companies Law does not include specific provisions regarding the proposal right of shareholders pursuant to which shareholders may put items on the agenda for shareholder meetings.</p>	<p>The principal content of the Shareholders' Rights/Interests Protection Checklist in the left column is provided in the Article 33 of the AOA. The difference between the AOA and the Shareholders' Rights/Interests Protection Checklist is due to the reason that the Cayman Companies Law does not include specific provisions regarding the proposal right of shareholders and the items shareholders may put on the agenda for shareholder meetings. The Company expects to amend the AOA in accordance with the provision in the left column of the Shareholders' Rights/Interests Protection Checklist by the annual shareholders' meeting of 2019.</p>

Shareholders' Rights/Interests Protection Checklist	Cayman law and description	AOA regulations and description of difference
regular meeting of shareholders by the board of directors.		
Shareholders continuously holding 50% or more of the total number of outstanding shares of a company for three consecutive months or longer may convene a special shareholders' meeting. The calculation of the holding period and holding number of shares shall be based on the holding at the time of share transfer suspension date.	<p>The Cayman Companies Law does not include specific provisions setting out detailed procedures for calling special shareholders' meetings.</p> <p>Section 58 of the Cayman Companies Law requires that a general meeting of every company, other than an exempted company, shall be held at least once in every year. For exempted companies, it is not mandatory under the Cayman Companies Law to hold an annual general meeting.</p>	<p>The difference between the AOA and the Shareholders' Rights/Interests Protection Checklist is due to the reason that the Cayman Companies Law does not have specific provisions setting out detailed procedures for calling special shareholders' meetings. The Company expects to amend the AOA to include the provision in the left column of the Shareholders' Rights/Interests Protection Checklist by the annual shareholders' meeting of 2019.</p>
<p>The following matters shall be enumerated and explained in the notice to convene the shareholders meeting, with key information being provided, and should not be proposed by way of an extemporary motion at the meeting; material contents of such matters may be uploaded onto the website designated by the competent authority in charge of securities affairs or the Company with the address of website indicated in the notice:</p> <ol style="list-style-type: none"> <li>(1) Election or discharge of director(s) and supervisor(s);</li> <li>(2) Amendment to the memorandum and articles of association;</li> <li>(3) Reduction in share capital;</li> <li>(4) Application for the approval of ceasing its status as a public</li> </ol>	<p>The Cayman Companies Law does not include specific provisions setting out detailed procedures for shareholders' meetings.</p>	<p>The principal content of the Shareholders' Rights/Interests Protection Checklist in the left column is provided in the Article 29 of the AOA. The difference between the AOA and the Shareholders' Rights/Interests Protection Checklist is due to the reason that the Cayman Companies Law does not include specific provisions setting out detailed procedures for shareholders' meetings and supervisors and the Company has established the audit committee. The Company expects to amend the AOA in accordance with the provision in the left column of the Shareholders' Rights/Interests Protection Checklist by the annual shareholders' meeting of 2019.</p>

Shareholders' Rights/Interests Protection Checklist	Cayman law and description	AOA regulations and description of difference
<p>company;</p> <p>(5) Dissolution, merger, share transfer and split-up of the company;</p> <p>(6) Signing of, amendment to or termination of a contract in respect of lease of all business, appointment of an agent to operate business, or regular joint operation with a third party;</p> <p>(7) Assignment of all or major business or assets;</p> <p>(8) Assumption of all business or assets of a third party that may have a significant impact on the operation of the company;</p> <p>(9) Issue of securities of a nature similar to shares in private placement;</p> <p>(10) Approval of performance of activities by director in violation of non-compete restrictions;</p> <p>(11) Allocation of all or part of share dividends and bonuses through issue of new shares;</p> <p>(12) Allocation of legal reserve and additional paid-in capital from the income derived from the issuance of new shares at a premium or from endowments received by the company by issuing new shares or by paying cash to original shareholders through issue of shares.</p>		
<p>Thirty days before a company convenes an annual shareholders' meeting or fifteen days before a special shareholders' meeting, the company shall prepare</p>	<p>The Cayman Companies Law does not include specific provisions setting out supervisors.</p>	<p>The principal content of the Shareholders' Rights/Interests Protection Checklist in the left column is provided in the Article 28 of the AOA. As the Cayman</p>

Shareholders' Rights/Interests Protection Checklist	Cayman law and description	AOA regulations and description of difference
<p>electronic files of the meeting announcement, proxy form, explanatory materials relating to proposals for ratification, matters for deliberation, election or dismissal of directors or supervisors, and other matters on the shareholders' meeting agenda, and upload them to the Market Observation Post System.</p>		<p>Companies Law does not include specific provisions setting out supervisors and the Company has established the audit committee, the AOA is not amended to include "the electronic files of the meeting announcement, proxy form, explanatory materials relating to the matters for deliberation, election or dismissal of supervisors shall be prepared thirty days before a company convenes a annual shareholders' meeting or fifteen days before a special shareholders' meeting".</p>
<p>The statements and records of accounts prepared by the board of directors and the report made by the supervisors shall be made available at the head office for inspection at any time by the shareholders, ten days prior to the meeting of shareholders.</p>	<p>The Cayman Companies Law does not include specific provisions setting out supervisors.</p>	<p>The principal content of the Shareholders' Rights/Interests Protection Checklist in the left column is provided in the Article 99 of the AOA. As the Cayman Companies Law does not include specific provisions setting out supervisors and the Company has established the audit committee, the AOA is not amended to include "the report made by the supervisors shall be made available at the head office for inspection at any time by the shareholders, ten days prior to the meeting of shareholders."</p>
<p>The board of directors shall keep at the head office of the company copies of the Articles of Incorporation, the minutes of every meeting of the shareholders and the financial statements, and shall keep at the head office of the company or the business</p>	<p>There is no specific provision under the Cayman Companies Law in relation to the rights of a shareholder to inspect/copy/make copies of the minutes of shareholders meeting of an exempted company.</p>	<p>The principal content of the Shareholders' Rights/Interests Protection Checklist in the left column is provided in the Article 100 of the AOA. The difference between the AOA and the Shareholders' Rights/Interests Protection</p>

Shareholders' Rights/Interests Protection Checklist	Cayman law and description	AOA regulations and description of difference
<p>office of its shareholder service agent the shareholders roster and the counterfoil of corporate bonds issued by the company. Any shareholder and any creditor of a company may request at any time, by submitting evidentiary document(s) to show his/her interests involved and indicating the scope of interested matters, an access to inspect, transcribe and to make copies of the Articles of Incorporation and accounting books and records referred to in the preceding paragraph; if the Articles of Incorporation and accounting books and records are kept in a shareholder service agent, the company shall make such agent to provide with the access.</p>	<p>According to the Cayman lawyer, shareholders are entitled to receive copies of the memorandum and articles of association of the company upon request.</p> <p>Under the Cayman Companies Law, the register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or shareholder of the company at all reasonable times.</p> <p>The Cayman Companies Law provides that inspectors may be appointed to inspect the affairs of a company, either by the company by special resolution; or by an order of the Court upon an application by the company's shareholders. All officers and agents of the company are under a duty, to produce all books and documents in their custody or power to the inspector for examination.</p>	<p>Checklist is due to the reason that the Cayman Companies Law does not include specific provisions setting out the rights of a shareholder to inspect/copy/make copies of the minutes of shareholders meeting. The Company expects to amend the AOA in accordance with the provision in the left column of the Shareholders' Rights/Interests Protection Checklist by the annual shareholders' meeting of 2019.</p>
<p>The board of directors or other authorized conveners of shareholders' meetings may require a company or its shareholder service agent to provide with the roster of shareholders.</p>	<p>There is no specific statutory provision under the Cayman Companies Law setting out the procedures in relation to the request of inspecting register of members of Cayman exempted company from the board of directors and other authorized conveners of the shareholders' meetings.</p>	<p>The difference between the AOA and the Shareholders' Rights/Interests Protection Checklist is due to the reason that the Cayman Companies Law does not have specific provisions setting out the procedures in relation to the request of inspecting register of members of Cayman exempted company from the board of directors and other authorized conveners of the shareholders' meetings. The Company expects to amend the AOA to include the provision in the left column of the</p>

Shareholders' Rights/Interests Protection Checklist	Cayman law and description	AOA regulations and description of difference
		Shareholders' Rights/Interests Protection Checklist by the annual shareholders' meeting of 2019.
The term of office of a supervisor shall not exceed three years, but he may be eligible for re-election.	The Cayman Companies Law does not include specific provisions setting out supervisors.	As the Cayman Companies Law does not include specific provisions setting out supervisors and the Company has established the audit committee, the AOA is not amended to include regulations related to supervisors.
In the process of electing directors or the supervisors at a shareholders' meeting, the number of votes exercisable in respect of one share shall be the same as the number of directors to be elected, and the total number of votes per share may be consolidated for election of one candidate or may be split for election of two or more candidates. A candidate to whom the ballots cast represent a prevailing number of votes shall be deemed a director elect.	The Cayman Companies Law does not include specific provisions setting out supervisors.	As the Cayman Companies Law does not include specific provisions setting out supervisors and the Company has established the audit committee, the AOA is not amended to include regulations related to supervisors.
A person who is under any of the following circumstances shall not act as a director of a company. If he has been appointed as such, he shall certainly be discharged: 1. Having committed an offence as specified in the Statute for Prevention of Organizational Crimes and subsequently convicted of a crime, and has not started serving the sentence, has not completed serving the sentence, or five years have not elapsed since	There is no specific statutory provision under the Cayman Companies Law setting out the circumstances in which a person shall not act as a director.	The principal content of the Shareholders' Rights/Interests Protection Checklist in the left column is provided in the Article 75 of the AOA. The difference between the AOA and the Shareholders' Rights/Interests Protection Checklist is due to the reason that the Cayman Companies Law does not include specific provisions setting out the circumstances in which a person shall not act as a director. The Company expects to amend the AOA

Shareholders' Rights/Interests Protection Checklist	Cayman law and description	AOA regulations and description of difference
<p>completion of serving the sentence, expiration of the probation, or pardon;</p> <p>2. Having committed the offence in terms of fraud, breach of trust or misappropriation and subsequently convicted with imprisonment for a term of more than one year, and has not started serving the sentence, has not completed serving the sentence, or two years have not elapsed since completion of serving the sentence, expiration of the probation, or pardon;</p> <p>3. Having committed the offense as specified in the Anti-corruption Act and subsequently convicted of a crime, and has not started serving the sentence, has not completed serving the sentence, or two years have not elapsed since completion of serving the sentence, expiration of the probation, or pardon;</p> <p>4. Having been adjudicated bankrupt or adjudicated of the commencement of liquidation process by a court, and having not been reinstated to his rights and privileges;</p> <p>5. Having been dishonored for unlawful use of credit instruments, and the term of such sanction has not expired yet</p> <p>6. Having no or only limited disposing capacity; or</p>		<p>in accordance with the provision in the left column of the Shareholders' Rights/Interests Protection Checklist by the annual shareholders' meeting of 2019.</p>

Shareholders' Rights/Interests Protection Checklist	Cayman law and description	AOA regulations and description of difference
7. Having been adjudicated of the commencement of assistantship and such assistantship having not been revoked yet.		
<p>1. Each director shall, after having been elected, declare to the competent authority the number and amount of the shares of the company being held by him/her at the time when he/she is elected. In case a director of a company whose shares are issued to the public that has transferred, during the term of office as a director, more than one half of the company's shares being held by him/her at the time he/she is elected, he/she shall, ipso facto, be discharged from the office of director; unless otherwise, he/she/it is the Independent Director.</p> <p>2. If any director of a company whose shares are issued to the public, after having been elected and before his/her inauguration of the office of director, has transferred more than one half of the total number of shares of the company he/she holds at the time of his/her election as such; or had transferred more than one half of the total number of shares he/she held within the share transfer prohibition period fixed prior to the convention of a shareholders' meeting,</p>	<p>There is no concept of independent director under the Cayman Companies Law and there is no specific statutory provision under the Cayman Companies Law in relation to the procedure to remove a director or an office of the company (e.g. a Supervisor).</p>	<p>The principal content of the Shareholders' Rights/Interests Protection Checklist in the left column is provided in the Article 75-1 of the AOA. The difference between the AOA and the Shareholders' Rights/Interests Protection Checklist is due to the reason that the Cayman Companies Law does not include specific provisions setting out the independent director, supervisors and the procedure to remove a director or an office of the company. The Company expects to amend the AOA in accordance with the provision in the left column of the Shareholders' Rights/Interests Protection Checklist by the annual shareholders' meeting of 2019.</p>



Shareholders' Rights/Interests Protection Checklist	Cayman law and description	AOA regulations and description of difference
then his/her election as a director shall become invalid; unless otherwise, he/she/it is the Independent Director.		
Where the spouse, a blood relative within the second degree of kinship of a director, or any company which has a controlling or subordinate relation with a director has interests in the matters under discussion in the meeting of the preceding paragraph, such director shall be deemed to have a personal interest in the matter.	There is no specific statutory provision under the Cayman Companies law prohibiting a director from voting on a matter in which he or his spouse, or any second degree relatives, or company(s) with controlling and subordinating relationship with him, is interested at a board meeting.	The principal content of the Shareholders' Rights/Interests Protection Checklist in the left column is provided in the Article 84(2) of the AOA. The difference between the AOA and the Shareholders' Rights/Interests Protection Checklist is due to the reason that the Cayman Companies Law does not include specific provisions prohibiting a director from voting on a matter in which he or his spouse, or any second degree relatives, or company(s) with controlling and subordinating relationship with him, is interested at a board meeting. The Company expects to amend the AOA in accordance with the provision in the left column of the Shareholders' Rights/Interests Protection Checklist by the annual shareholders' meeting of 2019.
Where all directors of a company are re-elected, prior to the expiration of the term of office of existing directors, and in the absence of a resolution that existing directors will not be discharged until the expiry of their present term of office, all existing directors shall be deemed discharged in advance.	The Cayman Companies Law does not have equivalent provisions in relation to the removal of one or more directors prior to the expiration of their term of office.	The principal content of the Shareholders' Rights/Interests Protection Checklist in the left column is provided in the Article 76-1 of the AOA. The difference between the AOA and the Shareholders' Rights/Interests Protection Checklist is due to the reason that the Cayman Companies Law does not include equivalent

Shareholders' Rights/Interests Protection Checklist	Cayman law and description	AOA regulations and description of difference
		provisions in relation to the removal of one or more directors prior to the expiration of their term of office. The Company expects to amend the AOA in accordance with the provision in the left column of the Shareholders' Rights/Interests Protection Checklist by the annual shareholders' meeting of 2019.
<ol style="list-style-type: none"> <li>1. Supervisors of a company shall be elected by the meeting of shareholders, among them at least one supervisor shall have a domicile within the territory of the Republic of China.</li> <li>2. The term of office of a supervisor shall not exceed three years, but he may be eligible for re-election.</li> <li>3. In case all supervisors of a company are discharged, the board of directors shall, within 60 days, convene a special meeting of shareholders to elect new supervisors.</li> <li>4. Supervisors shall supervise the execution of business operations of the company, and may at any time or from time to time investigate the business and financial conditions of the company, inspect, transcribe or make copies of the accounting books and documents, and request the board of directors or managerial personnel to make reports thereon.</li> <li>5. Supervisors shall audit the various statements and</li> </ol>	<p>The Cayman Companies Law does not include specific provisions setting out supervisors.</p>	<p>As the Cayman Companies Law does not include specific provisions setting out supervisors and the Company has established the audit committee, the AOA is not amended to include regulations related to supervisors.</p>

Shareholders' Rights/Interests Protection Checklist	Cayman law and description	AOA regulations and description of difference
<p>records prepared for submission to the shareholders' meeting by the board of directors, and shall make a report of their findings and opinions at the meeting of shareholders.</p> <p>6. In performing their functional duties, the supervisors may appoint, on behalf of the company, a practicing lawyer and a certified public accountant to conduct the examination.</p> <p>7. Supervisors of a company may attend the meeting of the board of directors to express their opinions. In case the board of directors or any director commits any act, in carrying out the business operations of the company, in a manner in violation of the laws, regulations, the Articles of Incorporation or the resolutions of the shareholders' meeting, the supervisors shall forthwith advise, by a notice, to the board of directors or the director, as the case may be, to cease such act.</p> <p>8. Supervisor may each exercise the supervision power individually.</p> <p>9. A supervisor shall not be concurrently a director, a managerial officer or other staff/employee of the company.</p>		
<p>1. Shareholder(s) who has/have been continuously holding 1% or more of the total number of the outstanding shares of the company for</p>	<p>The Cayman Companies Law does not include specific provisions setting out minority shareholders filing an action on behalf of the company or supervisors.</p>	<p>The principal content of the Shareholders' Rights/Interests Protection Checklist in the left column is provided in the Article 77-1 of the AOA. The</p>

Shareholders' Rights/Interests Protection Checklist	Cayman law and description	AOA regulations and description of difference
<p>six consecutive months or longer may request in writing the supervisors of the company to institute, for the company, an action against a director of the company.</p> <p>2. In case the supervisors fails to institute an action within 30 days after having received the request made under the preceding Paragraph, then the shareholders filing such request may institute the action for the company.</p>	<p>Based on established case law regarding the remedies of an aggrieved shareholder, the proper plaintiff in an action in respect of a wrong alleged to be done to a company is, prima facie, the company itself, not an individual shareholder or a group of minority shareholders. There are only a few exceptions to this rule, one of which is that where what has been done amounts to a fraud on the minority and the wrongdoers are themselves in control of the company.</p>	<p>difference between the AOA and the Shareholders' Rights/Interests Protection Checklist is due to the reason that the Cayman Companies Law does not include specific provisions setting out minority shareholders filing an action on behalf of the company or supervisors. The Company expects to amend the AOA in accordance with the provision in the left column of the Shareholders' Rights/Interests Protection Checklist by the annual shareholders' meeting of 2019.</p>
<p>Subject to the condition that the board of directors does not or is unable to convene a meeting of shareholders, the supervisors or the independent director of the Audit Committee may, for the benefit of the company, call a meeting of shareholders when it is deemed necessary.</p>	<p>It is not mandatory under the Cayman Companies Law to set up an audit committee. The Cayman Companies Law does not include specific provisions setting out supervisors. The articles of association of the company may be amended to give authority to the board of directors to create such a committee and delegate powers of the committee. The composition of the committee and the scope of authority of the committee may be dealt with in the articles of association of the company or in directors resolution passed pursuant to the articles of association of the company.</p>	<p>The difference between the AOA and the Shareholders' Rights/Interests Protection Checklist is due to the reason that the Cayman Companies Law does not have specific provisions requesting the company to establish an audit committee or setting out the composition and the scope of authority of the audit committee and supervisors. Also, in accordance with the Article 5 of the Audit Committee Charter of the Company "Powers conferred by the Securities and Exchange Act, the Company Act, and any other law to be exercised by supervisors, excepting those set forth in Article 14-4, paragraph 4 of the Securities and Exchange Act, shall be exercised by the Committee. The provisions of Article 14-4, paragraph 4 of the</p>

Shareholders' Rights/Interests Protection Checklist	Cayman law and description	AOA regulations and description of difference
		<p>Securities and Exchange Act, in regard to the Company Act as concerns the actions of supervisors or their role as representatives of a company, apply mutatis mutandis to the independent director members of the Committee." which substantially set out the content of the Shareholders' Rights/Interests Protection Checklist in the left column. The Company expects to amend the AOA to include the provision in the left column of the Shareholders' Rights/Interests Protection Checklist by the annual shareholders' meeting of 2019.</p>
<p>In case a director or supervisor of a company has created a pledge on the company's shares more than half of the company's shares being held by him/her/it at the time he/she/it is elected, the voting power of the excessive portion of shares shall not be exercised and the excessive portion of shares shall not be counted in the number of votes of shareholders present at the meeting.</p>	<p>The Cayman Companies Law does not include specific provisions setting out supervisors.</p>	<p>As the Cayman Companies Law does not include specific provisions setting out supervisors and the Company has established the audit committee, the AOA is not amended to include regulations related to supervisors.</p>
<p>Within the scope of their duties and functions, managers and supervisors of a company shall have the same liability the directors of the company.</p>	<p>The Cayman Companies Law does not include specific provisions setting out supervisors.</p>	<p>As the Cayman Companies Law does not include specific provisions setting out supervisors and the Company has established the audit committee, the AOA is not amended to include regulations related to supervisors.</p>
<p>Where a juristic person acts as a shareholder of a company, its authorized representative</p>	<p>The Cayman Companies Law does not include specific provisions setting out</p>	<p>As the Cayman Companies Law does not include specific provisions setting</p>

Shareholders' Rights/Interests Protection Checklist	Cayman law and description	AOA regulations and description of difference
<p>may also be elected as a director or supervisor of the company. If there is a plural number of such authorized representatives, each of them may be so elected, but such authorized representatives may not concurrently be selected or serve as the director or supervisor of the company.</p>	<p>supervisors.</p>	<p>out supervisors and the Company has established the audit committee, the AOA is not amended to include regulations related to supervisors.</p>

**VI. Other significant events affecting shareholders' equity or stock price as of the publication date, pursuant to Article 36-2, Paragraph 2 of the Securities and Exchange Act: None.**

## **Auditor's Report**

To Lemtech Holdings Co., Limited:

### **Audit opinions**

We have audited the accompanying consolidated balance sheet of Lemtech Holdings Co., Limited and its subsidiary (Lemtech Group) as of December 31, 2018 and 2017, and the related consolidated statement of income, consolidated statement of changes in shareholders equity, consolidated statement of cash flows, and Note of the consolidated financial statements (including major accounting policy) for the years then ended.

