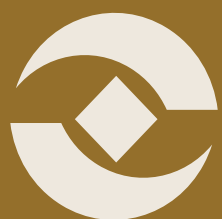


2018



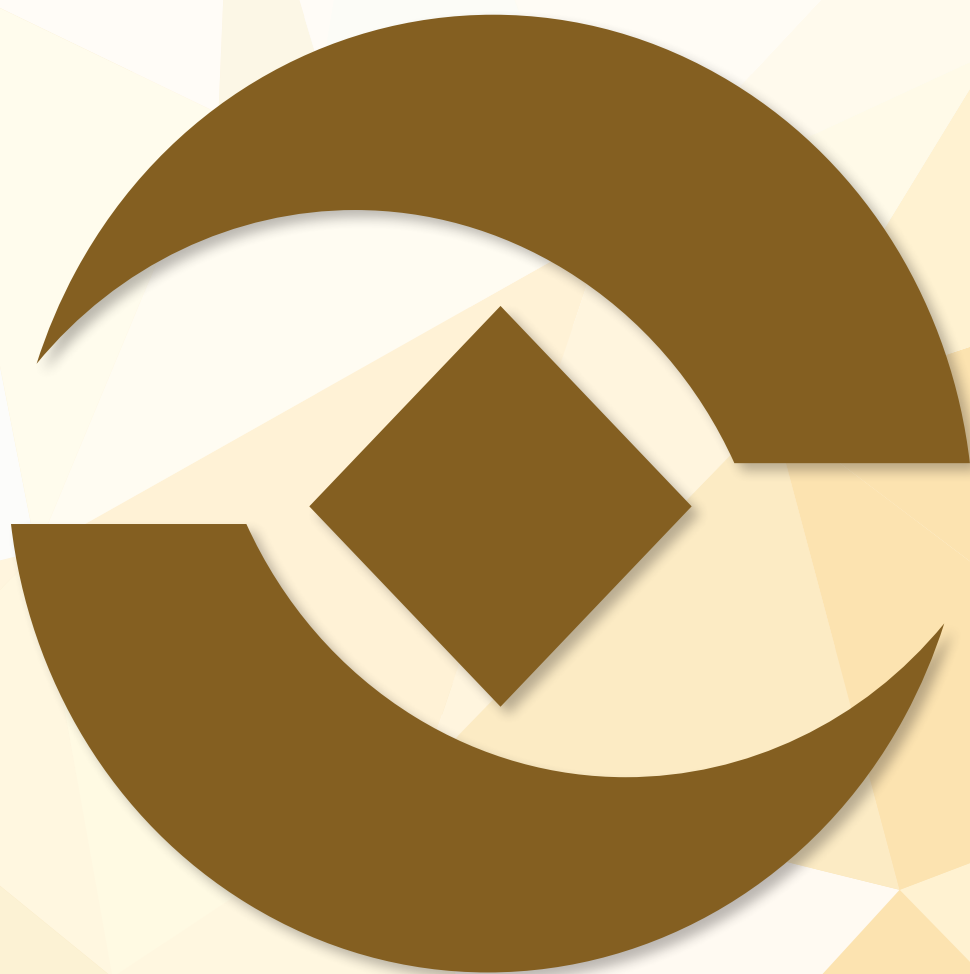
TPEX



ANNUAL REPORT



證券櫃檯買賣中心
Taipei Exchange



TPEX

Taipei Exchange 2018 Annual Report

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TPE_x GREETINGS

Chapter 1 GREETINGS



Robust Roots, Vigorous Growth

Taipei Exchange (TPEX) was established in 1994. It has always been the “engine of economic vitality, the cradle of successful enterprises.” We actively strengthen the capital market and support the growth of small and medium-sized enterprises. In 2018, we actively strived with regard to “encouraging listing on TPEX’s multi-tiered market,” “developing diverse financial products,” “upgrading information quality and transparency,” and “maintaining fair and efficient trading mechanism” to facilitate the more prosperous development of Taipei Exchange.

Encouraging listing on TPEX’s multi-tiered market

In 2018, TPEX actively promoted the entry of biomedical, agricultural technology, cultural and creative, smart machinery, green energy technology, Internet of Things, Big Data and national defense aerospace companies into TPEX. We also visited Malaysia, Vietnam, Japan, and the USA to encourage overseas quality enterprises to come to Taiwan to list on the main board and Emerging Stocks Board. We also stipulated diverse conditions for main board listing, encouraging growth-type enterprises with certain operating scale and visible results but which are still unprofitable to apply for listing on main board.

Through main board, Emerging Stocks Board, and Go Incubation Board for Startup and Acceleration Firms (GISA) multi-tiered markets, we continue to provide an excellent environment for enterprises' fundraising, incubation, growth, and strengthening. As of 2018, there were 766 companies listed on Main Board, 256 companies registered on the Emerging Stocks Board, 90 companies listed on the fundraising GISA (pre-IPO), with a total of 1,112 companies.

Developing diverse financial products

TPEX continue to promote green bonds. In 2018, we had 14 green bond listings, with NT\$33.3 billion issue amount. Not only did we garner the “2017 Green Bond Exchange” award and certification from the Green Bond Pioneer Award established by Climate Bonds Initiative and London Stock Exchange, we also joined CBI to become a partner, raising the profile in the international market of our green bonds and aligning with the green economic development trend of the world. In addition, in 2018 bond ETF also had great achievements. As of 2018, 36 bonds ETFs were listed for exchange, with NT\$351.2 billion issue amount, which was No.1 in Asia, a great achievement.

Upgrading information quality and transparency, and maintaining a fair and efficient trading mechanism

In 2018, TPEX actively improved the governance mechanism of companies, upgraded corporate information disclosure quality,

increased the transparency of the financial status of companies, and reinforced the professional competency of boards of directors, independent directors, and functional committees. In the meantime, focusing on different topics, we produced easy-to-understand lively animated films to educate the investing public, increase their financial knowledge and ability to understand company information, to protect the rights and interests of investors and maintain the fairness and efficiency of the trading markets.

Looking to the future, we will continue to strive with respect to six areas, namely encouraging excellent enterprises to list on TPEx market, sound bond market development, promoting a continuous trading system to align with global practice, developing diverse innovative products, formulating a financial technology related mechanism, and reinforcing corporate governance. In the meantime, in response to the United Nation's Sustainable Development Goals (SDGs), we will continue to promote green bonds, develop green products, and encourage sustainable investment, to play a part in achieving sustainable development and creating a beautiful, safe future for mankind.

