

Stock Code: 2634



Aerospace Industrial Development Corporation

2018 Annual Shareholders' Meeting

Meeting Handbook

(Translated from Mandarin)

Date: 26 June 2018

Place: No. 176, Lane 20, Zhongzhen Road, Shalu District,
Taichung City, Taiwan (AIDC Hsiang-Yuan Complex)

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Aerospace Industrial Development Corporation (AIDC)
2018 Annual Shareholders' Meeting Procedure

- I. Meeting Commencement Announced

- II. Chairman's Address

- III. Reports

- IV. Ratifications

- V. Discussion (I)

- VI. Election

- VII. Discussion (II)

- VIII. Extempore Motions

- IX. Meeting Adjournment

Aerospace Industrial Development Corporation (AIDC)

2018 Annual Shareholders' Meeting Agenda

Time: 10:00 a.m., 26 June 2018 (Tuesday)

Place: No.176, Lane 20, Zhongzhen Road, Shalu District, Taichung City, Taiwan
(AIDC Hsiang-Yuan Complex)

- I. Meeting Commencement Announced
- II. Chairman's Address
- III. Reports
 - (1) Business Report of 2017
 - (2) Audit Committee Review Report of 2017
 - (3) 2017 Compensation to Employees and Directors
- IV. Ratifications
 - (1) Ratification of the 2017 Business Report and Financial Statements
 - (2) Ratification of the proposal for Earnings Distribution of 2017 Profits
- V. Discussion (I)
 - (1) Discussion on amendments to Company's Acquisition and Disposal Procedures for Assets
- VI. Election
 - (1) Electing the 8th Board of Directors
- VII. Discussion (II)
 - (1) Discussion on exempting directors from non-competition restrictions
- VIII. Extempore Motions
- IX. Meeting Adjournment

Reports

- Item 1: Report on the business of 2017, are shown in Appendix I (Pages 9-12).
- Item 2: Audit Committee Review Report of 2017, as shown in Appendix II (Page 13).
- Item 3: Report on 2017 compensation to employees and directors, as shown in Appendix III (Page 14).

Ratifications

Item 1: Ratification of the 2017 Business Report and Financial Statements (Proposed by the Board of Directors)

Description: I. AIDC's 2017 Financial Statements (including Balance Sheets, Statements of Comprehensive Income, Statements of Changes in Equity, and Statements of Cash Flows) have been reviewed and audited by Mrs. Lie-Dong Wu and Mr. Done-Yuin Tseng, CPA of Deloitte & Touche.

II. Business Report of 2017, Auditors' Report, and aforementioned financial statements, are shown in Appendixes I and IV (Pages 9-12 and Pages 15-34).

Resolution:

Item 2: Ratification of the proposal for Earnings Distribution of 2017 Profits (Proposed by the Board of Directors)

Description: I. The company's net profit after taxes for 2017 was NT\$1,747,981,226. Based on the "Articles of Incorporation" article 28-1 reserve allocation, the current distributable surplus is NT\$1,080,578,653, as shown in Appendixes V (Page 35).

II. The company plans to distribute a cash dividend of NT\$1.13 per share for 2017. The distribution of cash dividend will be calculated to the nearest NT dollar. Residual amount, if any, less than one NT dollar will be transferred into and recognized as other income of the company.

Resolution:

Discussion (I)

Proposal 1: Discussion on amendments to the Company's Acquisition and Disposal Procedures for Assets
(Proposed by the Board of Directors)

Description:

- I. In support of the company's actual operating needs, the provisions contained in the existing procedures for acquisition and disposal of assets need to be amended in part.
- II. The comparisons of the original as well as the amended provisions are shown in Appendix VI (Pages 36-49).

Resolution:

Election

Proposal 1: Electing the 8th Board of Directors
(Proposed by the Board of Directors)

Description:

- I. The incumbent 7th Board of Directors of the company have served and fulfilled the term of office on June 22, 2018. Pursuant to Articles 195 and Company Articles of Incorporation, this session of Shareholders shall elect the 8th Board of Directors for a term of 3 years from June 26, 2018 to June 25, 2021.
- II. AIDC Directors shall be elected under a nomination system, and the election for a new Board in the General Meeting of Shareholders. The candidates of Directors for the 8th term which was passed by the Board in the session dated May 8, 2018, are shown in Appendixes VII (Pages 50-54).
- III. Election will be held in accordance with the Company's Procedure for the Election of Directors.

Resolution:

Discussion (II)

Proposal 1: Exempt directors and their representatives from non-competition restrictions

(Proposed by the Board of Directors)

- Description:
- I. Pursuant to Article 209 of Law, a director, who acts for himself or another person on certain business categories which are also found within the company's business scope, shall address the shareholders' meeting to explain the contents of his actions and obtain permission for such actions.
 - II. Based on the requirement for the company's business promotion, in order to use the expertise and experiences of the company's directors, it is requested that the newly appointed directors and their legal representatives concurrently may operate or be employed in companies with the same or similar business scope as those of the company, thus they are exempted from restrictions on non-competition.
 - III. The exempted contents of the legal acts of the directors and their representatives as shown in Appendix VIII (Page 55).

Resolution:

Extempore Motions

Meeting Adjournment

Appendix I

Letter to Shareholders

Dear Valued Shareholders,

Amidst fierce global competition, threats from both advanced and emerging countries, stringent demands for quality, efficiency, and lower costs from international customers, and depreciation of U.S. dollar against N.T. dollar, AIDC continued its pursuit of business opportunities and responded prudently and responsibly to both possibilities and challenges alike. Again, with a concerted effort between the employees and the management, AIDC successfully overcame all the difficulties and achieved a significant revenue growth in FY 2017 comparing with that of FY 2016.

Based on current forecasts of the commercial aviation market for the next 20 years (2017-2036), demand for new airplanes is estimated at 38000-41000, representing a total value of approximately \$5.3-6.1 trillion U.S. dollars, which will continue to lead the momentum of the global market. In the face of varied challenges of the aerospace industry, AIDC remained dedicated to promoting the "Taiwan Aerospace Industry A-Team 4.0 Alliance", which has yielded productive results including; the increase in AS9100 certified suppliers from 62 to 85, signing of a MOU with 14 intelligent machinery suppliers, Advanced Jet Trainer (AJT) commission agreement with the National Chung Shan Institute of Science and Technology (NCSIST), participating in both the Paris Airshow and Taipei Aerospace and Defense Technology Exhibition, hosting Aerospace Composite Forum and 2017 Taiwan Aerospace Industry & Policy Forum; and signing of the first phase AJT contract with 48 suppliers.

Currently, Taiwan's aerospace industry needs to work on three major missions, namely "Indigenous development of an advanced jet trainer", "Intelligent manufacturing ", and "Supply chain integration". Firstly, to achieve the "indigenous development of an advanced jet trainer", AIDC is making every effort to improve development efficiency to meet schedule and achieve quality-compliant objectives; meanwhile, AIDC is integrating activities and efforts by individual member suppliers of the Taiwan Aerospace Industry A-Team 4.0 Alliance toward cultivating the talents and upgrading the industry through the AJT program, which will lay a sound foundation for both the defense and the aerospace industries.

Secondly, intelligent manufacturing plays an essential role in quality, efficiency and cost improvements. To support government's "5+2 Industrial Transformation Plan", AIDC applied the approach of integrating intelligent manufacturing with Taiwan's defense and aerospace industries into AIDC's " Pilot Project for Aerospace Intelligent Manufacturing Industrial Innovation " for intelligent production line which enhances our quality, production efficiency and competitiveness.

Thirdly, integration of Taiwan's supply chain is a continuing effort by the Taiwan Aerospace Industry A-Team 4.0 Alliance, through which AIDC provides assistance to supply chain members to obtain qualification to aerospace standards, expands the scope of Taiwan's aerospace industry; and enhances the overall capability of executing international orders.

According to the 2017 Aerospace Manufacturing Attractiveness Ranking Report released by PricewaterhouseCoopers (PwC) Taiwan ranked 6th overall among the top ten countries for aerospace attractiveness, following the United States, Switzerland, United Kingdom, Australia, and Canada. The 2017 ranking index is based on a weighted score of categories including; labor, infrastructure, industry, economy, cost, tax policy and geopolitical risk.

Evidenced by the above, the attractiveness of Taiwan's aerospace industry is recognized in the global market, and comparing with other top 10 countries, Taiwan ranked well in categories of cost and

labor. As a major component of the Taiwan’s aerospace industry, AIDC is proud of the contributions made by all of us and remains committed to continuing Taiwan’s progress and expansion in the global aerospace market.

I would like to express our most sincere appreciation and gratitude to all our valued shareholders for your unwavering support of AIDC. The summary of the report on the operation results for FY 2017 and the business plan for FY 2018 are presented hereunder.

FY 2017 Operation Highlights

Revenue and Income

The Company had consolidated revenue of NT\$27,537,414 thousand in FY 2017, which was an increase of NT\$211,900 thousand from NT\$27,325,514 thousand in FY 2016. Consolidated pre-tax income in FY 2017 amounted to NT\$2,278,789 thousand, which was a decrease of NT\$315,434 thousand from NT\$2,594,223 thousand of FY 2016. Net operating income increased NT\$43,835 thousand, however non-operating revenues and expenditures decreased due to depreciation of US dollar which resulted in an increase of exchange loss of NT\$537,699 thousand than FY 2016.

(Note: Based on the disclosed amount of pre-tax income of FY 2016, figures adopted in this paragraph and financial structure and profitability analysis of the next paragraph are based on the information of consolidated financial statements.)