In my opinion, the financial statements as referred to present fairly, in all material aspects the financial position of Lemtech Group as of December 31, 2018 and 2017, and the results of its operations and cash flows for the years then ended conformity with the Regulation Governing the Preparation of Financial Reports by Securities Issuers, and applicable IFRS, IAS, SIC, and IFRIC as recognized by the Financial Supervisory Commission .

### **The basis for opinions**

We conducted our audit in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants”, and generally accepted auditing standards in the Republic of China. Our responsibilities under those standards are further described in the responsibilities of auditors for the audit of the consolidated financial statements. We are independent of Lemtech Group in accordance with the Code of Ethics for certified public accountants in the part relevant to the audit of the consolidated financial statements of Lemtech Group, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believed that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matter**

Key audit matters are those matter that, in our professional judgment, were of most significant in our audit of the consolidated statements of Lemtech Group in 2018. These matters were addressed in the content of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those matters.

Key audit procedures of the consolidated financial statements of Lemtech Group in 2018 included:

Key audit matters: Recognition of revenue

The consolidated total operating revenues in 2018 for Lemtech Group amounted to NT\$6,043,090 thousand, which was NT\$1,787,541 thousand more than NT\$4,255,549 thousand realized in 2017, an increase of 42 percent. Based on the significance of accounting and Auditing Standards presuming revenue recognition as a significant risk, we have addressed whether operating revenues come from certain customers with specified qualifications actually occurred as a key audit matter. Refer to Note 4 and 23 for accounting policies on revenue recognition.

After reviewing the industry and local economic conditions of Lemtech Group, we have performed the following primary audit procedures:

1. Conducting comparative analysis of individual customers' percentage of sales, credit period, and percentage change in gross margin. Meanwhile, we have made further inquiries to those mentioned above that have substantial changes, and evaluated the reasonableness of those changes.
2. We have chosen appropriate samples from the sale of the account of Lemtech Group, and examined their original purchase orders, delivery orders and invoices which was confirmed by transaction counterparts. Meanwhile, in order to confirm the authenticity of the transaction information and evaluate the transfer of control of goods, we have verified whether the party names shown on the receipt vouchers are the same as those shown on the transaction certificates.
3. Investigating whether there are significant sales returns and allowances after balance sheet date, and furthermore verifying the authenticity of previous transactions. In addition, based on the credit periods of this type of customers, we have reviewed their conditions to determine if they were reasonable.

**Responsibilities of Management and Those in Charge with Governance of the Consolidated Financial Statements**

The responsibility of management is to prepare fairly presented consolidated financial statements in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS, IAS, IFRIC, SIC recognized and published by the Financial Supervisory Commission and maintain necessary internal control related to the preparation of consolidation of financial statements in order to ensure the material misstatement caused by fraud or error does not exist in the consolidated financial statements.

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

Those in charge of governance (including the Auditing Committee) are responsible for overseeing the reporting process of Lemtech Group.



## **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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the accounting principles generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. If fraud or errors are considered material, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the accounting principles generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also perform the following works:

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 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 internal control effective in Lemtech Group.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
4. Conclude the appropriateness of the use of the going concern basis of accounting by the management, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Lemtech Group and its 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 disclosure is inappropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause Lemtech Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure, and content of the consolidated statements, including the disclosures, whether the consolidated statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence on the financial information of business entities within the Group in order to express an opinion on the consolidated financial statements. The independent auditor is responsible for guiding, supervising, and implementing the audit of the Group; also, is responsible for forming an opinion on the audit of the Group.

We communicate with those in charge of 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 in charge of 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 in charge of governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of Lemtech Group of 2018 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 communications.

The engagement partners on the audit resulting in this independent auditors' report are Jui-Chuan Chih and Li-Huang Lee.

Deloitte & Touche

Taipei, Taiwan (Republic of China)

March 27, 2019

### **Notes to Readers**

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

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

Lemtech Holdings Co., Limited and subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

Unit: NT\$ thousands

Code	Assets	December 31, 2018		December 31, 2017	
		Amount	%	Amount	%
	<b>CURRENT ASSETS</b>				
1100	Cash and cash equivalents (Note 6 and 32)	\$ 550,292	10	\$ 609,909	13
1136	Financial assets at amortized cost - current (Note 8, 9 and 32)	3,842	-	-	-
1147	Debt investments with no active market - current (Note 10, 32 and 34)	-	-	155,728	3
1150	Notes receivable (Note 11 and 32)	5,379	-	25,076	1
1170	Accounts receivable (Note 11, 32 and 33)	2,220,152	41	1,811,281	38
1200	Other receivables (Note 11 and 32)	17,828	-	8,142	-
1220	Current tax assets (Note 25)	31	-	1,805	-
130X	Inventories (Note 12)	900,520	17	611,150	13
1410	Prepayments (Note 17)	103,923	2	97,320	2
1470	Other current assets	3,147	-	-	-
11XX	Total current assets	<u>3,805,114</u>	<u>70</u>	<u>3,320,411</u>	<u>70</u>
	<b>NON-CURRENT ASSETS</b>				
1550	Investments accounted for using the equity method (Note 14 and 33)	33,502	1	13,546	-
1600	Property, plant and equipment (Note 15)	1,230,891	23	970,751	21
1801	Net computer software (Note 16)	22,634	-	22,565	1
1840	Deferred income tax assets (Note 25)	20,847	-	17,196	-
1915	Prepayments for equipment (Note 17)	194,248	4	273,394	6
1920	Refundable deposits (Note 17)	2,977	-	6,719	-
1985	Long-term prepayments for leases (Note 17)	88,214	2	92,347	2
15XX	Total non-current assets	<u>1,593,313</u>	<u>30</u>	<u>1,396,518</u>	<u>30</u>
1XXX	<b>TOTAL ASSETS</b>	<u>\$ 5,398,427</u>	<u>100</u>	<u>\$ 4,716,929</u>	<u>100</u>
	<b>Liabilities and equity</b>				
	<b>CURRENT LIABILITIES</b>				
2100	Short-term borrowings (Note 18, 32 and 34)	\$ 1,009,466	19	\$ 1,535,622	33
2120	Financial liabilities at fair value through profit or loss- Current (Note 7 and 32)	910	-	-	-
2130	Contract liability – current (Note 21 and 23)	66,510	1	-	-
2150	Notes payables (Note 20 and 32)	300,787	5	84,698	2
2170	Accounts payable (Note 20, 32 and 33)	1,134,173	21	996,452	21
2219	Other payables (Note 21 and 32)	200,410	4	155,747	3
2230	Current tax liabilities (Note 25)	13,318	-	8,766	-
2310	Advances (Note 33)	-	-	45,644	1
2320	Long-term borrowing maturing within one year (Note 18, 32 and 34)	-	-	119,246	3
2399	Other current liabilities (Note 21)	7,403	-	10,161	-
21XX	Total current liabilities	<u>2,732,977</u>	<u>50</u>	<u>2,956,336</u>	<u>63</u>
	<b>NON-CURRENT LIABILITIES</b>				
2530	Corporate bonds payable (Note 19)	576,478	11	-	-
2540	Long-term borrowings (Note 18)	-	-	22,320	1
2570	Deferred tax liabilities (Note 25)	208,160	4	111,441	2
2645	Deposits received	6,708	-	7,220	-
25XX	Total non-current liabilities	<u>791,346</u>	<u>15</u>	<u>140,981</u>	<u>3</u>
2XXX	Total liabilities	<u>3,524,323</u>	<u>65</u>	<u>3,097,317</u>	<u>66</u>
	<b>Equity of the company (Note 22)</b>				
	Capital stock				
3110	Common stock	<u>395,411</u>	<u>7</u>	<u>395,411</u>	<u>8</u>
3200	Capital surplus	<u>784,347</u>	<u>15</u>	<u>678,811</u>	<u>15</u>
	Retained earnings				
3320	Special reserve	13,500	-	28,925	-
3350	Undistributed earnings	662,990	13	363,944	8
3300	Total retained earnings	<u>676,490</u>	<u>13</u>	<u>392,869</u>	<u>8</u>
3410	Exchange differences from the translation of financial statements of foreign operations	1,375	-	7,821	-
31XX	Total equity of the company	<u>1,857,623</u>	<u>35</u>	<u>1,474,912</u>	<u>31</u>
36XX	<b>NON-CONTROLLING INTEREST</b>	<u>16,481</u>	<u>-</u>	<u>144,700</u>	<u>3</u>
3XXX	Total equity	<u>1,874,104</u>	<u>35</u>	<u>1,619,612</u>	<u>34</u>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 5,398,427</u>	<u>100</u>	<u>\$ 4,716,929</u>	<u>100</u>

The notes attached shall constitute an integral part of this Consolidated financial statement.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

Lemtech Holdings Co., Limited and subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

January 1 to December 31, 2018 and 2017

Unit: NT\$ Thousand; except for earnings per share in NT\$

Code		2018		2017	
		Amount	%	Amount	%
	OPERATING REVENUE (Note 23 and 33)				
4110	Sales revenue	\$ 6,072,407	100	\$ 4,274,318	100
4190	Sales return and discount	( 29,317)	-	( 18,769)	-
4000	Total operating revenue	6,043,090	100	4,255,549	100
5000	OPERATING COST (Note 12 and 33)	( 4,757,020)	( 79)	( 3,382,778)	( 79)
5900	GROSS PROFIT	1,286,070	21	872,771	21
	OPERATING EXPENSES (Note 24)				
6100	Marketing expenses	( 199,533)	( 3)	( 153,520)	( 4)
6200	Administrative expenses	( 316,674)	( 5)	( 254,101)	( 6)
6300	Research and development expenses	( 151,893)	( 3)	( 124,602)	( 3)
6450	Expected credit impairment loss	( 12,011)	-	-	-
6000	Total operating expenses	( 680,111)	( 11)	( 532,223)	( 13)
6900	NET OPERATING PROFIT	605,959	10	340,548	8
	NON-OPERATING INCOME AND EXPENSES (Note 24)				
7190	Other income	26,299	1	17,583	-
7020	Other gains and losses	( 59,085)	( 1)	59,189	1
7050	Financial costs	( 45,642)	( 1)	( 22,045)	-
7060	Share of profits of associates	14,633	-	( 955)	-
7000	Total non-operating income and expenses	( 63,795)	( 1)	53,772	1
7900	INCOME BEFORE INCOME TAX	542,164	9	394,320	9
7950	INCOME TAX EXPENSES (Note 25)	( 136,761)	( 2)	( 79,804)	( 2)
8200	NET INCOME	405,403	7	314,516	7

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Code		2018		2017	
		Amount	%	Amount	%
	OTHER COMPREHENSIVE INCOME (post-tax profit or loss)				
8310	Items that will not be reclassified subsequently to profit or loss:				
8341	Exchange differences arising on translation to the presentation currency	\$ -	-	(\$ 3,438)	-
8360	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange differences on translating the financial statements of foreign operations	( 9,189)	-	25,637	1
8300	Other comprehensive income/(loss) for the year, net of income tax	( 9,189)	-	22,199	1
8500	TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 396,214</u>	<u>7</u>	<u>\$ 336,715</u>	<u>8</u>
	NET PROFIT ATTRIBUTABLE TO:				
8610	The owners of the company	\$ 382,474	6	\$ 298,368	7
8620	Non-controlling interest	<u>22,929</u>	<u>1</u>	<u>16,148</u>	-
8600		<u>\$ 405,403</u>	<u>7</u>	<u>\$ 314,516</u>	<u>7</u>
	TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
8710	The owners of the company	\$ 376,028	6	\$ 321,614	8
8720	Non-controlling interest	<u>20,186</u>	<u>1</u>	<u>15,101</u>	-
8700		<u>\$ 396,214</u>	<u>7</u>	<u>\$ 336,715</u>	<u>8</u>
	EARNINGS PER SHARE (Note 26)				
9710	Basic	<u>\$ 9.67</u>		<u>\$ 7.55</u>	
9810	Diluted	<u>\$ 9.49</u>		<u>\$ 7.54</u>	

The notes attached shall constitute an integral part of this Consolidated financial statement.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

Lemtech Holdings Co., Limited and subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

January 1 to December 31, 2018 and 2017

Unit: NT\$ thousands

Code		Equity of the company					Exchange differences from the translation of financial statements of foreign operations	Total	Non-controlling interest	Total equity
		Capital stock	Capital surplus	Special reserve	Undistributed earnings	Retained earnings				
A1	BALANCE AT JANUARY 1, 2017	\$ 395,411	\$ 747,057	\$ 14,546	\$ 254,761		(\$ 15,425)	\$ 1,396,350	\$ 129,599	\$ 1,525,949
T1	Functional currency effects	-	( 68,246)	( 1,046)	( 15,596)		-	( 84,888)	-	( 84,888)
	Appropriations of 2016 earnings:									
B3	Special reserve	-	-	15,425	( 15,425)		-	-	-	-
B5	Cash dividends distributed by the Company	-	-	-	( 158,164)		-	( 158,164)	-	( 158,164)
D1	Net income in 2017	-	-	-	298,368		-	298,368	16,148	314,516
D3	Other comprehensive income for the year ended December 31, 2017, net of income tax	-	-	-	-		23,246	23,246	( 1,047)	22,199
D5	Total comprehensive income for the year ended December 31, 2017	-	-	-	298,368		23,246	321,614	15,101	336,715
Z1	BALANCE AT DECEMBER 31, 2017	395,411	678,811	28,925	363,944		7,821	1,474,912	144,700	1,619,612
	Appropriations of 2017 earnings:									
B3	Special reserve	-	-	( 15,425)	15,425		-	-	-	-
B5	Cash dividends distributed by the Company	-	-	-	( 98,853)		-	( 98,853)	-	( 98,853)
	Other changes in capital surplus									
M5	Acquisition of partial interest in a subsidiary.	-	79,798	-	-		-	79,798	( 79,798)	-
C5	Equity component of convertible bonds issued by the Company	-	25,738	-	-		-	25,738	-	25,738
D1	Net income in 2018	-	-	-	382,474		-	382,474	22,929	405,403
D3	Other comprehensive income for the year ended December 31, 2018, net of income tax	-	-	-	-		( 6,446)	( 6,446)	( 2,743)	( 9,189)
D5	Total comprehensive income for the year ended December 31, 2018	-	-	-	382,474		( 6,446)	376,028	20,186	396,214
O1	Change in non-controlling interest	-	-	-	-		-	-	( 68,607)	( 68,607)
Z1	BALANCE AT DECEMBER 31, 2018	\$ 395,411	\$ 784,347	\$ 13,500	\$ 662,990		\$ 1,375	\$ 1,857,623	\$ 16,481	\$ 1,874,104

The notes attached shall constitute an integral part of this Consolidated financial statement.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

Lemtech Holdings Co., Limited and subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

January 1 to December 31, 2018 and 2017

Unit: NT\$ thousands

Code		2018	2017
	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
A10000	Income before income tax	\$ 542,164	\$ 394,320
A20010	Profits and loss		
A20100	Depreciation expenses	170,333	104,608
A20200	Amortization expenses	5,632	4,869
A20300	Expected credit impairment loss	12,011	-
A20300	Impairment loss recognized on trade receivables	-	8,193
A20900	Financial costs	41,881	22,045
A21200	Interest income	( 10,268 )	( 3,535 )
A22300	Share of (profit)/loss of associates and joint ventures	( 14,633 )	955
A22500	(Gain)/loss on disposal of property, plant and equipment	527	( 72 )
A23200	Gain on disposal of associates	-	( 499 )
A20400	Net loss on fair value changes of financial liabilities designated as at fair value through profit or loss	1,990	-
A23700	Real estate impairment loss (reversal gain)	( 3,640 )	1,483
A23800	Inventory valuation and obsolescence losses	11,583	5,905
A24100	Foreign exchange gains- net	35,482	( 75,692 )
A29900	Amortization of prepayments for leases	2,295	2,270
A30000	Net change in operating assets and liabilities		
A31130	Decrease (increase) in notes receivable	19,697	( 16,607 )
A31150	Increase in accounts receivable	( 420,329 )	( 688,056 )
A31180	Decrease (increase) in other receivables	( 9,867 )	33,393
A31200	Increase in inventories	( 293,103 )	( 136,614 )
A31230	Increase in prepayments	( 4,352 )	( 36,734 )
A31240	Increase in other current assets	( 3,147 )	-
A32125	Increase in contract liability	66,510	-
A32130	Increase in notes payable	216,089	39,566
A32150	Increase in accounts payable	137,721	403,499
A32180	Increase (decrease) in other payables	45,134	( 50,590 )
A32210	(Decrease) increase in advance receipts	( 45,644 )	35,181
A32230	(Decrease) Increase in other current liabilities	( <u>2,758</u> )	<u>1,703</u>
A33000	Cash generated from operations	501,308	49,591

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Code		2018	2017
A33300	Interest paid	(\$ 35,840)	(\$ 20,926)
A33500	Income tax paid	( 40,917)	( 23,411)
AAAA	Net cash inflow from operating activities	<u>424,551</u>	<u>5,254</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
B07500	Interest received	10,449	3,744
B00050	Proceeds from sale of financial assets measured at cost	151,886	-
B00600	Purchase of debt investments with no active market	-	( 145,223)
B00700	Proceeds from sale of debt investments with no active market	-	77,715
B01800	Acquisition of associates ventures	( 8,987)	-
B02700	Purchase of property, plant, and equipment	( 376,435)	( 569,361)
B02800	Proceeds from disposal of property, plant and equipment	1,946	652
B04500	Purchase of intangible assets	( 5,976)	( 4,101)
B03700	Increase in refundable deposits	-	( 546)
B03800	Decrease in Refundable deposits	<u>3,742</u>	<u>-</u>
BBBB	Net cash outflow from investing activities	( <u>223,375</u> )	( <u>637,120</u> )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
C01200	Proceeds from issuance of convertible bonds	597,375	-
C00100	(Decrease) Increase of short-term loan	( 526,156)	1,039,416
C01700	Repayments of long-term borrowings	( 141,566)	( 119,314)
C03000	Increase in deposits received	-	281
C03100	Refunds of guarantee deposits received	( 512)	-
C04500	Cash dividend distribution	( 98,853)	( 158,164)
C05500	Proceeds from disposal of partial interest in a subsidiary.	-	3,792
C05800	Change in non-controlling interest	( <u>78,656</u> )	<u>-</u>
CCCC	Net cash inflow (outflow) from financing activities	( <u>248,368</u> )	<u>766,011</u>
DDDD	IMPACT OF CHANGES IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	( <u>12,425</u> )	( <u>5,419</u> )
EEEE	NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	( 59,617)	128,726
E00100	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>609,909</u>	<u>481,183</u>
E00200	BALANCE OF CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 550,292</u>	<u>\$ 609,909</u>

The notes attached shall constitute an integral part of this Consolidated financial statement.



Lemtech Holdings Co., Limited and its subsidiaries  
Notes to consolidated financial statements  
January 1 to December 31, 2018 and 2017  
(Unless otherwise stated, amounts in NT\$ Thousand)

1. Company History

Lemtech Group (hereinafter to be referred as the Company) was established in British Cayman Islands in September 2009, and was set up mainly for the organization structure reconstruction to apply and register as an emerging stock listed on the Taipei Exchange. After reconstruction, the Company has become the holding company of Lemtech Global Solution Co. Ltd. (hereinafter to be referred as Global Solution), and acquired at a exchange ratio of 24.99 the Company shares for each Global Solution share. The main business operations for the Company, Global Solution and its subsidiaries (hereinafter to be referred as the Consolidated Company) are manufacturing and designing various kinds of fine blanking dies, die casting non-metal molds, computer connectors, computer thermal modules, and new types of electronic components, as well as selling the Company's products, etc. The Company has been publicly traded on the Taipei Exchange in April 29, 2011 and transferred to the TWSE (Taiwan Stock Exchange) in May 21, 2015.

The functional currency of the Company is Renminbi ("RMB"), and has been adjusted to New Taiwan Dollars (NT\$) from April 1, 2017.

2. Financial reporting date and procedures

The Board of Directors approved the consolidated financial statements for publication on March 27, 2019.

3. Application of new and revised standards and interpretation

- (1) The amended Regulations Governing the Preparation of Financial Reports by Securities Issuers for the first-time adoption and IFRS, IAS, IFRIC and SIC (hereinafter collectively known as "IFRSs") that have been recognized and approved by the Financial Supervisory Commission (FSC)

Except for the statements given below, the application of the revised "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the IFRSs recognized by the Financial Supervisory Commission to come into full force will not cause significant change in the accounting policies of the consolidated company.

1. IFRS 9 “Financial Instruments” and related amendment

IFRS 9, “Financial Instruments” replaced IAS 39, “Financial Statements: Recognition and Measurement,” and was adopted in conjunction with other standards such as the amended IFRS 7, “Financial Instruments: Disclosure.” The new rules in IFRS 9 covered the classification, measurement and impairment of financial assets and general hedge accounting. Refer to Note 4 for further information on accounting principles.

