

Stock Code: 2634



# **Aerospace Industrial Development Corporation**

## **2020 Annual Shareholders' Meeting**

### **Meeting Handbook**

(Translated from Mandarin)

Date: 29 May 2020

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

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**Aerospace Industrial Development Corporation (AIDC)**  
**2020 Annual Shareholders' Meeting Procedure**

- I. Meeting Commencement Announcement
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- V. Discussion
- VI. Extempore Motions
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**Aerospace Industrial Development Corporation (AIDC)**  
**2020 Annual Shareholders' Meeting Agenda**

Time: 10:00 a.m., 29 May 2020 (Friday)

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

I. Meeting Commencement Announcement

II. Chairman's Address

III. Reports

(1) Business Report of 2019

(2) Audit Committee Review Report of 2019

(3) 2019 Compensation to Employees and Directors

(4) 2019 Unsecured Corporate Bond Issuance

IV. Ratifications

(1) Ratification of the 2019 Business Report and Financial Statements

(2) Ratification of the Proposal for Earnings Distribution of 2019 Profits

V. Discussion

(1) Amendments to Company's Articles of Incorporation

VI. Extempore Motions

VII. Meeting Adjournment

## **Reports**

- Item 1: Business Report of 2019, as shown in Attachment I (Pages 7-11).
- Item 2: Audit Committee Review Report of 2019, as shown in Attachment II (Page 12).
- Item 3: Report on 2019 Compensation to Employees and Directors, as shown in Attachment III (Page 13).
- Item 4: Report on 2019 Unsecured Corporate Bond Issuance, as shown in Attachment IV (Page 14).

## **Ratifications**

Item 1: Ratification of the 2019 Business Report and Financial Statements (Proposed by the Board of Directors)

Description: I. AIDC's 2019 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 Ms. Lie-Dong Wu and Mr. Done-Yuin Tseng, CPAs of Deloitte & Touche.

II. Business Report of 2019, Auditors' Report, and aforementioned financial statements, are shown in Attachments I and V (Pages 7-11 and Pages 15-35).

Resolution:

Item 2: Ratification of the Proposal for Earnings Distribution of 2019 Profits (Proposed by the Board of Directors)

Description: I. The company's net profit after taxes for 2019 was NT\$1,874,287,639. Based on Article 28-1 "Reserve Allocation" of the Company's Articles of Incorporation, the company plans to distribute a cash dividend of NT\$1.19 per share. The current distributable surplus is NT\$1,120,821,850, as shown in Attachment VI (Page 36).

II. 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**

Proposal 1: Discussion on amendments to Company's Articles of Incorporation  
(Proposed by the Board of Directors)

Description: I. The amendment is made to enable business expansion, as well as to comply with the revised "Business Codes for Corporations and Partnerships" released by the Ministry of Economic Affairs. Also stock issuance related articles are revised according to Article 162 of the Company Act.

II. The comparisons between the original and the amended provisions are shown in Attachment VII (Pages 37-44).

Resolution:

## **Extempore Motions**

## **Meeting Adjournment**



## **Business Report of 2019**

Amidst fierce global competition, the Aerospace Industrial Development Corporation (hereinafter referred to as AIDC) has achieved several accomplishments and significant construction which have included; the construction of Turbine Center Frame (TCF) to facilitate AIDC's aero engine business; the roll-out ceremony of the Advanced Jet Trainer which was officially named the Yung-ying (Brave Eagle); the completion of AIDC Brand 16G Commercial Airline Seats; and the signing of the F-16 Strategic Alliance MOU with Lockheed Martin Corporation (LMC). With a concerted effort between employees and management, the revenue of 2019 continued to steadily develop.

Based on Airbus and Boeing's forecasts of the commercial aviation market for the next 20 years (2019-2038), demand for new airplanes is estimated at 39,210 to 44,040. The Global Market Forecast released by Boeing, shows a total market value of approximately \$6.8 trillion U.S. dollars, MRO market value estimated approximately \$9.1 trillion U.S. dollars, single-aisle aircraft remains the mainstream model which accounts for more than 70% of the demand, and the Revenue Passenger Kilometer (RPK) will enjoy a 4.3% to 4.6% annual growth. Overall, the commercial aviation industry is in steady growth.

According to MarketsandMarkets Research institution's forecast, the aircraft cabin interiors market is projected to reach \$10 billion U.S. dollars in 2025, with 7.25% annual growth.

As for the aero engine market, Forecast International's forecast indicates that for the next 10 years there will be 164,000 deliveries, with a total value of \$930 billion U.S. dollars.

That being said, the Boeing 737MAX accidents had resulted in delay and suspension of new aircraft deliveries in 2019, which would have drastically impacted on our revenue. While the exact time remains pending for the B737MAX return to the skies, AIDC immediately activated risk control measures including pin-pointing among the current businesses for possible additional revenues which could be attained, and made them happen through resource reallocation and integration. The efforts were challenging but paid off in helping AIDC achieve the revenue goal set for fiscal year 2019.

The above reflects a strong market demand for commercial aircraft and engines, and the aircraft cabin interiors market is also promising. Accordingly AIDC has expanded business and upgraded self-developed capability including, the construction of the Turbine Center Frame in last year; received the Letter of Design Approval (LODA) for self-developed 16G airline seats by the Federal Aviation Administration (FAA) of the United States in last May; and signed the Cooperation Memorandum of Intent for a New Pattern of Aviation with China Airlines in last November, as a prudent response to market opportunities and challenges alike.

For the current stage and in addition to exploring additional commercial aircraft business, AIDC is focused on three primary tasks; "Indigenous Development of an Advanced Jet Trainer", "Supply Chain Integration" and "Establishment of Fleet Maintenance Center", and dedicated to achieving the objectives including, AJT maiden flight, F-16A/B upgrade, and establishment of F-16 fleet maintenance center.

Firstly, to achieve the "indigenous development of an advanced jet trainer", AIDC is making every effort to achieve the AJT's successful maiden flight in this June. In the meantime, we intend to continue to cultivate aerospace talents and complete each tasks through a mentor and

apprentice system, to reach the goal of sustainable development of “Aviation industry technology upgrade”.

Secondly, the near term goal of establishing the Fleet Maintenance Center is aimed to successfully perform the F-16A/B upgrade with a skillful and high quality maintenance workforce. To take one step further for Taiwan’s future fighter R&D and its subsequent domestic maintenance, in December 2019, AIDC signed a strategic alliance MOU with Lockheed Martin to promote the initiative of F-16 Maintenance Center. AIDC believes the establishment will help boost the development of Taiwan’s aerospace industry; expand the participation of industrial supply chain; increase the industrial output value to the next level; and strengthen the work force of Taiwan’s aerospace industry.

Thirdly, integration of Taiwan’s supply chain is a continuing effort by the Taiwan Aerospace Industry A-Team 4.0 Alliance, through which AIDC continues to lead the domestic aerospace and related industry members to lean transformation, consolidate industry consensus, integrate the advantages of domestic suppliers, to balance and expand the suppliers in four sectors including; production parts, standard parts & fasteners, system parts, and raw materials thereby gradually promoting the transformation and upgrading of the domestic supply chain system, enhancing the competitive position of the regional aerospace market; and connecting with international business opportunities.

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 2019 and the business plan for FY 2020 are presented hereunder.

## **FY 2019 Operation Highlights**

### Revenue and Income

Driven by the growth of the engine business, the AIDC had hit a new record high in consolidated revenue of NT\$28,542,021 (in thousands) in FY 2019, which was an increase of 1.3% over the previous year.

The cost of aviation products are closely related to factors of production scale, learning curve efficiency and product portfolio. Thanks to the benefits brought by these factors and cost improvements, the operating profit in FY 2019 was NT\$2,445,370 (in thousands) with a 8.6% margin, which was higher than the previous year. However, the fluctuation of exchange rate with the USD caused in a net exchange loss, and the net income was NT\$1,874,290 (in thousands) in FY 2019, net profit margin was 6.6%, and EPS was NT\$1.99.

### Research and Development Outlook

The R&D expenses of AIDC in FY 2019 amounted to NT\$548,280 thousand with the development of "Pilot Project for Aerospace Composites and Intelligent Manufacturing Industrial Innovation" together with 26 projects, results of which could help to upgrade the overall technological capability and production capacity while facilitating the pursuit of better business opportunities.

### Credentials and Awards

#### **Corporate Governance:**

\* Ranked in Top 20% Corporate Governance Evaluation TWSE listed companies in Apr. 2019

- \* Received 2019 SQIP Best Improver Award from Airbus in Apr. 2019
- \* Selected as “TWSE Corporate Governance 100 Index” stock by Taiwan Stock Exchange Corporation in July 2019
- \* Ranked 38th in the “CSR Award in Traditional Manufacturers Category” by the Global Views Magazine in Aug. 2019
- \* Granted Enterprise Project Management Benchmarking Award by PMI Taiwan International in Nov. 2019
- \* Granted “Social Innovation Award” by Taiwan Social Enterprise Sustainable Development Association in Nov. 2019
- \* Awarded Silver Medal in 2019 Taiwan Continuous Improvement Competition-(Special Group and Tzu-Chiang Group) by Corporate Synergy Development Center in Dec. 2019
- \* Awarded Golden Medal in TTQS Evaluation by Workforce Development Agency of Ministry of Labor in Dec. 2019

#### **Sustainable Environment:**

- \* Received “Green Procurement Enterprise and Group” Award by Taichung City Government in June 2019
- \* Received “National Corporation Environmental Award” (Manufacture Sector: Silver Medal) by Environmental Protection Administration Executive Yuan in Nov. 2019
- \* Awarded “2019 Taiwan Corporate Sustainability Awards”- Corporate Sustainability Report Awards (Traditional Manufacturing: Silver Medal) and People Development Award in Best Performance of Specific Category in Nov. 2019
- \* Received “Material Flow Cost Accounting Outstanding Award” by Industrial Development Bureau of Ministry of Economic Affairs in Nov. 2019
- \* Received “National Occupational Safety and Health Workplace Award” – Enterprise Model Award by Ministry of Labor in Dec. 2019

#### **Labor-Management Relation**

- \* Ranked 2<sup>nd</sup> in “National Slow Pitch Softball President Cup” -State-Owned Enterprise Group in Sep. 2019
- \* Received “2018 Occupational Safety and Health Workplace Five-Star Award” by Ministry of Labor in Sep. 2019
- \* Received “Excellent Health Occupational and Health Management Award” and “Outstanding Personnel Award for the Promotion of Healthy Workplace” by Taichung City Government in Sep. 2019
- \* Ranked 1<sup>st</sup> in “Taiwan iSport Enterprise Annual Award” by the Sports Administration of the Ministry of Education in Oct. 2019
- \* Received Certification of iSport Enterprise by the Sports Administration of the Ministry of Education in Oct. 2019
- \* Received “2018 Occupational Safety and Health Workplace Five-Star Award”- Taichung CSR Model by Taichung City Government in Nov. 2019
- \* Received “National Occupational Safety and Health Workplace Award” – CSR Enterprise Model Award by Taichung City Government in Dec. 2019