Financial Structure and Profitability Analysis

As of December 31 2017, the financial structure of AIDC showed total consolidated assets of NT\$33,752,881 thousand and total consolidated liabilities of NT\$20,649,839 thousand. The analysis of overall profitability indicators are shown in the table below:

Indicators	2016	2017
ROA (%)	7.32	5.70
ROE (%)	17.43	13.72
EBT to Paid-in Capital Ratio (%)	28.56	24.19
Net Profit Ratio (%)	7.62	6.34

Note 1: Return on assets (ROA): Increase of average total assets was due to increase of receivables resulted from major customers extending payment days, and increase in fixed assets for business purpose which resulted in a lower ROA than that of FY 2016.

Note 2: Return on equity (ROE): Average total equity increased with operating income which resulted in a lower ROE than that of FY 2016.

Note 3: EBT to Paid-in Capital Ratio and Net Profit Ratio: The decrease of cumulative profit for FY 2017 resulted in a lower EPS than that of FY 2016.

Research and Development Outlook

The R&D expenses of AIDC in FY 2017 amounted to NT\$407,178 thousand with the successful development of “Enhancement Program for Composite Control Surfaces Key Technology” together with 25 projects, results of which could help to upgrade the overall technological capability and production capacity while facilitating the pursuit of better business opportunity.

Credentials and Awards

* Received “2016 Health Navigator Award for Healthy Workplace ” presented by Ministry of Health and Welfare in Jan. 2017

- * Received “2016 Green Procurement Enterprise and Group” Award by Taichung City Government in Jun. 2017
- * Ranked 27th in the “CSR Award in Traditional Manufacturers Category” by the Global Views Magazine in Aug. 2017. (Ranked 38th in 2016)
- * Presented “Taiwan i Sport Enterprise Certification” Award by the Sports Administration of the Ministry of Education in Oct. 2017
- * Received “Excellent Occupational Safety and Health Workplace Award” and “Outstanding Personnel Award for the Promotion of Healthy Workplace “ by Kaohsiung City Government in Oct. 2017
- * Presented “Enterprise Environment Protection Award-Bronze Medal” by the Environment Protection Administration, Executive Yuan in Oct. 2017 for three years in a row
- * Awarded “2017 Taiwan Corporate Sustainability Awards”-Corporate Sustainability Report Awards (Traditional Manufacturing: Bronze Medal) in Oct. 2017
- * Received “Healthy Enterprise Award” and “Outstanding Personnel Award for the Promotion of Healthy Workplace” presented by Ministry of Labor in Nov. 2017 for the eight consecutive years
- * Received “Partner Award” for the Mitsubishi Regional Jet (MRJ) Program from Mitsubishi Aircraft Corporation in Nov. 2017
- * Received “Certificate of Appreciation” for the contribution in the Alpha Magnetic Spectrometer (AMS-02) project by NASA in Dec. 2017

Business Plan for FY 2018

Business Development Planning

- * In the area of defense business, AIDC seeks to successfully upgrade the performance of the jet fighters and to launch the new advanced jet trainer program as scheduled, and to make effort in securing orders for the maintenance of different types of aircraft.
- * In the area of commercial aviation, AIDC seeks to expand its supplier system for more production sources, as well as for more business in the high value-added parts and components of aircraft segments and engines.
- * In the area of industrial technology service, AIDC will extend its momentum of aerospace technology to green energy business to support the national objective of energy saving and carbon reduction, and provide flight services for disasters prevention and rescue and atmospheric measurements.

Corporate Management Policy

In the face of harsh competition within the global aerospace industry, AIDC will spare no effort to secure and pursue business opportunities. Meanwhile, AIDC will continue to adopt a Balanced Scorecard (BSC) as a management tool. This BSC system helps to align and link the Company’s vision, strategy, objectives, to business activities, department tasks and action plans; with which AIDC will be able to continue to improve its business management while implementing the culture of accountability. The corporate management policy in FY 2018 will cover:

- | | |
|---|--|
| ▲ Optimize financial structure | ▲ Upgrade business competitive power |
| ▲ Satisfy customer value proposition | ▲ Continue engaging the lean activity |
| ▲ Refine core business process | ▲ Fortify the supply chain and integration with outsourced contractors |
| ▲ Vitalize human resources and strengthen core competence | ▲ Fulfill corporate social responsibility |

AIDC hereby reiterates our commitment to play an essential role in the three important missions mentioned earlier; that is, to meet the first flight schedule with a quality product to fulfill the objective of the “Indigenous Development of an advanced jet trainer”; to integrate intelligent manufacturing with aerospace and defense industries and apply it to AIDC’s “Pilot Project for the Aerospace Intelligent Manufacturing & Industrial Innovation” for establishing intelligent production lines to improve quality, production efficiency and competitiveness; and lastly to promote and implement integration of the Taiwan Aerospace Industry A-Team 4.0 Alliance to connect Taiwan’s aerospace industry with global supply chains.

AIDC shall join hands with the suppliers of the aerospace and related industries together with government, academia and research institutes to; confront and overcome the challenges ahead, promote the upgrade of the domestic aerospace industry, and to boost the overall production value, while increasing the company’s revenue and profit thereby enhancing the value of our shareholders’ interests.

May I wish you all good fortune and good health.

Chairman Jung-Hsin Liao



Audit Committee Review Report

The Company's 2017 Financial Statements prepared by The Board of Directors have been audited by the CPA firm of Deloitte & Touche Tohmatsu and an audit report has been issued and concurred by this Audit Committee.

The Board of Directors also prepared the Company's 2017 Business Report and Proposal for Allocation of Profits. The above report and proposal have been reviewed and determined to be correct and accurate by the Audit Committee of Aerospace Industrial Development Corporation. According to Article 219 of the Company Law and Article 14-4 of the Securities and Exchange Act, we hereby submit this report.

To: Aerospace Industrial Development Corporation
2018 Annual Shareholders' Meeting

Chairman of the Audit Committee

A handwritten signature in black ink, appearing to read "Peter W. Cheng". The signature is fluid and cursive, with a long horizontal stroke at the end.

Date: March 27, 2018

Appendix III

2017 Compensation to Employees and Directors

The Board of Directors consented to the proposal of the 2017 Employees' Compensation and Remuneration to Directors in the board meeting of March 27, 2018. The proposal will be effective upon the approval by shareholders at the Annual Shareholders' Meeting on June 26, 2018.

1. The employees' compensation and the directors remuneration are NT\$102,359,496 and NT\$12,767,421 in cash respectively.
2. The amounts, cited above as expenses of 2017 net profit before income tax, are the same as the amounts proposed by the Board of Directors.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Aerospace Industrial Development Corporation

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Impairment loss of inventory

The Group assesses impairment of raw materials based on individual identification. The impairment loss of the raw materials involves the management's significant judgment, and hence its assessment is considered as a key audit matter. The Group assesses the impairment loss of the raw materials based on current market conditions and future consumption, an assessment that ensures the valuation of raw materials of the Group aligns to the rules denoted in the IAS 2. Refer to Notes 5 and 9. Our key audit procedures performed in regard to the assessment thereof include the followings:

1. Perform the inventory aging test to assure the completeness and accuracy of inventory aging report.
2. Sample inventories which have been aging for more than a year without being provided for impairment.
3. Test the net realizable value of unimpaired inventory, and recalculate the accuracy of allowance for impairment loss.
4. Observe the inventory at year end to assess the appropriateness of allowance for impairment loss of inapplicable inventory.

Warranties

The Group provides warranties for military product maintenance, and the percentage of certain provisions involve management's significant judgment, and hence such type of warranties provisions is considered as a key audit matter. Refer to Notes 5 and 19. Our key audit procedures performed in regard to the provisions thereof include the followings:

1. Obtain the documents on management's decision of the provision rate and evaluate the reasonableness of percentage provided for abovementioned provisions.
2. Recalculate the accuracy of the amount of provision.
3. Perform a retrospective test to assure that the provisions are appropriate and sufficient.

Other Matter

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

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

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

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Lie-Dong Wu and Done-Yuin Tseng.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 27, 2018