Classification, measurement and impairment of financial assets

The consolidated company evaluated the classification of financial assets effective on January 1, 2018 for retroactive adjustment on the basis of the reality and circumstances of the day and elected not to recompile the statements for comparison. As of January 1, 2018, the categories and book value of financial assets to be measured under IAS 39 and IFRS 9 and the changes therein are specified below:

Category of financial assets	Classification of measurement		Book value		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and accounts receivable	Financial assets at amortized cost	\$ 609,909	\$ 609,909	(1)
Time deposit with the original maturity date over three months	Loans and accounts receivable	Financial assets at amortized cost	155,728	155,728	(2)
Notes receivable, accounts receivable and other receivables	Loans and accounts receivable	Financial assets at amortized cost	1,844,499	1,844,499	(1)
Refundable deposits	Loans and accounts receivable	Financial assets at amortized cost	6,719	6,719	(1)

	Book value of January 1, 2018 (IAS 39)	Reclassification	Reevaluation	Book value of January 1, 2018 (IFRS 9)	Effect on retained earnings as of January 1, 2018	Effect on other equity as of January 1, 2018	Remark
Financial assets based on cost after amortization	\$ -	\$ 2,618,855	\$ -	\$ 2,618,855	\$ -	\$ -	(2)
Add: Reclassification of loans and receivables (IAS 39)	2,616,855	( 2,616,855)	-	-	-	-	
	2,616,855	-	-	2,616,855	-	-	
Total	\$ 2,616,855	\$ -	\$ -	\$ 2,616,855	\$ -	\$ -	

(1) According to IAS 39, cash and cash equivalents, time deposits with maturity over three months, notes receivable, accounts receivable, other receivables, and refundable deposits are classified as loans and receivables. However, according to IFRS 9, they are classified as financial assets measured at amortized cost, and should be evaluated as expected credit loss.

(2) According to IAS 39, it would be classified as debt instruments without an active market and stated at amortized cost, and the original accrued contractual cash flows are solely payments of principal and interest on the principal outstanding. In addition, based on the fact and status as of January 1, 2018, it has been evaluated that its operating model is to receive contractual cash flows. Then based on IFRS 9, it has been classified as stated at amortized cost and evaluated as expected credit loss.

2. IFRS 15 “Revenue from Contracts with Customers” and relating amendments

IFRS 15 regulates the recognition principle for revenue from contracts with customers, which will replace IAS 18 “Revenue”, IAS 11 “Construction Contracts” and relating interpretations. Refer to Note 4 for further information on accounting principles.

The amount of revenue recognized, the net proceeds of the amounts received and receivable should be recognized as contract assets (or liabilities). Before IFRS 15 was applied for, contracts that were settled based on IAS 18 should be recognized as receivables when revenues are recognized.

The Consolidated Company has decided that only for the contracts that haven’t been completed by January 1, 2018 should be traced to apply IFRS 15, and the corresponding cumulative effect will be adjusted to retained earnings at that date:

Upon first-time adoption of IFRS 15, the adjustments to assets, liabilities and equities on January 1, 2018 are listed below:

	Amount before recompilation on January 1, 2018	Adjustment of first use	Amount after recompilation on January 1, 2018
Contract liability – current	\$ -	\$ 45,644	\$ 45,644
Advances	<u>45,644</u>	<u>( 45,644)</u>	<u>-</u>
Effect of liabilities	<u>\$ 45,644</u>	<u>\$ -</u>	<u>\$ 45,644</u>

If the Consolidated Company has applied IAS 18 during 2018, the effects on the corresponding single item and residual amounts adjusted to IFRS 15 are listed below:

The impacts on assets, liabilities, and equity for the current period

	<u>December 31, 2018</u>
Decrease in contract liability	(\$ 66,510)
Increase in other current liabilities	<u>66,510</u>
Effect of liabilities	<u>\$ -</u>

(2) Regulations Governing the Preparation of Financial Reports by Securities Issuers applicable in 2019 and the IFRSs recognized by the Financial Supervisory Commission (hereinafter referred to as “FSC”)

<u>The new / amended / revised standards or interpretation</u>	<u>IASB publication effective date (Note 1)</u>
“The annual improvement plan for the periods of 2015-2017”	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)

The new / amended / revised standards or interpretation	IASB publication effective date (Note 1)
Amendments to IAS 28 “Long-term Interest in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty under Income Tax Treatments”	January 1, 2019

Note 1: Unless otherwise stated, the aforementioned new / amended / revised standards or interpretation are effective in the years after the respective date.

Note 2: FSC permitted the consolidated company adoption of this amendment before January 1, 2018

Note 3: The plan amendment, curtailment, or settlement after January 1, 2019 apply to this amendment.

1. IFRS 16 “Leases”

IFRS 16 specifies recognition of lease agreements and accounting treatment for lessors and lessees. This standard will replace the relevant interpretations for IAS 17 “Leases” and IFRIC 4 “Determining Whether an Arrangement Contains a Lease.”

Definition of lease

At the adoption of IFRS 16 for the first time, the consolidated company only assesses the contracts signed (or changed) beyond January 1, 2019, to determine if they are (or included) lease on the basis of IFRS 16, and does not reassess contracts determined as lease under IAS 17 and IFRIC 4, and treated these contracts in accordance with the transitional requirement of IFRS 16.

The consolidated company is the lessee

At the adoption of IFRS 16 for the first time, all leases were recognized as tenancy right assets and leasehold liability except low value target of leases and short-term leases of which the expenses incurred were recognized under the straight-line method. The consolidated comprehensive income statement shall present the interest expenses incurred from the depreciations of the utilization of equity assets and leasehold liability under effective interest method. In the consolidated cash flow statement, the principal amount of the lease liability payment is classified as a financing activity and the interest payment is classified as an operating activity. Before IFRS 16 was applied, the contracts classified as operating leases would be recognized as expenses on a linear base, and the prepaid lease payments for acquiring land-use rights in China would be recognized as prepaid lease payments. Cash flows from operation lease were presented as operating activities in the consolidated statement of cash flows. Contracts classified as financing lease were recognized as leasehold assets and payable lease payment in the consolidated balance sheet.

The consolidated company elected to adjust the accumulated influence under IFRS 16 in retrospect as retained earnings on January 1, 2019, and does not recompile comparative information.

Currently, the contracts that have been issued as operating leases based on IAS 17, the measurements for lease liabilities will be the remaining lease payments which are discounted using the lessee's incremental borrowing rate of interest at that date on January 1, 2019. The total right-of-use assets are measured at the amount of lease liability at that date (the amount of prepaid and payable lease payments previously accrued will also be adjusted). The recognized tenancy right will be subject to assessment for impairment under IAS 36.

The following expedient methods are expected to be applicable to the consolidated company:

- (1) Apply a single discount rate for the measurement of specific leasehold combinations with reasonable similarity.
- (2) Lease to expire on or before December 31, 2019 will be treated as short-term lease.
- (3) The initial cost will not be included in the measurement of tenancy right assets on January 1, 2019.
- (4) Measuring leasehold liability, such as the determination of the term of leases, will be treated from hindsight.

As for the leases classified as financing leases based on IAS 17, the carry amounts of lease assets and lease liabilities as of December 31, 2018 will be recognized as the carrying amount for use-of-right assets and lease liabilities as of January 1, 2019.

The consolidated company is the lessor

In the transitional period, no adjustment of the lease of the Lessors while under IFRS 16 will be applicable from January 1, 2019.

The expected impacts on assets, liabilities, and equity on January 1, 2019.

	Book value of December 31, 2018	Adjustment of first use	Adjustment of book value as of January 1, 2019
Prepayments	\$ 2,251	(\$ 2,251)	\$ -
Long-term prepayments for leases	88,241	( 88,241)	-
Right-of-use assets	<u>-</u>	<u>207,843</u>	<u>207,843</u>
Effect of assets	<u>\$ 90,492</u>	<u>\$ 117,351</u>	<u>\$ 207,843</u>
Leasehold liability- current	\$ -	(\$ 85,846)	(\$ 85,846)
Leasehold liability- non-current	<u>-</u>	<u>( 31,505)</u>	<u>( 31,505)</u>
Effect of liabilities	<u>\$ -</u>	<u>(\$ 117,351)</u>	<u>(\$ 117,351)</u>

## 2. IFRIC 23 “Uncertainty under Income Tax Treatments”

IFRIC 23 clarified that if there is uncertainty in handling income tax, the combined business must assume that the taxation authorities could retrieve all information for review. If the tax treatment as declared may possibly be accepted by the taxation authorities, the taxable income, taxation basis, the unconsumed taxable loss, unconsumed tax deduction, and determination of tax rate shall be congruent with the tax treatment adopted at the time of income tax declaration. If the taxation authorities are unlikely to accept the tax treatment in the declaration, the combined business shall adopt the most possible amount or anticipated value (adopt the method that could more likely forecast the ultimate result under uncertainty between the two) in evaluation. In case of change in reality and circumstance, the combined business shall reevaluate its judgment and evaluation.

Further to the above effects, the assessment of consolidated company on other IFRSs as of the day this consolidated financial statement was approved for release did not cause significant influence on the consolidated financial position and consolidated financial performance.

- (3) The IFRSs released by the IASB but not yet approved and announcement effective by the Financial Supervisory Commission

<u>The new / amended / revised standards or interpretation</u>	<u>IASB publication effective date (Note 1)</u>
Amendment to “Definition of a business” in IFRS 3	January 1, 2020 (Note 2)
Amendment to IFRS 10 and IAS 28, “Consolidated Financial Statements and Investment in Associates”.	Undefined
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Materiality”	January 1, 2020 (Note 3)

Note 1: Unless otherwise stated, the aforementioned new / amended / revised standards or interpretation are effective in the years after the respective date.

Note 2: The amendment should be applied to the acquisition day in the reporting period for corporate mergers after January 1, 2020 and the acquisition of assets beyond that date.

Note 3: This amendment is with prospective application for the annual reporting period starting after January 1, 2020.

The companies in the consolidated financial statements will continue to evaluate the effect of the amendment to other IFRSs on the financial positions and performance of the companies in the consolidated financial statements to the date this parent company only financial statement approved and released, and will make appropriate disclosure after the evaluation.

## 4. Summary of significant accounting policies

- (1) Compliance Statement

The consolidated financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers that are authorized by the FSC.

(2) Basis of preparation

Further to financial instruments measured at fair value, the content contained in this consolidated financial statement is compiled based on historical data.

The evaluation of fair value could be classified into Level 1 to Level 3 by the observable intensity and importance of related input value:

1. Level 1 input value: refers to the quotation of the same asset or liability in an active market as of the evaluation (before adjustment).
2. Level 2 input value: refers to the direct (the price) or indirect (inference of price) observable input value of asset or liability further to the quotation of Level 1.
3. Level 3 input value: the unobservable input value of asset or liability.

(3) Standards in differentiating current and non-current assets and liabilities.

Current assets including:

1. Assets held mainly for trading purpose;
2. Assets expected to be realized within 12 months after the balance sheet date; and
3. Cash and cash equivalents (not including those that are limited to exchange or repay liabilities exceeding 12 months after the balance sheet date).

Current liabilities include:

1. Liabilities held for trading purposes;
2. Liabilities to be repaid within 12 months after the balance sheet date, and
3. Liabilities with the repayment deadline that cannot be unconditionally deferred to at least 12 months after the balance sheet date.

For those that are not current assets or liabilities above are classified as non-current assets or liabilities.

(4) Basis of consolidation

This consolidated financial statement contains the information of the financial statements of the Company and its controlled entities (subsidiaries). The Consolidated Statement of Comprehensive Income already covered the operating profit and/or loss of the subsidiaries, which have been acquired or disposed of the current term, from the date of acquisition until the date of disposal. The subsidiaries' financial statements have been properly adjusted to make the accounting policies consistent with the accounting policies of the consolidated company. In preparing these consolidated financial statements, the transactions, account balances, incomes and loss and expenses among the individual entities are written off in full amount. The total comprehensive incomes of the subsidiaries were non-controlling interest attributed to the Company's owners and the non-controlling interest, to become the balance of loss even as the non-controlling interest.

When the change in the ownership equity on a subsidiary of the Consolidated Company does not result in a loss of control, it is processed as an equity transaction. The book value of the Consolidated Company and the non-controlling equity has been adjusted to reflect the change in the relative equity on the subsidiary. The difference between the adjusted amount of the non-controlling equity and the considerations paid or collected is directly recognized as equity and attributable to the Company's shareholders.

For detailed information about the subsidiaries, percentage of ownership and main businesses and products please refer to Note 13, table 7 and 8.

(5) Foreign currency

Each business entity that has traded with a currency (foreign currency) other than the functional currency, when preparing financial statements, should have it translated into the functional currency in accordance with the exchange rate on the trading day.

The functional currency of the Company is Renminbi ("RMB"), and based on the regulations of the Taiwan Stock Exchange regarding financial statements, the consolidated financial statements are presented in New Taiwan Dollars (NT\$). However, considering the financing management efficiency as a holding company, the Company's functionality has been altered to plan financing activities for the Group. Due to this change of economic environment, the company's Board of Directors has made the resolution that the functional currency of the Company will be adjusted to New Taiwan Dollars (NT\$) from Renminbi ("RMB"), and will apply IAS 21 "The Effects of Changes in Foreign Exchange Rates" deferral approach from April 1, 2017.

Foreign currency monetary items are translated at the closing rate on each balance sheet date. The exchange differences arising from the settlement of monetary items or translating monetary items are recognized in the current profit or loss.

The foreign non-currency items measured at fair value are translated in accordance with the exchange rate on the fair value determination date and the exchange difference is booked as current profit or loss. However, for the changes in fair value recognized in the other comprehensive profit or loss, the exchange difference is recognized in the other comprehensive profit or loss.

The foreign non-currency items measured at historical cost are translated in accordance with the exchange rate on the transaction date without the need for a translation again.

Upon preparation of the Consolidated Financial Report, the assets and liabilities of the overseas operating institutions (including the subsidiaries, associates, joint ventures or branches in the countries of business operation or those using currencies different from the Company's) were converted to New Taiwan Dollars based on the exchange rate quoted on every balance sheet date. The profits and losses are translated in accordance with the current average exchange rates, and the exchange differences resulted is booked in other comprehensive profit and loss (and attributable to the Company's shareholders and non-controlling equity respectively).



(6) Inventory

Inventories are raw materials, materials, work in process and finished products. Inventory is valued in accordance with the lower of cost or net cash value. When comparing cost and net cash value, except for the homogeneous inventories, it is based on the itemized lower of cost or net cash value. The net realizable value refers to the balance of the estimated sales price less the estimated costs that shall be invested before completion and the estimated costs before completing the sale. Inventory cost is calculated in accordance with the weighted average method.

(7) Investments in the affiliated company

The term “associate” as set forth herein denotes an enterprise, which has significant effect upon the Consolidated Company, but is not a subsidiary or a joint venture.

The Merging Company adopts equity method for investment in associates.

Under the equity method, investments in the affiliated companies were originally recognized at cost; the book value after the acquisition date fluctuates along with the distribution of profit or loss from the affiliated company and other comprehensive profit or loss by the consolidated company. In addition, investments in the Consolidated Company are required to be accounted for using the equity method and interests recognized based on the ownership percentage of the associates.

Acquisition costs in excess of the Consolidated Company's share of net identifiable assets and liabilities (i.e. fair value) in an associated company on the date of acquisition are recognized as goodwill. This goodwill includes book value of the investment and is not amortized. Share of net identifiable assets and liabilities (i.e. fair value) in an associated company that exceeds acquisition cost on the date of acquisition is recognized as gains for the current year.

In the event that the Merging Company's shares of loss in the associates equal to or exceed its equity in the associates (including the book amount of investment in the associates in equity method and other long-term interest of the Merging Company in the investment composition of the associates), the Merging Company discontinued recognition of the further losses. The Merging Company recognized extra losses and liabilities only in the event of occurrence of legal obligations, presumed obligations or within the scope that the Merging Company had made payment on behalf of the associate.

When the Consolidated Company performs an impairment evaluation, the overall carrying amount of the investments (including Goodwill) are treated as one single asset, and then the impairment test performed to compare its recoverable amount with the carrying amount. The recognized impairment loss will not be allocated to any asset that causes the components of the carrying amount of investments, including Goodwill. Any reversal of the impairment loss can be recognized within the range of the recoverable amount of the subsequently increased investment.

The profit or loss resulting from the countercurrent, downstream and side-stream transactions between the consolidated company and the affiliated company is recognized in the consolidated financial statement within the range that is irrelevant to the consolidated company's interest in the affiliated company.

(8) Property, plant, and equipment

Property, plant and equipment are recognized as costs, and they will be measured by the amount after the costs less the amount of accumulated depreciation and accumulated impairment losses afterwards.

Property, plant, and equipment are depreciated in accordance with the straight-line method in the expected useful lives. Depreciation of each major part is appropriated separately. The consolidated company, at least at the end of each fiscal year, has the estimated durable life, residual value, and depreciation method reviewed; also, delayed the effects of changes in applying accounting estimates.

When derecognizing property, plant and equipment, the difference between the net disposition amount and the book value of the asset is recognized in profits and losses.

(9) Intangible assets

1. Acquired separately

The intangible asset with limited useful life acquired separately was originally measured at cost and subsequently measured at cost, net of accumulated amortization and accumulated impairment losses. Intangible assets shall be subject to amortization under the straight-line method during its life span, and Consolidated Company reviews the estimated useful life, residual value and depreciation method shall be subject to review at least once a year and extend the effect of changes in applicable accounting policy.

2. de-recognition

In removing intangible assets, the difference between the net proceeds of disposition and the book value shall be recognized as income.

(10) Impairment for tangible assets, intangible assets and contract costs related assets.

The consolidated company assesses whether there is any indication of impairment occurring on the tangible and intangible assets at each balance sheet date. If there is any indication of impairment occurring, the recoverable amount of the asset should be estimated. If the recoverable amount of an individual asset cannot be estimated, the consolidated company is to estimate the recoverable amount of the respective cash-generating unit.

The recoverable amount is the fair value net of cost or the value in use whichever is higher. When the recoverable amount of an individual asset or cash-generating unit is less than its book amount, the book amount of the asset or cash-generating unit should be reduced to its recoverable amount. The impairment loss is recognized in the profit or loss.

For contracts with customers that apply IFRS 15, inventory, property, plants and equipment, and intangible assets recognized due to contracts with customers will firstly recognize impairment losses according to regulation requirements for inventory write-down and the regulations mentioned above. Secondly, it should be recognized as impairment loss when the carrying amount of relevant assets of contract cost exceed the amount of considerations to which it expects to be entitled from providing relevant goods or services after deducting direct relevant costs. In order to work on the assessment for impairment of cash-generating units, hereafter adding carrying amount of relevant assets of contract costs into the cash-generating units to which it belongs.

When the impairment loss is reversed subsequently, the carrying amount of the assets, cash-generating units or relevant assets of contract cost will increase to the revised recoverable amount, while the carrying amount after increase does not exceed the carrying amount of the assets, cash-generating units or relevant assets of contract costs that would have been at the date of reversal had the impairment loss not been recognized previously (excluding amortization or depreciation). The reversed impairment loss is recognized in the profit or loss.

#### (11) Financial instruments

When the consolidated company has become a party to the instrument contract, the financial assets and financial liabilities are to be recognized in the consolidated balance sheet.

For the initial recognition of the financial assets and financial liabilities, if the financial assets or financial liabilities are not measured at fair value through profit or loss, it is measured at fair value plus transaction cost that is directly attributable to the acquisition or issuance of financial assets or financial liabilities. The transaction cost directly attributable to the acquisition or issuance of financial assets or financial liabilities that are measured at fair value through profit or loss is immediately recognized in the profit or loss.

##### 1. Financial assets

The regular way of purchase or sale of financial assets are recognized and derecognized based on the accounting on the transaction date.

##### (1) Classification of measurement

###### 2018

The Company holds financial assets in the form of financial assets measured on the basis of cost after amortization.

###### Financial assets based on cost after amortization

If the financial assets of the consolidated company met both of the following conditions, classify as financial assets on the basis of cost after amortization:

- A. Financial assets held under particular mode of operation and the purpose of holding is for the collection of cash flow from contracts; and

B. Financial assets held for trading. Cash flow generated on particular dates deriving from the contacts and the cash flow is wholly for the payment of principal and interest accrued from the outstanding amount of the principal.

Financial assets on the basis of cost after amortization (including cash and cash equivalents, notes receivable on the basis of cost after amortization, accounts receivable, other receivables and refundable deposits) shall be determined for the total book value under the effective interest rate method after the initial recognition net of the cost of any impairment after amortization for measurement. Any exchange gains or loss will be recognized as income.

Interest income will be the product of effective interest rate and total book value of financial assets except under the following two conditions:

- A. The interest income of financial assets procured or initiated under credit impairment will be the product of the effective interest rate after credit adjustment and the cost of financial assets after amortization.
- B. Financial assets held for trading. For financial assets that are not purchased or originated as credit-impaired financial assets but subsequently have become credit-impaired financial assets, the entity shall apply the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Cash equivalents are time deposits within 3 months from the date of acquisition, with high liquidity, can be converted into cash with marginal risk on the change in value, and are used for the fulfillment of short-term commitment in cash settlement.