## Business Plan for FY 2019

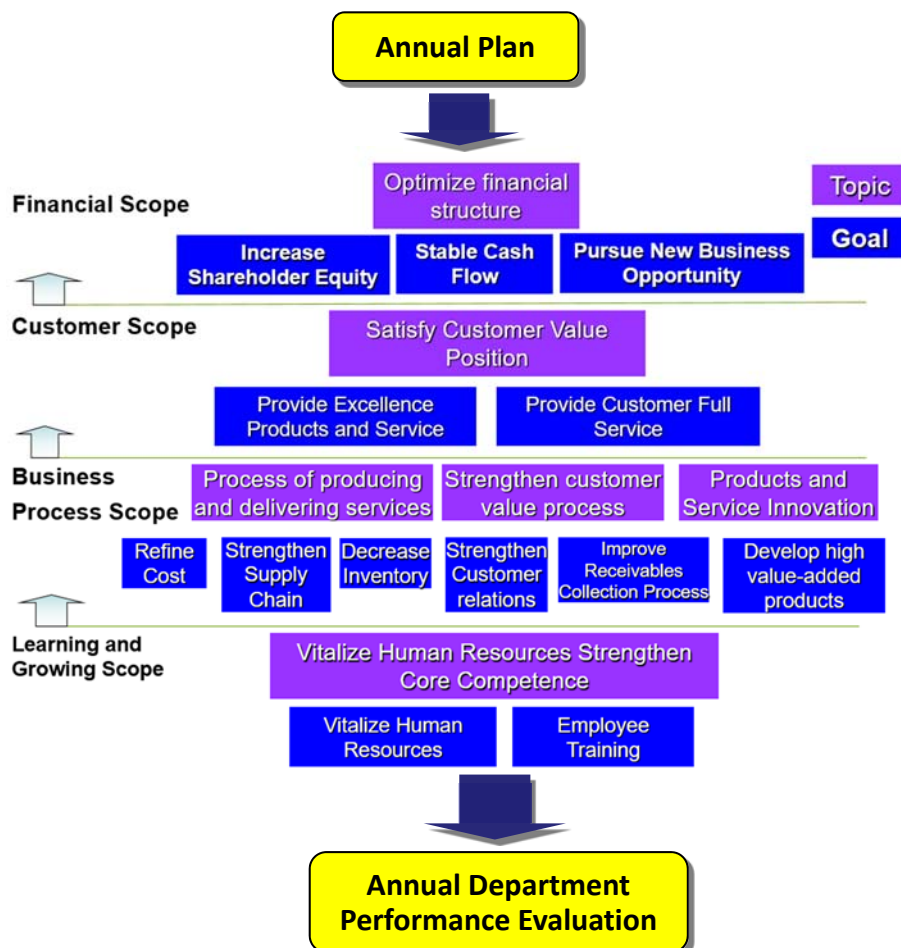
### Business Development Planning

- \* In the area of defense business, AIDC is dedicated to expanding business in military aircraft manufacturing, maintenance, upgrade, fleet commercial maintenance, GOCO and military engine parts manufacturing and maintenance.
- \* In the area of commercial aviation, AIDC seeks to expand business in structural parts and assemblies of commercial aircraft and engines.
- \* In the area of industrial technology service, AIDC will focus on R&D, design, manufacture, testing, system integration and after-sales service of products derived from the application of aerospace technology.

### Corporate Management Policy

AIDC will spare no effort to secure and pursue beneficial business opportunities and will continue to adopt a Balanced Scorecard (BSC) as a management tool. This BSC system helps to align and link AIDC's vision, strategy, and objectives with major tasks and plans of each department, and which AIDC is able to continue to improve its business management while implementing a culture of accountability.

The corporate business management policy of FY 2020 formulated in the following order: (1) strategies (or directions); (2) objective of each strategy; and (3) major Key Performance Indicators (KPI) of each strategy objective. Together with KPIs concerning of "Corporate Value", this policy will be clearly illustrated and announced through corporate-level meetings for each department to deploy and develop its implementation plan accordingly as well as propose its action plans to reach KPIs from the bottom up. These tasks will be demonstrated in department performance evaluation system of FY 2020.



AIDC as the leader in the Taiwan aerospace industry, who also has a good share of responsibility in national defense, has over the past two decades remain committed in elevating the level of technology and skills through a strong industrial satellite system. With years of experience growing and technologies evolving, now AIDC marches into the international arena with Taiwan's domestic supply chain offering world-standard products and services to the international market. Back in our homebase AIDC remains focused on three primary tasks; "Indigenous Development of an Advanced Jet Trainer", "Supply Chain Integration" and "Establishment of (the F-16) Fleet Maintenance Center." They are three vital avenues that will lead us through continued development and advancement on aerospace technologies in the following priorities:

1. Advancement of military aircraft full scale R&D;
2. Aerospace key components development;
3. Sophisticated measures for mass production;
4. Expansion of commercial aircraft OEM/ODM businesses and related technologies;
5. Enhancement in operational management, corporate image, training, and corporate culture;
6. Active involvement in new business development through extending core capabilities to related industries and exploring complementary businesses, so as to increase operational growth and remain dominant as a high-end aerospace system integrator in the industry.

Becoming a world class aerospace provider is AIDC's vision. We are heading resolutely towards realization of such vision by dedicating ourselves in sustaining our business operation and enlarging Taiwan's aerospace output, as well as adding values for our customers, shareholders, employees, and the society.

Chairman: Hu, Kai-Hung

President: Ma, Wan-June

Accounting Supervisor: Huang, Hsiu-Yen

## **Audit Committee Review Report**

The AIDC Board of Directors has prepared the company's 2019 Business Report, Financial Statements, and proposal for the allocation of profits. The CPA firm of Deloitte & Touche Tohmatsu was retained to audit AIDC's Financial Statements and has issued an audit report relating to the company's Financial Statements. The Business Report, Financial Statements, and the proposal for allocation of profits have been reviewed and determined to be correct and accurate by the Audit Committee of the Aerospace Industrial Development Corporation. Pursuant with Article 219 of the Company Law and Article 14-4 of the Securities and Exchange Act, I the undersigned hereby submit this report.

To: Aerospace Industrial Development Corporation  
2020 Annual Shareholders' Meeting

  
Chairman, Audit Committee  
Chan, Chia-Chang

Date: March 27, 2020

### **2019 Compensation to Employees and Directors**

The Board of Directors have approved the proposal of the 2019 Employees' Compensation and Remuneration to Directors in the board meeting of March 27, 2020. The compensation will be distributed after the Annual Shareholders' Meeting on May 29, 2020.

1. Employees' compensation and the directors' remuneration totals NT\$106,953,403 and NT\$13,340,425 in cash respectively.
2. The amounts, cited above as expenses of the 2019 net profit before income tax, are the same as the amounts proposed by the Board of Directors.

### The 1<sup>st</sup> Issuance of Unsecured Corporate Bond in 2019

The Board of Directors consented to the issuance of Unsecured Corporate Bond in the BOD meeting of November 9th, 2018, and 3 billion NT dollars of unsecured corporate bonds were issued on September 17th, 2019 to pay off the short term debt on the same day, which has fulfilled the purpose of strengthening AIDC's financial structure as expected. Details of the issuance are shown below.

Type of Bond Issued	Unsecured Corporate Bond Issued in 2019 for the 1 <sup>st</sup> time	
Date Issued	Sept. 17, 2019	
Par Value	NT\$1,000,000	
Issue Price	Par Value	
Nominal Amount	NT\$3,000,000,000	
Interest Rate	0.71%	
Term	Five Years , Maturity: Sept. 17, 2024	
Guaranty/Guarantor	None	
Trustee	Taipei Fubon Commercial Bank, Trust Department	
Underwriter	Major Underwriter : Yuanta Securities	
Certified Lawyer	Lee and Li Attorneys-at-Law : Mr. Jack Y. Twu	
Certified Public Accountant	Deloitte & Touche : Ms. Lie-Dong, Wu	
Repayment Method	Principal Payment as Matured	
Outstanding Balance	NT\$3,000,000,000	
Redemption Clauses	None	
Restrictive Covenants	None	
Credit Rating Agency/Date/Rating	Credit Rating Agency : Taiwan Ratings Corporation Rating : Long term : twAA- Short term : twA-1+ Outlook : Stable Rating Date : May 29, 2019 Bond Rating : Not Applicable	
Other Convertible Rights	Amount Converted to Common Stock or Depository Receipt or Other Securities.	Not Applicable
	Issue/Conversion Rules	None
Terms to issuance, conversion, exchange and subscription. Impacts to current shareholder equity and potential dilutions.		None
Custodian		Not Applicable



### 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 and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

#### Basis for Opinion

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified in the Group's consolidated financial statements for the year ended December 31, 2019 are stated as follows:

## **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 and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “consolidated financial statements”).

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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

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

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified in the Group's consolidated financial statements for the year ended December 31, 2019 are stated as follows:

### Impairment loss of inventory

The Group 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 Group 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 following:

1. We sample-tested the inventory aging report for completeness and accuracy.
2. We selected samples from raw materials that are over 1 year, which were not recognized as obsolete, and confirmed the reasonableness of not recognizing the raw materials' obsolescence.
3. We tested the net realizable value of raw materials which were not recognized as obsolete and we selected samples to calculate 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 which appeared to be obsolete or slow-moving items and traced them to the Company's impairment assessment worksheet.

### Warranties

The Group 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 20 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 following:

1. We obtained the documents based on the management's decision on the provision rate and we evaluated the reasonableness of the rates compared with rates in the past periods.
2. We selected samples to calculate the accuracy of warranty provision.
3. We selected samples and calculated the actual warranty occurrence rate in the previous year compared with the current warranty calculation to confirm that the amount of warranty provision for the year ended December 31, 2019 is 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, 2019 and 2018 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 IFRS, IAS, IFRIC, and 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, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 27, 2020