Philip Chen
Chairman



Edith Lee
Managing Director & CEO



TPE_x INTRODUCTION

Chapter 2

INTRODUCTION



Organization



Products and
Services



2018 Milestones

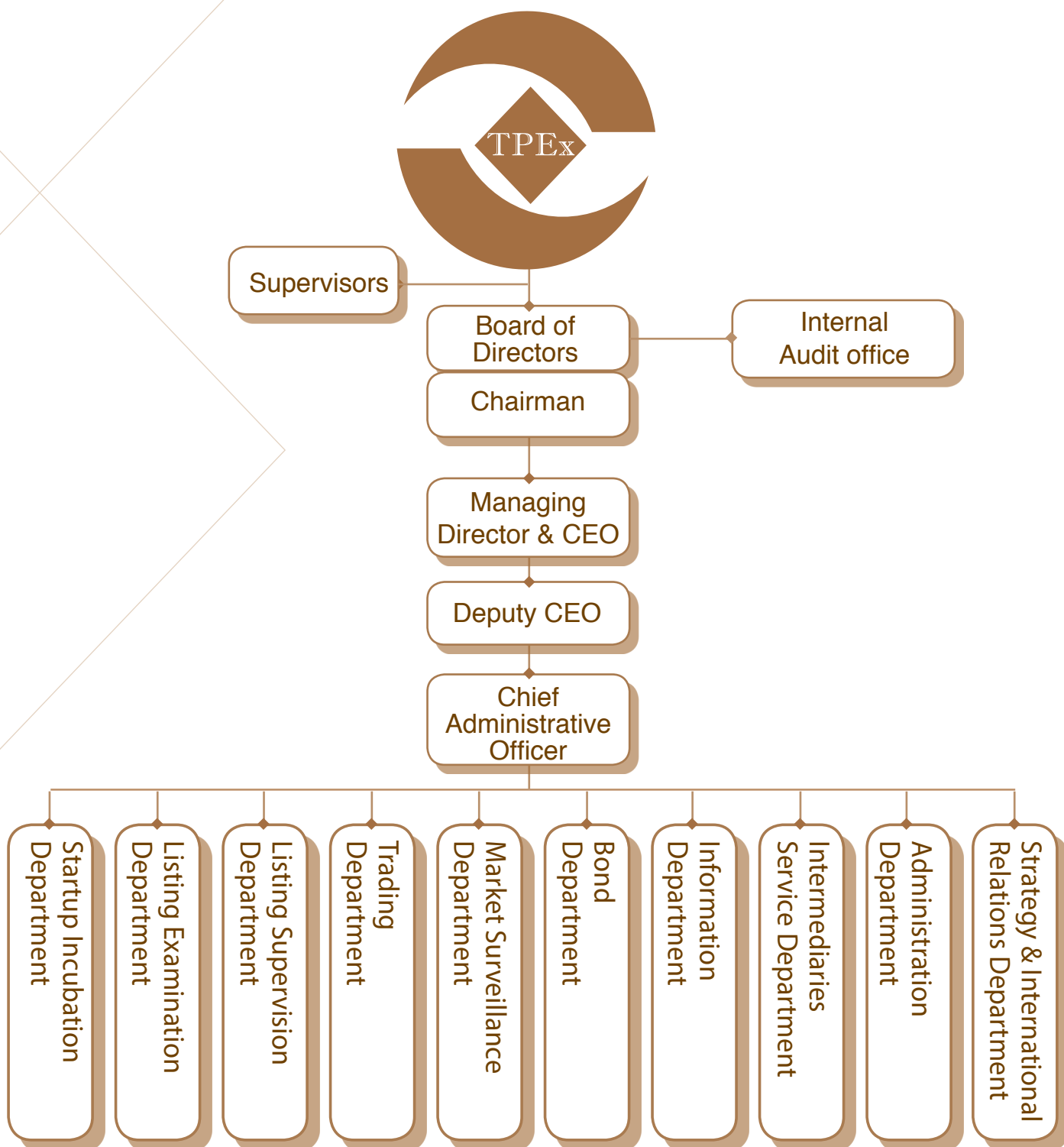
Organization

Organizational Structure

The board of directors, consisting of 15 directors and 5 supervisors, is the highest executive body of the Taipei Exchange. The chairman convenes and presides over board meetings, and represents TPEX. Under the board, there is one Managing Director & CEO who manages organization business, along with one to two deputy CEOs and one Chief Administrative Officer who assist the Managing Director & CEO.

The Taipei Exchange includes ten departments, namely Startup Incubation, Listing Examination, Listing Supervision, Trading, Bond, Market Surveillance, Information, Intermediaries Service, Administration, and Strategy & International Relations. Besides, an Internal Audit Office is subordinate to the board of directors to perform TPEX's internal auditing and control.

Organization Chart



**Executive
Management
Team**

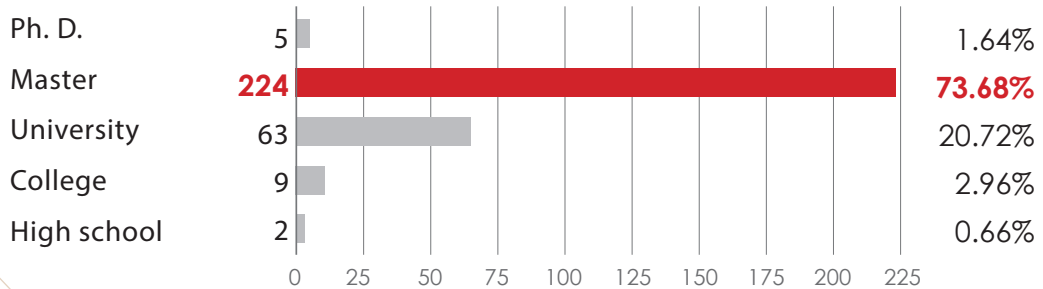


TPE_x INTRODUCTION

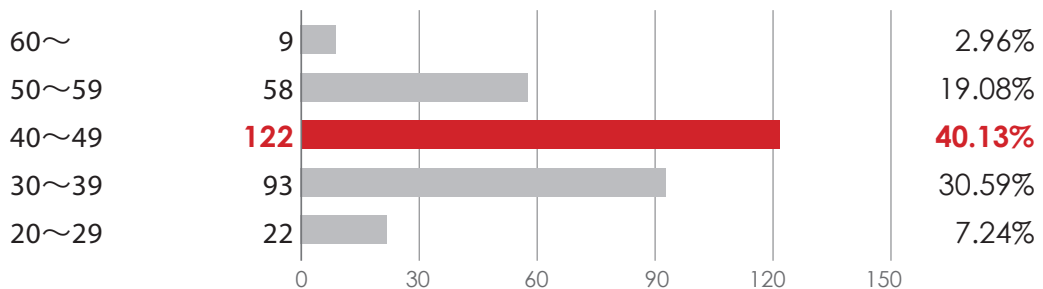
Workforce Composition

TPE_x currently has 304 employees, including 143 males and 161 females. In terms of the makeup of our workforce, employees in their forties account for the most, and so do employees with a master's degree. Average employee seniority is 12.68 years.