Notice to Readers

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

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

	December 31			
	2017		2016	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 1,065,791	3	\$ 2,560,098	8
Notes receivable (Note 4)	23,509	-	4,749	-
Trade receivables from unrelated parties (Notes 4 and 8)	9,278,949	28	7,256,164	23
Trade receivables from related parties (Notes 4 and 29)	308,373	1	220,669	1
Other receivables (Notes 4 and 8)	99,055	-	179,253	1
Inventories (Notes 4, 5 and 9)	6,770,848	20	7,599,577	25
Other financial asset - current (Notes 4, 14 and 30)	3,811,126	11	2,000,102	6
Other current assets (Notes 4, 15 and 29)	<u>1,754,280</u>	<u>5</u>	<u>634,878</u>	<u>2</u>
Total current assets	<u>23,111,931</u>	<u>68</u>	<u>20,455,490</u>	<u>66</u>
NON-CURRENT ASSETS				
Financial assets measured at cost - non-current (Notes 4 and 7)	79,200	-	79,200	-
Investment accounted for using equity method (Notes 4 and 11)	428,906	2	779,331	3
Property, plant and equipment (Notes 4, 12 and 30)	8,718,654	26	8,244,072	27
Intangible assets (Notes 4 and 13)	1,000,404	3	734,805	2
Deferred tax assets (Notes 4 and 24)	305,324	1	305,776	1
Prepayments for equipment	81,682	-	380,150	1
Other financial asset - non-current (Notes 4, 14 and 30)	10,807	-	24,517	-
Other non-current assets (Notes 4, 8 and 15)	<u>15,973</u>	<u>-</u>	<u>21,659</u>	<u>-</u>
Total non-current assets	<u>10,640,950</u>	<u>32</u>	<u>10,569,510</u>	<u>34</u>
TOTAL	<u>\$ 33,752,881</u>	<u>100</u>	<u>\$ 31,025,000</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 16 and 30)	\$ 6,515,000	19	\$ 7,200,000	23
Short-term bills payable (Note 16)	2,499,329	7	1,998,882	6
Trade payables to unrelated parties	1,394,004	4	1,395,632	5
Trade payables to related parties (Note 29)	201,665	1	19,836	-
Other payables (Notes 18 and 29)	3,747,714	11	4,131,171	13
Current tax liabilities (Notes 4 and 24)	260,674	1	332,954	1
Unearned receipts	148,945	1	208,316	1
Current portion of long-term borrowings (Notes 16 and 30)	342,606	1	1,167,606	4
Finance lease payables - current (Notes 4 and 17)	-	-	5,131	-
Net defined benefit liabilities - current (Notes 4 and 20)	33,422	-	-	-
Other current liabilities	<u>365,558</u>	<u>1</u>	<u>40,361</u>	<u>-</u>
Total current liabilities	<u>15,508,917</u>	<u>46</u>	<u>16,499,889</u>	<u>53</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Notes 16 and 30)	3,975,635	12	748,240	2
Provisions - non-current (Notes 4, 5 and 19)	939,150	3	1,043,511	3
Deferred tax liabilities (Notes 4 and 24)	21,677	-	160,658	1
Long - term deferred income (Note 4)	351	-	-	-
Guarantee deposits	<u>204,109</u>	<u>-</u>	<u>212,263</u>	<u>1</u>
Total non-current liabilities	<u>5,140,922</u>	<u>15</u>	<u>2,164,672</u>	<u>7</u>
Total liabilities	<u>20,649,839</u>	<u>61</u>	<u>18,664,561</u>	<u>60</u>
EQUITY				
Common stock	9,418,671	28	9,082,615	29
Retained earnings				
Legal reserve	531,146	2	322,880	1
Special reserve	1,473,474	4	848,678	3
Unappropriated earnings	1,711,923	5	2,086,241	7
Other equity	<u>(32,172)</u>	<u>-</u>	<u>20,025</u>	<u>-</u>
Total equity	<u>13,103,042</u>	<u>39</u>	<u>12,360,439</u>	<u>40</u>
TOTAL	<u>\$ 33,752,881</u>	<u>100</u>	<u>\$ 31,025,000</u>	<u>100</u>

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
SALES (Notes 4, 22 and 29)	\$ 27,537,414	100	\$ 27,325,514	100
COST OF GOODS SOLD (Notes 9, 23 and 29)	<u>23,637,272</u>	<u>86</u>	<u>23,210,018</u>	<u>85</u>
GROSS PROFIT	<u>3,900,142</u>	<u>14</u>	<u>4,115,496</u>	<u>15</u>
OPERATING EXPENSES (Notes 23 and 29)				
Selling and marketing expenses	124,996	-	146,684	1
General and administrative expenses	598,200	2	587,051	2
Research and development expenses	<u>407,178</u>	<u>2</u>	<u>655,828</u>	<u>2</u>
Total operating expenses	<u>1,130,374</u>	<u>4</u>	<u>1,389,563</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>2,769,768</u>	<u>10</u>	<u>2,725,933</u>	<u>10</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 23)	193,040	1	189,197	1
Other gains and losses (Notes 4 and 23)	(805,416)	(3)	(371,188)	(1)
Share of profit of associate (Note 4)	240,264	1	177,625	1
Finance costs	<u>(118,867)</u>	<u>(1)</u>	<u>(127,344)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>(490,979)</u>	<u>(2)</u>	<u>(131,710)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	2,278,789	8	2,594,223	10
INCOME TAX EXPENSE (Notes 4 and 24)	<u>530,808</u>	<u>2</u>	<u>511,568</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>1,747,981</u>	<u>6</u>	<u>2,082,655</u>	<u>8</u>
OTHER COMPREHENSIVE INCOME (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(44,919)	-	(2,985)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	<u>(52,197)</u>	<u>-</u>	<u>(10,590)</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(97,116)</u>	<u>-</u>	<u>(13,575)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,650,865</u>	<u>6</u>	<u>\$ 2,069,080</u>	<u>8</u>

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
EARNINGS PER SHARE (Note 25)				
Basic	\$ 1.86		\$ 2.21	
Diluted	\$ 1.85		\$ 2.20	

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

(Concluded)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Corporation						Total Equity
	Common Stock (Note 21)	Retained Earnings (Note 21)			Unappropriated Earnings	Other Equity Exchange Differences on Translating Foreign Operations	
		Legal Reserve	Special Reserve	Special Reserve			
BALANCE AT JANUARY 1, 2016	\$ 9,082,615	\$ 119,963	\$ 239,927	\$ 2,053,475	\$ 30,615	\$ 11,526,595	
Appropriation of 2015 earnings	-	202,917	-	(202,917)	-	-	
Legal reserve	-	-	608,751	(608,751)	-	-	
Special reserve	-	-	-	(1,235,236)	-	(1,235,236)	
Cash dividends distributed by the Company	-	-	-	-	-	-	
Profit for the year ended December 31, 2016	-	-	-	2,082,655	-	2,082,655	
Other comprehensive loss for the year ended December 31, 2016, net of income tax	-	-	-	(2,985)	(10,590)	(13,575)	
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	2,079,670	(10,590)	2,069,080	
BALANCE AT DECEMBER 31, 2016	9,082,615	322,880	848,678	2,086,241	20,025	12,360,439	
Appropriation of 2016 earnings	-	208,266	-	(208,266)	-	-	
Legal reserve	-	-	624,796	(624,796)	-	-	
Special reserve	-	-	-	(908,262)	-	(908,262)	
Cash dividends distributed by the Company	-	-	-	(336,056)	-	-	
Share dividends distributed by the Company	336,056	-	-	-	-	-	
Profit for the year ended December 31, 2017	-	-	-	1,747,981	-	1,747,981	
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	(44,919)	(52,197)	(97,116)	
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	1,703,062	(52,197)	1,650,865	
BALANCE AT DECEMBER 31, 2017	\$ 9,418,671	\$ 531,146	\$ 1,473,474	\$ 1,711,923	\$ (32,172)	\$ 13,103,042	

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 2,278,789	\$ 2,594,223
Adjustments for:		
Depreciation expenses	822,009	653,783
Amortization expenses	452,388	804,933
Reversal of impairment loss on trade receivables	(4,027)	(3,398)
Finance costs	118,867	127,344
Interest income	(67,964)	(33,714)
Dividend income	(78)	(614)
Share of profit of associate	(240,264)	(177,625)
Loss on disposal of property, plant and equipment	1,352	116
Impairment loss recognized on non-financial assets	88,153	136,660
Unrealized net loss (gain) on foreign currency exchange	242,930	(99,418)
Recognized (reversal) of provisions	(24,962)	69,995
Other income from liabilities	(5,951)	(23,281)
Net changes in operating assets and liabilities		
Notes receivable	(18,782)	15,074
Trade receivables	(2,153,203)	(714,060)
Other receivables	92,559	(22,742)
Inventories	664,193	1,002,931
Other current assets	(1,173,522)	784,702
Trade payables	182,150	(31,238)
Other payables	142,156	47,078
Unearned receipts	(59,371)	(3,901)
Other current liabilities	332,088	42,820
Net defined benefit liabilities	33,422	-
Deferred income	351	-
Cash generated from operations	1,703,283	5,169,668
Interest received	55,385	31,791
Interest paid	(120,343)	(124,881)
Income tax paid	(608,346)	(542,992)
Net cash generated from operating activities	<u>1,029,979</u>	<u>4,533,586</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of financial assets measured at cost	-	(33,000)
Payments for property, plant and equipment	(1,462,412)	(1,940,330)
Proceeds from disposal of property, plant and equipment	2,599	-
Increase in refundable deposits	(16,160)	(15,509)
Decrease in refundable deposits	19,508	23,469
Payments for intangible assets	(656,011)	(1,139,396)
Increase in other financial assets	(1,993,822)	-
Decrease in other financial assets	-	578,071

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2017	2016
Increase in prepayments for equipment	\$ (253,985)	\$ (689,758)
Dividend received	<u>544,148</u>	<u>52,135</u>
Net cash used in investing activities	<u>(3,816,135)</u>	<u>(3,164,318)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	52,302,000	51,080,000
Repayments of short-term borrowings	(52,987,000)	(49,530,000)
Proceeds from short-term bills payable	8,692,399	7,688,961
Repayments of short-term bills payable	(8,191,952)	(7,387,671)
Proceeds from long-term borrowings	3,570,000	-
Repayments of long-term borrowings	(1,167,606)	(964,399)
Proceeds of guarantee deposits received	252,141	214,271
Refund of guarantee deposits	(260,295)	(229,370)
Dividends paid to owners of the Company	<u>(908,262)</u>	<u>(1,235,236)</u>
Net cash generated from (used in) financing activities	<u>1,301,425</u>	<u>(363,444)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES		
	<u>(9,576)</u>	<u>(465)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,494,307)	1,005,359
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>2,560,098</u>	<u>1,554,739</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 1,065,791</u>	<u>\$ 2,560,098</u>

The accompanying notes are an integral part of the consolidated financial statements.(Concluded)C:\windows\Temp\REPO

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Aerospace Industrial Development Corporation

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Impairment loss of inventory

The Company assesses impairment of raw materials based on individual identification. The assessment of impairment loss of the raw materials involves the use of the management's critical judgment, and hence the assessment is considered as a key audit matter. The Company assesses the

impairment loss of the raw materials based on current market conditions and future consumption in accordance with IAS 2. Refer to Notes 5 and 9 to the financial statements for the relevant accounting policy, accounting judgments and estimation uncertainties, and other information. Our key audit procedures performed in regard to the impairment assessment include the followings:

1. We tested the inventory aging report for completeness and accuracy.
2. We inquired and assessed the reasons for inventories aged over one year but not provided allowance for impairment.
3. We test-checked the net realizable value of inventory, and we evaluated the reasonableness of the allowance for impairment loss.
4. We Observed the physical count of inventory at year end and we test-checked actual quantity counted on tags. We also noted those appearing as obsolete or slow-moving items and traced them to the Company's impairment assessment worksheet.