## 2017

The financial assets held by the consolidated company include loans and receivables.

### Loans and receivable

Loans and receivables (including receivable, other receivables, cash and cash equivalents, and bond investments without an active market) are measured at the amortized cost after deducting the impairment losses in accordance with the effective interest method, except for the interest of short-term accounts receivable that is insignificant.

Cash equivalents are time deposits and notice deposit within 3 months from the date of acquisition, with high liquidity, can be converted into cash with marginal risk on the change in value, and are used for the fulfillment of short-term commitment in cash settlement.

(2) Impairment of financial assets and contract assets

2018

The Consolidated Company evaluates impairment loss of financial assets stated at amortized cost (include notes receivable, accounts receivable, other receivables, and refundable deposit) based on expected credit loss on each balance sheet date.

Notes receivable and receivable accounts shall be recognized for provisions for loss on the basis of anticipated credit loss within the perpetuity of the assets. Other financial assets shall be evaluated for any significant increase of risk from the day of initial recognition. If none is found, recognize for provision for anticipated credit loss along a period of 12 months. If it is, recognize for provision of anticipated credit risk within the perpetuity of the assets.

Anticipated credit loss is the weighted average loss of credit on the basis of the weight of the risk of default. Anticipated credit loss in a period of 12 months means the expected loss of credit from the financial instruments within 12 months due to default. Anticipated credit loss with the perpetuity of the financial instruments means the expected loss of credit from the financial instruments within the perpetuity of these financial instruments.

All impairment of financial assets is recognized through the reduction of the book value of the provisioned account. However, the provision for loss of investment of debt instruments at fair value through comprehensive income shall be recognized as other comprehensive income without the reduction of its book value.

2017

Except for the financial assets measured at fair value through profit or loss, the consolidated company examines whether there is an evidence of impairment occurring on the other financial assets at each balance sheet date. When there is objective evidence of one or more events occurring after the initial recognition of financial assets with a resulting loss to the future cash flow of the financial asset, the impairment of financial assets had already occurred.

For financial assets reported at amortized cost, such as, accounts receivable and other receivables, if such assets are assessed and concluded to be without any evident impairments, a collective assessment of the impairments should be initiated. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 45 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The impairment amount of the financial assets measured at amortized cost is the difference between the book value of the assets and the present value of the future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost after amortization, the amount of impairment reduced in subsequent periods can be reversed and recognized in profit and loss against a direct adjustment of cumulative impairments or the provision account, provided that the reduction is objectively believed to have been attributable to events occurred after the impairment was recognized. However, the reversal cannot produce a book value that is greater than the amount of cost after amortization (as at the date of reversal) had the financial asset not been impaired in the first place.

Other objective evidence of impairment to financial assets include: severe financial distress or default (e.g. delay or inability to pay interests or principals owed) involving the issuers or debtor, increased likelihood of the debtor undergoing bankruptcy or financial restructuring, or any financial crisis that may render the financial asset no longer available on the active market.

All the impairment loss of financing assets are directly deducted from the carrying amount of financing assets, except for the carrying amount for the accounts receivable and other receivables are deducted from their allowance accounts. The uncollectible receivables and other receivables are credited to the allowance account. The amount previously written off and collected subsequently is credited to the allowance account. Except writing off allowance accounts due to uncollectibles in accounts receivable and other receivables, the changes in the carrying amount of allowance accounts should be recognized in profit and loss.

(3) The de-recognition of financial assets

The consolidated company has financial assets de-recognized only when the contractual rights from the cash flows of a financial asset becomes invalid or when the financial assets are transferred and almost all the risks and rewards of the asset ownership have been transferred to other enterprises.

On the before 2017 (inclusive), when de-recognizing a financial asset, the difference between the book amount and the consideration received plus any cumulative profit or loss recognized in the other comprehensive profit or loss is recognized in the profit or loss. Since the 2018, when particular entry of financial assets measured on the basis of cost after amortization is removed, the difference between its book value and consideration shall be recognized as income. When particular debt instruments measured at fair value through comprehensive income is entirely removed, the total sum of any other accumulated gains or loss of the difference between book value and consideration recognized as other comprehensive income shall be recognized as income. When particular equity instruments measured at fair value through comprehensive income are entirely removed, the accumulated gains of loss shall be directly transferred to retained earnings without being classified as income.

## 2. Financial liabilities

### (1) Subsequent measurement

All financial liabilities are measured at the amortized cost in accordance with the effective interest method.

#### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities that are held for trading and measured at fair value.

The held-for-trade financial liabilities are measured at fair value with the profit or loss (cluding any dividend or interest paid with the financial liabilities) arising from the reevaluation recognized as profit or loss.

Please refer to Note 32 for the determination of fair value.

### (2) De-recognition of financial liabilities

When de-recognizing financial liabilities, the difference between the book amount and the consideration paid (including any transferred non-cash assets or assumed liabilities) is recognized as profit or loss.

## 3. Convertible corporate bonds

The compound financial instruments (convertible corporate bonds) issued by the consolidated company are classified as financial liabilities and equity respectively in the original recognition according to the substance of the contractual agreement and the definition of financial liabilities and equity instruments.

In the original recognition, the fair value of the liability is estimated according to the prevailing market interest rate of a similar non-convertible instrument; also, it is measured at the amortized cost that is calculated according to the effective interest method before the conversion or maturity date. The liability of an embedded non-equity derivative is measured at fair value.

The conversion right classified as equity is equal to the residual amount of the total fair value of the compound instrument deducting the fair value of the liability determined individually and net of the income tax effect; also, it will not be measured subsequently. When the conversion right is executed, the relevant liability and equity amount will be transferred to the capital stock and additional paid-in capital - issuance premium. If the conversion rights of the convertible corporate bonds have not been executed on the due date, the amount recognized in the equity will be transferred to the additional paid-in capital - issuance premium.

The relevant transaction costs of the issuance of convertible corporate bonds are amortized to the liabilities of the instrument (included in the book value of the liability) and the equity (included in the equity) in proportion to the total amortization amount.

(12) Recognition of revenue

2018

The consolidated company, after identifying the performance obligations, had the transaction price amortized to each performance obligation and recognized as income when the performance obligations were fulfilled.

Commodity sales revenue

Sales revenue comes from selling 3C electronic products and automotive components. When goods were sold, customers have already had the right to use goods and bear the burden of risk for losses and damages occurring to goods, therefore the Consolidated Company recognizes revenues and accounts receivable at the time of the sale.

2017

Income is measured in accordance with the fair value of the considerations received or receivable and net of the customer's sales return, discount, and other similar discount. Sales return is based on past experience and other relevant factors to reasonably estimate and appropriate future sales return amounts.

Sales of products

The sale of instruments is recognized as income upon fulfilling the following conditions fully:

1. The consolidated company has had the significant risks and rewards of the instrument ownership transferred to the buyer;
2. The consolidated company is not involved in the management of the instruments sold and does not maintain an effective control over the instruments sold.
3. The amount of revenues can be measured reliably.
4. The economic benefits related to the transaction is likely to flow into the consolidated company; and
5. The occurred or occurring cost related to the transaction can be measured reliably.

When material is provided for processing, the significant risks and rewards related to the ownership of the finished goods have not been transferred; therefore, the material provided for processing is not treated as sales.

(13) Lease

When the lease term is to have all risks and returns attached to the ownership of assets transferred to the lessee, it is classified as a financing lease. All other leases are classified as operating leases.



The consolidated company is the lessee

The payment of operational leasehold was recognized as expense during the duration of leasehold on the straight-line basis.

(14) Borrowing costs

Borrowing costs directly belonging to acquiring, building or producing assets that meet the requirements are part of the costs of such assets until the completion of all necessary activities that the assets reaching the status of expected use or sale.

If specific borrowings are temporarily used for investment before the occurrence of capital expenses that meet the requirements, the investment revenues earned will be deducted from the borrowing costs that meet the capitalization conditions.

In addition to the transaction stated in the preceding paragraph, all other loan costs are recognized as profit and loss upon occurring.

(15) Government grant

A government subsidy can only be recognized when it is firmly believed that the Consolidated Company will comply with the terms added to the government subsidy and will receive such subsidy.

If the government subsidy is used for compensating expenses or losses that have already occurred or for the purpose of immediate financial support to the Consolidated Company without any related cost in the future, it will be recognized as income during the receivable period.

(16) Employee benefits

1. Short-term employee benefits

Liabilities relating to short-term employee benefits are measured by the non-discounted amount of the expected payment in exchange for employee services.

2. Retirement benefits

Under the defined contribution pension plan, the pension amount appropriated during the service years of the employees is recognized as an expense.

(17) Income tax

Income tax expense is the sum of the current income tax and deferred income tax.

1. Income tax expenses in the current period

For subsidiaries in Taiwan, income tax shall be levied in accordance with the Income Tax Act on unappropriated earnings, and provided for as income tax in the year when the annual shareholder meeting resolves to retain the earnings.

The adjustment to prior period income tax payable is booked as current income tax.

## 2. Deferred tax

Deferred tax is computed in accordance with the temporary differences between the book value of assets and liabilities and the tax bases of taxable income.

Deferred tax liabilities are generally recognized in accordance with all taxable temporary differences. Deferred tax assets are recognized when there are likely to have taxable income available for deductible temporary difference or loss credit.

All taxable provisional differences relevant to the investment in subsidiaries and associates were recognized as deferred income tax liabilities, except an event while the Consolidated Company' could control the time point of recovery of the control over the provisional difference or while the said provisional difference would be very likely not recoverable in the foreseeable future. The deductible temporary differences related to such investments are recognized as deferred income tax assets when there is likely a sufficient taxable income available for realizing a temporary difference and within the expected reverse in the foreseeable future.

The book amount of deferred income tax asset must be reviewed at each balance sheet date. The book amount of those that no longer have any sufficient taxable income to recover all or part of the asset, should be adjusted down. Those that are not originally recognized as deferred income tax assets should also be reexamined at each balance sheet date. The book amount of those that are likely to generate taxable income in the future for the recovery of all or part of its assets should be adjusted up.

Deferred income tax assets and liabilities are measured in accordance with the expected liability liquidation or the tax rate in the period when the asset is realized. The tax rate is based on the tax rate and tax laws that are legislated or substantively legislated at the balance sheet date. The measurement of deferred income tax liabilities and assets reflects the tax effect resulting from the book amount of the assets and liabilities expected to be recovered or liquidated at the balance sheet date.

## 3. Current and deferred income taxes

Current and deferred income taxes are recognized in the profit or loss, except for the current and deferred income taxes related to the items recognized in other comprehensive profit or loss or directly included in the equity are recognized in the other comprehensive profit or loss or directly included in the equity.

If the current income tax or deferred income tax is resulting from a business consolidation, the income tax effect is included in the accounting process for consolidated company.

5. Main source of significant accounting judgment, estimates and assumptions uncertainty

When the consolidated company adopts accounting policies and the relevant information cannot be retrieved from other sources easily, the management must base things on a historical experience and other relevant factors to make judgments, estimates, and assumptions. Actual results may differ from the estimates.

The management will continue to review the estimates and basic assumptions. If the amendment affects only the current estimates, it is recognized in the current period. If the amendment of accounting estimates affects both current and future periods, it is recognized in the respective current and future periods.

6. Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and working capital	\$ 640	\$ 550
Bank checking and saving deposits	549,652	529,493
Cash equivalents (with maturity within three months)		
Bank time deposit	-	79,866
	<u>\$ 550,292</u>	<u>\$ 609,909</u>

The deposits in banks showed the following interest rate ranges as of the balance sheet date:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Bank deposits	0.01%~0.33%	0.01%~0.24%

7. Financial instruments measured at fair value through profit or loss

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial liabilities - current</u>		
Measured at fair value through income under compulsion		
Derivatives (Undesignated Hedge) – Convertible Options (Note 19)	\$ 910	\$ -

8. Financial assets at amortized cost - 2018

	<u>December 31, 2018</u>
<u>Current</u>	
Investment in domestic	
Bank deposits – restricted	<u>\$ 3,842</u>

This type of deposit was classified as debt instruments without an active market based on IAS 39. Please refer to Note 3 and Note 10 for its reclassification and information for 2017.

9. Credit risk management for investment in debt instruments – 2018

Investments in debt instruments of the Consolidated Company are classified as financial assets stated at amortized cost:

December 31, 2018

	<u>At Amortized Cost</u>
Total book value	\$ 3,842
Allowance for losses	<u>-</u>
Cost after amortization	<u>\$ 3,842</u>

In order to mitigate credit risk, the Consolidated Company's management appoints designated team to execute credit rating assessment and evaluate the default risk of investment institutions of debt instruments. When there is no credit rating information supplied by external credit rating information, the Company will access an appropriate internal rating based on publicly accessible financial information. The Consolidated Company monitors the changes of credit risk of its debt instrument investments by continually following the material information of financial institutions, and assesses whether there has been a significant increase in credit risk since initial recognition by accessing debt instrument investments.

In order to measure 12-month or full-lifetime expected credit losses of debt instrument investments, the Consolidated company will consider the historical default records and current financial status of the financial institutions provided by an internal credit rating team. The current credit risk evaluation approach of the Consolidated Company and the total carrying amount of debt instrument investments with various credit ratings are shown as below:

<u>Credit rating</u>	<u>Definition</u>	<u>Basis for recognizing expected credit losses</u>	<u>Expected credit loss rate</u>	<u>Total book value of December 31, 2018</u> <u>At Amortized Cost</u>
Normal	The debtors' credit risk is low and also has sufficient capability to pay off contractual cash flows	Anticipated credit loss in 12 months	0%	<u>\$ 3,842</u>

10. Debt investments with no active market - 2017

December 31, 2017

Current

Time deposit with the original maturity date over three months	<u>\$ 155,728</u>
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Partial time deposits are provided to the bank for issuing letter of guarantee and guarantee deposits. Please refer to Note 34 for relevant information.

As of December 31, 2017, interest rate collars with maturity over three months is 0.65% to 1.95%.

11. Notes receivable, accounts receivable and other receivables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Notes receivable</u>		
At amortized cost		
Total book value	\$ 5,379	\$ 25,076
Less: Allowance for losses	<u>-</u>	<u>-</u>
	<u>\$ 5,379</u>	<u>\$ 25,076</u>
 <u>Accounts receivable</u>		
At amortized cost		
Total book value	\$ 2,118,093	\$ 1,827,900
At FVTOCI	130,136	-
Less: Allowance for losses	<u>( 28,077)</u>	<u>( 16,619)</u>
	<u>\$ 2,220,152</u>	<u>\$ 1,811,281</u>
 <u>Other receivable</u>		
Interests receivable	\$ -	\$ 181
Others	<u>17,828</u>	<u>7,961</u>
	<u>\$ 17,828</u>	<u>\$ 8,142</u>

Accounts receivable

2018

(1) At amortized cost

The average credit period for the consolidated company's sales of goods is 150 days. The Consolidated Company has adopted a policy of only dealing with entities that are permitted after credit evaluation by the Company, and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated company will use other publicly available financial information and historical transaction records to rate major customers. The consolidated company continuously monitors the credit risk exposure and the credit rating of the counterparty; also, it distributes the total transaction amount to different customers with a qualifying credit rating. In addition, it manages credit risk exposure through the credit line of the counterparty reviewed and approved by the Risk Management Committee each year.

The consolidated company adopts the simplified method in IFRS 9 to recognize the allowance for loss of the accounts receivable according to the expected credit losses of the given duration. The full-lifetime expected credit losses are calculated using Provision Matrix, which considers the historical default records and current financial status, industry economic conditions, as well as GDP forecast and industry outlook. According to the indications of the past experience of the Consolidated Company, the Company divided each customer into different risk groups, and then recognized loss allowance based on the expected loss rate of each group.

As of balance sheet date, the Consolidated Company has no notes receivable that are past due but not recognized allowance. In addition, considering past experience that allowance has never happened, therefore the Company should set expected credit loss rate of notes receivable as 0%.

If there is evidence that the counterparty is facing serious financial difficulties and the consolidated company cannot reasonably expect the recoverable amount back, the consolidated company will directly write off the relevant accounts receivable, but will continue its recourses, and the amount recovered will be recognized in profit or loss.

The consolidated company's allowance for loss of receivables is determined according to the preparation matrix as follows:

December 31, 2018

	Not overdue	Overdue 1 to 60 days	Overdue 61 to 120 days	Overdue 121 to 180 days	Overdue 181 to 240 days	Overdue 241 to 365 days	Overdue over 365 days	Total
Expected credit loss rate	0%~4.7%	0%~5.43%	0%~11.56%	0%~19.88%	0%~26.32%	0%~49.69%	7.73%~100%	
Total book value	\$ 1,552,932	\$ 458,183	\$ 31,483	\$ 42,054	\$ 901	\$ 6,619	\$ 25,921	\$ 2,118,093
Allowance for loss (expected credit loss of the given duration)	( <u>1,271</u> )	( <u>3,721</u> )	( <u>1,884</u> )	( <u>1,216</u> )	( <u>18</u> )	( <u>1,039</u> )	( <u>18,928</u> )	( <u>28,077</u> )
Cost after amortization	<u>\$ 1,551,661</u>	<u>\$ 454,462</u>	<u>\$ 29,599</u>	<u>\$ 40,838</u>	<u>\$ 883</u>	<u>\$ 5,580</u>	<u>\$ 6,993</u>	<u>\$ 2,090,016</u>

Changes in the allowance loss of the accounts receivable are as follows:

	<u>2018</u>
Balance, beginning of year (IAS 39)	\$ 16,619
Retroactive application of IFRS 9 adjustments	<u>-</u>
Balance, beginning of year (IFRS 9)	16,619
Add: An impairment loss is recognized in the current year.	12,011
Foreign exchange difference	( <u>553</u> )
Balance, end of year	<u>\$ 28,077</u>

(2) At FVTOCI

For accounts receivable with relatively larger amounts, the Consolidated Company decide to use recourse factoring to the banks depending on the status of operating capital. The business model of the Consolidated Company managing this kind of accounts receivable is to complete its goal through receiving contractual cash flows and selling financial assets. Thus, these kinds of accounts receivable are measured through other comprehensive income in fair value.

2017

The credit policy of the consolidated company in 2017 is same as the aforementioned credit policy in 2018. For estimating allowances for doubtful receivables, since accounts receivable overdue more than 365 days are uncollectible based on past experience, the Consolidated Company recognizes 100% allowance for doubtful receivables. For accounts receivables with aging schedules within 365 days, the allowance for doubtful receivables is assessed by reference to the collectability of receivables by performing the account aging analysis, historical experience and current financial condition of customers.

For the overdue accounts receivable on the balance sheet date that is without the allowance for bad debts appropriated by the consolidated company, since the credit quality has not been materially changed, the consolidated company's management believes that the amount can be recovered; therefore, the consolidated company does not have any collateral or other credit enhancements collected for the protection of the accounts receivable.

The age analysis of accounts receivables is as follows:

	<u>December 31, 2017</u>
Not overdue	\$ 1,692,268
1 ~ 30 days	80,512
31 ~ 90 days	19,160
91 ~ 180 days	8,558
181 ~ 365 days	25,963
Over 365 days	<u>1,439</u>
Total	<u>\$ 1,827,900</u>

The aging analysis of the overdue accounts receivable without impairment is as follows:

	<u>December 31, 2017</u>
Below 30 days	<u>\$ 80,512</u>

The aforementioned aging analysis is based on the overdue days.

Changes in the allowance for bad debt of the accounts receivable are as follows:

	<u>Impairment under group assessment</u>
Balance as of January 1, 2017	\$ 8,471
Less: Appropriated bad debt expense of the year	8,193
Foreign exchange difference	( <u>45</u> )
Balance as of December 31, 2017	<u>\$ 16,619</u>

As of December 31, 2017, there is no single one of impaired accounts receivable that is undergoing liquidation or experiencing severe financial difficulties.

## 12. Inventory

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Finished products	\$ 518,020	\$ 128,702
Work-in-process goods	209,601	307,725
Raw materials	<u>172,899</u>	<u>174,723</u>
	<u>\$ 900,520</u>	<u>\$ 611,150</u>

Cost of goods sold related to inventories in 2018 and 2017 amounted to NT\$ 4,757,020 thousand and NT\$ 3,382,778 thousand, respectively. Cost of goods sold includes the amount of inventory valuation losses NT\$11,583 thousand and NT\$ 5,905 thousand.