Levels of Education

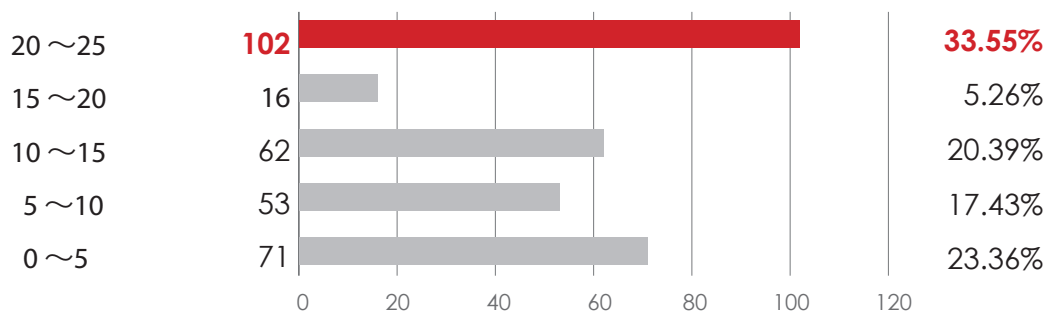


Employee Age



Note: Average age 42.19

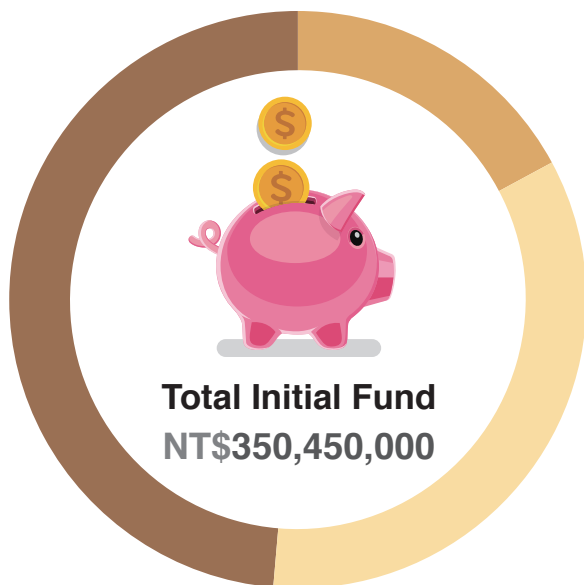
Working seniority



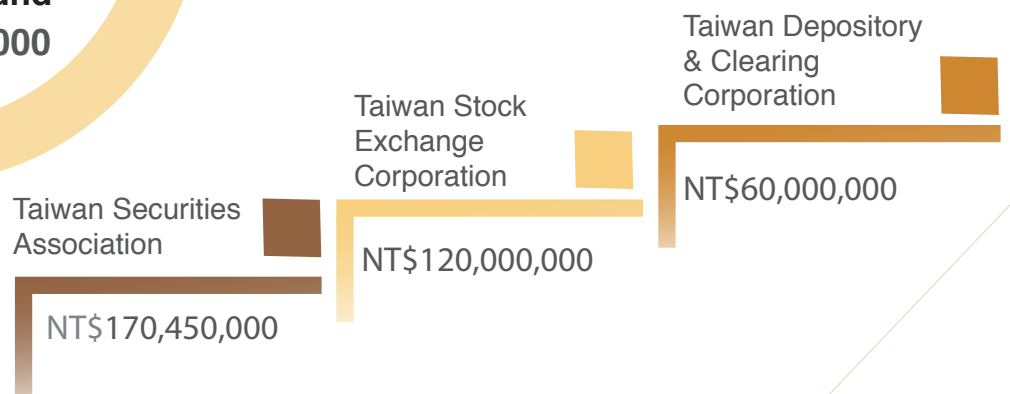
Note: Average working seniority 12.68 years

• ORGANIZATION

◆ Fund Size



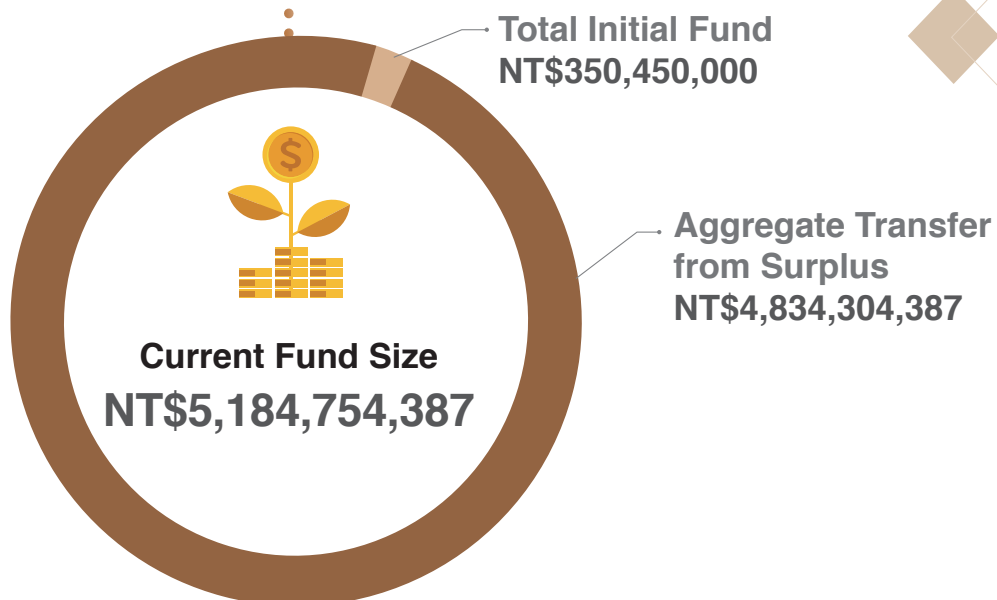
◆ Initial Fund Contributors and Amount



1994

2018

◆ Current Fund Size





Products and Services



Computerized Auto-matching (Order-driven)

- ▶ Listed stocks
- ▶ Taiwan depositary receipts (TDR)
- ▶ Convertible/exchangeable corporate bonds
- ▶ Call (put) warrants
- ▶ Exchange-traded funds (ETF)



Computerized Auto-negotiation (Quote-driven)

- ▶ Emerging stocks
- ▶ Listed open-ended funds
- ▶ Gold

• PRODUCTS and SERVICES



Computerized Auto-negotiation, Over-the-counter negotiation

► **Bonds**

- Government bonds
- Financial debentures
- Straight corporate bonds
- Stripped bonds
- Securitized products
- Beneficiary securities
- Corporate bonds with warrants
- Foreign bonds
- International bonds



Equity Crowdfunding Services

- Go Incubation Board for Startup and Acceleration Firms (GISA)
- Equity Crowdfunding Platform (FSC authorizes TPEx to manage)



Information Platforms

- Information Platform for the Chain of Industrial Value Creation

► **Derivatives**

- Interest rate derivatives
- Credit derivatives
- Bond derivatives
- Convertible bond asset swap
- Equity derivatives
- Structured note



2018 Milestones

2018/1

► Relaxed Requirements for Foreign Bank Branches to Issue International Bonds on the Professional Board in Taiwan

TPEx announced an amendment to the Taipei Exchange Rules Governing Management of Foreign Currency Denominated International Bonds on 2 January to adjust requirements of the scope and qualification of foreign issuers to raise funds and issue International Bonds on the Professional Board in Taiwan. The qualification requirements for foreign financial institution branches were also eased to facilitate diversification of foreign issuers.