#### Notice to Readers

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

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



# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	December 31			
	2019		2018	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash (Notes 4 and 6)	\$ 634,140	2	\$ 962,896	2
Notes receivable (Notes 4 and 8)	5,637	-	2,684	-
Trade receivables from unrelated parties (Notes 4 and 8)	13,958,292	30	15,036,728	38
Trade receivables from related parties (Notes 4 and 29)	131,561	-	310,857	1
Other receivables (Notes 4 and 8)	81,918	-	100,306	-
Inventories (Notes 4, 5 and 9)	9,820,034	21	6,798,041	17
Other financial assets - current (Notes 4, 15 and 30)	2,935,559	7	1,932,100	5
Other current assets (Notes 4, 16 and 29)	<u>4,587,118</u>	<u>10</u>	<u>3,871,208</u>	<u>10</u>
Total current assets	<u>32,154,259</u>	<u>70</u>	<u>29,014,820</u>	<u>73</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 7)	87,334	-	103,467	-
Investments accounted for using equity method (Notes 4 and 11)	838,039	2	602,985	2
Property, plant and equipment (Notes 4, 12 and 30)	8,568,418	18	8,352,719	21
Right-of-use assets (Notes 3, 4 and 13)	2,292,399	5	-	-
Intangible assets (Notes 4 and 14)	1,246,970	3	867,785	2
Deferred tax assets (Notes 4 and 25)	305,862	1	286,129	1
Prepayments for equipment (Note 24)	513,640	1	376,417	1
Other financial assets - non-current (Notes 4, 15 and 30)	14,054	-	10,807	-
Other non-current assets (Notes 4, 8 and 16)	<u>66,461</u>	<u>-</u>	<u>204,425</u>	<u>-</u>
Total non-current assets	<u>13,933,177</u>	<u>30</u>	<u>10,804,734</u>	<u>27</u>
<b>TOTAL</b>	<u>\$ 46,087,436</u>	<u>100</u>	<u>\$ 39,819,554</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 17 and 30)	\$ 4,920,000	11	\$ 7,730,000	20
Short-term bills payable (Note 17)	8,357,255	18	2,499,575	6
Contract liabilities (Note 4)	584,119	1	83,898	-
Trade payables to unrelated parties	1,395,943	3	1,993,498	5
Trade payables to related parties (Note 29)	79,880	-	294,289	1
Other payables (Notes 19 and 29)	3,605,047	8	3,518,693	9
Current tax liabilities (Notes 4 and 25)	199,940	1	198,140	1
Lease liabilities - current (Notes 3, 4 and 13)	141,411	-	-	-
Current portion of long-term borrowings (Notes 17 and 30)	-	-	5,289,606	13
Net defined benefit liabilities - current (Notes 4 and 21)	61,813	-	82,447	-
Other current liabilities	<u>43,943</u>	<u>-</u>	<u>115,461</u>	<u>-</u>
Total current liabilities	<u>19,389,351</u>	<u>42</u>	<u>21,805,607</u>	<u>55</u>
<b>NON-CURRENT LIABILITIES</b>				
Bonds payable (Note 18)	2,996,210	7	-	-
Long-term borrowings (Notes 17 and 30)	5,928,299	13	2,838,029	7
Provisions - non-current (Notes 4, 5 and 20)	551,553	1	771,067	2
Deferred tax liabilities (Notes 4 and 25)	116,343	-	65,179	-
Lease liabilities - non-current (Notes 3, 4 and 13)	2,167,424	5	-	-
Long-term deferred revenue (Note 4)	279	-	315	-
Guarantee deposits	<u>214,391</u>	<u>-</u>	<u>205,740</u>	<u>1</u>
Total non-current liabilities	<u>11,974,499</u>	<u>26</u>	<u>3,880,330</u>	<u>10</u>
Total liabilities	<u>31,363,850</u>	<u>68</u>	<u>25,685,937</u>	<u>65</u>
<b>EQUITY</b>				
Ordinary shares	9,418,671	20	9,418,671	23
Retained earnings				
Legal reserve	909,345	2	702,338	2
Special reserve	2,522,475	6	1,933,627	5
Unappropriated earnings	1,902,904	4	2,070,067	5
Other equity	<u>(29,809)</u>	<u>-</u>	<u>8,914</u>	<u>-</u>
Total equity	<u>14,723,586</u>	<u>32</u>	<u>14,133,617</u>	<u>35</u>
<b>TOTAL</b>	<u>\$ 46,087,436</u>	<u>100</u>	<u>\$ 39,819,554</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 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
SALES (Notes 4, 23 and 29)	\$ 28,540,207	100	\$ 28,182,098	100
COST OF GOODS SOLD (Notes 9, 24 and 29)	<u>24,729,566</u>	<u>87</u>	<u>24,542,508</u>	<u>87</u>
GROSS PROFIT	<u>3,810,641</u>	<u>13</u>	<u>3,639,590</u>	<u>13</u>
OPERATING EXPENSES (Notes 24 and 29)				
Selling and marketing expenses	126,142	1	130,943	1
General and administrative expenses	682,722	2	618,777	2
Research and development expenses	548,281	2	545,217	2
Expected credit loss (gain) (Notes 4 and 8)	<u>8,130</u>	<u>-</u>	<u>(1,505)</u>	<u>-</u>
Total operating expenses	<u>1,365,275</u>	<u>5</u>	<u>1,293,432</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>2,445,366</u>	<u>8</u>	<u>2,346,158</u>	<u>8</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 24)	228,573	1	188,679	1
Other gains and losses (Notes 4 and 24)	(407,261)	(1)	15,374	-
Share of profit of associates (Note 4)	322,639	1	235,111	1
Finance costs (Notes 4 and 24)	<u>(217,780)</u>	<u>(1)</u>	<u>(133,304)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>(73,829)</u>	<u>-</u>	<u>305,860</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	2,371,537	8	2,652,018	9
INCOME TAX EXPENSE (Notes 4 and 25)	<u>497,250</u>	<u>2</u>	<u>560,002</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>1,874,287</u>	<u>6</u>	<u>2,092,016</u>	<u>7</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	16,507	-	(38,217)	-
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	(16,133)	-	(70,070)	-

(Continued)

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	\$ (22,590)	-	\$ 16,819	-
Other comprehensive loss for the year, net of income tax	(22,216)	-	(91,468)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ 1,852,071	6	\$ 2,000,548	7
EARNINGS PER SHARE (Note 26)				
Basic	\$ 1.99		\$ 2.22	
Diluted	\$ 1.98		\$ 2.21	

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

(Concluded)



AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company						Other Equity (Note 4)		Total Equity
	Ordinary Shares (Note 22)	Retained Earnings (Note 22)			Exchange Differences on Translating Foreign Operations	as at Fair Value Through Other Comprehensive Income			
		Legal Reserve	Special Reserve	Unappropriated Earnings					
BALANCE AT JANUARY 1, 2018	\$ 9,418,671	\$ 531,146	\$ 1,473,474	\$ 1,711,923	\$ (32,172)	\$ -	\$	\$ 13,103,042	
Effect of retrospective application and retrospective restatement	-	-	-	-	-	-	94,337	94,337	
BALANCE AT JANUARY 1, 2018 AS RESTATED	9,418,671	531,146	1,473,474	1,711,923	(32,172)			13,197,379	
Appropriation of 2017 earnings									
Legal reserve	-	171,192	-	(171,192)	-	-		-	
Special reserve	-	-	460,153	(460,153)	-	-		-	
Cash dividends distributed by the Company	-	-	-	(1,064,310)	-	-		(1,064,310)	
Profit for the year ended December 31, 2018	-	-	-	2,092,016	-	-		2,092,016	
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	(38,217)	16,819	(70,070)		(91,468)	
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	2,053,799	16,819	(70,070)		2,000,548	
BALANCE AT DECEMBER 31, 2018	9,418,671	702,338	1,933,627	2,070,067	(15,353)	24,267		14,133,617	
Appropriation of 2018 earnings									
Legal reserve	-	207,007	-	(207,007)	-	-		-	
Special reserve	-	-	588,848	(588,848)	-	-		-	
Cash dividends distributed by the Company	-	-	-	(1,262,102)	-	-		(1,262,102)	
Profit for the year ended December 31, 2019	-	-	-	1,874,287	-	-		1,874,287	
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	16,507	(22,590)	(16,133)		(22,216)	
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	1,890,794	(22,590)	(16,133)		1,852,071	
BALANCE AT DECEMBER 31, 2019	\$ 9,418,671	\$ 909,345	\$ 2,522,475	\$ 1,902,904	\$ (37,943)	\$ 8,134	\$	\$ 14,723,586	

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

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 2,371,537	\$ 2,652,018
Adjustments for:		
Depreciation expenses	1,088,615	900,289
Amortization expenses	304,189	444,277
Expected credit loss recognized (reversed)	8,130	(1,505)
Finance costs	217,780	133,304
Interest income	(101,337)	(58,757)
Dividend income	(138)	(90)
Share of profit of associate	(322,639)	(235,111)
Loss (gain) on disposal of property, plant and equipment	669	(812)
Impairment loss recognized (reversed) on non-financial assets	(204,769)	20,044
Unrealized net loss on foreign currency exchange	254,577	1,691
Recognition (reversal) of provisions	(95,802)	4,023
Other income from liabilities	(13,842)	(11,080)
Net changes in operating assets and liabilities		
Notes receivable	(2,953)	20,825
Trade receivables	1,059,240	(5,755,398)
Other receivables	20,421	(12,955)
Inventories	(2,940,936)	(217,343)
Other current assets	(715,910)	(2,267,703)
Contract liabilities	500,221	(65,047)
Trade payables	(808,744)	692,898
Other payables	43,275	(183,561)
Other current liabilities	(61,652)	(243,379)
Deferred income	(36)	(36)
Cash generated from (used in) operations	599,896	(4,183,408)
Interest received	99,284	70,462
Interest paid	(217,354)	(123,673)
Income tax paid	(468,146)	(549,031)
Net cash generated from (used in) operating activities	13,680	(4,785,650)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for property, plant and equipment	(821,045)	(567,743)
Proceeds from disposal of property, plant and equipment	44	9,114
Increase in refundable deposits	(24,526)	(21,744)
Decrease in refundable deposits	11,227	15,814
Payments for intangible assets	(258,397)	(270,032)
Decrease (increase) in other financial assets	(1,081,960)	1,876,535
Increase in other non-current assets	(205,900)	(201,573)
		(Continued)

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2019	2018
Increase in prepayments for equipment	\$ (488,622)	\$ (197,490)
Dividend received	<u>70,535</u>	<u>77,726</u>
Net cash generated from (used in) investing activities	<u>(2,798,644)</u>	<u>720,607</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	48,520,000	45,960,000
Repayments of short-term borrowings	(51,330,000)	(44,745,000)
Proceeds from short-term bills payable	37,430,463	32,096,560
Repayments of short-term bills payable	(31,572,783)	(32,096,314)
Proceeds from bonds payable	2,995,980	-
Proceeds from long-term borrowings	26,673,760	22,457,000
Repayments of long-term borrowings	(28,868,579)	(18,647,606)
Proceeds of guarantee deposits received	253,185	229,450
Refund of guarantee deposits	(244,534)	(227,819)
Repayment of the principal portion of lease liabilities	(133,799)	-
Cash dividends distributed	<u>(1,262,102)</u>	<u>(1,064,310)</u>
Net cash generated from financing activities	<u>2,461,591</u>	<u>3,961,961</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>(5,383)</u>	<u>187</u>
<b>NET DECREASE IN CASH</b>	<b>(328,756)</b>	<b>(102,895)</b>
<b>CASH AT THE BEGINNING OF THE YEAR</b>	<u><b>962,896</b></u>	<u><b>1,065,791</b></u>
<b>CASH AT THE END OF THE YEAR</b>	<u><u><b>\$ 634,140</b></u></u>	<u><u><b>\$ 962,896</b></u></u>

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

(Concluded)

### 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, 2019 and 2018, 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 (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, 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, 2019. 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.

The key audit matters identified in the Company's financial statements for the year ended December 31, 2019 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 following:

1. We sample-tested the inventory aging report for completeness and accuracy.
2. We selected samples from raw materials that are over 1 year, which were not recognized as obsolete, and confirmed the reasonableness of not recognizing the raw materials' obsolescence.
3. We tested the net realizable value of raw materials which were not recognized as obsolete and we selected samples to calculate 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 which appeared to be 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 19 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 following:

1. We obtained the documents based on the management's decision on the provision rate and we evaluated the reasonableness of the rates compared with rates in the past periods.
2. We selected samples to calculate the accuracy of warranty provision.
3. We selected samples and calculated the actual warranty occurrence rate in the previous year compared with the current warranty calculation to confirm that the amount of warranty provision for the year ended December 31, 2019 is appropriate and sufficient.