## 13. Subsidiaries

### Subsidiaries included in the consolidated financial statements

The business entities of the consolidated financial statements are as follows:

Investor	Subsidiary name	Nature of the operation	Percentage of shareholdings		Remark
			December 31, 2018	December 31, 2017	
Lemtech Holdings Co., Limited	Lemtech Global Solution Co. Ltd. (formerly known as Super Solution Co., Ltd., hereinafter to be referred as Global Solution)	Investment holding company	100	100	Acquired all of shares through share exchange as of November 23, 2009.
Lemtech Holdings Co., Limited	Lemtech Precision Material (China) Co., Ltd. (formerly known as Kunshan Lemtech Precision Material Co., Ltd., hereinafter referred to as Lemtech Precision Material Co.)	Manufacturing and designing various kinds of fine blanking dies, die casting non-metal mold, computer connector, computer thermal module, and new type of electronic components, as well as selling the company's products, etc.	0.2	-	Merged Kunshan LDC Precision Machinery Co., Ltd. as of March 17, 2010. (Note 3)
Global Solution	Lemtech Precision Material (China) Co., Ltd. (formerly known as Kunshan Lemtech Precision Material Co., Ltd., hereinafter referred to as Lemtech Precision Material Co.)	Manufacturing and designing various kinds of fine blanking dies, die casting non-metal mold, computer connector, computer thermal module, and new type of electronic components, as well as selling the company's products, etc.	99.8	90	Merged Kunshan LDC Precision Machinery Co., Ltd. as of March 17, 2010. (Note 3)
Lemtech Precision Material Co., Ltd.	LDC Precision Engineering Co., LTD. (hereinafter referred to as "LDC")	Manufacturing and wholesaling household appliances, audio and video electronic products, other electrical machinery and electronic mechanical devices, automotive and components, other optical and precision mechanical parts.	100	100	Eestablished on May 10, 2000.
Lemtech Precision Material Co., Ltd.	Lemtech Technology Limited (hereinafter referred to as "Lemtech HK")	Selling automotive, electronics and computer related components.	100	100	Eestablished on April 9, 2014. (Note 2)
Lemtech Precision Material Co., Ltd.	Lemtech Precision Material (CZECH) s.r. o. (hereinafter referred to as "Lemtech CZ")	Manufacturing automotive components (car roof windows, brakes and seat belts, etc.), parts and accessories (steering wheel drive shaft etc.), and supply for consumer electronic components and sever products.	100	100	Operated since January 1, 2017. (Note 1)
Lemtech HK	Lemtech USA Inc. (hereinafter referred to as "Lemtech USA")	Business development in the U.S. market, collecting business information, and providing market and industry information.	100	100	Eestablished on May 31, 2013. (Note 2)
Lemtech HK	Lemtech Industrial Services Ltd. (hereinafter referred to as "LIS")	Selling electronic and computer related components and accessories.	57	57	Established as of December 17, 2015. Payments of shares were transferred as of April 12, 2016. (Note 4)
Lemtech Industrial Services Ltd. (hereinafter referred to as "LIS")	Kunshan Lemtech Slide Technology Co., Ltd. (hereinafter to be referred as Lemtech Slide Co.)	Design and manufacture slides, hinges, and relevant mechanical assemblies, as well as selling the company's products, etc.	100	100	Eestablished on July 21, 2016. (Note 4)



Remarks:

1. Lemtech USA, Lemtech CZ, LIS, and Lemtech Slide Co. are non-significant subsidiaries where financial statements were not reviewed by independent auditors; while the Consolidated Company's management considers that non-significant subsidiaries where financial statements were not reviewed by independent auditors mentioned above shall not cause significant differences.
2. For the Group's operational plan, future development and enhancing the Company's competitiveness, the Consolidated Company decided to adjust investment structure in accordance with the board meeting resolution, where the shares of Lemtech USA owned by Global Solution was adjusted to be owned by Lemtech HK, and the shares of Lemtech HK owned by Global Solution was adjusted to be owned by Lemtech Precision Material Co. in December 2015.
3. In order to bring in strategic shareholders for expanding business in Mainland China, the board meeting resolution decided to sell 10% shares of Lemtech Precision Material Co., and completed equity transfer on October 21, 2015. The board meeting resolution on September 28, 2018, decided that the Company buy back 0.2% shares of its subsidiary Lemtech Precision Material Co. and Global Solution buy back 9.8% shares of its subsidiary Lemtech Precision Material Co. Please refer to Note 28 for relevant transactions.
4. In order to simplify organizational structure, the board meeting of Lemtech Precision Material Co. resolved to purchase shares of Lemtech Slide Co. owned by New Fortune Global Limited in two phases. Firstly, the Company purchased shares of LIS owned by the Company through Lemtech HK, then purchased 100% shares of Lemtech Slide Co. owned by New Fortune Global Limited through LIS. In the meantime, LIS issued common shares on November 2016, and Lemtech HK's ownership interest is reduced due to the additional subscription to the shares of associate by other investors. After reconstruction, the Consolidated Company still has control over Lemtech Slide Co. To simplify organizational structure, the Consolidated Company dissolved New Fortune Global Limited on April 5, 2017.

14. Investments accounted for using the equity method

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Associates that are not individually material</u>		
Aapico Lemtech (I)	\$ 29,692	\$ 13,546
Lemtech Cryomax (II)	<u>3,810</u>	<u>-</u>
	<u>\$ 33,502</u>	<u>\$ 13,546</u>

- (1) On February 1, 2013, the Consolidated Company entered into an investment agreement with Aapico Hitech Plc. (AH:TB), a listed company on the Stock Exchange of Thailand, and established Aapico Lemtech (Thailand) Co., Ltd. (hereinafter to be referred as Aapico Lemtech) jointly by contributing cash on March 1, 2013. For the Group's operational plan for the Consolidated Company, the shares of Aapico Lemtech owned by Global Solution are adjusted to be owned by Lemtech HK as of June 30, 2016.
- (2) Lemtech Cryomax System Corp. (hereinafter to be referred as Cryomax Lemtech) was established on April 2, 2015, and 50% of its shares were acquired by Global Solution on November 10, 2018. The NT\$ 298 thousand bargain purchase gains arising from the acquisition of Cryomax Lemtech are shown as "associates accounted for using equity method" in the consolidated statements of comprehensive income.
- (3) As of the balance sheet date, the Merging Company showed the following ownership interests and voting powers in associates:

<u>Company name</u>	<u>Shareholding and voting right ratio</u>	
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Aapico Lemtech	40%	40%
Lemtech Cryomax	50%	-

Profit or loss attributed to associates accounted for using the equity method and proportionate shares of amounts of other comprehensive income as of 2018 and 2017 are based on the recognition and disclosures of investees' reviewed financial statements unaudited by independent auditors; while the Consolidated Company's management believes the unaudited financial statements mentioned above will not cause significant influence.

For the nature of businesses, the main operating locations and the registered national information of the companies of above associates, please refer to table 7 "Information on investees, location, and ... relevant information etc."

Aggregate information of associates that are not individually material

	<u>2018</u>	<u>2017</u>
Share of the Consolidated Company		
Net income (loss) in current period	\$ 14,335	(\$ 955)
Other comprehensive profit or loss	<u>199</u>	<u>1,482</u>
Total Comprehensive income	<u>\$ 14,534</u>	<u>\$ 527</u>

## 15. Property, plant and equipment

	Buildings and structures	Machinery equipment	Transport equipment	Office equipment	Leasehold improvement	Other equipment	Uncompleted construction and equipment pending inspection	Total
<b>Cost</b>								
Balance as of January 1, 2017	\$ 245,223	\$ 499,893	\$ 27,021	\$ 35,162	\$ 30,225	\$ 172,865	\$ 90,544	\$ 1,100,933
Additions	156,586	214,441	3,934	3,739	109	21,570	4,987	405,366
Disposition	-	( 9,133)	( 1,762)	( 1,820)	-	( 406)	-	( 13,121)
Reclassification	88,196	147	-	-	-	( 2,448)	( 90,047)	( 4,152)
Net exchange differences	( 1,988)	( 4,021)	( 252)	( 351)	( 340)	( 1,863)	1,024	( 7,791)
Balance as of December 31, 2017	<u>\$ 488,017</u>	<u>\$ 701,327</u>	<u>\$ 28,941</u>	<u>\$ 36,730</u>	<u>\$ 29,994</u>	<u>\$ 189,718</u>	<u>\$ 6,508</u>	<u>\$ 1,481,235</u>
<b>Accumulated depreciation and impairment</b>								
Balance as of January 1, 2017	\$ 26,842	\$ 236,236	\$ 19,495	\$ 21,966	\$ 26,173	\$ 89,638	\$ -	\$ 420,350
Depreciation expenses	13,055	48,763	3,675	5,386	1,992	31,737	-	104,608
Impairment losses recognized	-	1,483	-	-	-	-	-	1,483
Disposition	-	( 8,622)	( 1,762)	( 1,805)	-	( 406)	-	( 12,595)
Net exchange differences	( 130)	( 2,023)	( 159)	( 176)	( 269)	( 605)	-	( 3,362)
Balance as of December 31, 2017	<u>\$ 39,767</u>	<u>\$ 275,837</u>	<u>\$ 21,249</u>	<u>\$ 25,371</u>	<u>\$ 27,896</u>	<u>\$ 120,364</u>	<u>\$ -</u>	<u>\$ 510,484</u>
December 31, 2017- Net	<u>\$ 448,250</u>	<u>\$ 425,490</u>	<u>\$ 7,692</u>	<u>\$ 11,359</u>	<u>\$ 2,098</u>	<u>\$ 69,354</u>	<u>\$ 6,508</u>	<u>\$ 970,751</u>
<b>Cost</b>								
Balance at January 1, 2018	\$ 488,017	\$ 701,327	\$ 28,941	\$ 36,730	\$ 29,994	\$ 189,718	\$ 6,508	\$ 1,481,235
Additions	35,915	176,779	10,781	5,747	34,420	184,442	4,746	452,830
Disposition	-	( 18,765)	( 6,085)	( 1,334)	-	( 152)	-	( 26,336)
Reclassification	( 6,101)	7,146	-	-	6,101	( 8,140)	( 6,375)	( 7,369)
Net exchange differences	( 9,881)	( 14,053)	( 559)	( 691)	( 611)	( 3,822)	( 133)	( 29,750)
Balance at December 31, 2018	<u>\$ 507,950</u>	<u>\$ 852,434</u>	<u>\$ 33,078</u>	<u>\$ 40,452</u>	<u>\$ 69,904</u>	<u>\$ 362,046</u>	<u>\$ 4,746</u>	<u>\$ 1,870,610</u>
<b>Accumulated depreciation and impairment</b>								
Balance at January 1, 2018	\$ 39,767	\$ 275,837	\$ 21,249	\$ 25,371	\$ 27,896	\$ 120,364	\$ -	\$ 510,484
Depreciation expenses	25,956	77,100	4,153	5,537	4,572	53,015	-	170,333
Impairment loss (reversal)	-	( 3,640)	-	-	-	-	-	( 3,640)
Disposition	-	( 16,323)	( 6,063)	( 1,327)	-	( 150)	-	( 23,863)
Reclassification	( 153)	-	-	-	-	-	-	( 153)
Net exchange differences	( 1,273)	( 6,906)	( 488)	( 577)	( 693)	( 3,505)	-	( 13,442)
Balance at December 31, 2018	<u>\$ 64,297</u>	<u>\$ 326,068</u>	<u>\$ 18,851</u>	<u>\$ 29,004</u>	<u>\$ 31,775</u>	<u>\$ 169,724</u>	<u>\$ -</u>	<u>\$ 639,719</u>
December 31, 2018- Net	<u>\$ 443,653</u>	<u>\$ 526,366</u>	<u>\$ 14,227</u>	<u>\$ 11,448</u>	<u>\$ 38,129</u>	<u>\$ 192,322</u>	<u>\$ 4,746</u>	<u>\$ 1,230,891</u>

Depreciation expenses is appropriated in accordance with the straight line method and the years of useful life illustrated below:

Buildings and structures	20 years
Machinery equipment	5 to 10 years
Office equipment	5 years
Transport equipment	5 years
Leasehold improvement	2 to 3 years
Other equipment	2 to 5 years

## 16. Net computer software

	Costs of computer software
<b>Cost</b>	
Balance as of January 1, 2017	\$ 37,199
Acquired separately	4,101
Disposition	( 566)
Net exchange differences	( 293)
Balance as of December 31, 2017	<u>\$ 40,441</u>

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	<u>Costs of computer software</u>
<u>Cumulative amortization and impairment</u>	
Balance as of January 1, 2017	(\$ 13,642)
Amortization expenses	( 4,869)
Disposition	566
Net exchange differences	<u>69</u>
Balance as of December 31, 2017	( <u>\$ 17,876</u> )
December 31, 2017- Net	<u>\$ 22,565</u>
<u>Cost</u>	
Balance at January 1, 2018	\$ 40,441
Acquired separately	5,976
Net exchange differences	( <u>659</u> )
Balance at December 31, 2018	<u>\$ 45,758</u>
<u>Cumulative amortization and impairment</u>	
Balance at January 1, 2018	(\$ 17,876)
Amortization expenses	( 5,632)
Net exchange differences	<u>384</u>
Balance at December 31, 2018	( <u>\$ 23,124</u> )
December 31, 2018- Net	<u>\$ 22,634</u>

Amortization expenses is appropriated in accordance with the straight line method and the years of useful life illustrated below:

Computer software 3 to 10 years

17. Other assets

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Current</u>		
Prepayments		
Prepayment for purchase	\$ 6,022	\$ 15,397
Prepayments for leases -		
Current	2,251	2,298
Other prepayments	<u>95,650</u>	<u>79,625</u>
	<u>\$ 103,923</u>	<u>\$ 97,320</u>

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	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other current assets		
Payments for others	<u>\$ 3,147</u>	<u>\$ -</u>
<u>Non-current</u>		
Prepayments for equipment	\$ 194,248	\$ 273,394
Refundable deposits	2,977	6,719
Prepayments for leases -		
Non-current	<u>88,214</u>	<u>92,347</u>
	<u>\$ 285,439</u>	<u>\$ 372,460</u>

As of December 31, 2018 and 2017, prepaid lease payments for land use rights in China are NT\$90,465 thousand and NT\$94,645 thousand respectively. The Consolidated Company has obtained certificates of total land use rights. The land use rights are amortized on a straight-line basis over their useful lives of 50 years.

18. Borrowings

(1) Shot-term borrowings

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Unsecured borrowings</u>		
Bank loans	<u>\$ 1,009,466</u>	<u>\$ 1,535,622</u>

The revolving bank loan interest rates were 3.16%~5.5% and 2%~4.437%, respectively on December 31 2018 and 2017.

(2) Long-term borrowings

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Unsecured borrowings</u>		
Bank loans	\$ -	\$ 141,566
Less: The part entered as due		
within one year	<u>-</u>	<u>( 119,246)</u>
	<u>\$ -</u>	<u>\$ 22,320</u>

The maturity date of unsecured loans is due by September 26, 2019, and the effective interest rates range from 2.57% to 2.97% as of December 31, 2017.

19. Corporate bonds payable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Domestic unsecured convertible corporate bond	\$ 600,000	\$ -
Less: Discount on corporate bond discount	( <u>23,522</u> )	<u>-</u>
	<u>\$ 576,478</u>	<u>\$ -</u>

Domestic unsecured convertible corporate bond

On July 30, 2018, the Company issued 6 thousand units of New Taiwan dollar-denominated unsecured convertible bonds, with each bond having a par value of NT\$ 100 thousand and 0% interest rate. Total face value of the bonds is NT\$ 600,000 thousand, issued at a price of 100.5% of face value, and the total amount of cash the Company received is NT\$603,000 thousand.

- (1) Each bond holder has right to have the bonds converted into common stocks of the Company at the price of NT\$220 per share, with conversion period from October 31, 2018 till July 30, 2021.
- (2) If the bonds haven't been converted at that time, the Company will redeem the outstanding bonds in cash at par value from the bondholders on July 30, 2021.
- (3) Bondholders have the option to request the Company to redeem their bond holdings at face value on July 30, 2020, two years after the issuance date.

The convertible bonds includes assets, liabilities and equity, and the equity components will be expressed as "capital surplus – stock options" under shareholders' equity. The effective interest rate of liabilities components is initially recognized at 1.55%.

Proceeds from issuance (deducting transaction costs of NT\$3,635 thousand)	\$599,365
The equity composition (deducting the transaction cost amortized to the equity for an amount of NT\$242 thousand)	( 25,738 )
The financial assets composition on the issuing date	1,080
Recognized in profit and loss (Other profit or loss)	( 1,990 )
Interest calculated at the effective rate of 1.55%	<u>3,761</u>
Liability components as of December 31, 2018.	<u>\$576,478</u>

20. Notes payable and accounts payable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Notes payable</u>		
Incurred by operation	<u>\$ 300,787</u>	<u>\$ 84,698</u>
<u>Accounts payable</u>		
Incurred by operation	<u>\$ 1,134,173</u>	<u>\$ 996,452</u>

Average number of days to pay accounts payable is 120, and amounts due to connected parties were interest-free. The Consolidated Company has made financial risk management policy to ensure all payables could be settled on or before the due date.

21. Other liabilities

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Current</u>		
Other payables		
Payables to equipment suppliers and construction contractors.	\$ 5,419	\$ 7,257
Payables on land and buildings (1)	-	913
Salary and bonus payables	76,131	63,598
Benefits expenses payable	1,018	3,382
Remuneration to employees and directors and supervisors payable	32,986	19,670
Interest payable	3,789	1,509
Commission payable	1,029	787
Payables on customs declaration and logistics fees	26,396	24,516
Others	<u>53,642</u>	<u>34,115</u>
	<u>\$ 200,410</u>	<u>\$ 155,747</u>
Other liabilities		
Temporary receipts	\$ 255	\$ 77
Others	<u>7,148</u>	<u>10,084</u>
	<u>\$ 7,403</u>	<u>\$ 10,161</u>

(1) The remaining payment for real estate acquisitions of Lemtech Precision Material Co. in 2016

22. Equity

(1) Capital stock

Common stock

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Authorized number of shares (thousand shares)	<u>100,000</u>	<u>100,000</u>
Authorized capital	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Number of shares issued with fully paid-in capital (thousand shares)	<u>39,541</u>	<u>39,541</u>
Outstanding capital	<u>\$ 395,411</u>	<u>\$ 395,411</u>

(2) Capital surplus

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>May be applied to cover</u> <u>accumulated deficit, distributed</u> <u>in cash or transferred to capital.</u>		
Effect of functional currency changes	(\$ 68,246)	(\$ 68,246)
Other capital surplus of shares	356,379	356,379
Corporate bond conversion premium	389,635	389,635
The differences between carrying amount and market price of actual acquisition or disposal of shares in subsidiaries.	80,841	1,043
<u>May not be used for any purpose.</u>		
Recognized equity of the convertible corporate bonds issued	<u>25,738</u> <u>\$ 784,347</u>	<u>-</u> <u>\$ 678,811</u>

Such additional paid-in capital can be used to make up for losses; also, when the company is without any loss, it can be applied for cash distribution or capitalization. However, it is limited to a certain percentage of the annual paid-in capital for the purpose of capitalization.

(3) Retained earnings and dividend policy

Pursuant to the Company's Articles of Incorporation, the Companies Law of the Cayman Islands, and listing rules, the Company should make appropriations from its net income. Firstly the Company should pay taxes, cover accumulated losses, and then recognize special reserve return earnings, if any. If there are any remaining earnings left over, except for those being saved as unappropriated retained earnings by the Board of Directors, shall be distributed as dividends and bonuses to shareholders in proportion to their share of ownership. The proposal of earnings appropriation is prepared by the Board of Directors and resolved by the shareholders.

The Company's dividend policy shall consider the steady growth of the Company, sustainability of business operations, funding capital needs, strengthening financial structure, and protecting long-term shareholders' interests in the distribution of earnings. Total dividends should not be lower than 10% of distributable net profit and dividends may be paid in cash or stock, where cash dividends should not be lower than 50% of total dividends. If the Company has no deficit, the Company shall consider financial, operational and business factors to appropriate all of or partial of its legal reserves and additional paid-in capital.

Pursuant to the previous section regarding distribution of dividends or bonuses, in accordance with listing rules, the Company shall appropriate all of or partial of dividends and bonuses via issuing new shares upon the special resolution resolved at the general meeting; amounts less than one share shall be distributed in cash.

For estimated and actual distribution of the employees' compensation and the directors' and supervisors' remuneration, please refer to Note 24(7) employees' compensation and the directors' and supervisors' remuneration.



The Company has a special reserve appropriated and reversed in accordance with FSC.Certificate.Issue.Tzi No. 1010012865 Letter, and “Special reserve appropriation Q&A after the adoption of International Financial Reporting Standards (IFRSs).”

The Company had the earnings distribution of 2017 and 2016 resolved in the shareholders’ meeting held on June 11, 2018 and June 26, 2017, respectively, as follows:

	Appropriation of Earnings		Dividend Per Share (NT\$)	
	2017	2016	2017	2016
Special reserve	(\$ 15,425)	\$ 15,425	-	-
Cash dividends	98,853	158,164	\$ 2.5	\$ 4

The Company had resolved in the board meeting the earnings distribution and dividends per share of 2018 on March 27, 2019 as follows:

	Appropriation of Earnings	Dividend Per Share (NT\$)
Cash dividends	\$ 98,853	\$ 2.5
Stock dividends	79,082	2

The proposal for the distribution of earnings in 2018 is pending on the resolution of the General Meeting of shareholders scheduled to be held in June 17, 2019.