► Encouraged Foreign Securities Firms to Engage in Domestic Warrants Issuing

With amended regulations, which took effect on 15 January, the accounts and methods by which foreign warrant issuers used in hedging and market-making, either on their own behalf or via outsourcing, would exempt from pre-collection of payments and release from money limits on their daily hedging and market-making orders. And newly applied provisions also allowing the Taiwanese branch offices of foreign issuers to sell short when self-hedging. All these changes make TPEx's warrant market sound and further attractive to foreign issuers.





• 2018 MILESTONES



2018/1

► Visits to Taiwanese Enterprises in Malaysia to Encourage Their Planning Listing in Taiwan

To attract more South-east Asian outstanding overseas Taiwanese enterprises to come for listing in Taiwan, TPEx visited Kuala Lumpur, Malaysia to hold the “2018 Taiwan Capital Market Seminar” on 16 January. Nearly 60 overseas Taiwanese enterprises in Malaysian attended the venue and had had lively interactions with us.

2018/2

► Prompted TPEx50 ETF to Adopt Creation and Redemption in Cash to Encourage Large Institutional Investors to Take Part in TPEx’s ETF Market.

To make TPEx 50 ETF investment more flexible and attractive further, TPEx announced that ETF adopt the system of creation and redemption in cash since February 1. Through this improvement, we looked forward to encouraging institutional investors to participate more in ETFs investment, and meanwhile, to satisfy investors who need creation and redemption in cash.

TPEX INTRODUCTION

2018/3

► Created Friendly Managing Mechanism for GISA Enterprises and More Flexible Crow-funding Mechanisms

To attract more innovative enterprises and startups to join GISA market, TPEX amended the Regulations Governing the Go Incubation Board for Startup and Acceleration Firms and the Regulations Governing the Conduct of Equity Crowdfunding by Securities Firms on 8 March. Through these changes, we looked forward to creating a friendly managing mechanism to startups, and to facilitating greater flexibility of an equity fund-raising platforms operated by market intermediates.

► Allowed Non-professional Investors to Engage in Repurchase Agreement/Reverse Repurchase Agreement of Foreign Bonds

Securities firms were allowed to engage in the trades of repurchase agreement /reverse repurchase agreement of foreign bonds with non-professional investors from 15 March in order to satisfy their needs for diverse investment ways.

► TPEX garnered “Green Bond Pioneer Exchange introducing new listing guidelines in 2017” Recognition

TPEX was awarded “Green Bond Pioneer Exchanges introducing new listing guidelines in 2017” certificate of recognition from the Green Bond Pioneer Awards established by Climate Bonds Initiative (CBI) and London Stock Exchange. The 3rd Annual Green Bond Pioneer Awards (GBPA 2018) ceremony was held in London on 20 March.

• 2018 MILESTONES

2018/4

► Allowed Foreign Governments to Issue International Bonds on the Professional Board of TPEX's Bond Market

Amendments to some articles of Taipei Exchange Rules Governing Management of Foreign Currency Denominated International Bonds were announced on 3 April. Since the day, foreign central and local governments were allowed to issue international bonds on the professional board. As a consequence, we expected the number of outstanding foreign issuers to increase, and the open measure could also contribute more diverse products of international bonds.



► TPEX Accompanied 17 TPEX listed Companies to Hold an Investor Conference in Hong Kong, and Received International Investors' Attention

Together with managing executives from 17 TPEX's outstanding listed companies, TPEX held an investor conference in Hong Kong on 12 April. The companies had had in-depth conversations with international institutional investors in Hong Kong, and they struck a chord with those investors.

TPEX INTRODUCTION

●
2018/5

► **Joint Climate Bonds Initiative (CBI) as a member to Align Taiwan's Green Bond Market with the Global Green Finance Society**

TPEX signed a contract with CBI on 25 May and became the second Asian exchange member to join the organization. This move would deepen the partnership and facilitate a joint effort to the internationalization of the green bond market in Taiwan.

2018/6

► **Allowed Investors to Subscribe GISA Company Shares 24 Hours a Day**

The fund-raising system of Go Incubation Board for Startup and Acceleration Firms was actively optimized by allowing investors to subscribe stocks of GISA companies 24 hours a day from 8 June. Through this improved measure, we looked forward to increasing the convenience of stock subscription of GISA companies, and created a startup-friendly environment for those innovative startups to raise money successfully and grow smoothly.

• 2018 MILESTONES

2018/6

► Visited Los Angeles and San Francisco to Promote Companies for TPEX Listing

TPEX delegates headed for Los Angeles and San Francisco in the U.S.A. on 10 June to visit 5 Taiwanese enterprises in the U.S. in the realm of electronics, software and information services, and communication networks. Through a detailed introduction of the TPEX market, these overseas Taiwanese enterprises were given a better understanding of the advantages and necessity of entering the capital market.

► Visited Vietnam to Encourage Taiwanese Enterprises to List on the Mainboard of TPEX

TPEX held a “Explanatory Meeting on Vietnamese Enterprises Linking to Taiwan Capital Market” in Vietnam on 29 June to encourage local outstanding overseas Taiwanese enterprises to get listed on the Mainboard of TPEX in Taiwan. The seminar introduced the conducts and advantages of entering the Taiwan capital market to raise funds with similar culture backgrounds.

2018/7

► New Measure of Withdrawal Mechanism for Extendable warrants

To provide a withdrawal mechanism for extendable warrants, TPEX announced amendment to the Procedures for Review of Call (Put) Warrants Listings, and implemented the new measure on 23 July. For extendable warrants with outstanding units under certain floor amount and with less market liquidity, the issuer may apply for termination from market trading other than applying for extension.



TPEX INTRODUCTION

●
2018/7

► **Held an Institutional Investors Conference in Malaysia to Improve Exposure of TPEX Companies**

TPEX held an investor conference in the capital of Malaysia, Kuala Lumpur, for the first time on 10 July. This arrangement not only increased the visibility of TPEX in this region but also connected TPEX listed companies with local institutional investors, and at the same time, deepened their understanding of Malaysian market. On this occasion, TPEX companies could also relive relationship with their south-east Asian strategic partners so as to accomplish the dual benefits of attracting investment and expanding their business opportunity.

◆
2018/8

► **Allowed Futures ETF to be listed on TPEX and the Call (Put) Warrants Linked to Such Underline Securities**

TPEX announced amendments to the Rules Governing Securities Trading on the TPEX on 9 August. The new rules allowed the beneficiary certificates of exchange traded futures trust funds (futures ETF) raised and issued by futures trust enterprises to apply for listing on the Mainboard, and also allowed securities firms to issue call (put) warrants linked to such underlines.