#### **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 and appropriate audit evidence regarding the financial information of 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 company 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, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 27, 2020

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

DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars)

	December 31			
	2019		2018	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash (Notes 4 and 6)	\$ 605,287	1	\$ 935,112	2
Notes receivable (Notes 4 and 8)	5,637	-	2,684	-
Trade receivables from unrelated parties (Notes 4 and 8)	13,958,292	30	15,036,728	38
Trade receivables from related parties (Notes 4 and 28)	128,327	-	306,833	1
Other receivables (Notes 4 and 8)	81,914	-	95,341	-
Inventories (Notes 4, 5 and 9)	9,820,034	22	6,798,041	17
Other financial assets - current (Notes 4, 14 and 29)	2,935,559	7	1,932,100	5
Other current assets (Notes 4, 15 and 28)	<u>4,586,695</u>	<u>10</u>	<u>3,870,853</u>	<u>10</u>
Total current assets	<u>32,121,745</u>	<u>70</u>	<u>28,977,692</u>	<u>73</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 7)	87,334	-	103,467	-
Investments accounted for using equity method (Notes 4 and 10)	854,928	2	621,696	2
Property, plant and equipment (Notes 4, 11 and 29)	8,567,935	18	8,351,958	21
Right-of-use assets (Notes 3, 4 and 12)	2,288,217	5	-	-
Intangible assets (Notes 4 and 13)	1,246,856	3	867,785	2
Deferred tax assets (Notes 4 and 24)	305,631	1	285,346	1
Prepayments for equipment (Note 23)	513,640	1	376,417	1
Other financial assets - non-current (Notes 4, 14 and 29)	14,054	-	10,807	-
Other non-current assets (Notes 4, 8 and 15)	<u>66,310</u>	<u>-</u>	<u>204,277</u>	<u>-</u>
Total non-current assets	<u>13,944,905</u>	<u>30</u>	<u>10,821,753</u>	<u>27</u>
<b>TOTAL</b>	<u>\$ 46,066,650</u>	<u>100</u>	<u>\$ 39,799,445</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 16 and 29)	\$ 4,920,000	11	\$ 7,730,000	19
Short-term bills payable (Note 16)	8,357,255	18	2,499,575	6
Contract liabilities (Note 4)	584,119	1	83,898	-
Trade payables to unrelated parties	1,395,943	3	1,993,498	5
Trade payables to related parties (Note 28)	79,880	-	294,289	1
Other payables (Notes 18 and 28)	3,601,051	8	3,512,496	9
Current tax liabilities (Notes 4 and 24)	187,462	1	184,252	1
Lease liabilities-current (Notes 3, 4 and 12)	139,577	-	-	-
Current portion of long-term borrowings (Notes 16 and 29)	-	-	5,289,606	13
Net defined benefit liabilities - current (Notes 4 and 20)	61,813	-	82,447	-
Other current liabilities	<u>43,901</u>	<u>-</u>	<u>115,437</u>	<u>-</u>
Total current liabilities	<u>19,371,001</u>	<u>42</u>	<u>21,785,498</u>	<u>54</u>
<b>NON-CURRENT LIABILITIES</b>				
Bonds payable (Note 17)	2,996,210	7	-	-
Long-term borrowings (Notes 16 and 29)	5,928,299	13	2,838,029	7
Provisions - non-current (Notes 4, 5 and 19)	551,553	1	771,067	2
Deferred tax liabilities (Notes 4 and 24)	116,343	-	65,179	-
Lease liabilities-non-current (Notes 3, 4 and 12)	2,164,988	5	-	-
Long-term deferred revenue (Note 4)	279	-	315	-
Guarantee deposits	<u>214,391</u>	<u>-</u>	<u>205,740</u>	<u>1</u>
Total non-current liabilities	<u>11,972,063</u>	<u>26</u>	<u>3,880,330</u>	<u>10</u>
Total liabilities	<u>31,343,064</u>	<u>68</u>	<u>25,665,828</u>	<u>64</u>
<b>EQUITY</b>				
Ordinary shares	9,418,671	20	9,418,671	24
Retained earnings				
Legal reserve	909,345	2	702,338	2
Special reserve	2,522,475	6	1,933,627	5
Unappropriated earnings	1,902,904	4	2,070,067	5
Other equity	<u>(29,809)</u>	<u>-</u>	<u>8,914</u>	<u>-</u>
Total equity	<u>14,723,586</u>	<u>32</u>	<u>14,133,617</u>	<u>36</u>
<b>TOTAL</b>	<u>\$ 46,066,650</u>	<u>100</u>	<u>\$ 39,799,445</u>	<u>100</u>

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



# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
SALES (Notes 4, 22 and 28)	\$ 28,515,619	100	\$ 28,156,144	100
COST OF GOODS SOLD (Notes 9, 23 and 28)	<u>24,762,906</u>	<u>87</u>	<u>24,559,503</u>	<u>87</u>
GROSS PROFIT	<u>3,752,713</u>	<u>13</u>	<u>3,596,641</u>	<u>13</u>
OPERATING EXPENSES (Notes 23 and 28)				
Selling and marketing expenses	131,047	-	134,797	1
General and administrative expenses	624,613	2	577,999	2
Research and development expenses	548,281	2	545,217	2
Expected credit loss (gain) (Notes 4 and 8)	<u>8,130</u>	<u>-</u>	<u>(1,505)</u>	<u>-</u>
Total operating expenses	<u>1,312,071</u>	<u>4</u>	<u>1,256,508</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>2,440,642</u>	<u>9</u>	<u>2,340,133</u>	<u>8</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 23)	228,548	1	188,665	1
Other gains and losses (Notes 4 and 23)	(407,253)	(2)	15,436	-
Share of profit of subsidiaries and associates (Note 4)	255,822	1	197,169	1
Finance costs (Notes 4 and 23)	<u>(217,686)</u>	<u>(1)</u>	<u>(133,304)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>(140,569)</u>	<u>(1)</u>	<u>267,966</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	2,300,073	8	2,608,099	9
INCOME TAX EXPENSE (Notes 4 and 24)	<u>425,786</u>	<u>2</u>	<u>516,083</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>1,874,287</u>	<u>6</u>	<u>2,092,016</u>	<u>7</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	16,507	-	(38,217)	-
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	(16,133)	-	(70,070)	-

(Continued)

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	\$ (22,590)	-	\$ 16,819	-
Other comprehensive loss for the year, net of income tax	(22,216)	-	(91,468)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>1,852,071</u>	<u>6</u>	<u>2,000,548</u>	<u>7</u>
EARNINGS PER SHARE (Note 25)				
Basic	<u>\$ 1.99</u>		<u>\$ 2.22</u>	
Diluted	<u>\$ 1.98</u>		<u>\$ 2.21</u>	

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

(Concluded)

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(In Thousands of New Taiwan Dollars)

	Retained Earnings (Note 21)			Other Equity (Note 4)		
Ordinary Shares (Note 21)	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized gain (loss) on Investments in Equity Instruments Designated as at Fair Value through Other Comprehensive Income	Total Equity
\$ 9,418,671	\$ 531,146	\$ 1,473,474	\$ 1,711,923	\$ (32,172)	\$ -	\$ 13,103,042
-	-	-	-	-	94,337	94,337
9,418,671	531,146	1,473,474	1,711,923	(32,172)	94,337	13,197,379
Appropriation of 2017 earnings						
Legal reserve	171,192	-	(171,192)	-	-	-
Special reserve	-	460,153	(460,153)	-	-	-
Cash dividends distributed by the Company	-	-	(1,064,310)	-	-	(1,064,310)
Profit for the year ended December 31, 2018	-	-	2,092,016	-	-	2,092,016
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	(38,217)	16,819	(70,070)	(91,468)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	2,053,799	16,819	(70,070)	2,000,548
9,418,671	702,338	1,933,627	2,070,067	(15,353)	24,267	14,133,617
Appropriation of 2018 earnings						
Legal reserve	207,007	-	(207,007)	-	-	-
Special reserve	-	588,848	(588,848)	-	-	-
Cash dividends distributed by the Company	-	-	(1,262,102)	-	-	(1,262,102)
Profit for the year ended December 31, 2019	-	-	1,874,287	-	-	1,874,287
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	16,507	(22,590)	(16,133)	(22,216)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	1,890,794	(22,590)	(16,133)	1,852,071
9,418,671	909,345	2,522,475	1,902,904	(37,943)	8,134	14,723,586

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

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 2,300,073	\$ 2,608,099
Adjustments for:		
Depreciation expenses	1,087,276	899,987
Amortization expenses	304,182	444,277
Expected credit loss recognized (reversed)	8,130	(1,505)
Finance costs	217,686	133,304
Interest income	(101,312)	(58,743)
Dividend income	(138)	(90)
Share of profit of subsidiary and associate	(255,822)	(197,169)
Loss (gain) on disposal of property, plant and equipment	669	(812)
Impairment loss recognized (reversed) on non-financial assets	(204,769)	20,044
Unrealized net loss on foreign currency exchange	254,574	1,693
Recognition (reversal) of provisions	(95,802)	4,023
Other income from liabilities	(13,842)	(11,080)
Net changes in operating assets and liabilities		
Notes receivable	(2,953)	20,825
Trade receivables	1,058,450	(5,751,374)
Other receivables	15,464	(7,990)
Inventories	(2,940,936)	(217,343)
Other current assets	(715,842)	(2,267,629)
Contract liabilities	500,221	(65,047)
Trade payables	(808,744)	692,898
Other payables	45,476	(188,633)
Other current liabilities	(61,670)	(242,894)
Deferred income	(36)	(36)
Cash generated from (used in) operations	590,335	(4,185,195)
Interest received	99,259	70,448
Interest paid	(217,261)	(123,673)
Income tax paid	(395,823)	(484,204)
Net cash generated from (used in) operating activities	76,510	(4,722,624)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for property, plant and equipment	(820,997)	(567,743)
Proceeds from disposal of property, plant and equipment	34	9,114
Increase in refundable deposits	(24,519)	(21,665)
Decrease in refundable deposits	11,230	15,815
Payments for intangible assets	(258,272)	(270,032)
Decrease (increase) in other financial assets	(1,081,960)	1,876,238
Increase in other non-current assets	(205,900)	(201,573)
		(Continued)

# AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Increase in prepayments for equipment	\$ (488,622)	\$ (197,490)
Dividend received	<u>138</u>	<u>90</u>
Net cash generated from (used in) investing activities	<u>(2,868,868)</u>	<u>642,754</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	48,520,000	45,960,000
Repayments of short-term borrowings	(51,330,000)	(44,745,000)
Proceeds from short-term bills payable	37,430,463	32,096,560
Repayments of short-term bills payable	(31,572,783)	(32,096,314)
Proceeds from bonds payable	2,995,980	-
Proceeds from long-term borrowings	26,673,760	22,457,000
Repayments of long-term borrowings	(28,868,579)	(18,647,606)
Proceeds of guarantee deposits received	253,185	229,450
Refund of guarantee deposits	(244,534)	(227,819)
Repayment of the principal portion of lease liabilities	(132,857)	-
Cash dividends distributed	<u>(1,262,102)</u>	<u>(1,064,310)</u>
Net cash generated from financing activities	<u>2,462,533</u>	<u>3,961,961</u>
NET DECREASE IN CASH	(329,825)	(117,909)
CASH AT THE BEGINNING OF THE YEAR	<u>935,112</u>	<u>1,053,021</u>
CASH AT THE END OF THE YEAR	<u>\$ 605,287</u>	<u>\$ 935,112</u>