(4) Special reserve

	2018	2017
Balance, beginning of year	\$ 28,925	\$ 14,546
Effect of functional currency changes	-	( 1,046)
Appropriation of special reserve		
Deductions from other equity items	-	15,425
(Reversal) special reserve		
Other equity deduction reversal	( 15,425)	-
Balance, end of year	\$ 13,500	\$ 28,925

(5) Non-controlling interest

	2018	2017
Balance, beginning of year	\$ 144,700	\$ 129,599
Net profits of the current year	22,929	16,148
Other comprehensive income of the current year		
Exchange differences from the translation of financial statements of foreign operations	( 2,743)	( 1,047)
Acquisition of non-controlling interest of Lemtech Precision Material Co. (Note 28)	( 148,405)	-
Balance, end of year	\$ 16,481	\$ 144,700

23. Revenue

	<u>2018</u>	<u>2017</u>
Revenue from Contracts with Customers		
Revenue from sale of goods	<u>\$ 6,043,090</u>	<u>\$ 4,255,549</u>

(1) Revenue from sale of goods

Sales revenue comes from selling 3C electronic products and automotive components. When goods were sold, customers have already had the right to use goods and bear the burden of risk for losses and damages occurring to goods, therefore the Consolidated Company recognizes revenues and accounts receivable at the time of the sale.

(2) Contract balances

	<u>December 31, 2018</u>
Contract liability – current	<u>\$ 66,510</u>

(3) Detailed classification of revenue from contracts with customers

For the detailed classification of revenue, please refer to Note 40.

24. Net profits of the current year

The net income of the current year includes the following items:

(1) Other income

	<u>2018</u>	<u>2017</u>
Interest revenue		
Bank deposits	\$ 10,268	\$ 3,535
Subsidies revenue	13,500	10,850
Others	<u>2,531</u>	<u>3,198</u>
	<u>\$ 26,299</u>	<u>\$ 17,583</u>

(2) Other gains and losses

	<u>2018</u>	<u>2017</u>
Net foreign exchange gain (loss)	(\$ 49,300)	\$ 62,507
Gain (loss) in disposal of property, plant and equipment	( 527)	72
Net loss on fair value changes of financial liabilities designated as at fair value through profit or loss	( 1,990)	-
Gain on disposal of associates	-	499
Gain on reversal of impairment (loss)	3,640	( 1,483)
Others	<u>( 10,908)</u>	<u>( 2,406)</u>
	<u>(\$ 59,085)</u>	<u>\$ 59,189</u>

(3) Financial costs		
	2018	2017
Interest from bank borrowings	\$ 41,881	\$ 22,045
Convertible corporate bonds	<u>3,761</u>	<u>-</u>
	<u>\$ 45,642</u>	<u>\$ 22,045</u>
(4) Gain on reversal of impairment (loss)		
	2018	2017
Property, plants and equipment (included in the other net gain (loss))	<u>\$ 3,640</u>	<u>(\$ 1,483)</u>
(5) Depreciation and amortization		
	2018	2017
Consolidation of depreciation expenses based on functions		
Operating cost	\$ 100,515	\$ 64,318
Operating expenses	<u>69,818</u>	<u>40,290</u>
	<u>\$ 170,333</u>	<u>\$ 104,608</u>
Consolidation of amortization expenses based on functions		
Operating cost	\$ 111	\$ 482
Operating expenses	<u>5,521</u>	<u>4,387</u>
	<u>\$ 5,632</u>	<u>\$ 4,869</u>
(6) Employee benefits expenses		
	2018	2017
Short-term employee benefits	\$ 610,857	\$ 491,552
Retirement benefits		
Defined contribution pension plan	<u>24,157</u>	<u>20,805</u>
Total employee benefits expenses	<u>\$ 635,014</u>	<u>\$ 512,357</u>
Consolidation based on functions		
Operating cost	\$ 320,597	\$ 259,439
Operating expenses	<u>314,417</u>	<u>252,918</u>
	<u>\$ 635,014</u>	<u>\$ 512,357</u>

(7) Employees' compensation and remuneration of directors and supervisors

According to the Company's Articles of Incorporation, the Company shall allocate profit sharing bonus to employees and compensation to directors of the Company not less than 0.5% and not more than 2% of annual profits during the period, respectively. The Company's profit sharing bonus to employees and compensation to directors for 2018 and 2017, respectively, had been approved by the Board of Directors of the Company held on March 27, 2019 and March 22, 2018, respectively.

Estimate on ratio

	<u>2018</u>	<u>2017</u>
Remuneration to employees	0.5%	0.5%
Remuneration to directors/supervisors	1%	0.6%

Amount

	<u>2018</u>	<u>2017</u>
	<u>Cash</u>	<u>Cash</u>
Remuneration to employees	\$ 1,946	\$ 1,510
Remuneration to directors/supervisors	3,892	1,922

If there are still changes in the amount specified in the consolidated financial statement after announcement, proceed to the accounting of change and adjusted for booking in the next fiscal year.

The actual amount for remuneration to employees, Directors and Supervisors in 2017 and 2016 did not vary from the amount recognized in the consolidated financial statements of 2017 and 2016.

For further information on the appropriation of remuneration to the employees and Directors and Supervisors by the Board of Taichung Commercial Bank in 2018 and 2017, visit the "MOPS" website of Taiwan Stock Exchange Corporation.

(8) Foreign exchange gain (loss)

	<u>2018</u>	<u>2017</u>
Total foreign currency exchange gains	\$139,532	\$152,335
Total foreign exchange gain (loss)	( 188,832)	( 89,828)
Net profit (loss)	( \$ 49,300)	\$ 62,507

25. Income tax

(1) Major components of income tax expense (benefit) are as follows:

	<u>2018</u>	<u>2017</u>
Current tax		
Incurred during the year	\$ 51,694	\$ 43,206
Withholding tax for retained earnings distributed by subsidiaries	-	3,112
Prior year adjustment	( <u>4,451</u> )	( <u>4,816</u> )
	<u>47,243</u>	<u>41,502</u>
Deferred tax		
Incurred during the year	42,882	8,356
Unappropriated retained earnings by subsidiaries	47,729	29,946
Change in tax rate	( <u>1,093</u> )	-
	<u>89,518</u>	<u>38,302</u>
Income tax expense recognized in the profit or loss	<u>\$ 136,761</u>	<u>\$ 79,804</u>

Adjustment of accounting income and income tax expense are as follows:

	<u>2018</u>	<u>2017</u>
Income before tax from continuing operations	<u>\$ 542,164</u>	<u>\$ 394,320</u>
The reconciliation of imputed income taxes on pretax income at statutory tax rate to income tax expense. (LDC Co., Ltd. adopted tax rates of 20% and 17% for 2018 and 2017, respectively).	\$ 92,676	\$ 42,771
Non-deductible expenses and losses for tax purposes	416	588
The effect of earnings of the subsidiaries upon deferred income tax	47,729	29,946
Withholding tax for retained earnings of subsidiaries	-	3,112
Unrecognized deductible temporary differences	650	7,327
Change in tax rate	( 1,093 )	-
Others	834	876
Income tax expense of prior years adjusted in the current year	( <u>4,451</u> )	( <u>4,816</u> )
Income tax expense recognized in the profit or loss	<u>\$ 136,761</u>	<u>\$ 79,804</u>

LDC Co., Ltd. of the Consolidated Company is subject to an individual of Income Tax Act of the R.O.C, which the applicable income tax rate is 17% for 2017. In February 2018, the Income Tax Act in the R.O.C. was amended and, starting from 2018, the corporate income tax rate was adjusted from 17% to 20%. In addition, the tax rate for 2018 unappropriated retained earnings was reduced from 10% to 5%. Lemtech Precision Material Co., the China subsidiary of the Consolidated Company, received the Certificate of High and New Tech Enterprise from the local

government on November 30, 2016, and could enjoy the preferential tax rates of 15% from 2016 to 2019.

As the earnings distribution to be resolved in the 2019 shareholders' meeting remains uncertain, the potential income tax consequence of levying an additional 5% income tax on the 2018 undistributed earnings cannot be reliably determined.

(2) Current income tax asset and liability

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Current income tax asset</u>		
Tax refund receivable	\$ <u>31</u>	\$ <u>1,805</u>
<u>Current Tax Liability</u>		
Payable income tax	\$ <u>13,318</u>	\$ <u>8,766</u>

(3) Deferred income tax assets and liabilities

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

2018

	Balance, beginning of year	Recognized in the profit or loss	Recognized in the other comprehensive profit of loss	Exchange differences	Balance, end of year
<u>Deferred income tax assets</u>					
Temporary difference					
Allowance to reduce inventory to market	\$ 3,903	\$ 784	\$ -	(\$ 92)	\$ 4,595
Allowance for bad debt	2,491	1,690	-	( 83)	4,098
Foreign investment income or loss recognized under equity method	3,026	5,934	-	( 176)	8,784
Unrealized gain or loss	1,201	( 1,201)	-	-	-
Loss deduction	4,089	( 3,220)	-	-	869
Others	2,486	67	-	( 52)	2,501
Subtotal deferred income tax assets	<u>\$ 17,196</u>	<u>\$ 4,054</u>	<u>\$ -</u>	<u>(\$ 403)</u>	<u>\$ 20,847</u>
<u>Deferred tax liabilities</u>					
Temporary difference					
Foreign investment income or loss recognized under equity method	\$ 104,376	(\$ 17,507)	\$ 434	(\$ 178)	\$ 87,125
Unrealized gain or loss	-	454	-	-	454
Allowance for bad debt	-	12	-	-	12
Others	7,065	110,613	-	2,891	120,569
Subtotal deferred tax liabilities	<u>\$ 111,441</u>	<u>\$ 93,572</u>	<u>\$ 434</u>	<u>\$ 2,713</u>	<u>\$ 208,160</u>

2017

	Balance, beginning of year	Recognized in the profit or loss	Recognized in the other comprehensive profit of loss	Exchange differences	Balance, end of year
<u>Deferred income tax assets</u>					
Temporary difference					
Allowance to reduce inventory to market	\$ 2,392	\$ 1,524	\$ -	(\$ 13)	\$ 3,903
Allowance for bad debt	1,256	1,232	-	3	2,491
Foreign investment income or loss recognized under equity method	-	2,988	-	38	3,026
Unrealized gain or loss	860	341	-	-	1,201
Loss deduction	3,444	645	-	-	4,089
Others	2,276	119	-	91	2,486
Subtotal deferred income tax assets	<u>\$ 10,228</u>	<u>\$ 6,849</u>	<u>\$ -</u>	<u>\$ 119</u>	<u>\$ 17,196</u>
<u>Deferred tax liabilities</u>					
Temporary difference					
Foreign investment income or loss recognized under equity method	\$ 62,823	\$ 45,151	\$ 1,637	(\$ 5,235)	\$ 104,376
Others	7,065	-	-	-	7,065
Subtotal deferred tax liabilities	<u>\$ 69,888</u>	<u>\$ 45,151</u>	<u>\$ 1,637</u>	<u>(\$ 5,235)</u>	<u>\$ 111,441</u>

(4) Income tax audit

The declaration for corporate income tax of LDC Co., Ltd. of the Consolidated Company have been examined and approved by the tax authorities for the years through 2016.

26. Earnings per share

	Unit: NT\$ per share	
	<u>2018</u>	<u>2017</u>
Basic earnings per share	<u>\$ 9.67</u>	<u>\$ 7.55</u>
Diluted earnings per share	<u>\$ 9.49</u>	<u>\$ 7.54</u>

The earnings and weighted average common stock shares used in calculating the earnings per share are as follows:

Net profits of the current year

	<u>2018</u>	<u>2017</u>
Net profit attributable to the company	<u>\$ 382,474</u>	<u>\$ 298,368</u>
The net income applied to calculate basic earnings per share	\$ 382,474	\$ 298,368
Effect of dilutive potential common stock:		
Net interest on convertible bonds	<u>3,761</u>	<u>-</u>
Net profits for the calculation of diluted earnings per share	<u>\$ 386,235</u>	<u>\$ 298,368</u>

Quantity

	Unit: Thousand shares	
	<u>2018</u>	<u>2017</u>
Weighted average common stock shares used to calculate basic earnings per share	39,541	39,541
Effect of dilutive potential common stock:		
Convertible corporate bonds	1,158	-
Remuneration to employees	<u>12</u>	<u>12</u>
Weighted average common stock shares used to calculate diluted earnings per share	<u>40,711</u>	<u>39,553</u>

If the consolidated company may choose to have the employee compensation distributed via a stock or cash dividend, calculate the diluted earnings per share, assuming that the bonus to employees is with a stock dividend distributed, with the weighted average number of shares outstanding included when the potential common stock has a diluted effect. When diluted EPS is calculated in the next year resolves the number of share distribution for employee compensation, the dilution effect is also considered for such potential common shares.

27. Government grant

The Consolidated Company obtained government grants for patents in the amount of NT\$13,500 and NT\$10,850 thousand for 2018 and 2017, respectively, from Kunshan City Government. Recognized other income of NT\$13,500 and NT\$10,850 thousand for 2018 and 2017, respectively.

28. Equity transactions with non-controlling interests

In September 2018, the Consolidated Company had acquired 0.2% and 9.8% remaining shares of Lemtech Precision Material Co. from minority interests through the Company and Global Solution, and the acquisition amounts are NT\$1,412 and NT\$77,244 thousand, respectively. After the acquisition, the overall percentage of ownership by the Consolidated Company increased from 90% to 100%, which are owned 0.2% and 99.8% by the Company and Global Solution, respectively. Since the transaction has not changed the control over subsidiaries by the Consolidated Company, the Consolidated Company considered it as an equity transaction, and the differences of the equity transaction were adjusted to increase additional paid-in capital by NT\$79,798 thousand.

Since the transaction referred to above did not change the control of the Consolidated Company over the subsidiaries, the Consolidated Company has it processed as an equity transaction.

	Lemtech Precision Material Co.
	<u>2018</u>
Cash consideration paid	(\$ 78,656)
The net book value of the subsidiary's assets is calculated in accordance with the relative changes in equity that should be transferred out of the non-controlling equity	148,405
Adjustments attributable to other equity items of the shareholders of the Company	
- Exchange differences from the translation of financial statements of foreign operations	<u>10,049</u>
Equity transaction balance	<u>\$ 79,798</u>
	Subsidiaries of Lemtech Precision Material Co.
<u>Adjustment of equity transaction balance</u>	<u>2018</u>
Additional paid-in capital - difference between fair value and carrying amount of the acquisition or disposal of subsidiaries	<u>\$ 79,798</u>



29. Cash flow information

Non-cash transactions

The Consolidated Company's non-cash investment and financing activities in 2018 and 2017 were as follows:

- (1) The cash paid to purchase property, plants and equipment are adjusted as follows:

	<u>2018</u>	<u>2017</u>
Current year increase (including prepayments for equipment)	\$ 366,468	\$ 569,847
Mold inventory reclassification	7,216	4,131
Changes in payables to equipment suppliers and construction contractors.	<u>2,751</u>	<u>( 4,617)</u>
The cash paid to purchase property, plants and equipment	<u>\$ 376,435</u>	<u>\$ 569,361</u>

- (2) The cash paid to distribute cash dividend of subsidiaries are adjusted as follows:

	<u>2017</u>
The subsidiaries declare the amount of cash dividends distributed attributable to the non-controlling interest	\$ 91,411
Withholding tax for retained earnings distributed	<u>( 9,141)</u>
Foreign exchange impact amount	<u>( 7,632)</u>
The amount of cash paid for dividends of subsidiaries	<u>\$ 74,638</u>

Lemtech Precision Material Co., a subsidiary of the Company, resolved by the board meeting on March 25, 2016 to pay cash dividends of total amount RMB 182,896 thousand, approximately NT\$ 914,114 thousand. During 2016, Lemtech Precision Material Co., a subsidiary of the Company, had paid tax imposed on dividends and part of the dividends amounting to RMB 786 thousand for its parent company Global Solution, and for the remaining amount had all been paid up during 2017.

30. Agreement on operational leasehold

The consolidated company is the lessee

Finance leases are signed for renting plants and equipment, and the lease terms are between 1 and 6 years. All finance lease contracts over 5 years contain clauses for market rental reviews every 5 years. The Consolidated Company does not have a bargain purchase option to acquire the leased plants and equipment at the expiration of the lease periods.

The total future minimum lease payments of the non-cancelable operating leases are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Less than 1 year	\$ 29,145	\$ 14,932
1 ~5 years	<u>80,197</u>	<u>14,747</u>
	<u>\$ 109,342</u>	<u>\$ 29,679</u>

31. Capital risk management

The consolidated company manages capital to ensure the Group's enterprises to maximize shareholder's returns by optimizing the balance of debt and equity under the precondition of continuing operation. The overall strategy of the Consolidated Company has not changed since 2017.

The capital structure of the Consolidated Company consists of net debt (borrowings and corporate bonds offset by cash and cash equivalents) and equity of the Consolidated Company (comprising issued capital, capital surplus, retained earnings, and other equity).

The consolidated company is not required to comply with other external capital requirements.

The Consolidated Company's management reviews the capital structure yearly, and the reviews include taking into consideration the cost of capital and the risks associated with each class of capital. The consolidated company based on the suggestions of management has the overall capital structure balanced by paying dividends, issuing new shares, buying back shares and issuing new debts or paying back old debts.

32. Financial instruments

(1) Information of fair value – financial instruments not measured by fair value

The Consolidated Company's management believes that due to the short maturities of the carrying amounts of financial assets and financial liabilities not measured at fair value or with equal amounts to future receivable prices, the carrying values represent a reasonable basis to estimate fair values.

(2) Information on fair value – financial instruments at fair value on repetition

1. Fair value hierarchy

December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial liabilities at fair value through profit or loss</u>				
Corporate bonds payable with call provisions	\$ -	\$ -	\$ 910	\$ 910

There was no transfer between hierarchy 1 and hierarchy 2 fair value measurements in January 1 to December 31, 2018.

2. Reconciliation of financial assets at Level 3 fair value:

2018

	<u>Derivative instruments</u>
Financial liabilities at fair value through profit or loss	
<u>Balance, beginning of year</u>	\$ -
Recognized in profit and loss (Other profit or loss)	( 1,990)
New addition	<u>1,080</u>
Balance, end of year	( <u>\$ 910</u> )
 Unrealized gain or loss during the current period	 ( <u>\$ 1,990</u> )

3. Evaluation techniques and an input value of Level 3 fair value measurement

Corporate bonds payable with call provisions presumes corporate bonds will be redeemed on July 30, 2021, and the discount rates adopted are based on government bonds with similar issue dates and durations, plus risk premiums.

(3) Categories of financial instruments

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
Loans and accounts receivable (Note 1)	\$ -	\$ 2,616,855
Financial assets at amortized cost (Note 2)	2,800,470	-
 <u>Financial liabilities</u>		
Measured at fair values through profit and/or loss		
Financial liabilities at FVTPL	910	-
Financial liabilities at amortized cost (Note 3)	3,221,314	2,914,085

Note 1: The balance amount includes loans and receivable measured at cost after amortization, including cash and cash equivalents, Investments in bonds with no public quotations in open market, notes receivable, accounts receivable, other receivables and guarantee deposits paid.

Note 2: The balance includes financial assets measured at amortized cost which comprises cash and cash equivalents, notes receivable, accounts receivable, other receivables, and refundable deposits.

Note 3: The balance includes financial liabilities measured at amortized cost which comprises short-term borrowings, notes and accounts payable, other payables, corporate bonds payable and long-term loans.

(4) Purpose and policy of financial risk management

The financial instruments of the Consolidated Company includes various kinds of deposits products, financial products, accounts receivable, accounts payable, corporate bonds payable and borrowings. The Consolidated Company's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Consolidated Company through internal risk reports which analyzes exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Board of Directors manages overall risk with the objective to reduce the potentially adverse effects the market uncertainties may have on its financial performance to the fullest extent.

1. Market Risk

(1) Exchange rate risk

The primary operating locations of the Consolidated Company are China and Taiwan; therefore the Consolidated Company is exposed to foreign exchange rate risks from various kinds of foreign currency risks. In order to minimize the risk, the Consolidated Company monitors fluctuations of foreign currency exchange rates.

As of balance sheet date, the carrying amount of non-functional foreign currency-denominated financial assets and liabilities (including monetary items of non-functional currency eliminated in the consolidated financial statements), please refer to Note 38.

Sensitivity analysis

The Consolidated Company is prone to the impact of changes in USD exchange rates.

The consolidated company's sensitivity analysis for New Taiwan Dollar (functional currency) to each relevant foreign currency exchange rates that increased or decreased by 1% is illustrated in the following table. The 1% sensitivity is used internally for reporting the exchange rate risk to management and is the assessment by management regarding the reasonable and possible changes in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in profit before income tax associated with the NTD strengthens 1% against the relevant currency. For a 1% weakening of the NTD against the relevant currency, there would be an equal and opposite impact on profit before income tax, and the balances below would be negative.

	<u>Influence of USD</u>	
	<u>2018</u>	<u>2017</u>
Profit before income tax increase (decrease)	\$ <u>4,532</u>	(\$ <u>3,282</u> )

As of balance sheet date, the effect on profit before income tax mainly results from outstanding and unhedged cash flow of USD-denominated accounts receivable and accounts payable.

(2) Interest rate risk

The significant interest-bearing assets and liabilities of the Consolidated Company will be renewed regularly. The Consolidated Company is exposed to cash flow interest rate risk because of holding bank deposits and loans at both fixed and floating interest rates.

The book value of the financial assets and financial liabilities with interest rate risk exposure on the consolidated company's balance sheet date is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Contain cash flow interest rate risk		
— Financial assets	\$ 553,494	\$ 765,087
— Financial liabilities	1,585,944	1,677,188

Sensitivity analysis

The Consolidated Company's primary interest rate risk exposures are bank deposits, financial assets measured at amortized cost, debt investments or loans without an active market. An increase or decrease of 0.5% basis points is used when reporting interest rate risk internally to key management personnel and represents management's assessment of change in interest rates.