Warranties

The Company provides warranties for military product maintenance, and the percentage of certain provisions involve management's critical judgment, hence, we consider provision for warranties as a key audit matter. Refer to Notes 5 and 18 for the relevant accounting policy, accounting judgments and estimation uncertainties, and other information. Our key audit procedures performed in regard to the provisions for warranties include the followings:

1. We obtained the documents on the management's decision on the provision rate and we evaluated the reasonableness of he rates compared with rates in the past periods.
2. We recalculated the amount of provision.
3. We evaluated the reasonableness of the provision against the actual usage of warranties.

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

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

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in

the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Lie-Dong Wu and Done-Yuin Tseng.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 27, 2018

Notice to Readers

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

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

	December 31			
	2017		2016	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash (Notes 4 and 6)	\$ 1,053,021	3	\$ 2,545,007	8
Notes receivable (Note 4)	23,509	-	4,749	-
Trade receivables from unrelated parties (Notes 4 and 8)	9,278,949	28	7,256,164	23
Trade receivables from related parties (Notes 4 and 28)	308,373	1	220,669	1
Other receivables (Notes 4 and 8)	99,055	-	179,253	1
Inventories (Notes 4, 5 and 9)	6,770,848	20	7,599,577	25
Other financial asset - current (Notes 4, 13 and 29)	3,810,829	12	2,000,102	6
Other current assets (Notes 4, 14 and 28)	1,753,999	5	634,703	2
Total current assets	<u>23,098,583</u>	<u>69</u>	<u>20,440,224</u>	<u>66</u>
NON-CURRENT ASSETS				
Financial assets measured at cost - non-current (Notes 4 and 7)	79,200	-	79,200	-
Investment accounted for using equity method (Notes 4 and 10)	407,708	1	795,692	3
Property, plant and equipment (Notes 4, 11 and 29)	8,717,619	26	8,242,666	27
Intangible assets (Notes 4 and 12)	1,000,404	3	734,805	2
Deferred tax assets (Notes 4 and 23)	305,324	1	305,776	1
Prepayments for equipment	81,682	-	380,150	1
Other financial asset - non-current (Notes 4, 13 and 29)	10,807	-	24,517	-
Other non-current assets (Notes 4, 8 and 14)	15,907	-	21,587	-
Total non-current assets	<u>10,618,651</u>	<u>31</u>	<u>10,584,393</u>	<u>34</u>
TOTAL	<u>\$ 33,717,234</u>	<u>100</u>	<u>\$ 31,024,617</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 15 and 29)	\$ 6,515,000	19	\$ 7,200,000	23
Short-term bills payable (Note 15)	2,499,329	7	1,998,882	6
Trade payables to unrelated parties	1,394,004	4	1,395,632	5
Trade payables to related parties (Note 28)	201,665	1	19,836	-
Other payables (Notes 17 and 28)	3,746,589	11	4,131,262	13
Current tax liabilities (Notes 4 and 23)	226,705	1	332,915	1
Unearned receipts	148,945	1	208,316	1
Current portion of long-term borrowings (Notes 15 and 29)	342,606	1	1,167,606	4
Finance lease payables - current (Notes 4 and 16)	-	-	5,131	-
Net defined benefit liabilities - current (Notes 4 and 19)	33,422	-	-	-
Other current liabilities	365,049	1	40,042	-
Total current liabilities	<u>15,473,314</u>	<u>46</u>	<u>16,499,622</u>	<u>53</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Notes 15 and 29)	3,975,635	12	748,240	2
Provisions - non-current (Notes 4, 5 and 18)	939,150	3	1,043,511	3
Deferred tax liabilities (Notes 4 and 23)	21,633	-	160,542	1
Long-term deferred income (Note 4)	351	-	-	-
Guarantee deposits	204,109	-	212,263	1
Total non-current liabilities	<u>5,140,878</u>	<u>15</u>	<u>2,164,556</u>	<u>7</u>
Total liabilities	<u>20,614,192</u>	<u>61</u>	<u>18,664,178</u>	<u>60</u>
EQUITY				
Common stock	9,418,671	28	9,082,615	29
Retained earnings				
Legal reserve	531,146	2	322,880	1
Special reserve	1,473,474	4	848,678	3
Unappropriated earnings	1,711,923	5	2,086,241	7
Other equity	(32,172)	-	20,025	-
Total equity	<u>13,103,042</u>	<u>39</u>	<u>12,360,439</u>	<u>40</u>
TOTAL	<u>\$ 33,717,234</u>	<u>100</u>	<u>\$ 31,024,617</u>	<u>100</u>

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
SALES (Notes 4, 21 and 28)	\$ 27,537,414	100	\$ 27,325,514	100
COST OF GOODS SOLD (Notes 9, 22 and 28)	<u>23,650,352</u>	<u>86</u>	<u>23,210,018</u>	<u>85</u>
GROSS PROFIT	<u>3,887,062</u>	<u>14</u>	<u>4,115,496</u>	<u>15</u>
OPERATING EXPENSES (Notes 22 and 28)				
Selling and marketing expenses	127,206	-	146,684	1
General and administrative expenses	583,057	2	587,442	2
Research and development expenses	<u>407,178</u>	<u>2</u>	<u>655,828</u>	<u>2</u>
Total operating expenses	<u>1,117,441</u>	<u>4</u>	<u>1,389,954</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>2,769,621</u>	<u>10</u>	<u>2,725,542</u>	<u>10</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 22)	193,037	1	189,183	1
Other gains and losses (Notes 4 and 22)	(805,407)	(3)	(371,175)	(1)
Share of profit of subsidiary and associate (Note 4)	162,895	1	177,861	1
Finance costs	<u>(118,867)</u>	<u>(1)</u>	<u>(127,344)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>(568,342)</u>	<u>(2)</u>	<u>(131,475)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	2,201,279	8	2,594,067	10
INCOME TAX EXPENSE (Notes 4 and 23)	<u>453,298</u>	<u>2</u>	<u>511,412</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>1,747,981</u>	<u>6</u>	<u>2,082,655</u>	<u>8</u>
OTHER COMPREHENSIVE INCOME (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(44,919)	-	(2,985)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	<u>(52,197)</u>	<u>-</u>	<u>(10,590)</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(97,116)</u>	<u>-</u>	<u>(13,575)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,650,865</u>	<u>6</u>	<u>\$ 2,069,080</u>	<u>8</u>

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
EARNINGS PER SHARE (Note 24)				
Basic	\$	<u>1.86</u>	\$	<u>2.21</u>
Diluted	\$	<u>1.85</u>	\$	<u>2.20</u>

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

(Concluded)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

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

	Common Stock (Note 20)	Retained Earnings (Note 20)			Unappropriated Earnings	Other Equity Exchange Differences on Translating Foreign Operations	Total Equity
		Legal Reserve	Special Reserve	Special Reserve			
BALANCE AT JANUARY 1, 2016	\$ 9,082,615	\$ 119,963	\$ 239,927	\$ 2,053,475	\$ 30,615	\$ 11,526,595	
Appropriation of 2015 earnings	-	202,917	-	(202,917)	-	-	
Legal reserve	-	-	-	(608,751)	-	-	
Special reserve	-	-	608,751	(1,235,236)	-	(1,235,236)	
Cash dividends distributed by the Company	-	-	-	-	-	-	
Profit for the year ended December 31, 2016	-	-	-	2,082,655	-	2,082,655	
Other comprehensive loss for the year ended December 31, 2016, net of income tax	-	-	-	(2,985)	(10,590)	(13,575)	
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	2,079,670	(10,590)	2,069,080	
BALANCE AT DECEMBER 31, 2016	9,082,615	322,880	848,678	2,086,241	20,025	12,360,439	
Appropriation of 2016 earnings	-	208,266	-	(208,266)	-	-	
Legal reserve	-	-	-	(624,796)	-	-	
Special reserve	-	-	624,796	(908,262)	-	(908,262)	
Cash dividends distributed by the Company	-	-	-	(336,056)	-	-	
Share dividends distributed by the Company	336,056	-	-	-	-	-	
Profit for the year ended December 31, 2017	-	-	-	1,747,981	-	1,747,981	
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	(44,919)	(52,197)	(97,116)	
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	1,703,062	(52,197)	1,650,865	
BALANCE AT DECEMBER 31, 2017	\$ 9,418,671	\$ 531,146	\$ 1,473,474	\$ 1,711,923	\$ (32,172)	\$ 13,103,042	