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

(Concluded)

<b>Aerospace Industrial Development Corporation</b> <b>Proposal for Earnings Distribution of 2019 Profits</b>	
Currency: in NTD	
Item	Amounts
Distributable earnings at beginning of period	12,110,358
Remeasurement of defined benefit plans	16,507,200
Distributable earnings after adjustment	28,617,558
Annual net profit after tax	1,874,287,639
Less Items:	
Legal reserve ( 10% )	-189,079,484
Legal Special reserve	-29,809,649
Add Items:	
Reverse previous year self-listing of Special reserve	621,020,243
Accumulate available for distribution surplus	2,305,036,307
Distribution Items :	
Cash dividend to shareholders (NT\$1.19 per share)	-1,120,821,850
Total distribution	-1,120,821,850
Unappropriated earnings at the end of period	1,184,214,457

## Mapping of the Original Provisions of the Articles of Incorporation of AIDC and the Provisions after Amendment

After amendment		Before amendment		Cause of amendment
Article 2	<p>The scope of business of the Corporation shall be as follows:</p> <ol style="list-style-type: none"> <li>1. CB01010 Machinery and Equipment Manufacturing</li> <li>2. CD01060 Aircraft and Parts Manufacturing</li> <li>3. I101100 Aviation Consultancy</li> <li>4. JE01010 Rental and Leasing Business</li> <li>5. IG03010 Energy Technical Services</li> <li>6. CD01020 Tramway Cars Manufacturing</li> <li>7. I599990 Other Designing</li> <li>8. I199990 Other Consultancy</li> <li>9. CB01030 Pollution Controlling Equipment Manufacturing</li> <li>10. F113100 Wholesale of Pollution Controlling Equipment.</li> <li>11. E605010 Computing Equipment Installation Construction</li> <li>12. G502011 Aviation</li> <li>13. F401010 International Trade</li> <li>14. F401021 Restrained Telecom Radio Frequency Equipment and Materials Import</li> <li>15. E701030 Restrained Telecom Radio Frequency Equipment and Materials Construction</li> <li>16. <del>E606010</del> Electricity Equipment Checking and Maintenance</li> <li>17. I103060 Management Consulting Services</li> </ol>	Article 2	<p>The scope of business of the Corporation shall be as follows:</p> <ol style="list-style-type: none"> <li>1. CB01010 Machinery and Equipment Manufacturing</li> <li>2. CD01060 Aircraft and Parts Manufacturing</li> <li>3. I101100 Aviation Consultancy</li> <li>4. JE01010 Rental and Leasing Business</li> <li>5. IG03010 Energy Technical Services</li> <li>6. CD01020 Tramway Cars Manufacturing</li> <li>7. I599990 Other Designing</li> <li>8. I199990 Other Consultancy</li> <li>9. CB01030 Pollution Controlling Equipment Manufacturing</li> <li>10. F113100 Wholesale of Pollution Controlling Equipment.</li> <li>11. E605010 Computing Equipment Installation Construction</li> <li>12. G502011 Aviation</li> <li>13. F401010 International Trade</li> <li>14. F401021 Restrained Telecom Radio Frequency Equipment and Materials Import</li> <li>15. E701030 Restrained Telecom Radio Frequency Equipment and Materials Construction</li> <li>16. <del>IF02010</del> Electricity Equipment Checking and Maintenance</li> <li>17. I103060 Management Consulting Services</li> </ol>	<ol style="list-style-type: none"> <li>1. Amendment to the provision.</li> <li>2. The amendment is made to enable business expansion, as well as to comply with the revised "Business Codes for Corporations and Partnerships" released by the Ministry of Economic Affairs. The amendment covers Items 16, 23, and 35 which are revised with new business codes. In addition, new content is inserted to Item 36 with its original content removed to a new Item 37.</li> </ol>

After amendment	Before amendment	Cause of amendment
18. I401010 General Advertising Services 19. JB01010 Exhibition Services 20. CF01011 Medical Materials and Equipment Manufacturing 21. F108031 Wholesale of Drugs, Medical Goods 22. F208031 Retail sale of Medical Equipment 23. <u>D101060 Self-Usage Power Generation Equipment Utilizing Renewable Energy Industry</u> 24. D101050 Steam and Electricity Para Genesis 25. CC01010 Electric Power Supply, Electric Transmission and Power Distribution Machinery Manufacturing 26. CC01101 Restrained Telecom Radio Frequency Equipments and Materials Manufacturing 27. CC01060 Wired Communication Equipment and Apparatus Manufacturing 28. CC01070 Telecommunication Equipment and Apparatus Manufacturing 29. F501990 Other Eating and Drinking Places Not Elsewhere Classified 30. H703100 Real Estate Rental and Leasing 31. CD01030 Automobiles and Parts Manufacturing 32. I301010 Software Design Services 33. J202010 Industry Innovation and Incubation Services 34. F107090 Wholesale of Industrial Explosives	18. I401010 General Advertising Services 19. JB01010 Exhibition Services 20. CF01011 Medical Materials and Equipment Manufacturing 21. F108031 Wholesale of Drugs, Medical Goods 22. F208031 Retail sale of Medical Equipment 23. <u>D101040 Non-Public Electric Power Generation</u> 24. D101050 Steam and Electricity Para Genesis 25. CC01010 Electric Power Supply, Electric Transmission and Power Distribution Machinery Manufacturing 26. CC01101 Restrained Telecom Radio Frequency Equipments and Materials Manufacturing 27. CC01060 Wired Communication Equipment and Apparatus Manufacturing 28. CC01070 Telecommunication Equipment and Apparatus Manufacturing 29. F501990 Other Eating and Drinking Places Not Elsewhere Classified 30. H703100 Real Estate Rental and Leasing 31. CD01030 Automobiles and Parts Manufacturing 32. I301010 Software Design Services 33. J202010 Industry Innovation and Incubation Services 34. F107090 Wholesale of Industrial Explosives	



After amendment		Before amendment	Cause of amendment
<p>35. F107060 <u>Toxic and Concerned Chemical Substances Wholesale Trade</u></p> <p>36. E603050 <u>Cybernation Equipments Construction</u></p> <p>37. ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.</p>		<p>35. F107060 <u>Wholesale of Virulence Chemical Substance</u></p> <p>36. ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.</p>	
Article 8	<p><u>All company stock shares are registered. Their issuance shall be in accordance with Article 162 of the Company Act and is to be legitimately certified by an endorsement bank.</u></p> <p>The Company may issue non-printed stock shares and the public shall register the acquired stock shares with the Taiwan Depository &amp; Clearing Corporation through their securities dealers.</p>	<p>Article 8</p> <p><u>All company stock shares are to be registered by the signatures or seals of at least 3 members of the BOD. The stock shares may then be issued to the public after being approved by the competent authority having such jurisdiction.</u></p> <p>The Company may issue non-printed stock shares and the public shall register the acquired stock shares with the Taiwan Depository &amp; Clearing Corporation through their securities dealers.</p>	<p>1. Amendment to the provision.</p> <p>2. Amendments are made according to Article 162 of the Company Act.</p>
Article 30	<p>The Articles of Incorporation of AIDC was instituted on March 5, 1996, with amendment for the 1<sup>st</sup> instance on June 14, 1996, the 2<sup>nd</sup> amendment was incorporated on June 24, 1996, ... .., the 23<sup>rd</sup> amendment was incorporated on May 31, 2019, <u>and the 24<sup>th</sup> amendment was incorporated on May 29, 2020.</u></p>	<p>Article 30</p> <p>The Articles of Incorporation of AIDC was instituted on March 5, 1996, with amendment for the 1<sup>st</sup> instance on June 14, 1996, the 2<sup>nd</sup> amendment was incorporated on June 24, 1996, ... .., and the 23<sup>rd</sup> amendment was incorporated on May 31, 2019.</p>	<p>1. Amendment to the provision.</p> <p>2. Addition of the note on amendment (24<sup>th</sup> instance) and the date of amendment.</p>

# **The Articles of Incorporation of AIDC (Draft)**

## **Chapter I General Provisions**

Article 1 The Corporation shall be incorporated, as a company limited by shares, under the Company Act of the Republic of China, and its name shall be 漢翔航空工業股份有限公司 in the Chinese language, and AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION in the English language.

Article 2 The scope of business of the Corporation shall be as follows:

1. CB01010 Machinery and Equipment Manufacturing
2. CD01060 Aircraft and Parts Manufacturing
3. I101100 Aviation Consultancy
4. JE01010 Rental and Leasing Business
5. IG03010 Energy Technical Services
6. CD01020 Tramway Cars Manufacturing
7. I599990 Other Designing
8. I199990 Other Consultancy
9. CB01030 Pollution Controlling Equipment Manufacturing
10. F113100 Wholesale of Pollution Controlling Equipment.
11. E605010 Computing Equipment Installation Construction
12. G502011 Aviation
13. F401010 International Trade
14. F401021 Restrained Telecom Radio Frequency Equipment and Materials Import
15. E701030 Restrained Telecom Radio Frequency Equipment and Materials Construction
16. E606010 Electricity Equipment Checking and Maintenance
17. I103060 Management Consulting Services
18. I401010 General Advertising Services
19. JB01010 Exhibition Services
20. CF01011 Medical Materials and Equipment Manufacturing
21. F108031 Wholesale of Drugs, Medical Goods
22. F208031 Retail sale of Medical Equipment
23. D101060 Self-Usage Power Generation Equipment Utilizing Renewable Energy Industry
24. D101050 Steam and Electricity Para Genesis
25. CC01010 Electric Power Supply, Electric Transmission and Power Distribution Machinery Manufacturing
26. CC01101 Restrained Telecom Radio Frequency Equipments and Materials Manufacturing
27. CC01060 Wired Communication Equipment and Apparatus Manufacturing
28. CC01070 Telecommunication Equipment and Apparatus Manufacturing
29. F501990 Other Eating and Drinking Places Not Elsewhere Classified
30. H703100 Real Estate Rental and Leasing
31. CD01030 Automobiles and Parts Manufacturing
32. I301010 Software Design Services
33. J202010 Industry Innovation and Incubation Services
34. F107090 Wholesale of Industrial Explosives
35. F107060 Toxic and Concerned Chemical Substances Wholesale Trade

36. E603050      Cybernation Equipments Construction
37. ZZ99999      All business items that are not prohibited or restricted by law, except those that are subject to special approval.
- Article 3      As business may require, the Company may provide guarantee according to the Company's warranty principles.
- Article 4      The Company is located in Taichung City. It may establish subsidiaries in and out the country where and when necessary with approval from the Board of Directors.
- Article 5      The Company's public announcements shall be made according to Article 28 of the Company Act.
- Article 6      When the Company performs reinvestment to become a limited liability shareholder, the total investment amount must not exceed 60% of the paid-up capital.