• 2018 MILESTONES



2018/8

► Reinforced Voluntary De-listing Mechanism to Protect Shareholders' Interests and to Meet the Spirit of Corporate Governance

Considering the de-listing application is not only an important issue for the operation of the listed company, but also a very crucial even to its shareholders, TPEx promulgated the Procedures for Applications by TPEx Listed Companies for the Delisting of Securities on 13 August. The updated provision requested the company must hold a meeting of board of directors to discuss thoroughly and reach a consensus, and then obtain an approval resolution from the shareholders' meeting before submitting a de-listing application, in order to protect the shareholders' interests.

2018/9

► Allowed Securities Firms to Issue ETN and List on the TPEx Mainboard

The Exchange Traded Note (ETN) and trading mechanism was announced and took effect on 10 September. ETN is a type of index-linked securities combining the features of ETF and bonds. Aiming at tracking the performance of underlying indexes, they are also traded and listed on the securities market. They are convenient for the participation of investors with a small amount, and will satisfy their needs for diverse investment.

TPEX INTRODUCTION

2018/10

► Amended the Rules Governing Securities Trading on the TPEX to Strengthened the Protection of Interest of Shareholders of Those Listed Companies with Subsidiaries Listed Overseas

It is a material matter for TPEX-listed companies that decide to let their subsidiaries go listing overseas. The company should inform shareholders about this important matter in advance. And it should be decided by shareholders' meeting. During the communication process, company is also obligated to provide sufficient information for the shareholders' reference in order to meet corporate governance requirements and protect the shareholders' rights to know. For this reason, TPEX amended the Rules Governing Securities Trading on the TPEX and added new provision, applicable to all listed companies and their subsidiaries on 5 October. In addition, the requirement for a special committee to be established to examine matters relating to a listed company's subsidiaries to get listed overseas was added at the same time.

2018/11

► “Certified Organizations and Groups” was Allowed to Log in to the “GISA Fund-raising System” to Subscribe GISA Company's Shares

To improve fund-raising capability of the GISA market, investors were allowed to log in system in the name of “certified organizations and groups” to subscribe GISA company stocks since 9 November. This measure enabled non-corporate organizations or groups such as schools, financial foundations, juridical associations, independent administrative institutions and freelance offices to subscribe the shares of companies registered on GISA through the fund-raising system. This action will not only broaden the potential stock investors of GISA companies but also be beneficial to fund-raising for startup enterprises.

• 2018 MILESTONES

2018/12



► Held an Investor Conference in Japan to Increase Japanese Institutional Investors' Understanding of TPEX listed companies

Along with 5 outstanding TPEX listed companies and 2 TWSE listed companies, TPEX held the investor conference titled “2018 Taiwanese Enterprise Day” in Tokyo, Japan on 13 December. There were 60 one-on-one meetings held during the conference, and it raised Japanese institutional investors’ strong interest in Taiwanese enterprises.

► New Measures on CFDs and Binary Options Adopted to Protect Customers of Leverage Transaction Merchants

With reference to the European Securities and Markets Authority (ESMA) newly adopted measures in May 2018, securities firms were prohibited on the provision of binary options to non-professional investors since 20 December. And new regulation governing leverage multiples of contracts for differences (CFDs) provided to non-professional investors was undertaken at the same date. All these new measures were adopted on account for investor protection of leverage transaction.