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

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 2,201,279	\$ 2,594,067
Adjustments for:		
Depreciation expenses	821,706	653,628
Amortization expenses	452,388	804,933
Reversal of impairment loss on trade receivables	(4,027)	(3,398)
Finance costs	118,867	127,344
Interest income	(67,961)	(33,712)
Dividend income	(78)	(614)
Share of profit of subsidiary and associate	(162,895)	(177,861)
Loss on disposal of property, plant and equipment	1,352	116
Impairment loss recognized on non-financial assets	88,153	136,660
Unrealized net loss (gain) on foreign currency exchange	242,929	(99,418)
Recognized (reversal) of provisions	(24,962)	69,995
Other income from liabilities	(5,951)	(23,281)
Net changes in operating assets and liabilities		
Notes receivable	(18,782)	15,074
Trade receivables	(2,153,203)	(714,060)
Other receivables	92,559	(22,742)
Inventories	664,193	1,002,931
Other current assets	(1,173,416)	784,878
Trade payables	182,150	(31,238)
Other payables	140,940	47,169
Unearned receipts	(59,371)	(3,901)
Other current liabilities	331,899	42,501
Net defined benefit liabilities	33,422	-
Deferred income	351	-
Cash generated from operations	<u>1,701,542</u>	<u>5,169,071</u>
Interest received	55,382	31,789
Interest paid	(120,343)	(124,881)
Income tax paid	<u>(564,694)</u>	<u>(542,992)</u>
Net cash generated from operating activities	<u>1,071,887</u>	<u>4,532,987</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of financial assets measured at cost	-	(33,000)
Payments for investment accounted for using equity method	-	(16,590)
Payments for property, plant and equipment	(1,462,377)	(1,938,769)
Proceeds from disposal of property, plant and equipment	2,599	-
Increase in refundable deposits	(16,160)	(15,437)
Decrease in refundable deposits	19,502	23,469
Payments for intangible assets	(656,011)	(1,139,396)
Increase in other financial assets	(1,993,525)	-
Decrease in other financial assets	-	578,071

(Continued)

AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2017	2016
Increase in prepayments for equipment	\$ (253,985)	\$ (689,758)
Dividend received	<u>494,659</u>	<u>52,135</u>
Net cash used in investing activities	<u>(3,865,298)</u>	<u>(3,179,275)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	52,302,000	51,080,000
Repayments of short-term borrowings	(52,987,000)	(49,530,000)
Proceeds from short-term bills payable	8,692,399	7,688,961
Repayments of short-term bills payable	(8,191,952)	(7,387,671)
Proceeds from long-term borrowings	3,570,000	-
Repayments of long-term borrowings	(1,167,606)	(964,399)
Proceeds of guarantee deposits received	252,141	214,271
Refund of guarantee deposits	(260,295)	(229,370)
Dividends paid to owners of the Company	<u>(908,262)</u>	<u>(1,235,236)</u>
Net cash generated from (used in) financing activities	<u>1,301,425</u>	<u>(363,444)</u>
NET INCREASE (DECREASE) IN CASH	(1,491,986)	990,268
CASH AT THE BEGINNING OF THE YEAR	<u>2,545,007</u>	<u>1,554,739</u>
CASH AT THE END OF THE YEAR	<u>\$ 1,053,021</u>	<u>\$ 2,545,007</u>

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

(Concluded)

Appendix V

Aerospace Industrial Development Corporation Proposal for Earnings Distribution of 2017 Profits	
	Currency: in NTD
Item	Amounts
Undistributed earnings at beginning of period	8,862,131
Remeasurement of defined benefit plans	(44,919,600)
Undistributed earnings after adjustment	(36,057,469)
Annual net profit after tax	1,747,981,226
Less Items :	
Legal reserve (10%)	(171,192,376)
Law-listing Special reserve	(32,171,789)
Self-listing Special reserve (25%)	(427,980,939)
Accumulate available for distribution surplus	1,080,578,653
Distribution Items :	
Shareholder cash dividend (NT\$ 1.13 per share)	(1,064,309,824)
Total current surplus distribution	(1,064,309,824)
Undistributed earnings at the end of period	16,268,829

Appendix VI

Mapping of the amended provisions of the Acquisition and Disposal Procedures for Assets

	After amendment	Before amendment	Cause of amendment
Article 3	<p>Terms used in these Regulations are defined as follows:</p> <ol style="list-style-type: none"> Derivatives: Forward contracts, options contracts, futures contracts, leverage contracts, and swap contracts, and compound contracts combining the above products, whose value is derived from assets, interest rates, foreign exchange rates, indexes or other interests. The term "forward contracts" does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) agreements. Assets acquired or disposed through mergers, demergers, acquisitions, or transfer of shares in accordance with law: Refers to assets acquired or disposed through mergers, demergers, or acquisitions conducted under the Business Mergers and Acquisitions Act and other acts, or to transfer of shares from another Company through issuance of new shares of its own as the consideration therefor (hereinafter "transfer of shares") under Article 156, paragraph 8 of the Company Act. Related party or subsidiary: As defined in 	<p>Article 3</p> <p>Terms used in these Regulations are defined as follows:</p> <ol style="list-style-type: none"> Derivatives: Forward contracts, options contracts, futures contracts, leverage contracts, and swap contracts, and compound contracts combining the above products, whose value is derived from assets, interest rates, foreign exchange rates, indexes or other interests. The term "forward contracts" does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) agreements. Assets acquired or disposed through mergers, demergers, acquisitions, or transfer of shares in accordance with law: Refers to assets acquired or disposed through mergers, demergers, or acquisitions conducted under the Business Mergers and Acquisitions Act, <u>Financial Holding Company Act</u>, <u>Financial Institution Merger Act</u> and other acts, or to transfer of shares from another company through issuance of new shares of its own as the consideration therefor (hereinafter "transfer of shares") under Article 156, paragraph 8 of the Company Act. 	<ol style="list-style-type: none"> Amendment to the provision. Amendments to the provisions refer to AIDC's business operations

After amendment	Before amendment	Cause of amendment
<p>the Regulations Governing the Preparation of Financial Reports by Securities Issuers.</p> <p>4. Professional appraiser: Refers to a real property appraiser or other person duly authorized by law to engage in the value appraisal of real property or equipment.</p> <p>5. Date of occurrence: Refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, dates of boards of directors resolutions, or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier; provided, for investment for which approval of the competent authority is required, the earlier of the above date or the date of receipt of approval by the competent authority shall apply.</p> <p>6. Mainland China area investment: Refers to investments in the mainland China area approved by the Ministry of Economic Affairs Investment Commission or conducted in accordance with the provisions of the Regulations Governing Permission for Investment or Technical Cooperation in the Mainland Area.</p>	<p>3. Related party or subsidiary: As defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers.</p> <p>4. Professional appraiser: Refers to a real property appraiser or other person duly authorized by law to engage in the value appraisal of real property or equipment.</p> <p>5. Date of occurrence: Refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, dates of boards of directors resolutions, or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier; provided, for investment for which approval of the competent authority is required, the earlier of the above date or the date of receipt of approval by the competent authority shall apply.</p> <p>6. Mainland China area investment: Refers to investments in the mainland China area approved by the Ministry of Economic Affairs Investment Commission or conducted in accordance with the provisions of the Regulations Governing Permission for Investment or Technical Cooperation in the Mainland Area.</p>	
<p>Article 5</p> <p>When The procedures for the acquisition and disposal of assets are adopted or amended, they shall be approved by more than half of all audit committee members and submitted to the board of directors for a</p>	<p>Article 5</p> <p>When The procedures for the acquisition and disposal of assets are adopted or amended, they shall be approved by more than half of all audit committee members and submitted to the board of directors for a</p>	<p>1. Amendment to the provision. 2. In accordance with Governing the Acquisition and Disposal of Assets by</p>

After amendment	Before amendment	Cause of amendment
<p>resolution. If approval of more than half of all audit committee members as required is not obtained, the procedures may be implemented if approved by more than two-thirds of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.</p> <p><u>Establish its procedures for the acquisition or disposal of assets in accordance with the provisions of these Regulations. After the procedures have been approved by the board of directors and then to a shareholders' meeting for approval; the same applies when the procedures are amended.</u></p>	<p>resolution. If approval of more than half of all audit committee members as required is not obtained, the procedures may be implemented if approved by more than two-thirds of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.</p>	<p>Public Companies Article 6.</p>
<p>Article 6 The acquisition and disposal of assets shall be conducted according to the subject provisions and in compliance with the following procedures:</p> <ol style="list-style-type: none"> 1. Related party transaction: the provisions of ESP-AR-023 Operating Regulations of AIDC Related Party Transaction. 2. Derivatives trading: the provisions of ESP-GR-002 Operating Regulations of AIDC Derivatives Trading. 3. Fixed and Intangible Assets Disposal: the provisions of SP-GR-023 Operating Regulations of AIDC Fixed and Intangible Assets Acquisition, SP-GR-022 Operating Regulations of AIDC Fixed and Intangible Assets Disposal. 4. <u>Financial dispatch and funding operation: the provisions of SP-GR-001 Operating Regulations of</u> 	<p>Article 6 The acquisition and disposal of assets shall be conducted according to the subject provisions and in compliance with the following procedures:</p> <ol style="list-style-type: none"> 1. Related party transaction: the provisions of ESP-AR-023 Operating Regulations of AIDC Related party transaction. 2. Derivatives trading: the provisions of ESP-GR-002 Operating Regulations of AIDC Derivatives trading. 3. Fixed and Intangible Asset Punishment: the provisions of SP-GR-023 Operating Regulations of AIDC Fixed and Intangible Asset Acquisition、SP-GR-022 Operating Regulations of AIDC Fixed and Intangible Asset Acquisition Punishment. 4. <u>Transfer of shares of enterprises: the provisions of SP-GR-020 Operating Regulations of AIDC</u> 	<ol style="list-style-type: none"> 1. Amendment to the provision. 2. Modification of the provisions refers to AIDC's implementation of the current situation.