## **Chapter II    Shares**

- Article 7      The total capital of the Company is 15 billion NT dollars in 1.5 billion shares and NT\$10 per share. The shares may be issued in separate batches to the public.
- Article 8      All company stock shares are registered. Their issuance shall be in accordance with Article 162 of the Company Act and is to be legitimately certified by an endorsement bank.  
The Company may issue non-printed stock shares and the public shall register the acquired stock shares with the Taiwan Depository & Clearing Corporation through their securities dealers.
- Article 9      The execution and management of stock share issuing is conducted according to the Government's "Criteria Governing Handling of Stock Affairs by Public Stock Companies".
- Article 10     Activities of stock share transfers are prohibited under the following timeframes: within 60 days prior to the shareholders' general meeting; within 30 days prior to the provisional shareholders' meeting; and within 5 days of the determined record date on which dividends or other benefits are to be distributed.  
The aforementioned times are initiated based on the date of meeting or the date of record.

## **Chapter III   Shareholders' Meeting**

- Article 11     There are general and provisional meetings for the shareholders. General shareholders' meeting is called six months from the end of the previous fiscal year by the Board of Directors, whereas provisional shareholders' meeting is held whenever necessary according to applicable regulations.
- Article 12     The shareholders' meeting is assembled according to the Company Act, the Securities & Exchange Act, and applicable regulations.
- Article 13     Except when otherwise regulated in the Company Act, resolutions shall be approved by more than half of the votes from the attending shareholders, who collectively hold more than half of the total number of outstanding stock shares issued.
- Article 14     The shareholder's each share stands for one count of vote, unless otherwise regulated in Item 2, Article 197 of the Company Act.
- Article 15     The Company shall follow the procedures cited in the "Rules for Public Offering Company with Shareholders Using the Power of Attorney" for its shareholders who are unable to attend the shareholders' meeting.
- Article 16     When Shareholders' meeting is called by the Board of Directors, the Chairman is the chairperson of the shareholders' meeting. The Chairman shall assign one of the executive directors as proxy when the Chairman is on leave or unable to perform this task. If the assignment is not being made, the executive directors shall elect a director among themselves to chair the shareholders' meeting.  
For meetings whose convener is not a member of the BOD, the one who convenes the meeting

shall be the chairperson of the shareholders' meeting. If there are more than one conveners, they shall elect one among themselves.

Article 17 Resolutions of shareholders' meeting shall be recorded in meeting minutes; signed by the chairperson; and distributed to the shareholders within 20 days after the shareholders' meeting.

Such meeting minutes may be generated in the form of an electronic file and may be distributed through public announcement.

Article 17-1 Shall the Company decide to terminate public offerings in the future, Article 156-2 of the Company Act shall be followed.

#### **Chapter IV The Board of Directors and the Committees**

Article 18 The company has 11 seats of Directors of whom 3 shall be Executive Directors elected among the Directors. One of the 3 Executive Directors shall be the Independent Director. The Chairman shall be elected among the Executive Directors. Directors may be excused from any Board session with appointment of another Director as the proxy to attend the meeting with the scope of authorization specified.

When the Board is in recess, the Executive Directors shall keep the Board in function in accordance with applicable legal rules, the Articles of Incorporation of AIDC, the resolution of the General Meeting of Shareholders, and the resolutions of the Board. The Chairman may call for special session at any time necessary and the presence of Directors representing half of the total seats shall qualify for a quorum and resolution can be made by a simple majority of the Directors attending the session.

Article18-1 The number of seats for Independent Directors as mentioned in the preceding article shall be at least 3. The professional qualification, quantity of shareholding, restriction on holding other positions, method of nomination, and other particulars to follow shall be subject to the regulations of the competent authority.

Article18-2 AIDC Directors shall be elected in accordance with a nomination system as specified in the Company Act of ROC. A list of prospective candidates of directors shall be proposed before the General Meeting of Shareholders, and directors shall be elected among the candidates on the list. AIDC will elect its Directors by the accumulation of individual votes whereby each stock share has legitimate votes relevant with the number of seats for the Directors. Each shareholder may vote in favor of a particular candidate with all his/her votes on hand or distribute his/her votes equally to a number of preferred candidates. Candidates winning the majority of the votes shall be elected as members on the Board of Directors.

Independent and non-independent directors shall be nominated separately and elected at the same time. The numbers of elected independent and non-independent directors shall be calculated separately.

To reduce of the legal liability risk of the Directors, the company shall provide appropriate professional liability insurance for each Director for the protection of their respective duties.

Article 19 The Board shall specify the reason for convening the meeting and shall inform all the Directors and Supervisors 7 days in advance. The Board may call for special sessions at any time where necessary.

The Board may give notice of meeting in correspondence or electronic means.

Article 20 The Directors of AIDC shall each have a term of office for 3 years and may assume a second term as Director if reelected.

The remuneration to the aforementioned Directors (including the Chairman, Independent Directors) shall be commensurate with their respective levels of participation in the operation of and contribution to the company with reference to industry level at home and abroad subject to the finalization of the Board.

The Chairman shall be entitled to a subsidy at the same level of the employees in remuneration. The Labor Standards Act shall be applicable to the Chairman in pension payment for resignation (retirement) irrespective of the limitation of the term of service or age.

- Article 21 The Board of AIDC shall perform the following functions:
1. Planning for the adjustment of capital status and direct investment.
  2. The approval of the organization code and management regulations of AIDC.
  3. Approval of the long, mid, and short-term plans, business policy and annual plans.
  4. Approval of company budget and account settlement.
  5. Approval of unbudgeted long-term loans and the issuance of corporate bonds.
  6. Approval of the disposition or exchange of lands, buildings, and essential machinery and equipment.
  7. Approval of repair and renovation works, and the procurement of properties exceeding the authorized limit of the Board.
  8. The appointment and discharge of personnel at the level senior to vice presidents, chief financial officer, chief accounting officer, and the chief of internal auditing.
  9. Approval of the salary scale and fringe benefits for the employees.
  10. Any other duties as required by law.
- Further to the aforementioned scope, the duties of Independent Directors shall be determined separately subject to the approval of the Board before coming into effect.
- Article 22 The company established the Auditing Committee pursuant to Article 14-4 of the Securities and Exchange Act with committee members consisting of all Independent Directors of the company.
- The number of members, the term of office, the authority, and parliamentary rules of the Auditing Committee and the kind of resources available from the company at the time of performing their duties shall be determined in the organization code of the Auditing Committee.
- The number of members, the term of office, the authority, and parliamentary rules of the Remuneration Committee and the kind of resources available from the company at the time of performing their duties shall be determined in the organization code of the Remuneration Committee.
- Article 23 The Company shall establish a Remuneration Committee.
- The number of members, the term of office, the authority, and parliamentary rules of the Remuneration Committee and the kind of resources available from the company at the time of performing their duties shall be determined in the organization code of the Remuneration Committee.

## **Chapter V Managers and Staff**

- Article 24 The president of the Company oversees the management and businesses of the company according to the operational guidelines of the BOD. Three to seven seats of senior vice presidents shall be nominated to support the president.
- The appointment, discharge, and remuneration of the aforementioned executives shall be conducted according to Article 29 of the Company Act.
- Article 25 (Deleted )
- Article 26 Unless regulated by legal rules or specified in the employment contract or agreement, the employment and discharge of employees shall be conducted according to the Company's applicable rules and regulations for human resources management.

## **Chapter VI Financial Report**

- Article 27 The fiscal period of the Company shall start on January 1 and end on December 31 of each calendar year. The calendar year shall be expressed as the year of the Republic of China. At the end of each fiscal year, the Board shall compile the following ledgers and statements and forward to the Auditing Committee for auditing 30 days before the session of the General

Meeting of Shareholders, and presented before the General Meeting session for ratification:

1. Report on Operation.
2. Financial Statement
3. Proposal for distribution of earnings or allocation of earnings for covering losses carried forward.

Article 28 An amount not less than 0.58% and not more than 4.65% shall be allocated from the company's annual net profits as employee bonus, and not more than 0.58% as remuneration for the directors of the Board. However, if there are accumulated losses, the amount to offset the losses shall be deducted resulting in a corresponding reduction in the bonus/remuneration allocation.

Article 28-1 This corporation shall not pay dividends or bonuses when there is no profit.

When allocating the net profits for each fiscal year, the sequence shall be as follows: taxes payment; offset of losses in previous years; in addition to that the legal profit reserve equals to the total capital of the Corporation, a legal capital reserve at 10% of the profits leftover shall be set aside; set aside special capital reserve in accordance with relevant laws or regulations. Any balance left over shall be allocated according to the following principles per resolution of the shareholders' meeting:

1. Profits may be distributed by taking financial, business and operational factors into consideration.
2. Profits of this corporation may be distributed by way of issuance of cash dividends and/or stock dividends. Since this Corporation is in a capital-intensive industry, distribution of profits shall be made preferably by way of issuance of cash dividends. Distribution of profits may also be made by way of issuance of stock dividends, provided however, the ration for stock dividends shall not exceed 50% of total distribution.

In case there is no profit for distribution in a certain year, or the profit of a certain year is far less than the profit actually distributed by this Corporation in the previous year, or in consideration of financial, business, operational, or other related factors of this Corporation, the Company may allocate a portion or all of its reserves for distribution in accordance with relevant laws or regulations or the orders of the authorities in charge.

## **Chapter VII Supplemental Provisions**

Article 29 Matters that are not covered in the Articles shall be ruled according to the Company Act.

Article 30 The Articles of Incorporation of AIDC was instituted on March 5, 1996, with amendment for the 1<sup>st</sup> instance on June 14, 1996, the 2<sup>nd</sup> amendment was incorporated on June 24, 1996, the 3<sup>rd</sup> amendment was incorporated on May 29, 1997, the 4<sup>th</sup> amendment was incorporated on September 23, 1997, the 5<sup>th</sup> amendment was incorporated on November 24, 1998, the 6<sup>th</sup> amendment was incorporated on May 25, 1999, the 7<sup>th</sup> amendment was incorporated on November 2, 1999, the 8<sup>th</sup> amendment was incorporated on January 20, 2000, the 9<sup>th</sup> amendment was incorporated on June 12, 2001, the 10<sup>th</sup> amendment was incorporated on September 6, 2001, the 11<sup>th</sup> amendment was incorporated on June 6, 2002, the 12<sup>th</sup> amendment was incorporated on June 16, 2004, the 13<sup>th</sup> amendment was incorporated on June 15, 2005, the 14<sup>th</sup> amendment was incorporated on May 2, 2006, the 15<sup>th</sup> amendment was incorporated on August 26, 2008, the 16<sup>th</sup> amendment was incorporated on April 19, 2010, the 17<sup>th</sup> amendment was incorporated on September 17, 2013, the 18<sup>th</sup> amendment was incorporated on April 3, 2014, the 19<sup>th</sup> amendment was incorporated on October 17, 2014, the 20<sup>th</sup> amendment was incorporated on June 23, 2015, the 21<sup>st</sup> amendment was incorporated on June 14, 2016, the 22<sup>nd</sup> amendment was incorporated on June 14, 2017, the 23<sup>rd</sup> amendment was incorporated on May 31, 2019, and the 24<sup>th</sup> amendment was incorporated on May 29, 2020.