The sensitivity analysis describes the interest-bearing items owned by the Consolidated Company and changes on a 0.5% interest rate fluctuation at the end of reporting period. A positive number of the following summary table represents when benchmark interest rate increases by 0.5%, other variables were held constant, and it will increase the amounts of profit before income tax in the current period.

	<u>The impact of an increase in interest rates</u>	
	<u>2018</u>	<u>2017</u>
An increase in profit before income tax	(\$ <u>5,162</u> )	(\$ <u>4,561</u> )

## 2. Credit Risk

Credit risk meant for the consolidated company's risk of financial loss due to the counterparty's failure in fulfilling contractual obligations. As is the nature of the industry in which the Consolidated Company operates, there is no significant concentration of credit risk. The Consolidated company has established procedures where the credit line of customers are granted through credit analysis and investigation based on the appropriate financial information provided by customers to ensure the sales of service will not lead to significant credit risk.

The main counterparties for the accounts receivable and accounts payable of the Consolidated Company are foreign-capital enterprises established in China and internationally well-known businesses. Please refer to Note 11 for credit risk management and impairment conditions.

The bank deposits and other investments in financial assets of the Consolidated Company are primarily deposited in banks with good credit ratings from international credit rating institutions. Therefore there is no significant credit risk.

## 3. Liquidity Risk

The consolidated company has supported the Group's operations and mitigated changes in cash flow through management and by maintaining adequate cash and cash equivalent positions. The consolidated company's management supervises the use of bank financing facilities and ensures the compliance to the loan agreement.

Bank loan is a main source of liquidity to the consolidated company. As of December 31, 2018 and 2017, for the unused credit line by the Consolidated Company, please refer to the following descriptions.

### (1) Liquidity and interest rate risk table of non-derivative financial liabilities

#### December 31, 2018

	Weighted average effective interest rate (%)	Payment on demand or less than 1 month	1 to 2 months	3 months to 1 year	1 to 5 years	Over 5 year
Floating rate instruments – loans	3.16-5.5	\$ 399,081	\$ 176,601	\$ 433,784	\$ -	\$ -
Fixed interest rate instruments – corporate bonds	1.55	-	-	-	600,000	-
		<u>\$ 399,081</u>	<u>\$ 176,601</u>	<u>\$ 433,784</u>	<u>\$ 600,000</u>	<u>\$ -</u>

#### December 31, 2017

	Weighted average effective interest rate (%)	Payment on demand or less than 1 month	1 to 2 months	3 months to 1 year	1 to 5 years	Over 5 year
Floating rate instruments – loans	2-4.437	<u>\$ 485,088</u>	<u>\$ 458,441</u>	<u>\$ 681,579</u>	<u>\$ 52,080</u>	<u>\$ -</u>

(2) Financing amount

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Unsecured credit line		
- The amount expensed	\$ 1,009,466	\$ 1,677,188
- The amount not yet expensed	<u>2,787,465</u>	<u>1,523,832</u>
	<u>\$ 3,796,931</u>	<u>\$ 3,201,020</u>

(5) Information on transfer of financial assets

The relevant information of the accounts receivable factoring of the Company is shown below:

2018

Counterparties	Balance, beginning	The amount of receivables being factored for the current period	The amount collected for the current period	Balance, ending	Prepaid amount by the end of the reporting period	The annual interest rate of prepaid amount (%)	Credit line
Cathay Bank	\$ -	\$ 985,468	\$ 855,332	\$ 130,136	\$ 704,179	3.23%~4.1%	<u>\$ 1,842,900</u> (USD60,000)

2017: None.

The credit line mentioned above is a revolving credit line.

Under the factoring agreement, the Company is liable for the losses incurred on any business dispute (such as sales return or allowances), while the banks are liable for the losses incurred on credit risks.

33. Related party transactions

The transactions, account balances, income, expenses and losses between the company and subsidiaries (related party of the company) are offset at the time of consolidation; therefore, it is not disclosed in this note. The transactions conducted between the consolidated company and other related parties are as follows:

(1) Names and relation

Name	Affiliation
Aapico Lemtech	Affiliated Enterprises
Lemtech Cryomax	Subsidiaries accounted for under the equity method

(2) Operating revenue

Account titles in book	Type of related party	2018	2017
Sales revenue	Affiliated Enterprises	<u>\$ 6,788</u>	<u>\$ 15,893</u>

The sales price and payment terms to related parties were not significantly different from those of sales to third parties.

(3) Purchase

<u>Type of related party</u>	<u>2018</u>	<u>2017</u>
Affiliated Enterprises	<u>\$ 5,443</u>	<u>\$ 1,169</u>

The purchase price and payment terms to related parties were not significantly different from those of sales to third parties.

(4) Accounts receivables – related parties (not including lending to related parties and contract assets)

<u>Account titles in book</u>	<u>Type of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable	Affiliated Enterprises	<u>\$ 235</u>	<u>\$ 520</u>

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2018 and 2017, no impairment loss was recognized for trade receivables from related parties.

(5) Payables to concerned parties (excluding loans borrowed from concerned parties)

<u>Account titles in book</u>	<u>Type of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts payable	Affiliated Enterprises	<u>\$ 5,684</u>	<u>\$ -</u>

For balance of payables to concerned parties outstanding, no guarantee has been provided.

(6) Advances

<u>Type of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Affiliated Enterprises	<u>\$ 1,193</u>	<u>\$ -</u>

(7) Endorsement and guarantee

Endorsements and guarantees made for others

<u>Type and Name of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Subsidiaries		
Amount guaranteed	<u>\$934,905</u>	<u>\$ 1,445,794</u>
The actual amounts disbursed	<u>\$776,845</u>	<u>\$ 1,161,234</u>

(8) Rewards to management

Sum of remuneration for directors and other key members of management:

	<u>2018</u>	<u>2017</u>
Short-term employee benefits	<u>\$ 32,329</u>	<u>\$ 31,940</u>



The remunerations to the directors and management are determined by the Remuneration Committee in accordance with individual performance and market trends.

34. Pledged assets

The following assets were provided as collateral for bank borrowings:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Bank deposits – restricted (classified as financial assets which are not stated at amortized cost)	\$ 3,842	\$ -
Pledge deposits (classified as debt instruments without an active market)	<u>-</u>	<u>148,800</u>
	<u>\$ 3,842</u>	<u>\$ 148,800</u>

35. Significant contingent liabilities and unrecognized contractual commitments

In addition to those disclosed in other notes, the significant commitments and contingencies of the Company as of balance sheet date were as follows:

(1) Significant undertaking

In order to diversify the risk of centralized manufacturing in a single region, the Consolidated Company has purchased land which is located at land serial no. 274 and 289, Hwa-Ya lot, Guishan District, Taoyuan City, from an unrelated third party to build for business operations in November 2018. The land area of the subject is 3,588.13 square meters (approximately 1,085.41 ping), with total transaction amount of NT\$488,434 thousand. In 2018, the Company has paid the first payment of NT\$48,843 thousand; as of March 27, 2019, the Company has paid the second and the third payment of NT\$48,843 and NT\$40,747 thousand, respectively. After the land ownership transferred is expected to be completed on April 2019, the Company will pay the down payment.

(2) Contingent liabilities

The subsidiary of the Consolidated Company received a statement of civil suit from King Slide Works Co., Ltd (hereinafter to be referred as King Slide Works Co.) on June 26, 2018. The statement of civil suit was brought to Jiangsu Higher People's Court by King Slide Works Co. on June 19, 2018, which has claimed Lemtech Precision Material Co. and Lemtech Slide Co. had been producing, manufacturing and selling slide products without acquiring King Slide Works Co.'s approval and violated its patent rights. Meanwhile, King Slide Works Co. had alleged infringement of patent rights to Jiangsu Higher People's Court, and claimed RMB 100 million of compensation and rights protection expenses of RMB 183,090 and NT\$31,748. According to the attorney, Lemtech Precision Material Co. mainly works on the research, production and sales of precision metal stamping parts and molds, and its main products are thermal modules, automotive parts modules, molds and other stamping parts, and is not a manufacturer or retailer for slide products, therefore shall not assume the tort liability of this case; the slide products produced

by Lemtech Slide Co. all have relevant patents (some of them are still under application), which are different from the patents owned by King Slide Works Co., according to the attorney's preliminary judgment. Besides, there is not enough evidence to support the claim for compensation by King Slide Works Co.; therefore it is unlikely to make compensation. This case was first conducted for court trial on January 25, 2019, and it's still in the process of its first trial; therefore, it's not possible to make predictions about the case result.

The infringement alleged to Jiangsu Higher People's Court by King Slide Works Co., and sent out disclaimers to the customers of Lemtech Precision Material Co., which has caused a negative impact on the reputation of Lemtech Precision Material Co. Therefore, on behalf of Lemtech Precision Material Co., the Company has alleged litigation to Taiwan Ciaotou District Court on January 15, 2019.

36. Losses due to major disasters: none.

37. Major post-balance sheet events

In order to expand supply chain stability of automotive parts production in China and improve its gross profit margins, the Consolidated Company plans to acquire 83.33% shares of Zhenjiang Emtron Surface Treatment Co., Ltd in China, as well as its debt obligation. The Company has signed an agreement on January 23, 2019 and paid the transaction amount of US\$3,640 thousand.

38. Information of foreign currency assets and liabilities with significant effects

The following information was summarized according to the foreign currencies other than the functional currency of the Company, and the exchange rates disclosed were used to translate the foreign currencies into the functional currency. (Functional currency has been transferred from Renminbi to New Taiwan Dollars as of April 1, 2017). Foreign currency assets and liabilities with significant influence are as follows:

Units: in thousands of each foreign currency and NT\$ Thousand

December 31, 2018

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NT\$</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 27,390	30.6922	\$ 840,667
RMB	194,760	4.4720	870,967
JPY	88,574	0.2782	24,641
EUR	2,514	35.2000	88,502
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	12,624	30.6922	387,445
RMB	30,000	4.4720	134,160
JPY	28,561	0.2782	7,946

December 31, 2017

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NT\$</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 19,482	29.8286	\$ 581,109
RMB	51,509	4.5577	234,759
JPY	117,342	0.2642	31,002
EUR	1,425	35.57	50,701
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	30,486	29.8286	909,344
JPY	29,844	0.2642	7,885

The Consolidated Company is exposed to foreign exchange risks, primarily with respect to New Taiwan Dollars, Renminbi and U.S. dollars. The following information is expressed in the functional currencies of the entity that held foreign currency; also, the exchange rate disclosed refers to the exchange rate used for having such foreign currency converted into the functional currency. Foreign currency gains/losses of material impact is as follows:

Functional currency	<u>2018</u>		<u>2017</u>	
	<u>Functional currency vs. presenting currency</u>	<u>Net gain/loss on exchange</u>	<u>Functional currency vs. presenting currency</u>	<u>Net gain/loss on exchange</u>
NTD	1.0000 (NT\$: NT\$)	( \$ 24,868 )	1.0000 (NT\$: NT\$)	\$ 30,255
RMB	4.4720 (CNY: NT\$)	( 121 )	4.5577 (CNY: NT\$)	( 14,387 )
USD	30.6922 (USD : NT\$)	( <u>24,311</u> )	29.8286 (USD : NT\$)	<u>46,639</u>
		( <u>\$ 49,300</u> )		<u>\$ 62,507</u>

39. Notes of disclosure

(1) Significant transactions and (2) transfer investments:

1. The Loaning of funds: Attachment 1.
2. Endorsement and Guarantee: Attachment 2.
3. Marketable securities held at yearend (excluding investments in subsidiaries, affiliated companies, and joint venture equity): None.
4. The cumulative purchase or sale of the same security for an amount exceeding NT\$300 million or 20% of paid-in capital: None.
5. The acquisition of real estate for an amount exceeding NT\$300 million or 20% of paid-in capital: Attached table 3.
6. The disposal of real estate for an amount exceeding NT\$300 million or 20% of paid-in capital: None.
7. The purchase or sale with the related party for an amount exceeding NT\$100 million or 20% of paid-in capital: Attached table 4.
8. Accounts receivable-related party reaching NTD 100,000 thousand or more than 20% of the Paid-in shares capital: Attached table 5.
9. Transaction of derivatives: Note 7 and 32.

10. Other: business relationships and significant intercompany transactions between parent and subsidiary units: Attached table 6.
  11. Information on investees: Attached table 7.
- (3) Investments in Mainland China:
1. The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, investment gain or loss, ending balance, amount received as earnings distributions from the investment, and the limitations on investment: Attached table 8.
  2. Significant direct or indirect transactions with the investee in mainland China through third regions, its prices, terms of payment, and unrealized gain or loss: Attached table 8.
    - (1) Purchase amount and percentage and the related payables ending balance and percentage
    - (2) Sale amount and percentage and the related receivables ending balance and percentage
    - (3) Property transaction amount and the profit and loss arising from the acquisitions
    - (4) Notes endorsement and guarantee, or the provided collateral ending balance and its purpose
    - (5) The maximum financing balance, ending balance, interest rate interval, and total interest amount
    - (6) Others transactions with significant influences on the profit and loss or financial position, such as, the offer or acceptance of labor services

40. Segment information

Information that is provided to the decision maker for resource allocation and performance evaluation purposes, with emphasis on the types of products or services delivered. The departments of the Merging Company which should be reported are enumerated below:

Research and Development Department in Taiwan

Manufacturing Department in China

Others

## Revenues and operating results of segments

- (1) Revenues and operating results of the consolidated company's continuing units are analyzed in accordance with segments to be reported, which are summarized as follows:

### 2018

	Research and Development Department in Taiwan	Manufacturing Department in China	Others	Elimination of intersegment	Total
Revenues from external customers	\$ 217,550	\$ 3,812,697	\$ 2,012,843	\$ -	\$ 6,043,090
Inter-segment income	<u>68,037</u>	<u>67,081</u>	<u>302</u>	( <u>135,420</u> )	-
Department income	<u>\$ 285,587</u>	<u>\$ 3,879,778</u>	<u>\$ 2,013,145</u>	( <u>\$ 135,420</u> )	6,043,090
Interest revenue	\$ 904	\$ 3,995	\$ 29,363	( \$ 23,994 )	10,268
Other income					<u>16,031</u>
					<u>\$ 6,069,389</u>
Financial costs	-	48,472	21,164	( 23,994 )	\$ 45,642
Depreciation and amortization	2,617	164,528	8,820	-	175,965
Profit or loss of affiliated companies under the equity method	-	269,645	872,496	( 1,127,508 )	14,633
Income tax expense (income)	5,675	81,109	49,977	-	136,761
Segment profit (and loss)	<u>\$ 24,347</u>	<u>\$ 480,684</u>	<u>\$ 1,027,881</u>	( <u>\$ 1,127,509</u> )	<u>\$ 405,403</u>
Segment assets	<u>\$ 259,714</u>	<u>\$ 4,509,044</u>	<u>\$ 6,516,371</u>	( <u>\$ 5,886,702</u> )	<u>\$ 5,398,427</u>
Segment liabilities	<u>\$ 94,438</u>	<u>\$ 2,736,247</u>	<u>\$ 1,808,738</u>	( <u>\$ 1,115,100</u> )	<u>\$ 3,524,323</u>

### 2017

	Research and Development Department in Taiwan	Manufacturing Department in China	Others	Elimination of intersegment	Total
Revenues from external customers	\$ 130,549	\$ 3,133,004	\$ 991,996	\$ -	\$ 4,255,549
Inter-segment income	<u>20,644</u>	<u>50,265</u>	<u>4,942</u>	( <u>75,851</u> )	-
Department income	<u>\$ 151,193</u>	<u>\$ 3,183,269</u>	<u>\$ 996,938</u>	( <u>\$ 75,851</u> )	4,255,549
Interest revenue	\$ 413	\$ 1,682	\$ 10,947	( \$ 9,507 )	3,535
Other income					<u>14,048</u>
					<u>\$ 4,273,132</u>
Financial costs	-	18,187	12,996	( 9,138 )	\$ 22,045
Depreciation and amortization	2,118	107,230	129	-	109,477
Profit or loss of affiliated companies under the equity method	-	82,349	506,159	( 589,463 )	( 955 )
Income tax expense (income)	( 1,590 )	47,460	33,934	-	79,804
Segment profit (and loss)	( <u>\$ 8,481</u> )	<u>\$ 269,434</u>	<u>\$ 643,026</u>	( <u>\$ 589,463</u> )	<u>\$ 314,516</u>
Segment assets	<u>\$ 196,548</u>	<u>\$ 3,546,875</u>	<u>\$ 5,089,402</u>	( <u>\$ 4,115,896</u> )	<u>\$ 4,716,929</u>
Segment liabilities	<u>\$ 55,619</u>	<u>\$ 2,271,467</u>	<u>\$ 1,682,347</u>	( <u>\$ 912,116</u> )	<u>\$ 3,097,317</u>

Sales between segments are carried out at arm's length.

Segment profit represents the profit earned by each segment, including the allocated headquarter administration costs and director compensation, associates accounted for using the equity method, proceed from disposal of associates, rental income, interest income, disposal of real estate, proceeds from disposal of plants and equipment, proceeds from disposal of investments, net (profit) loss of foreign exchange, financial instruments at fair value through profit or loss, financial costs and income tax expenses. The measured figures are provided for main decision makers to allocate resources to segments and evaluate the performance of each segment.

(2) Main revenues from products and service

The product and labor income from continuing operation of the consolidated company is analyzed as follows:

	<u>2018</u>	<u>2017</u>
3C electronic products	\$ 3,871,686	\$ 2,377,270
Automotive	1,705,041	1,484,569
Building materials	76,076	92,352
Mold and others	<u>390,287</u>	<u>301,358</u>
	<u>\$ 6,043,090</u>	<u>\$ 4,255,549</u>

(3) Information by areas

The Consolidated Company operates mainly in two areas – Taiwan and China

The Consolidated Company's continuing operating revenues from external customers are divided into the following operating geographical locations, and its non-current assets are divided based on the physical locations of the assets shown as follows:

	<u>Income generated from external customers</u>		<u>Non-Current assets</u>	
	<u>2018</u>	<u>2017</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Asia	\$ 5,689,541	\$ 4,204,142	\$ 1,572,466	\$ 1,379,322
America	164,330	49,883	-	-
Europe	<u>189,219</u>	<u>1,524</u>	-	-
	<u>\$ 6,043,090</u>	<u>\$ 4,255,549</u>	<u>\$ 1,572,466</u>	<u>\$ 1,379,322</u>

Noncurrent asset does not include deferred income tax assets.

(4) Information on key customers

Revenues amounted to NT\$6,043,090 thousand and NT\$4,255,549 thousand as of December 31, 2018 and 2017, respectively. Where revenue from single customers contributed 10% or more to the Consolidated Company's revenue are as follows:

	<u>2018</u>	<u>2017</u>
Customer F (Note)	\$ 1,468,721	\$ 1,100,509
Customer G (Note)	<u>1,859,819</u>	<u>713,611</u>
	<u>\$ 3,328,540</u>	<u>\$ 1,100,233</u>

Note: Revenue comes from electronics.

## Lemtech Holdings Co., Limited and its subsidiaries

## Fund lent to others

2018

Attached table 1

Unit: Unless otherwise stated, amounts in NT\$ Thousand

No. (Note 1)	The lender of fund	The borrower of fund	Transaction title	Are they related parties	Maximum balance – current period	Balance, ending (Note 2)	The actual amounts disbursed	Interest rate collars	Nature of loan	Amount of business transactions	Reasons for the necessity of short-term financing	Amount of provision for bad debts	Collateral		Limit of lending to an individual debtor (Note 3)	Total limit of lending (Note 3)	Remarks
													Name	Value			
0	Lemtech Holdings Co., Limited	Lemtech Precision Material (China) Co., Ltd	Other receivables	Yes	\$ 247,640	\$ 245,720	\$ 201,240	6%	Short-term financing needed	\$ -	Working capital	\$ -	—	\$ -	\$ 743,049	\$ 743,049	
0	Lemtech Holdings Co., Limited	Lemtech Precision Material (Czech) s.r.o.	Other receivables	Yes	108,720	-	-	1%-2%	Short-term financing needed	-	Working capital	-	—	-	743,049	743,049	
0	Lemtech Holdings Co., Limited	Lemtech Technology Limited	Other receivables	Yes	247,640	245,720	-	2%-3%	Short-term financing needed	-	Working capital	-	—	-	743,049	743,049	
1	Lemtech Global Solution Co. Ltd.	Lemtech Precision Material (China) Co., Ltd	Other receivables	Yes	560,625	523,399	523,399	3%-3.5%	Short-term financing needed	-	Working capital	-	—	-	896,425	896,425	
1	Lemtech Global Solution Co. Ltd.	Lemtech Technology Limited	Other receivables	Yes	30,955	30,715	30,715	3%	Short-term financing needed	-	Working capital	-	—	-	896,425	896,425	
2	LDC Precision Engineering Co., LTD.	Lemtech Precision Material (Czech) s.r.o.	Other receivables	Yes	54,360	-	-	1%	Short-term financing needed	-	Working capital	-	—	-	66,111	66,111	
2	LDC Precision Engineering Co., LTD.	Lemtech Technology Limited	Other receivables	Yes	54,945	-	-	3%	Short-term financing needed	-	Working capital	-	—	-	66,111	66,111	

Note 1: The column for numbering is elaborated below:

- (1) Fill in 0 for the issuer.
- (2) The investees are sequentially numbered from 1 and so forth.