After amendment	Before amendment	Cause of amendment
<p><u>AIDC Financing, SP-GR-020 Operating Regulations of AIDC Trading of Financial Products.</u></p> <p>5. <u>Reinvestment: the provisions of SP-AR-007 Operating Regulations of AIDC Reinvestment Assessment and Management</u></p> <p>6. The degree of authority delegated, and the levels to which authority is delegated: the provisions of ESP-HR-009 Authorization and Responsibilities for Board of Directors, Chairman and General Manager of AIDC, SP-HR-049 AIDC Authorization and Responsibilities Hierarchical List.</p> <p>7. Subsidiary Governance: the provisions of ESP-AR-021 Operating Regulations of AIDC Supervision and Management of Subsidiaries.</p>	<p><u>Transfer of shares of enterprises.</u></p> <p>5. The degree of authority delegated, and the levels to which authority is delegated: the provisions of ESP-HR-009 Authorization and Responsibilities for Board of Directors, Chairman and General Manager of AIDC 、 SP-HR-049 AIDC Authorization and Responsibilities Hierarchical List.</p> <p>6. Subsidiary Governance: the provisions of ESP-AR-021 Operating Regulations of AIDC supervision and management of subsidiaries.</p>	
<p>Article 6-2</p> <p>Total amounts of real property, <u>reinvestment</u> and securities acquired by the Company and each subsidiary for non-business use, and limits on individual securities, except that subsidiaries of the domestic public companies shall comply with their own provisions of the procedures for the acquisition or disposal of assets, are defined as follows:</p> <p>1. The total amount of reinvestment made on other company as its limited liability shareholder shall not exceed 60 percent of <u>AIDC</u> paid-in capital.</p> <p>2. <u>Total amounts of stocks,</u></p>	<p>Article 6-2</p> <p>Total amounts of real property and securities acquired by the company and each subsidiary for non-business use, and limits on individual securities, except that subsidiaries of the domestic public companies shall comply with their own provisions of the procedures for the acquisition or disposal of assets, are defined as follows:</p> <p>1. The total amount of reinvestment made on other company as its limited liability shareholder shall not exceed 60 percent of paid-in capital.</p> <p>2. Total amounts of securities acquired by the company</p>	<p>1. Amendment to the provision.</p> <p>2. Amendments to the provisions refer to the need to amend the business operations of AIDC Corporation.</p>

After amendment	Before amendment	Cause of amendment
<p><u>bonds and beneficial interest securities for the purpose of financial dispatch and funding operation</u> shall not exceed NT\$ 600 million, and limits on <u>preceding</u> individual securities shall not exceed 50 percent of total amounts.</p> <p><u>The preceding securities do not include the acquisition or disposal of government bonds, certificates of deposit, short-term bills, etc.</u></p> <p>3. Subsidiaries' investment in securities shall be in compliance with the provisions of ESP-AR-021 Operating Regulations of AIDC supervision and management of subsidiaries.</p> <p>4. Total amounts of real property acquired by the Company and each subsidiary for non-business use shall not exceed 10 percent of each Company's paid-in capital.</p>	<p>shall not exceed \$600 million, and limit on individual securities is not to exceed 50 percent of total amounts.</p> <p>Subsidiaries' investment in securities shall be in compliance with the provisions of ESP-AR-021 Operating Regulations of AIDC supervision and management of subsidiaries.</p> <p>3. Total amounts of real property acquired by the company and each subsidiary for non-business use shall not exceed 10 percent of each company's paid-in capital.</p>	
<p>Article 7</p> <p>In acquiring or disposing of real property or equipment where the transaction amount reaches 20 percent of the company's paid-in capital or NT\$300 million or more, the company, unless transacting with a government agency, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of equipment for business use, shall obtain an appraisal report prior to the date of occurrence of the event from a professional appraiser and shall further comply with the following provisions:</p> <p>1. Where due to special circumstances it is necessary to give a</p>	<p>Article 7</p> <p>In acquiring or disposing of real property or equipment where the transaction amount reaches 20 percent of the company's paid-in capital or NT\$300 million or more, the company, unless transacting with a government <u>agency</u>, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of equipment for business use, shall obtain an appraisal report prior to the date of occurrence of the event from a professional appraiser and shall further comply with the following provisions:</p> <p>1. Where due to special circumstances it is necessary to give a limited</p>	<p>1. Amendment to the provision.</p> <p>2. In accordance with Governing the Acquisition and Disposal of Assets by Public Companies Article 9.</p>

After amendment	Before amendment	Cause of amendment
<p>limited price, specified price, or special price as a reference basis for the transaction price, the transaction shall be submitted for approval in advance by the board of directors, and the same procedure shall be followed for any future changes to the terms and conditions of the transaction.</p> <p>2. Where the transaction amount is NT\$1 billion or more, appraisals from two or more professional appraisers shall be obtained.</p> <p>3. Where any one of the following circumstances applies with respect to the professional appraiser's appraisal results, unless all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be disposed of are lower than the transaction amount, a certified public accountant shall be engaged to perform the appraisal in accordance with the provisions of Statement of Auditing Standards No. 20 published by the ROC Accounting Research and Development Foundation (ARDF) and render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:</p> <p>A. The discrepancy between the appraisal result and the transaction amount is 20 percent or more of the transaction amount.</p>	<p>price, specified price, or special price as a reference basis for the transaction price, the transaction shall be submitted for approval in advance by the board of directors, and the same procedure shall be followed for any future changes to the terms and conditions of the transaction.</p> <p>2. Where the transaction amount is NT\$1 billion or more, appraisals from two or more professional appraisers shall be obtained.</p> <p>3. Where any one of the following circumstances applies with respect to the professional appraiser's appraisal results, unless all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be disposed of are lower than the transaction amount, a certified public accountant shall be engaged to perform the appraisal in accordance with the provisions of Statement of Auditing Standards No. 20 published by the ROC Accounting Research and Development Foundation (ARDF) and render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:</p> <p>A. The discrepancy between the appraisal result and the transaction amount is 20 percent or more of the transaction amount.</p>	

After amendment	Before amendment	Cause of amendment
<p>B. The discrepancy between the appraisal results of two or more professional appraisers is 10 percent or more of the transaction amount.</p> <p>4. No more than 3 months may elapse between the date of the appraisal report issued by a professional appraiser and the contract execution date; provided, where the publicly announced current value for the same period is used and not more than 6 months have elapsed, an opinion may still be issued by the original professional appraiser.</p>	<p>B. The discrepancy between the appraisal results of two or more professional appraisers is 10 percent or more of the transaction amount.</p> <p>4. No more than 3 months may elapse between the date of the appraisal report issued by a professional appraiser and the contract execution date; provided, where the publicly announced current value for the same period is used and not more than 6 months have elapsed, an opinion may still be issued by the original professional appraiser.</p>	
<p>Article 9 The company acquires or disposes of intangible assets and the transaction amount reaches 20 percent or more of paid-in capital or NT\$300 million or more, except in transactions with a government agency, the company shall engage a certified public accountant prior to the date of occurrence of the event to render an opinion on the reasonableness of the transaction price; the CPA shall comply with the provisions of Statement of Auditing Standards No. 20 published by the ARDF.</p>	<p>Article 9 The company acquires or disposes of intangible assets and the transaction amount reaches 20 percent or more of paid-in capital or NT\$300 million or more, except in transactions with a government <u>agency</u>, the company shall engage a certified public accountant prior to the date of occurrence of the event to render an opinion on the reasonableness of the transaction price; the CPA shall comply with the provisions of Statement of Auditing Standards No. 20 published by the ARDF.</p>	<p>1. Amendment to the provision. 2. In accordance with Governing the Acquisition and Disposal of Assets by Public Companies Article 11.</p>
<p>Article 11 When the company intends to acquire or dispose of real property from or to a related party, or when it intends to acquire or dispose of assets other than real property from or to a related party and the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the company's total assets, or NT\$300 million or more, except in trading of</p>	<p>Article 11 When the company intends to acquire or dispose of real property from or to a related party, or when it intends to acquire or dispose of assets other than real property from or to a related party and the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the company's total assets, or NT\$300 million or more, except in trading of</p>	<p>1. Amendment to the provision. 2. In accordance with Governing the Acquisition and Disposal of Assets by Public Companies Article 14.</p>