# Appendixes

## **Aerospace Industrial Development Corporation**

### **Rules and Procedures of Shareholders' Meetings**

Formulated by the 2<sup>nd</sup> Promoters' Meeting on June 14, 1996  
Amended by 2002 Annual Shareholders' Meeting on June 6, 2002  
Amended by 2014 3<sup>rd</sup> Special Shareholders' Meeting on October 17, 2014  
Amended by 2015 Annual Shareholders' Meeting on June 23, 2015

- Article 1 Shareholders' meeting of the Company, except as otherwise governed by the laws and regulations or the Articles of Incorporation, shall be proceeded in compliance with the rules and procedures set out herein.
- Article 2 Shareholders' meeting of the Company, except as otherwise governed by the laws and regulations, shall be convened by the Board of Directors.
- Article 3 The attendance of the meeting shall be counted based on the shares represented. Numbers of shares present at the meeting shall be counted based on registration book and attendance cards submitted along with voting powers exercised in writing or electronic form.

The chair shall call the meeting to order at the appointed meeting time. However, when the attending shareholders do not represent a majority of the total number of outstanding shares of the Company, the chair may announce a postponement, provided that no more than two such postponements, for a combined total of no more than 1 hour, may be made. If the quorum is not met after two postponements and the attending shareholders still represent less than one third of the total number of outstanding shares of the Company, the chair shall declare the meeting adjourned.

Unless otherwise stipulated by the Company Act, resolutions of shareholders' meetings shall be reached by a majority of the shareholders who represent half or more of the total number of outstanding shares of the Company.

When the number of shareholders present does not constitute the quorum prescribed in the preceding Paragraph, but those present represent one third or more of the total number of outstanding shares of the Company, a tentative resolution may be passed by a majority of those present. Each of the shareholders shall be informed on such tentative resolution and a shareholders' meeting shall be reconvened within one month.

In the aforesaid shareholders' meeting, if the tentative resolution is again adopted by a majority of those present who represent one third or more of the total number of outstanding shares, such tentative resolution shall be deemed to be a formal resolution.

- Article 4 The Company's rules and procedures for shareholders' meetings shall be held in accordance with Regulations Governing Content and Compliance Requirements for Shareholders' Meeting Agenda Handbooks of Public Companies.

Thirty days before the Company is to convene an annual shareholders' meeting and fifteen days before a special shareholders' meeting, the Company shall inform the shareholders on meeting notice and shareholders' meeting agenda. The meeting notice shall contain reasons for convening the meeting and may be presented in electronic form.

Election or discharge of directors, changes in the Articles of Incorporation, dismissal, merge and demerger of the Company or items regarding Article 185-1 of the Company Act and Article 26-1 and 43-6 of the Securities and Exchange Act shall be listed in the reasons for convening the meeting and shall not be proposed as extempore motions.

Shareholders holding one percent or more of the total number of outstanding shares of the Company may propose one proposal at most to annual shareholders' meeting in writing. In cases where a proposal contains more than one matter, such proposal shall not be included in the agenda.

Proposals with regard to Article 172-1, Paragraph 4 of the Company Act submitted by shareholders may not be listed as discussion items by the Board of Directors.

Prior to the book closure date before the convening of a regular shareholders' meeting, the Company shall give a public notice announcing acceptance of proposals, the place and the period for shareholders to submit proposals to be discussed at the meeting; and the period for accepting such proposals shall not



be less than ten days.

The number of words of a proposal submitted by a shareholder shall be limited to not more than three hundred words, and any proposal containing more than 300 words shall not be included in the agenda of shareholders' meetings. The shareholder who has submitted proposals shall attend, in person or by proxy, the regular shareholders' meeting whereat the submitted proposal are to be discussed and shall take part in the discussion of such proposals.

Before the day on which the meeting notice is announced, the Company shall inform the shareholder who has submitted proposals on the acceptance result and list the proposals in compliance with this article in the meeting notice. For proposals not included in the agenda, the Board of Directors shall make an explanation about exclusion of such proposals.

The agenda of shareholders' meetings shall be set by the Board of Directors. Unless otherwise resolved at shareholders' meetings, the meetings shall proceed in accordance with the agenda. Before all proposals, including extempore motions, listed in the agenda are resolved, the chair shall not announce adjournment of the meeting unless otherwise resolved.

Article 5 Unless otherwise restricted or in the circumstances provided by Article 179-2 of the Company Act, a shareholder shall have one voting right in respect of each share of the Company in the shareholder's possession.

When a shareholder is government agency or corporate shareholder, it may designate more than one representative. The exercising of its voting power, however, is counted based on the number of shares it holds. In cases where two representatives are appointed, they shall exercise the voting rights jointly.

Prior to a shareholders' meeting is convened, a shareholder may appoint one proxy only to attend the meeting through a power of attorney issued by the Company stating therein the scope of power authorized to the proxy. Such power of attorney shall be delivered to the Company five days before the convening of the meeting. In cases where two or more written proxies are sent, the first one received by the Company shall prevail.

When a person acts as the proxy for two or more shareholders, the number of voting rights represented by the person shall not exceed 3 percent of the total number of voting rights of the Company, otherwise, the portion of excessive voting rights shall not be counted.

Article 6 Registration of shareholders, proceedings of shareholders' meetings, voting and vote counting shall be recorded in audio and video uninterruptedly by the Company and shall be retained for at least one year. When lawsuits are filed in pursuant to Article 189 of the Company Act, the relevant audio or video record shall be retained until the conclusion of the litigation.

Article 7 When the chair at a shareholders' meeting deem that a proposal, amendment or extempore motion has been discussed sufficiently to put it to a vote, the chair may announce the discussion closed and call a vote.

Article 8 When a shareholder present at a shareholders' meeting wishes to speak, a speech note shall be filled out with summary of the speech, the shareholder's number (or the number of attendance card) and the name of the shareholder. The order of speeches by shareholders shall be decided by the chair.

If any shareholder present at a shareholders' meeting submits a speech note but does not speak, no speech should be deemed to have been made by such shareholder. In cases where the contents of the speech of a shareholder are inconsistent with the contents of the speech note filled out, the contents of actual speech shall prevail.

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

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

If a corporate shareholder designates two or more representatives to present at a shareholders' meeting, only one representative can speak for each discussion item.

After the speech of a shareholder, the chair may respond in person or appoint an appropriate person to respond.

- Article 9 When election is held in a shareholders' meeting, relevant rules of election set by the Company shall be followed and the election result, including list of director elected and voting rights obtained, shall be announced at the meeting.
- Ballots of the aforesaid election shall be sealed with signatures by the persons to monitor and kept in proper custody for at least one year. When lawsuits are filed in pursuant to Article 189 of the Company Act, the relevant audio or video record shall be retained until the conclusion of the litigation.
- Article 10 Resolutions of a shareholders' meeting shall be recorded in meeting minutes which shall bear the signature or seal of the chair and shall be distributed to each shareholders within 20 days after the meeting.
- The aforesaid meeting minutes may be produced and distributed in electronic form.
- Article 11 Numbers of shares that are solicited by solicitors and represented by proxy shall be presented in a statistical table in required format by the Company and shall be revealed explicitly at the venue of a shareholders' meeting.
- Article 12 During a shareholders' meeting, the chair may announce an intermission at the chair's discretion. When an event of force majeure occurs, the chair may decide to suspend the meeting and announce the time for resumption of the meeting depending on the situation.
- Before all discussion items listed in the agenda are resolved but venue for a shareholders' meeting becomes unavailable, the meeting may resolve to resume the meeting elsewhere.
- Pursuant to Article 182 of the Company Act, shareholders' meeting may resolve to postpone or reconvene the meeting for not more than five days.
- Article 13 Matters not specified herein shall be governed by the Company Act, the Securities and Exchange Act and the Articles of Incorporation and relevant regulations of the Company.
- Article 14 The rules set forth herein shall take effect after approval by a shareholders' meeting; the same applies to amendments.

## The Articles of Incorporation of AIDC (Original)

### Chapter I General Provisions

- Article 1 The Corporation shall be incorporated, as a company limited by shares, under the Company Act of the Republic of China, and its name shall be 漢翔航空工業股份有限公司 in the Chinese language, and AEROSPACE INDUSTRIAL DEVELOPMENT CORPORATION in the English language.
- Article 2 The scope of business of the Corporation shall be as follows:
1. CB01010 Machinery and Equipment Manufacturing
  2. CD01060 Aircraft and Parts Manufacturing
  3. I101100 Aviation Consultancy
  4. JE01010 Rental and Leasing Business
  5. IG03010 Energy Technical Services
  6. CD01020 Tramway Cars Manufacturing
  7. I599990 Other Designing
  8. I199990 Other Consultancy
  9. CB01030 Pollution Controlling Equipment Manufacturing
  10. F113100 Wholesale of Pollution Controlling Equipment.
  11. E605010 Computing Equipment Installation Construction
  12. G502011 Aviation
  13. F401010 International Trade
  14. F401021 Restrained Telecom Radio Frequency Equipment and Materials Import
  15. E701030 Restrained Telecom Radio Frequency Equipment and Materials Construction
  16. IF02010 Electricity Equipment Checking and Maintenance.
  17. I103060 Management Consulting Services
  18. I401010 General Advertising Services
  19. JB01010 Exhibition Services
  20. CF01011 Medical Materials and Equipment Manufacturing
  21. F108031 Wholesale of Drugs, Medical Goods
  22. F208031 Retail sale of Medical Equipment
  23. D101040 Non-Public Electric Power Generation
  24. D101050 Steam and Electricity Para Genesis
  25. CC01010 Electric Power Supply, Electric Transmission and Power Distribution Machinery Manufacturing
  26. CC01101 Restrained Telecom Radio Frequency Equipment and Materials Manufacturing
  27. CC01060 Wired Communication Equipment and Apparatus Manufacturing
  28. CC01070 Telecommunication Equipment and Apparatus Manufacturing
  29. F501990 Other Eating and Drinking Places Not Elsewhere Classified
  30. H703100 Real Estate Rental and Leasing
  31. CD01030 Automobiles and Parts Manufacturing
  32. I301010 Software Design Services
  33. J202010 Industry Innovation and Incubation Services
  34. F107090 Wholesale of Industrial Explosives

35. F107060 Wholesale of Virulence Chemical Substance
36. ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.
- Article 3 As business may require, the Company may provide guarantee according to the Company's warranty principles.
- Article 4 The Company is located in Taichung City. It may establish subsidiaries in and out the country where and when necessary with approval from the Board of Directors.
- Article 5 The Company's public announcements shall be made according to Article 28 of the Company Act.
- Article 6 When the Company performs reinvestment to become a limited liability shareholder, the total investment amount must not exceed 60% of the paid-up capital.

## **Chapter II Shares**

- Article 7 The total capital of the Company is 15 billion NT dollars in 1.5 billion shares and NT\$10 per share. The shares may be issued in separate batches to the public.
- Article 8 All company stock shares are to be registered by the signatures or seals of at least 3 members of the BOD. The stock shares may then be issued to the public after being approved by the competent authority having such jurisdiction.
- The Company may issue non-printed stock shares and the public shall register the acquired stock shares with the Taiwan Depository & Clearing Corporation through their securities dealers.
- Article 9 The execution and management of stock share issuing is conducted according to the Government's "Criteria Governing Handling of Stock Affairs by Public Stock Companies".
- Article 10 Activities of stock share transfers are prohibited under the following timeframes: within 60 days prior to the shareholders' general meeting; within 30 days prior to the provisional shareholders' meeting; and within 5 days of the determined record date on which dividends or other benefits are to be distributed.
- The aforementioned times are initiated based on the date of meeting or the date of record.