Chapter 3

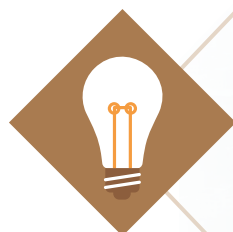
**BUSINESS
PERFORMANCE**



Steadily Growing
Equity Markets



Pursuing Excellence
in the Bond Market



Innovation in
Market Mechanism

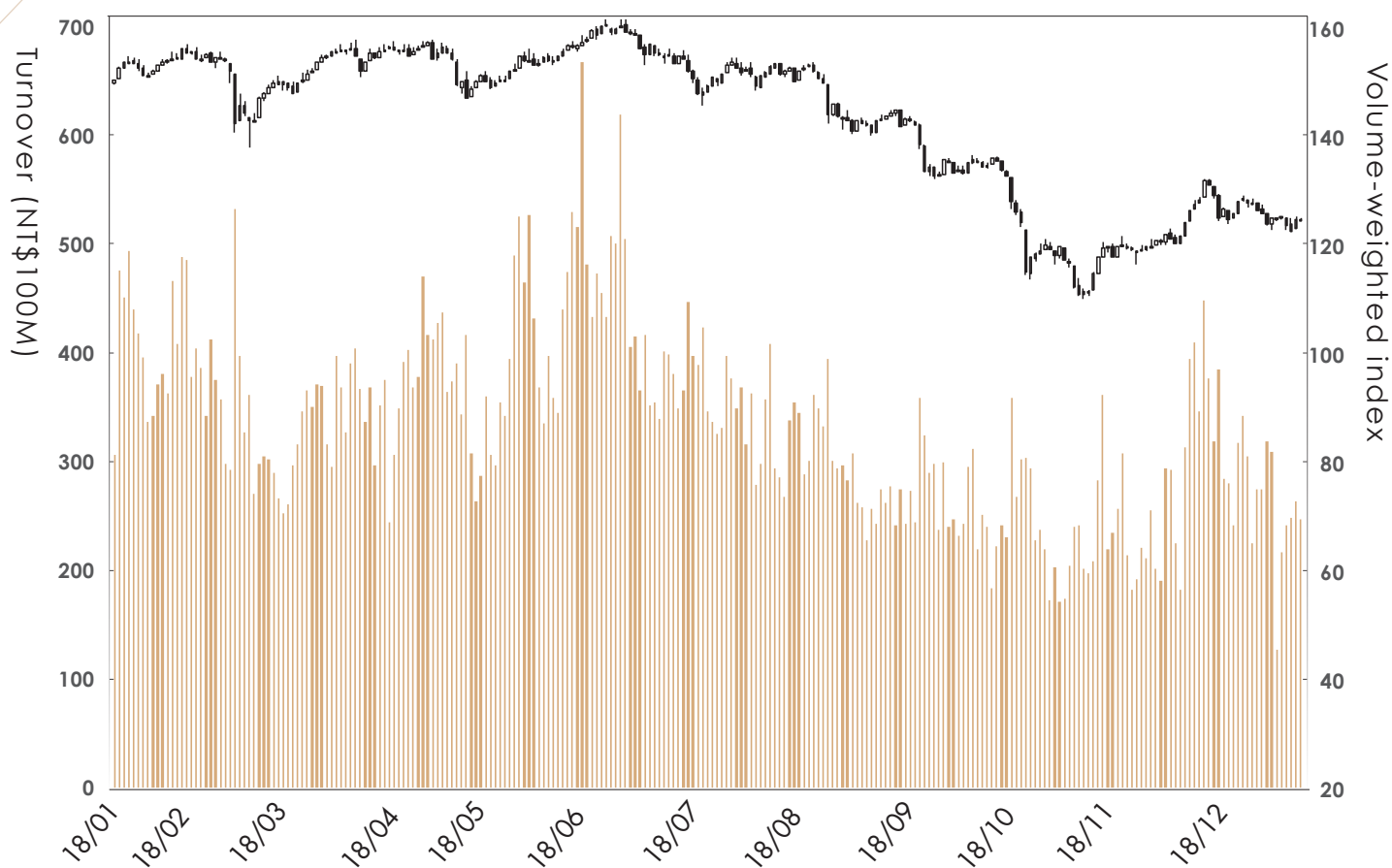


Foreign Investment and
International Interactions



Sound Corporate
Governance Mechanism

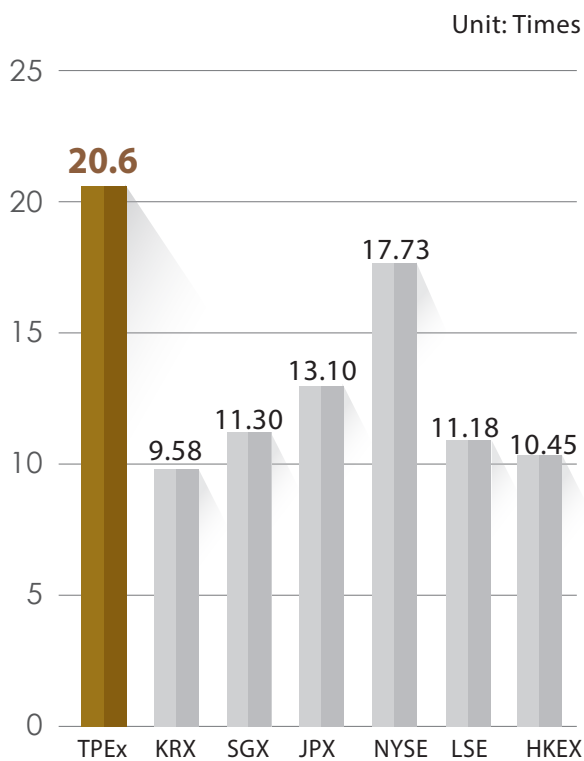
Trend of TPEx Index in 2018



- STEADILY GROWING EQUITY MARKETS



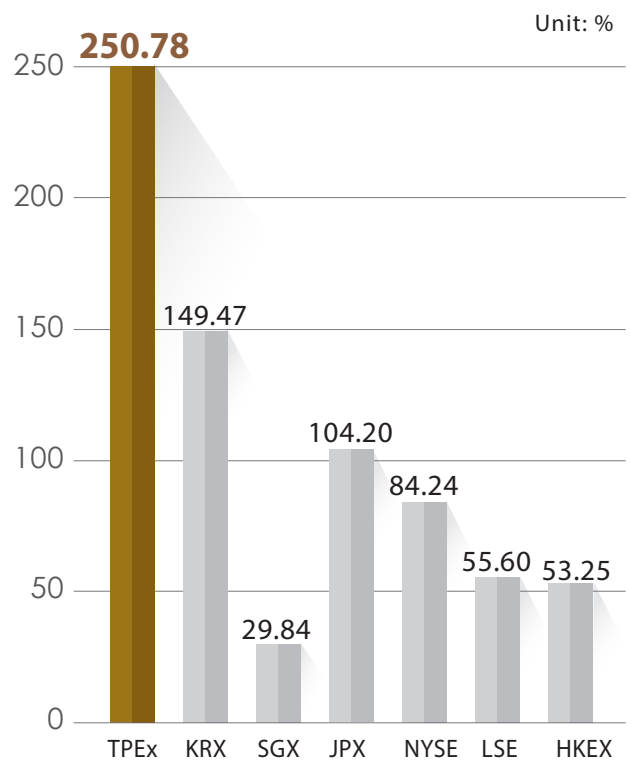
High P/E Ratio



Source: Securities and Futures Bureau, "Indicators of Securities & Futures Market", the end of Jan 2019