After amendment	Before amendment	Cause of amendment
<p>government bonds or bonds under repurchase and resale agreements, or subscription or redemption of <u>money market funds issued by domestic securities investment trust enterprises</u>, the company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by more than half of all audit committee members and submitted to the board of directors for a resolution. If approval of more than half of all audit committee members as required in the preceding paragraph is not obtained, the procedures may be implemented if approved by more than two-thirds of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.</p> <ol style="list-style-type: none"> 1. The purpose, necessity and anticipated benefit of the acquisition or disposal of assets. 2. The reason for choosing the related party as a trading counterparty. 3. With respect to the acquisition of real property from a related party, information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with <u>Article 12</u>、<u>Article 13</u> and <u>Article 14</u>. 4. The date and price at which the related party originally acquired the real property, the original trading counterparty, and that trading counterparty's relationship to the company and the related 	<p>government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds, the company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by more than half of all audit committee members and submitted to the board of directors for a resolution. If approval of more than half of all audit committee members as required in the preceding paragraph is not obtained, the procedures may be implemented if approved by more than two-thirds of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.</p> <ol style="list-style-type: none"> 1. The purpose, necessity and anticipated benefit of the acquisition or disposal of assets. 2. The reason for choosing the related party as a trading counterparty. 3. With respect to the acquisition of real property from a related party, information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with <u>Article 13</u> and <u>Article 14</u>. 4. The date and price at which the related party originally acquired the real property, the original trading counterparty, and that trading counterparty's relationship to the company and the related party. 5. Monthly cash flow forecasts for the year 	

After amendment	Before amendment	Cause of amendment
<p>party.</p> <p>5. Monthly cash flow forecasts for the year commencing from the anticipated month of signing of the contract, and evaluation of the necessity of the transaction, and reasonableness of the funds utilization.</p> <p>6. An appraisal report from a professional appraiser or a CPA's opinion obtained in compliance with the preceding article.</p> <p>7. Restrictive covenants and other important stipulations associated with the transaction.</p> <p>The calculation of the transaction amounts referred to in the preceding paragraph shall be made in accordance with Article 26, paragraph 2 of the Act, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been approved by the board of directors and recognized by the audit committee need not be counted toward the transaction amount.</p> <p>With respect to the acquisition or disposal of business-use equipment between the company and its parent or subsidiaries, the company's board of directors may pursuant to ESP-HR-009 Authorization and Responsibilities for Board of Directors, Chairman and General Manager of AIDC delegate the board chairman to decide such matters when the transaction is within a certain amount and have the decisions subsequently submitted to and ratified by</p>	<p>commencing from the anticipated month of signing of the contract, and evaluation of the necessity of the transaction, and reasonableness of the funds utilization.</p> <p>6. An appraisal report from a professional appraiser or a CPA's opinion obtained in compliance with the preceding article.</p> <p>7. Restrictive covenants and other important stipulations associated with the transaction.</p> <p>The calculation of the transaction amounts referred to in the preceding paragraph shall be made in accordance with Article 26, paragraph 2 of the Act, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been approved by the board of directors and recognized by the audit committee need not be counted toward the transaction amount.</p> <p>With respect to the acquisition or disposal of business-use equipment between the company and its parent or subsidiaries, the company's board of directors may pursuant to ESP-HR-009 Authorization and Responsibilities for Board of Directors, Chairman and General Manager of AIDC delegate the board chairman to decide such matters when the transaction is within a certain amount and have the decisions subsequently submitted to and ratified by the next board of directors meeting.</p> <p>When a matter is submitted</p>	

After amendment	Before amendment	Cause of amendment
<p>the next board of directors meeting. When a matter is submitted for discussion by the board of directors, the board of directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board of directors meeting.</p>	<p>for discussion by the board of directors, the board of directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board of directors meeting.</p>	
<p>Article 19 The company participating in a merger, demerger, acquisition, or transfer of shares shall prepare a public report to shareholders detailing important contractual content and matters relevant to the merger, demerger, or acquisition prior to the shareholders meeting and include it along with the expert opinion when sending shareholders notification of the shareholders meeting for reference in deciding whether to approve the merger, demerger, or acquisition. Provided, where a provision of another act exempts a company from convening a shareholders meeting to approve the merger, demerger, or acquisition, this restriction shall not apply. <u>However, the requirement of obtaining an aforesaid opinion on reasonableness issued by an expert may be exempted in the case of a merger by the Company of a subsidiary in which it directly or indirectly holds 100 percent of the issued shares or authorized capital, and in the case of a merger between subsidiaries in</u></p>	<p>Article 19 The company participating in a merger, demerger, acquisition, or transfer of shares shall prepare a public report to shareholders detailing important contractual content and matters relevant to the merger, demerger, or acquisition prior to the shareholders meeting and include it along with the expert opinion when sending shareholders notification of the shareholders meeting for reference in deciding whether to approve the merger, demerger, or acquisition. Provided, where a provision of another act exempts a company from convening a shareholders meeting to approve the merger, demerger, or acquisition, this restriction shall not apply.</p>	<ol style="list-style-type: none"> 1. Amendment to the provision. 2. In accordance with Governing the Acquisition and Disposal of Assets by Public Companies Article 22.

After amendment	Before amendment	Cause of amendment
<p><u>which the Company directly or indirectly holds 100 percent of the respective subsidiaries' issued shares or authorized capital.</u></p>		
<p>Article 26 Under any of the following circumstances, the company acquiring or disposing of assets shall publicly announce and report the relevant information on the FSC's designated website in the appropriate format as prescribed by regulations within 2 days counting inclusively from the date of occurrence of the event:</p> <ol style="list-style-type: none"> 1. Acquisition or disposal of real property from or to a related party, or acquisition or disposal of assets other than real property from or to a related party where the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the company's total assets, or NT\$300 million or more; provided, this shall not apply to trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of <u>money market funds issued by domestic securities investment trust enterprises.</u> 2. Merger, demerger, acquisition, or transfer of shares. 3. Losses from derivatives trading reaching the limits on aggregate losses or losses on individual contracts set out in the procedures adopted by the company. 4. <u>Where the type of asset acquired or disposed is equipment for business use, the trading</u> 	<p>Article 26 Under any of the following circumstances, the company acquiring or disposing of assets shall publicly announce and report the relevant information on the FSC's designated website in the appropriate format as prescribed by regulations within 2 days commencing immediately from the date of occurrence of the event:</p> <ol style="list-style-type: none"> 1. Acquisition or disposal of real property from or to a related party, or acquisition or disposal of assets other than real property from or to a related party where the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the company's total assets, or NT\$300 million or more; provided, this shall not apply to trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds. 2. Merger, demerger, acquisition, or transfer of shares. 3. Losses from derivatives trading reaching the limits on aggregate losses or losses on individual contracts set out in the procedures adopted by the company. 4. Where an asset transaction other than any of those referred to in the preceding <u>three</u> subparagraphs, <u>a disposal of receivables by a financial institution</u>, or an investment in the mainland 	<ol style="list-style-type: none"> 1. Amendment to the provision. 2. The deletion of some provisions is a reference to the company's operating items 3. In accordance with Governing the Acquisition and Disposal of Assets by Public Companies Article 30.

After amendment	Before amendment	Cause of amendment
<p><u>counterparty is not a related party, and the transaction amount meets any of the following criteria:</u></p> <p><u>A. The company paid-in capital is less than NT\$10 billion, the transaction amount reaches NT\$500 million or more.</u></p> <p><u>B. The company paid-in capital is NT\$10 billion or more, the transaction amount reaches NT\$1 billion or more.</u></p> <p><u>5. Where land is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the amount the company expects to invest in the transaction reaches NT\$500 million.</u></p> <p><u>6. Where an asset transaction other than any of those referred to in the preceding five subparagraphs, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20 percent or more of paid-in capital or NT\$300 million; provided, this shall not apply to the following circumstances:</u></p> <p><u>A. Trading of government bonds.</u></p> <p><u>B. Trading of bonds under repurchase/resale agreements, or subscription or redemption of money market funds issued by</u></p>	<p>China area reaches 20 percent or more of paid-in capital or NT\$300 million; provided, this shall not apply to the following circumstances:</p> <p>A. Trading of government bonds.</p> <p><u>B. Securities trading by investment professionals on foreign or domestic securities exchanges or over-the-counter markets, or subscription of securities by a securities firm, either in the primary market or in accordance with relevant regulations.</u></p> <p><u>C. Trading of bonds under repurchase/resale agreements, or subscription or redemption of domestic money market funds.</u></p> <p><u>D. Where the type of asset acquired or disposed is equipment/machinery for business use, the trading counterparty is not a related party, and the transaction amount is less than NT\$500 million.</u></p> <p><u>E. Acquisition or disposal by a public company in the construction business of real property for construction use, where the trading counterparty is not a related party, and the transaction amount is less than NT\$500 million.</u></p> <p><u>F. Where land is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction</u></p>	

After amendment	Before amendment	Cause of amendment
<p><u>domestic securities investment trust enterprises.</u></p> <p>The amount of transactions above shall be calculated as follows:</p> <ol style="list-style-type: none"> 1. The amount of any individual transaction. 2. The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year. 3. The cumulative transaction amount of real property acquisitions and disposals (cumulative acquisitions and disposals, respectively) within the same development project within the preceding year. 4. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year. <p>"Within the preceding year" as used in the preceding paragraph refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with these Regulations need not be counted toward the transaction amount.</p> <p>The company shall compile monthly reports on the status of derivatives trading engaged in up to the end of the preceding month by itself and any subsidiaries that are not domestic public companies and enter the information in the prescribed format into the information reporting website designated by the FSC by the 10th day of each month.</p>	<p><u>and allocation of ownership percentages, or joint construction and separate sale, and the amount the company expects to invest in the transaction is less than NT\$500 million.</u></p> <p>The amount of transactions above shall be calculated as follows:</p> <ol style="list-style-type: none"> 1. The amount of any individual transaction. 2. The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year. 3. The cumulative transaction amount of real property acquisitions and disposals (cumulative acquisitions and disposals, respectively) within the same development project within the preceding year. 4. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year. <p>"Within the preceding year" as used in the preceding paragraph refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with these Regulations need not be counted toward the transaction amount.</p> <p>The company shall compile monthly reports on the status of derivatives trading engaged in up to the end of the preceding month by itself and any subsidiaries that are not domestic public companies and enter the information in the prescribed</p>	