## **Chapter III Shareholders' Meeting**

- Article 11 There are general and provisional meetings for the shareholders. General shareholders' meeting is called six months from the end of the previous fiscal year by the Board of Directors, whereas provisional shareholders' meeting is held whenever necessary according to applicable regulations.
- Article 12 The shareholders' meeting is assembled according to the Company Act, the Securities & Exchange Act, and applicable regulations.
- Article 13 Except when otherwise regulated in the Company Act, resolutions shall be approved by more than half of the votes from the attending shareholders, who collectively hold more than half of the total number of outstanding stock shares issued.
- Article 14 The shareholder's each share stands for one count of vote, unless otherwise regulated in Item 2, Article 197 of the Company Act.
- Article 15 The Company shall follow the procedures cited in the "Rules for Public Offering Company with Shareholders Using the Power of Attorney" for its shareholders who are unable to attend the shareholders' meeting.
- Article 16 When Shareholders' meeting is called by the Board of Directors, the Chairman is the chairperson of the shareholders' meeting. The Chairman shall assign one of the executive directors as proxy when the Chairman is on leave or unable to perform this task. If the assignment is not being made, the executive directors shall elect a director among themselves to chair the shareholders' meeting.
- For meetings whose convener is not a member of the BOD, the one who convenes the meeting shall be the chairperson of the shareholders' meeting. If there are more than one conveners, they shall elect one among themselves.
- Article 17 Resolutions of shareholders' meeting shall be recorded in meeting minutes; signed by the chairperson; and distributed to the shareholders within 20 days after the shareholders' meeting.

Such meeting minutes may be generated in the form of an electronic file and may be distributed through public announcement.

Article 17-1 Shall the Company decide to terminate public offerings in the future, Article 156-2 of the Company Act shall be followed.

#### **Chapter IV The Board of Directors and the Committees**

Article 18 The company has 11 seats of Directors of whom 3 shall be Executive Directors elected among the Directors. One of the 3 Executive Directors shall be the Independent Director. The Chairman shall be elected among the Executive Directors. Directors may be excused from any Board session with appointment of another Director as the proxy to attend the meeting with the scope of authorization specified.

When the Board is in recess, the Executive Directors shall keep the Board in function in accordance with applicable legal rules, the Articles of Incorporation of AIDC, the resolution of the General Meeting of Shareholders, and the resolutions of the Board. The Chairman may call for special session at any time necessary and the presence of Directors representing half of the total seats shall qualify for a quorum and resolution can be made by a simple majority of the Directors attending the session.

Article 18-1 The number of seats for Independent Directors as mentioned in the preceding article shall be at least 3. The professional qualification, quantity of shareholding, restriction on holding other positions, method of nomination, and other particulars to follow shall be subject to the regulations of the competent authority.

Article 18-2 AIDC Directors shall be elected in accordance with a nomination system as specified in the Company Act of ROC. A list of prospective candidates of directors shall be proposed before the General Meeting of Shareholders, and directors shall be elected among the candidates on the list. AIDC will elect its Directors by the accumulation of individual votes whereby each stock share has legitimate votes relevant with the number of seats for the Directors. Each shareholder may vote in favor of a particular candidate with all his/her votes on hand or distribute his/her votes equally to a number of preferred candidates. Candidates winning the majority of the votes shall be elected as members on the Board of Directors.

Independent and non-independent directors shall be nominated separately and elected at the same time. The numbers of elected independent and non-independent directors shall be calculated separately.

To reduce of the legal liability risk of the Directors, the company shall provide appropriate professional liability insurance for each Director for the protection of their respective duties.

Article 19 The Board shall specify the reason for convening the meeting and shall inform all the Directors and Supervisors 7 days in advance. The Board may call for special sessions at any time where necessary.

The Board may give notice of meeting in correspondence or electronic means.

Article 20 The Directors of AIDC shall each have a term of office for 3 years and may assume a second term as Director if reelected.

The remuneration to the aforementioned Directors (including the Chairman, Independent Directors) shall be commensurate with their respective levels of participation in the operation of and contribution to the company with reference to industry level at home and abroad subject to the finalization of the Board.

The Chairman shall be entitled to a subsidy at the same level of the employees in remuneration. The Labor Standards Act shall be applicable to the Chairman in pension payment for resignation (retirement) irrespective of the limitation of the term of service or age.

Article 21 The Board of AIDC shall perform the following functions:

1. Planning for the adjustment of capital status and direct investment.
2. The approval of the organization code and management regulations of AIDC.
3. Approval of the long, mid, and short-term plans, business policy and annual plans.
4. Approval of company budget and account settlement.
5. Approval of unbudgeted long-term loans and the issuance of corporate bonds.

6. Approval of the disposition or exchange of lands, buildings, and essential machinery and equipment.
7. Approval of repair and renovation works, and the procurement of properties exceeding the authorized limit of the Board.
8. The appointment and discharge of personnel at the level senior to vice presidents, chief financial officer, chief accounting officer, and the chief of internal auditing.
9. Approval of the salary scale and fringe benefits for the employees.
10. Any other duties as required by law.

Further to the aforementioned scope, the duties of Independent Directors shall be determined separately subject to the approval of the Board before coming into effect.

Article 22 The company established the Auditing Committee pursuant to Article 14-4 of the Securities and Exchange Act with committee members consisting of all Independent Directors of the company. The number of members, the term of office, the authority, and parliamentary rules of the Auditing Committee and the kind of resources available from the company at the time of performing their duties shall be determined in the organization code of the Auditing Committee. The number of members, the term of office, the authority, and parliamentary rules of the Remuneration Committee and the kind of resources available from the company at the time of performing their duties shall be determined in the organization code of the Remuneration Committee.

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Article 25 (Deleted )

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1. Report on Operation.
2. Financial Statement
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Article 28 An amount not less than 0.58% and not more than 4.65% shall be allocated from the company's annual net profits as employee bonus, and not more than 0.58% as remuneration for the directors of the Board. However, if there are accumulated losses, the amount to offset the losses shall be deducted resulting in a corresponding reduction in the bonus/remuneration allocation.

Article 28-1 This corporation shall not pay dividends or bonuses when there is no profit. When allocating the net profits for each fiscal year, the sequence shall be as follows: taxes

payment; offset of losses in previous years; in addition to that the legal profit reserve equals to the total capital of the Corporation, a legal capital reserve at 10% of the profits leftover shall be set aside; set aside special capital reserve in accordance with relevant laws or regulations. Any balance left over shall be allocated according to the following principles per resolution of the shareholders' meeting:

1. Profits may be distributed by taking financial, business and operational factors into consideration.
2. Profits of this corporation may be distributed by way of issuance of cash dividends and/or stock dividends. Since this Corporation is in a capital-intensive industry, distribution of profits shall be made preferably by way of issuance of cash dividends. Distribution of profits may also be made by way of issuance of stock dividends, provided however, the ration for stock dividends shall not exceed 50% of total distribution.

In case there is no profit for distribution in a certain year, or the profit of a certain year is far less than the profit actually distributed by this Corporation in the previous year, or in consideration of financial, business, operational, or other related factors of this Corporation, the Company may allocate a portion or all of its reserves for distribution in accordance with relevant laws or regulations or the orders of the authorities in charge.

## **Chapter VII Supplemental Provisions**

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Article 30 The Articles of Incorporation of AIDC was instituted on March 5, 1996, with amendment for the 1<sup>st</sup> instance on June 14, 1996, the 2<sup>nd</sup> amendment was incorporated on June 24, 1996, the 3<sup>rd</sup> amendment was incorporated on May 29, 1997, the 4<sup>th</sup> amendment was incorporated on September 23, 1997, the 5<sup>th</sup> amendment was incorporated on November 24, 1998, the 6<sup>th</sup> amendment was incorporated on May 25, 1999, the 7<sup>th</sup> amendment was incorporated on November 2, 1999, the 8<sup>th</sup> amendment was incorporated on January 20, 2000, the 9<sup>th</sup> amendment was incorporated on June 12, 2001, the 10<sup>th</sup> amendment was incorporated on September 6, 2001, the 11<sup>th</sup> amendment was incorporated on June 6, 2002, the 12<sup>th</sup> amendment was incorporated on June 16, 2004, the 13<sup>th</sup> amendment was incorporated on June 15, 2005, the 14<sup>th</sup> amendment was incorporated on May 2, 2006, the 15<sup>th</sup> amendment was incorporated on August 26, 2008, the 16<sup>th</sup> amendment was incorporated on April 19, 2010, the 17<sup>th</sup> amendment was incorporated on September 17, 2013, the 18<sup>th</sup> amendment was incorporated on April 3, 2014, the 19<sup>th</sup> amendment was incorporated on October 17, 2014, the 20<sup>th</sup> amendment was incorporated on June 23, 2015, the 21<sup>st</sup> amendment was incorporated on June 14, 2016, the 22<sup>nd</sup> amendment was incorporated on June 14, 2017, and the 23<sup>rd</sup> amendment was incorporated on May 31, 2019.

### Appendix III

#### **Aerospace Industrial Development Corporation** **Impact to Business Performance, EPS and Rate on Investment of Shareholders** **Resulting from Stock Dividend Distribution**

Not applicable due to the fact that the Company did not issue stock dividend in 2019.

### Appendix IV

#### **Aerospace Industrial Development Corporation** **Shareholding of the Board of Directors**

Book Closure Date: March 31, 2020

Title	Name	Shareholding recorded in shareholders' register on book closure date	
		Shares	%
Chairman	MOEA Representative: Hu, Kai-Hung	331,301,773	35.175%
Executive Director	MOEA Representative: Ma, Wan-June	331,301,773	35.175%
Director	MOEA Representative: Liou, Ming-Jong	331,301,773	35.175%
Director	MOEA Representative: Shieu, Fuh-Sheng	331,301,773	35.175%
Director	MOEA Representative: Chang, Ming-Pin	331,301,773	35.175%
Director	MOEA Representative: Yu, Cheng-Tao	331,301,773	35.175%
Director	MOEA Representative: Hsu, Chung-Ming	331,301,773	35.175%
Director	NDIDF Representative: Hsu, Heng-Pu	11,063,201	1.175%
Executive and Independent Director	Chan, Chia-Chang	0	0
Independent Director	Chen, Yin-Chin	0	0
Independent Director	Lien, Li-Jen	0	0
Total Shareholding Owned by All Directors		342,364,974	36.350%

- Notes:
1. By March 31, 2020, the book closure date, the Company has issued a total of 941,867,101 shares.
  2. Pursuant to the Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies, shareholdings of independent directors shall not be counted in the shareholdings owned by all directors; and, the prescribed minimum shares to be owned by all directors are 30,139,747 shares.
  3. The Company has set up an audit committee; hence, the provisions on the minimum percentage requirements for the shareholding of supervisors shall not apply.