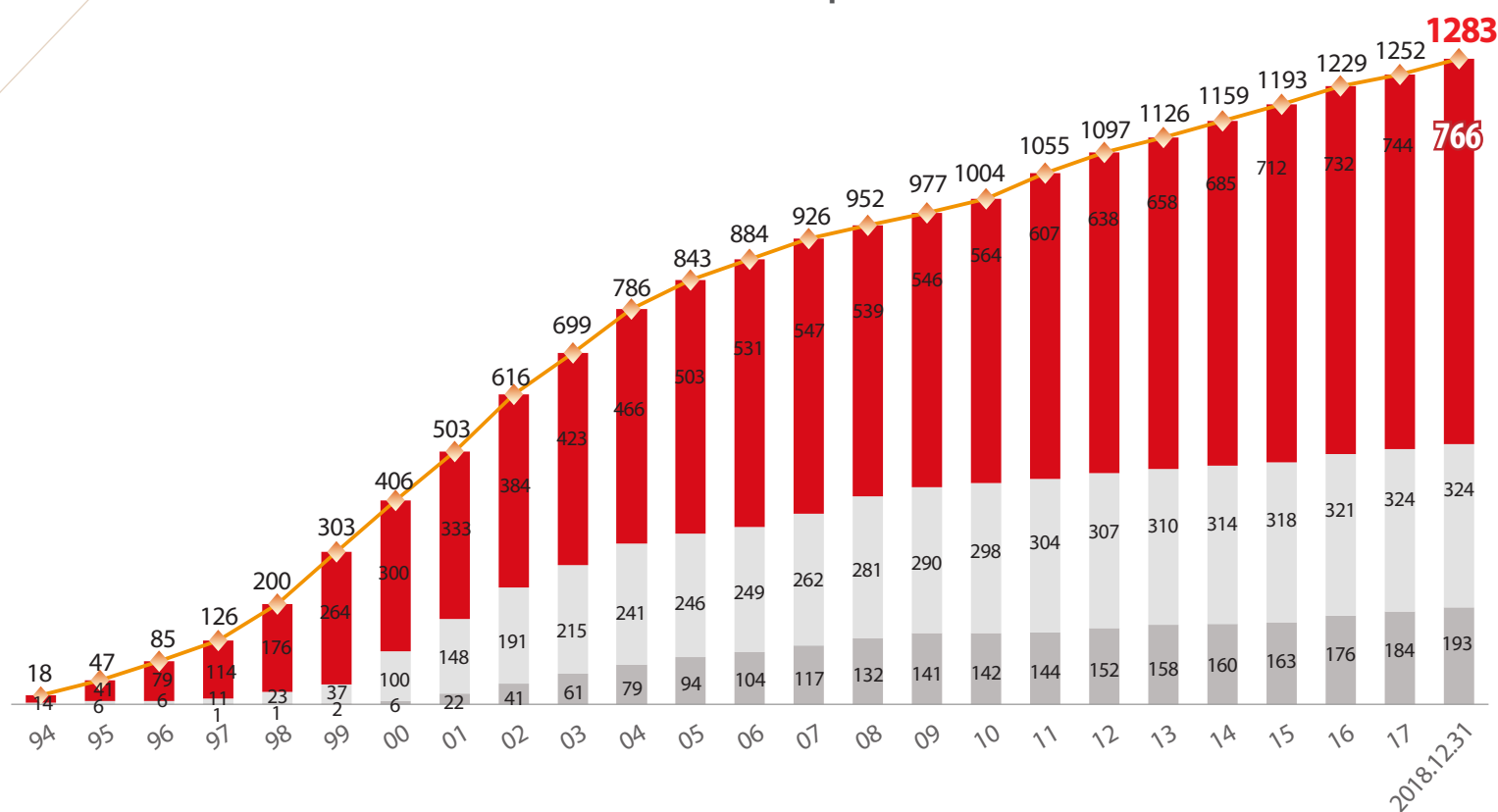
High Turnover Rate



Source: Securities and Futures Bureau, "Indicators of Securities & Futures Market", the end of Jan 2019

Accum. No. of TPEx Listed Companies 1283

- Yr-end TPEx Listed Companies: 766
- Accum. No. of Transfers to TWSE: 324
- Accum. No. of De-listed Companies: 193



• STEADILY GROWING EQUITY MARKETS

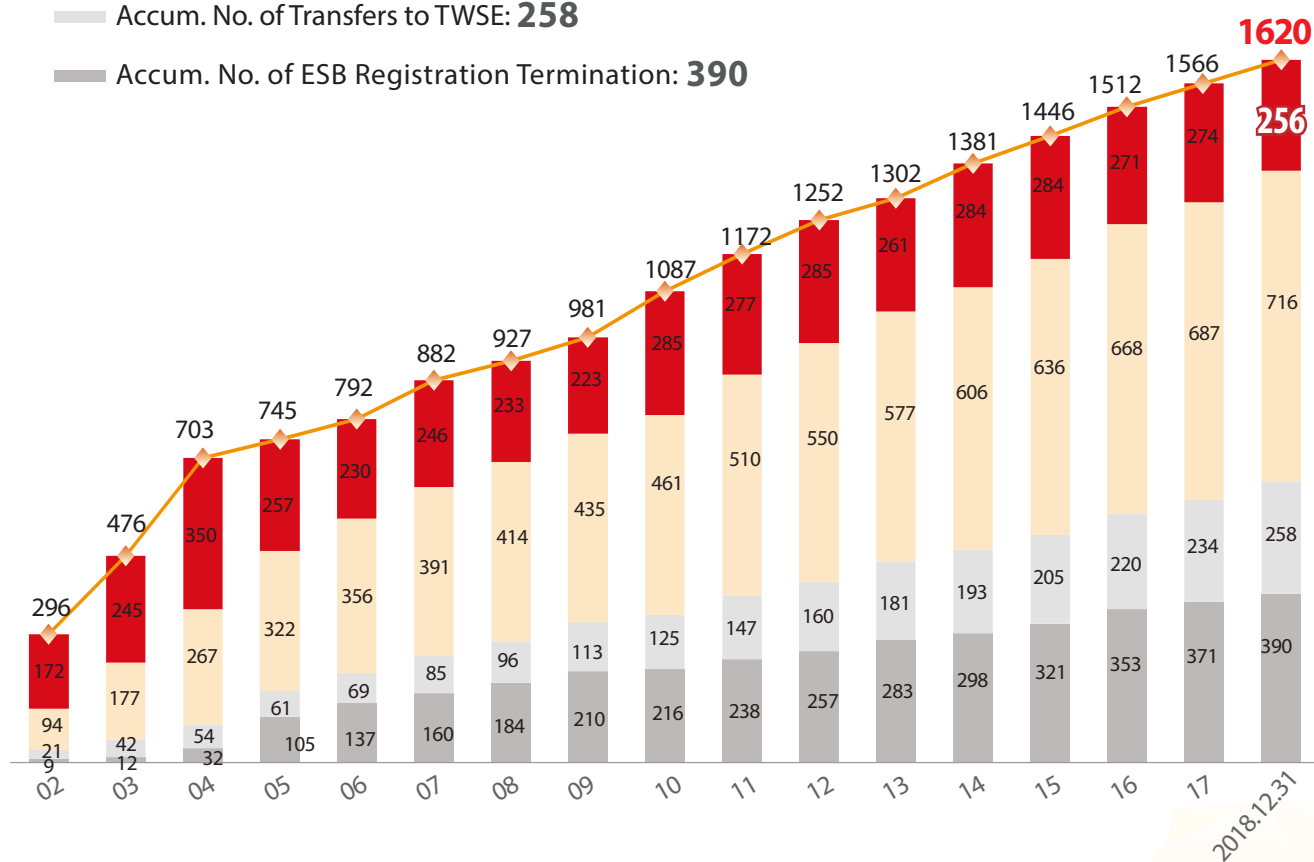
Accum. No. of Emerging Stock Board Registered Companies **1620**

■ Yr-end ESB-registered Companies: **256**

■ Accum. No. of Transfers to TPEx Main Market: **716**

■ Accum. No. of Transfers to TWSE: **258**

■ Accum. No. of ESB Registration Termination: **390**





Steadily Growing Equity Markets

I Average Daily Trading Volume of TPEX Main Market Achieved Another Record High

The international securities market witnessed fluctuations due to the impacts of the US-China trade war and geopolitical tensions in 2018. However, TPEX's average daily trading volume in 2018 continued to grow, reaching NT\$ 32.977 billion, up 5.58% from 2017's NT\$ 31.233 billion.

II The Number of TPEX's Main Market and Emerging Market Listed Companies Grew to More Than 1,000

There were 31 IPO companies on the TPEX mainboard and 54 newly registered companies on the Emerging Stocks Board in 2018. This took TPEX's total number of equity market companies to more than 1,000, including 766 mainboard companies and 256 ESB companies at the end of 2018, both markets showing steady growth.

- STEADILY GROWING
EQUITY MARKETS



III Successful Promotion of Companies Listing from Distinctive Industries

The were 38 companies from distinctive industries applied for listing on the Mainboard or Emerging Stocks Board. In particular, the number of applicants for TPEX listing from biomedical industry was higher than any other industries for four consecutive years as from 2015 to 2018. The number of applicants from the smart machinery industry also reached 9 in 2018, gaining an increase of 50% from 2017. Meanwhile, there were some companies related to national defense and aerospace industry started to apply for listing in 2018. Furthermore, 15 overseas Taiwanese companies applied for main Board or ESB listing or application counselling. These results indicate the positive outcomes of TPEX's efforts to promote distinctive industry companies to enter our capital market, and especially, to gravitate those outstanding overseas Taiwanese companies toward TPEX.