After amendment	Before amendment	Cause of amendment
<p>When the company at the time of public announcement makes an error or omission in an item required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in <u>their entirety within two days counting inclusively from the date of knowing of such error or omission.</u></p> <p>The company acquiring or disposing of assets shall keep all relevant contracts, meeting minutes, log books, appraisal reports and CPA, attorney, and securities underwriter opinions at the company headquarters, where they shall be retained for 5 years except where another act provides otherwise.</p>	<p>format into the information reporting website designated by the FSC by the 10th day of each month.</p> <p>When the company at the time of public announcement makes an error or omission in an item required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety.</p> <p>The company acquiring or disposing of assets shall keep all relevant contracts, meeting minutes, log books, appraisal reports and CPA, attorney, and securities underwriter opinions at the company headquarters, where they shall be retained for 5 years except where another act provides otherwise.</p>	

Appendix VII

The 8th Board of Director and Independent Director Candidates

Title	Name	Current Position	Major Education(Experience)	Shareholdings	Name of institution being represented
Director	Liao, Jung-Hsin	Chairman, AIDC	<p><u>Education :</u> War College of National Defense University; General Staff College of National Defense University; Air Force Academy</p> <p><u>Experience :</u> Military Strategy Advisor to the President of the ROC; Vice Chief of General Staff, Ministry of National Defense; Administrative Deputy Minister of Ministry of National Defense; Commander, Air Defense Missile Command, General Staff Headquarters, Ministry of National Defense; Chairman, Taiwan Aerospace Industry Association; Director, Industrial Technology Research Institute (ITRI); Member of the Steering Committee for the Artificial Intelligence for Intelligent Manufacturing Systems Research Center; Member of the Election Committee for the Director of the National Space Organization</p>	331,301,773	Ministry of Economic Affairs, MOEA
Director	Lin, Nan-Juh	President, AIDC	<p><u>Education :</u> MBA, Providence University; Bachelor in Aerospace Engineering, Tamkang University</p> <p><u>Experience :</u> Director, Technology Implementation, AIDC; Director, Engineering, AIDC; Senior Vice President, AIDC; Managing Director, Aerospace</p>	331,301,773	Ministry of Economic Affairs, MOEA

Title	Name	Current Position	Major Education(Experience)	Shareholdings	Name of institution being represented
			Industrial Development Corporation (AIDC); Director, Metro Consulting Service Ltd.; Executive Director, Taiwan Aerospace Industry Association		
Director	Shieu, Fuh-Sheng	President, National Chung Hsing University; Distinguished Professor, Department of Materials Science and Engineering, NCHU	<u>Education :</u> Ph.D. and Master in Materials Science and Engineering, Cornell University; Bachelor in Materials Science and Engineering, National Tsinghua University <u>Experience :</u> Dean, College of Engineering, NCHU; Chairman, Department of Materials Science and Engineering, NCHU; Director, Institute of Materials Engineering, NCHU; Distinguished Professor, Department of Materials Science and Engineering, NCHU; Director, Office of R&D, NCHU; Director, Aerospace Industrial Development Corporation (AIDC); Director, Industrial Technology Research Institute (ITRI); Chairman, College Entrance Examination Center; Chairman, Academia Industry Consortium for Science Park in Central Taiwan (AICSPCT); President, Chinese Institute of Engineers-Taichung Division	331,301,773	Ministry of Economic Affairs, MOEA
Director	Chien, Feng-Yuan	Chief of Branch No.2, State-Owned Enterprise Commission, MOEA	<u>Education :</u> Master's degree, Institute of Land Administration Studies, National Chengchi University <u>Experience :</u> Chief of Branch No. 5, State-Owned Enterprise	331,301,773	Ministry of Economic Affairs, MOEA

Title	Name	Current Position	Major Education(Experience)	Shareholdings	Name of institution being represented
			Commission, MOEA; Director, Tang Eng Iron Works Co., Ltd.; Director, Aerospace Industrial Development Corporation (AIDC)		
Director	Chang, Ming-Pin	Executive Secretary, Investment Commission, MOEA; Acting Director, Dept. of Investment Services, MOEA	<u>Education :</u> Master of Law School, University of Edinburgh; Bachelor in Department of Law, National Taiwan University; Harvard Kennedy School-Taiwan Leadership Program <u>Experience :</u> CEO, Invest Taiwan, MOEA; Chief, Deputy Executive Secretary, and Spokesman of the Investment Commission, MOEA; Director, Kuo Kuang Power Co., Ltd.; Member of Venture Capital Review Committee, National Development Fund, Executive Yuan; Member of the application review board, Export Processing Zone Administration, MOEA	331,301,773	Ministry of Economic Affairs, MOEA
Director	Yu, Cheng-Tao	Quality Assurance Engineer, AIDC	<u>Education :</u> Ph.D. in Industrial Engineering and Management, National Yunlin University of Science and Technology; Master in Industrial Engineering, Feng Chia University <u>Experience :</u> Chairman, Aerospace Industrial Development Corporation Labor Union in Taichung	331,301,773	Ministry of Economic Affairs, MOEA
Director	Hsu, Chung-Ming	Material Specialist, AIDC	<u>Education :</u> Master in Mechanical and Electrical Systems Engineering, National University of Tainan; Bachelor in Department of Mold Engineering, National Kaohsiung University of Applied Sciences	331,301,773	Ministry of Economic Affairs, MOEA

Title	Name	Current Position	Major Education(Experience)	Shareholdings	Name of institution being represented
			<u>Experience :</u> Material Specialist, AIDC; Executive Director of AIDC Labor Union; Vice Chairman of AIDC Labor Union-Aero Engine Factory		
Director	Po, Horng-Huei	Administrative Deputy Minister, Ministry of National Defense (MND)	<u>Education :</u> EMBA, National Taiwan University; War College, Armed Forces University; Air Command and Staff College, NDU; Air Force Academy <u>Experience :</u> Chief of Staff, Air Force Command Headquarters; Director, Administration office, MND; Director, Defense Mission, TECRO in USA; Director, Congressional Liaison, MND	11,063,201	National Defense Industrial Development Foundation, NDIDF
Indep. Director	Chan, Chia-Chang	Vice President and Professor of Finance Department, Tung Hai University	<u>Education :</u> DBA, National Sun Yat-Sen University <u>Experience :</u> In Tung Hai University: Secretary-General, Dean, College of Management; Chairman, Department of Finance; Director, Institute of Continuing Education Independent Director and Member of Compensation Committee, AIDC; Independent Director and Member of Compensation Committee of Mobiletron Co., Ltd.	0	-
Indep. Director	Chen, Yin-Chin	Associate Professor, Department of	<u>Education :</u> Ph.D. in Law, Taipei University	0	-

Title	Name	Current Position	Major Education(Experience)	Shareholdings	Name of institution being represented
		Finance and Law, Chung Yuan Christian University	<u>Experience :</u> Chairperson and Associate Professor, Department of Finance and Law, Chung Yuan Christian University; Associate Professor, Department of Finance & Taxation, Takming College of Science and Technology; Supervisor of Andes Technology representing the National Development Fund; Supervisor of Light American Sports Inc. representing the National Development Fund; Director, CSBC Corporation, representing MOEA; Member of the Fair Trade Commission, Executive Yuan; Member of the Complaint Review Board for Government Procurement, Public Construction Commission, Executive Yuan		

Appendix VIII

Exemption of Restrictions for Directors

Director Name	Other companies and position	Scope of the company's business
Chan, Chia-Chang	Independent Director, Mobiletron Co., Ltd.	C805050 Industrial Plastic Products Manufacturing CB01010 Machinery and Equipment Manufacturing CC01010 Electric Power Supply, Electric Transmission and Power Distribution Machinery Manufacturing CC01040 Lighting Facilities Manufacturing CC01080 Electronic Parts and Components Manufacturing CC01990 Electrical Machinery, Supplies Manufacturing CD01030 Automobiles and Parts Manufacturing CD01040 Motor Vehicles and Parts Manufacturing CE01010 Precision Instruments Manufacturing CP01010 Hand Tool Manufacturing CC01101 Restrained Telecom Radio Frequency Equipments and Materials Manufacturing F401021 Restrained Telecom Radio Frequency Equipments and Materials Import F401030 Manufacture export F113010 Wholesale of Machinery F213080 Retail Sale of Machinery and Equipment F113030 Wholesale of Precision Instruments F213040 Retail Sale of Precision Instruments F106010 Wholesale of Ironware F206010 Retail Sale of Ironware F114030 Wholesale of Motor Vehicle Parts and Supplies F214030 Retail Sale of Motor Vehicle Parts and Supplies F119010 Wholesale of Electronic Materials F219010 Retail Sale of Electronic Materials F113990 Wholesale of Other Machinery and Equipment F213990 Retail Sale of Other Machinery and Equipment ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.
Chang, Ming-Pin	Director, Taiwan Cogeneration Co., Ltd.	D101011 Electric Power Supply D101050 Steam and Electricity Paragenesis E604010 Machinery Installation Construction F113010 Wholesale of Machinery F213080 Retail Sale of Machinery and Equipment F113020 Wholesale of Household Appliance F213010 Retail Sale of Household Appliance