Note 2: For public companies proposed the lending of funds before the Board for resolution case by case pursuant to Article 14-1 of the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies”, the amount approved by the Board but not yet being drawn shall still be included in the amount for announcement for the disclosure of risk being assumed. If the loans are being retired in the future, disclose the outstanding balance to reflect the adjustment of risk. For public companies proposed the lending of funds before the Board for resolution case by case pursuant to Article 14-2 of the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” whereby the Board resolved to authorize the Chairman to effect the drawdown or in revolving credit in tranches within specific limit and in the year, the amount and the limit approved by the Board shall still be announced as the outstanding balance. In subsequent retirement of loans, repeated drawdown shall still be considered and the amount and the limit approved by the Board shall still be announced as the outstanding balance.

- Note 3:
- (1) The limit and balance of loans to be granted on single counterparts should be applied according to the “Procedures for Lending Funds to Other Parties” approved by the shareholders’ meeting of the Company: for granting loans to any company who has a business relationship with the Company, 1. total amount for the granted loan should not exceed 20% of the Company’s net worth; and the total amount for the granted loan to a company having business relationship with the Company shall not exceed the total transaction amount between the parties during the period of twelve (12) months prior to the time of lending. Value of business transaction refers to the amount of purchase or sale between two parties, whichever the higher. 2. The total amount for the granted loan to a company for funding for a short-term period shall not exceed 40% of the net worth of the Company; and the total amount for the granted loan to a company shall not exceed 40% of the net worth of the Company.
  - (2) In accordance with the procedures mentioned above, in lending funds by the Company to other parties in need of funds for a short-term period, the limit and balance is 40% of the net worth NT\$1,857,623 thousand, which is NT\$743,049 thousand; and as for the total amount for the granted loan to a company shall not exceed 40% of the net worth NT\$1,857,623 thousand, which is NT\$743,049 thousand.
  - (3) In accordance with the procedures mentioned above, in lending funds by Lemtech Global Solution Co. Ltd. to other parties in need of funds for a short-term period, the limit and balance is 40% of the net worth NT\$2,241,062 thousand, which is NT\$896,425 thousand; and as for the total amount for the granted loan to a company shall not exceed 40% of the net worth NT\$2,241,062 thousand, which is NT\$896,425 thousand.
  - (4) In accordance with the procedures mentioned above in lending funds by LDC Precision Industry Co., Ltd. to other parties in need of funds for a short-term period, the limit and balance is 40% of the net worth NT\$165,277 thousand, which is NT\$66,111 thousand; and as for the total amount for the granted loan to a company shall not exceed 40% of the net worth NT\$165,277 thousand, which is NT\$66,111 thousand.

## Lemtech Holdings Co., Limited and its subsidiaries

## Endorsements and guarantees made for others

2018

Attached table 2

Unit: NT\$ Thousand

No. (Note 1)	The company providing the endorsement and/or guarantee	The party receiving the endorsement and/or guarantee		The limit of endorsements and/or guarantees to a single business entity	Maximum balance of endorsement / guarantee made during the current period	Balance of endorsement / guarantee at end of the period	The actual amounts disbursed	The endorsements and/or guarantees secured with property	Total endorsements and guarantees as a percentage of equity in the most recent financial statement	The upper limit of an endorsement and/or guarantee	Guarantee and endorsement of parent company to subsidiary	Guarantee and endorsement of subsidiary to parent company	Guarantee and endorsement in Mainland China
		Company name	Relation (Note 2)										
0	Lemtech Holdings Co., Limited	Kunshan Lemtech Slide Technology Co., Ltd.	3	\$ 2,229,148	\$ 30,715	\$ 30,715	\$ 30,715	\$ -	1.65%	\$ 5,572,869	Yes	No	Yes
0	Lemtech Holdings Co., Limited	Lemtech Precision Material (Czech) s.r.o.	3	2,229,148	289,920	105,600	70,400	-	5.68%	5,572,869	Yes	No	No
0	Lemtech Holdings Co., Limited	Lemtech Technology Limited	3	2,229,148	1,162,990	491,440	491,440	-	26.46%	5,572,869	Yes	No	No
0	Lemtech Holdings Co., Limited	Lemtech Precision Material (China) Co., Ltd	3	2,229,148	399,295	307,150	184,290	-	16.53%	5,572,869	Yes	No	Yes
1	Lemtech Precision Material (China) Co., Ltd	Lemtech Precision Material (Czech) s.r.o.	2	853,112	152,208	-	-	-	-	853,112	No	No	No

Note 1: The column for numbering is elaborated below:

- (1) Fill in 0 for the issuer.
- (2) The investees are sequentially numbered from 1 and so forth.

Note 2: Relationship between guarantor and guarantee is classified into the following six categories:

- (1) Any company who has a business relationship with the Company.
- (2) Any subsidiary whose voting shares are fifty percent (50%) or more owned, directly or indirectly by the Company.
- (3) Any parent company who directly or indirectly owns fifty percent (50%) or more of the Company's voting shares.
- (4) Subsidiaries whose voting shares are at least 90% owned, directly or indirectly, by the Company.
- (5) Where a company fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project.
- (6) Where all capital contributing shareholders make endorsements/guarantees for their jointly invested company in proportion to their shareholding percentages.
- (7) Where inter-enterprises make guarantees based on the performance guarantees obligation under a pre-sale house purchase agreement in accordance with the Consumer Protection Act.

- Note 3: (1) The maximum amount permitted to make endorsements/guarantees are dealt with in accordance with the Procedures for Endorsement & Guarantee of the Company which are promulgated pursuant to Article 36 and Article 38 of the Taiwan Securities and Exchange Act and Regulations and approved by a shareholders' meeting: the maximum amount of endorsement/guarantee provided by the Company shall not exceed 300% of the Company's net worth in the current period. The amount of endorsement/guarantee for any one endorsee/guarantee company shall not exceed 120% of the Company's net worth in the current period. Where endorsements/guarantees are provided for an entity due to a business relationship with the Company, the amount of the endorsement/guarantee with respect to the business or company cannot exceed the business transaction amount between the parties ("Business transaction amount" refers the amount of purchases or sales between the parties, whichever is greater). The net worth should be based on the most recent financial statement, which is audited and attested by a certified public accountant. Endorsements/guarantees between subsidiaries whose voting shares are at least 90% owned, directly or indirectly, by the Company, the amount if endorsements/guarantees shall not exceed 10% of the Company's net worth. Endorsements/guarantees between subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company is free from the limit.
- (2) According to the procedures mentioned above, the maximum amount of the endorsements/guarantees by the Company is NT\$ 5,572,869 thousand, which is 300% of the Company's net worth NT\$ 1,857,623 thousand; while the maximum amount of an endorsements/guarantees to a company or business is NT\$ 2,229,148 thousand, which is 120% of the Company's net worth NT\$ 1,857,623 thousand.
  - (3) Lemtech Precision Material (China) Co., Ltd has established relevant procedures otherwise. The maximum amount of the endorsements/guarantees amount of Lemtech Precision Material (China) Co., Ltd is NT\$ 853,112 thousand, which is 50% of the Company's net worth NT\$ 1,706,223 thousand; while the maximum amount of an individual loan to a company or business is NT\$ 853,112 thousand, which is 50% of the Company's net worth NT\$ 1,706,223 thousand.



Lemtech Holdings Co., Limited and its subsidiaries  
Acquisition of real estate exceeding NT\$300 million or 20% of paid-in capital.  
2018

Attached table 3

Unit: Unless otherwise stated, NT\$ Thousand

Companies acquiring properties	Asset title	Date of occurrence	Transactions amount	Payment status	Counterparties	Relation	If the counterparty is a related party, the information on previous transaction				Reference for price determination	Purpose of acquisition and the state of use	Other terms and conditions
							Owner	Relationship with the issuer	Date of transfer	Amount			
Lemtech Holdings Co., Limited	Land	2018/11/09	\$ 488,434	\$ 48,843	Note	None	Not applicable	-	-	\$ -	Based on real estate market conditions and professional appraisal reports.	For the needs of operations and production.	None

Note 1: The acquired assets shall be appraised pursuant to relevant rules should states the appraisal results in the column of “the reference basis for price determination.”

Note 2: Paid-in capital is the paid-in capital of the parent company. In the case of an issuer with shares having no par value or a par value other than NT\$10, regarding the regulations of a transaction amount reaching 20% of the Company's paid-in capital, the amount shall be calculated using 10% of the equity attributable to owners of the parent in the balance sheet.

Note 3: The event date refers to the transaction date, payment date, commission date, account transfer date, board resolution date, or other dates when the trade counterparty and trade amount is confirmed, whichever is sooner.

Note 4: Where a trading counterparty is a natural person and not an associate, they shall be exempt from disclosure.

Lemtech Holdings Co., Limited and its subsidiaries

The purchase or sale with the related party for an amount exceeding NT\$100 million or 20% of paid-in capital

January 1 to December 31, 2018

Attached table 4

Unit: Unless otherwise stated, NT\$ Thousand

The company of purchase or sales	Counterparties	Relation	Transaction situation				Situation and reason that the transaction terms are different from general transactions		Notes receivables (payables) and trade receivables (payables)		Remarks
			Purchase (sales)	Amount	Percentage in total purchase (sale) amount %	Loan period	Unit price	Loan period	Balance	Accounted for percentage of total accounts receivable (accounts payable)	
Lemtech Precision Material (China) Co., Ltd	Lemtech Technology Limited	Subsidiaries	Sales	\$ 179,584	4.32%	Payment term is due 120 days from the invoice date	According to the transfer pricing policy of the Company	-	Accounts receivable \$ 158,780	10.14%	

Lemtech Holdings Co., Limited and its subsidiaries  
Accounts receivable-related party reaching NTD 100,000 thousand or more than 20% of the Paid-in shares capital  
2018

Attached table 5

Unit: NT\$ Thousand

Companies listed in receivables	Name of counterparty	Relation	Balance of related party receivables	Turnover	Overdue related party receivables		Amount of related party receivables collected after maturity	Amount of provision for bad debts
					Amount	Disposition method		
Lemtech Precision Material (China) Co., Ltd	Lemtech Technology Limited	Subsidiaries	Accounts receivable \$ 158,780	Note 2	\$ -	—	\$ 146,732	\$ -
Lemtech Holdings Co., Limited	Lemtech Precision Material (China) Co., Ltd	Sub-subsidiary	Other receivables 203,923	Note 2	-	—	203,923	-
Lemtech Global Solution Co. Ltd.	Lemtech Precision Material (China) Co., Ltd	Subsidiaries	Other receivables \$ 528,792	Note 2	-	—	-	-

Note 1: Long-term investments accounted for under the equity method of consolidated entities have been eliminated.

Note 2: They are other receivables, therefore will not be included for calculating receivable turnover ratio.

Lemtech Holdings Co., Limited and its subsidiaries  
Business relationship and significant transactions between the parent company and subsidiaries  
2018

Attached table 6

Unit: NT\$ Thousand

No.	Trader's name	Counterparty	Relationship with trader (Note)	Transactions			Accounted-for percent of total consolidated revenue or percent of total assets
				Title	Amount (thousand)	Terms and conditions	
0	Lemtech Holdings Co., Limited	Lemtech Technology Limited	1	Other revenue, other expenses	\$ 24,220	General trading condition	0.40%
0	Lemtech Holdings Co., Limited	Lemtech Precision Material (China) Co., Ltd	1	Other receivables (payables)	203,923	General trading condition	3.78%
1	Lemtech Global Solution Co. Ltd.	Lemtech Precision Material (China) Co., Ltd	1	Other receivables (payables)	528,792	General trading condition	9.80%
1	Lemtech Global Solution Co. Ltd.	Lemtech Technology Limited	1	Other receivables (payables)	30,692	General trading condition	0.57%
2	Lemtech Precision Material (China) Co., Ltd	Lemtech Precision Material (Czech) s.r.o.	1	Receivable (payable) accounts	28,207	General trading condition	0.52%
2	Lemtech Precision Material (China) Co., Ltd	Lemtech Precision Material (Czech) s.r.o.	1	Sales revenue (purchases)	28,627	General trading condition	0.47%
2	Lemtech Precision Material (China) Co., Ltd	Lemtech Technology Limited	1	Receivable (payable) accounts	158,780	General trading condition	2.94%
2	Lemtech Precision Material (China) Co., Ltd	Lemtech Technology Limited	1	Account payable (accounts receivable)	42,441	General trading condition	0.79%
2	Lemtech Precision Material (China) Co., Ltd	Lemtech Technology Limited	1	Sales revenue (purchases)	179,584	General trading condition	2.97%
3	Lemtech Technology Limited	Kunshan Lemtech Slide Technology Co., Ltd.	3	Purchases (sales revenue)	47,986	General trading condition	0.79%
3	Lemtech Industrial Services Ltd	Kunshan Lemtech Slide Technology Co., Ltd.	1	Purchases (sales revenue)	21,668	General trading condition	0.36%
4	LDC Precision Engineering Co., LTD.	Lemtech Technology Limited	3	Sales revenue (purchases)	63,773	General trading condition	1.05%
4	LDC Precision Engineering Co., LTD.	Lemtech Technology Limited	3	Receivable (payable) accounts	26,713	General trading condition	0.49%

Note 1: The information of business operation between the parent company and its subsidiaries should be documented in the respectively numbered column as follows:

1. Fill in "0" for parent company.
2. The subsidiaries are sequentially numbered from 1 and so forth.

Note 2: The relationship with the traders is classified into three categories, which should be specified (the transaction conducted between the parent company and its subsidiaries or between two subsidiaries need not be disclosed in duplication. Such as: if the parent company has the transaction with the subsidiaries disclosed, the subsidiaries need not to have it disclosed in duplication. If one of the two subsidiaries has the transaction disclosed, the other subsidiary needs not to have it disclosed in duplication).

1. The Parent Company to the Subsidiary.
2. The Subsidiary to the Parent Company.
3. The Subsidiary to the Subsidiary.

Note 3: Calculate the ratio of the transaction amount to consolidate the total income or total assets. For the assets and liabilities account, calculate the ratio of the ending balance to the consolidated total assets. For the profits and losses account, calculate the ratio of the end cumulated amount to the consolidated total income.

Note 4: Since there is no relevant transaction to follow, its transaction terms are determined by actual operational needs.

Note 5: All the transactions mentioned above have been eliminated on consolidated financial statements.

Note 6: The Company may determine discretionally whether to have the material transactions in the table illustrated according to its materiality.

Lemtech Holdings Co., Limited and its subsidiaries  
Information regarding investee's name and location, et al.  
2018

Attached table 7

Unit: NT\$ Thousand

Investor	Name of investee	Location	Principal business	Sum of initial investment		End shareholding			Net income of investee	Recognized investment Income	Remarks
				Current period-end	The end of last year	Quantity	Percentage %	Book value			
The Company	<u>Controlling</u> Lemtech Global Solution Co. Ltd.	Mauritius	Investment	\$ 112,397	\$ 112,397	2,500,000	100	\$ 2,241,062	\$ 406,646	\$ 406,646	Subsidiaries
The Company	Lemtech Precision Material (China) Co., Ltd	Kunshan, China	Manufacturing and designing various kinds of fine blanking dies, die casting non-metal molds, computer connectors, computer thermal modules, and new types of electronic components, as well as selling the company's products, etc.	1,412	-	126,000	0.2	3,384	466,048	393	Subsidiaries
Lemtech Global Solution Co. Ltd.	Lemtech Precision Material (China) Co., Ltd	Kunshan, China	Manufacturing and designing various kinds of fine blanking dies, die casting non-metal molds, computer connectors, computer thermal modules, and new types of electronic components, as well as selling the company's products, etc.	323,279	246,035	62,874,000	99.8	1,702,810	466,048	465,655	Sub-subsidiary
Lemtech Precision Material (China) Co., Ltd	Lemtech Technology Limited	Hong Kong	Selling automotive, electronics and computer related components.	597	597	-	100	426,465	284,868	284,868	Third-tier subsidiaries.
Lemtech Precision Material (China) Co., Ltd	LDC Precision Engineering Co., LTD.	Taiwan	Manufacturing and wholesaling household appliances, audio and video electronic products, other electrical machinery and electronic mechanical devices, automotive and components, other optical and precision mechanical parts.	9,524	9,524	-	100	165,277	24,347	24,347	Third-tier subsidiaries.
Lemtech Precision Material (China) Co., Ltd	Lemtech Precision Material (Czech) s.r.o.	Czech	Manufacturing automotive components (car roof windows, brakes and seat belts, etc.), parts and accessories (steering wheel drive shaft etc.), and supplies for consumer electronic components and sever products.	195,984	269	-	100	130,572	( 39,561 )	( 39,561 )	Third-tier subsidiaries.
Lemtech Technology Limited	Lemtech USA Inc.	U.S.	Business development in the U.S. market, collecting business information, and providing market and industry information.	1,502	1,502	-	100	149	( 655 )	( 655 )	Third-tier subsidiaries.
Lemtech Technology Limited	Lemtech Industrial Services Ltd.	Samoa	Selling electronics and computer parts and components	46,792	46,792	1,425,000	57	21,847	( 10,821 )	( 6,168 )	Third-tier subsidiaries.
Lemtech Industrial Services Ltd.	Kunshan Lemtech Slide Technology Co., Ltd.	Kunshan, China	Design and manufacture slides, hinges, and relevant accessories, as well as selling the company's products, etc.	69,758	69,758	-	100	31,451	( 8,744 )	( 8,744 )	Third-tier subsidiaries.
Lemtech Technology Limited	<u>With significant influence.</u> Aapico Lemtech Co.,Ltd	Thailand	Designing, manufacturing, production, and assembly automotive, electronics and computer components and accessories.	16,452	16,452	160,000	40	29,692	38,195	14,164	Investments accounted for under equity method.
Lemtech Global Solution Co. Ltd.	Lemtech Cryomax System Corp.	Taiwan	Sales, automotive, electronics and computer components.	3,650	-	500,000	50	3,810	353	171	Investments accounted for under equity method.

Note 1: Information on investments in Mainland China please refers to table 8.

Lemtech Holdings Co., Limited and its subsidiaries  
Information regarding investment in the territory of mainland china  
2018

Attached table 8

Unit : NT\$ thousand; Foreign currency amount in thousands

1. Name of invested company in China, principal business, paid-in capital, mode of investment, outward/inward remittance of fund, shareholding percentage, investment income, book value of investment and investment income repatriated to Taiwan:

Invested Company in China	Principal business	Paid-in shares Capital	Mode of investments	Accumulated amount of investment remitted from Taiwan at beginning	Amount of investment remitted or recovered in current period		Accumulated amount of investment remitted from Taiwan at ending	Net income of investee	Shareholdings of the Company's direct or indirect investment (%)	Recognized in this period Investment gains/loss	Investment at end of year Book Value	ROI remitted to Taiwan at ending
					Outward remittance	Recover						
Lemtech Precision Material (China) Co., Ltd	Manufacturing and designing various kinds of fine blanking dies, die casting non-metal molds, computer connectors, computer thermal modules, and new types of electronic components, as well as selling the company's products, etc.	\$ 273,372 ( RMB 63,000 )	Lemtech Global Solution Co. Ltd. has invested and owns 99.8% of the shares.	\$ -	\$ -	\$ -	\$ -	\$ 466,048	99.8	\$ 465,655 (Note)	\$ 1,702,810	\$ -
Lemtech Precision Material (China) Co., Ltd	Manufacturing and designing various kinds of fine blanking dies, die casting non-metal molds, computer connectors, computer thermal modules, and new types of electronic components, as well as selling the company's products, etc.	\$ 273,372 ( RMB 63,000 )	Lemtech Group. has invested and owns 0.2% of the shares.	-	-	-	-	466,048	0.2	393 (Note)	3,384	-
Kunshan Lemtech Slide Technology Co., Ltd.	Design and manufacture slides, hinges, and relevant mechanical assemblies, as well as selling the company's products, etc.	\$ 69,758 ( RMB 15,000 )	Lemtech Industrial Services Ltd. has invested and owns 100% of the shares.	-	-	-	-	( 8,744 )	51	( 8,744 ) (Note)	31,451	-

Note: Profit or loss on investments was recognized based on the financial statements for the same period which was audited by parent company's accountants.

2. Limit of investment in Mainland China:

Accumulated investment from Taiwan to Mainland China at ending	Amount of investment approved by Investment Commission of MOEA	Investment amount approved by the Investment Commission MOEAIC
\$ -	Not applicable	Not applicable

3. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area, please refer to table 6.

4. For endorsements and guarantees or collaterals provided, either directly or indirectly through a third area, with investee companies in the Mainland Area, please refer to table 2.

5. For financing, either directly or indirectly through a third area, with investee companies in the Mainland Area, please refer to table 1.

6. Other income or loss or significant transactions that affected the financial position of the Company: None.

**Lemtech Holdings Co., Limited**

**Chairman: Hsu, Chi-Feng**