IV 234 Listed Companies with Yield Ratios of 5% or More at the End of 2018

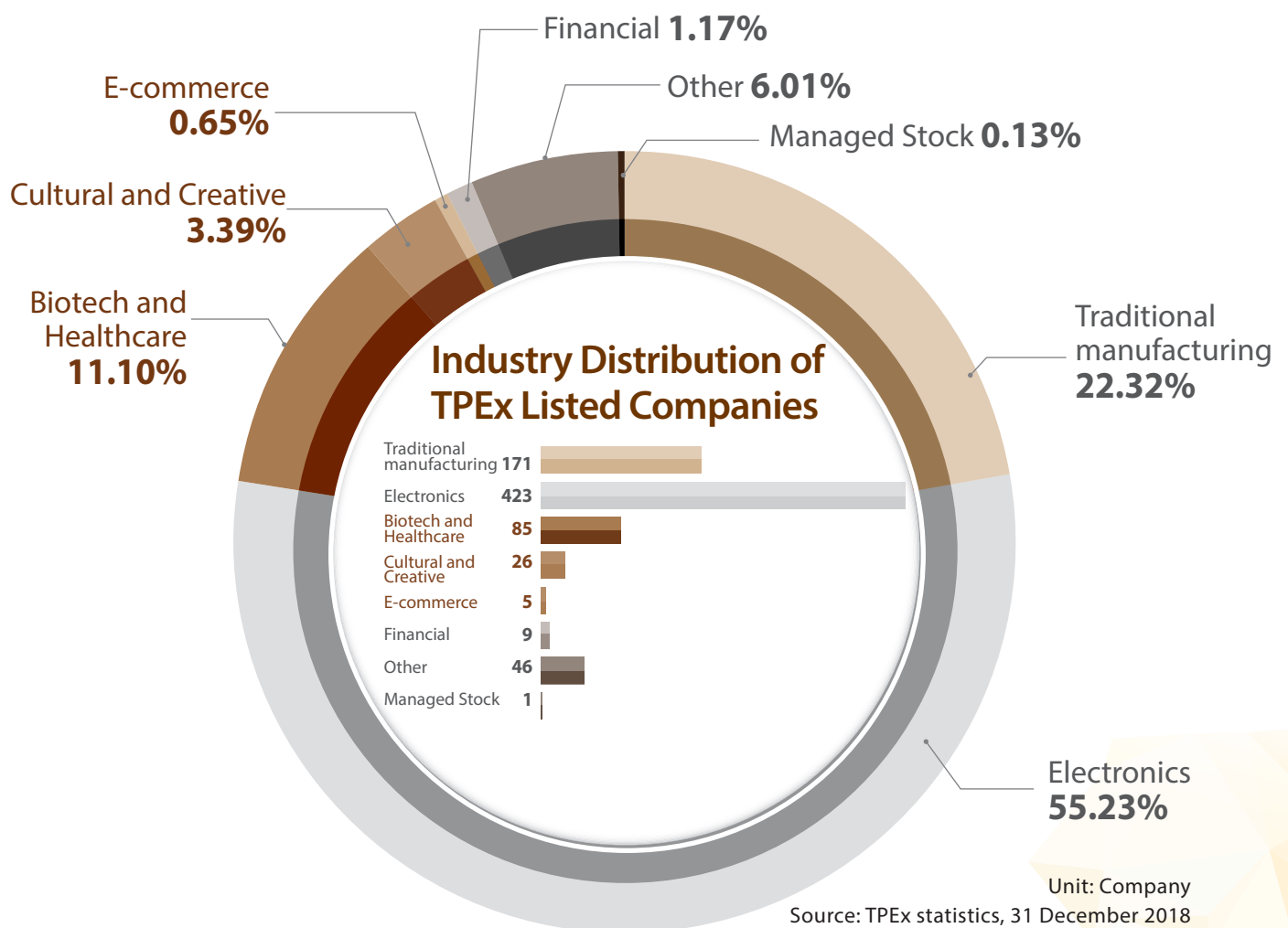
There were 291 companies with reported EPS in excess of NT\$ 2 through 2018, and that accounted for 37.98% of all TPEX listed companies. What is more, there were 33 companies reported EPS in excess of NT\$ 10, and there also were 234 companies with Yield Ratio of 5% or more that accounted for 30.42% of all listed companies at the end of 2018. These figures showed that many TPEX listed companies with good fundamentals had fully strived for competitiveness and had achieved steady growth and rewarded investors with decent returns.

V Innovative Firms Account for 15.14% of TPEX Market Companies

The proportion of innovative technology firms listed on the TPEX market raised up to 15.14% in 2018 from 13.98% in 2017. These innovative and technology -intensive firms were amongst distinctive industrial clusters, namely the biomedical (such as medical devices and distribution, pharmaceuticals R&D, genetics and biotech, etc.), cultural and creative (such as game, combinative business of life and culture, etc.), and e-commerce. The companies with similar products or within similar business chains were gradually formatting into specified

• STEADILY GROWING EQUITY MARKETS

industry clusters. As the clustering effects gradually appeared, more and more domestic or overseas Taiwanese companies in the same cluster would be attracted to join TPEx market in succession. The clustering effects also allow companies to reach the goals of optimizing their financial arrangements, and may boost their growth and contribute to their sustainable developments.



VI 8,578 Warrants Issued in 2018 and Total Trading Volume up to nearly 22.5 Billion Units.

A total of 8,578 warrants were issued on the TPEX market in 2018, amounting to NT\$ 85.608 billion, which represented an increase of 9.07% and 19.65% respectively compared with the figures in 2017. The total trading volume also rose to 22.454 billion units. Both reached their historical record high.

VII The Fund Size of TPEX50 ETF and Trading Volume Grew Significantly

TPEX50 Index-tracking ETF was favored by investors in 2018. Total trading volume increased by 84.75% from 2017's level, while the fund size increased by 83.72%.

- STEADILY GROWING
EQUITY MARKETS





Pursuing Excellence in the Bond Market

| Spurred the Development of the International Bond Market, Increased Pricing Transparency

TPEx continued to encourage the diverse development of the international bond market in 2018. It allowed branch offices of international banks and foreign central and regional governments to issue international bonds on the professional board since January 2nd and April 3rd respectively. Foreign issuers had issued 47 international bonds in total by the end of 2018, included 5 subordinated debts with total outstanding balance of US\$ 1.328 billion, 33 floating rate notes with total outstanding balance of US\$ 9.129 billion, and 9 international bonds with total outstanding balance of US\$ 419 million on the general board. The scale of international bonds issued by the end of 2018 amounted to NT\$ 1.002 billion, and the outstanding balance was around NT\$ 4.8837 trillion by the end of 2018. In addition, TPEx provided daily theoretical prices calculated and disclosed on its website for the market stakeholder's reference since 10 December 2018. Through this calculation, TPEx did our part to improve the market price transparency and increase reference value of the international bond market.

- PURSUING EXCELLENCE
in the BOND MARKET



II More Than NT\$50 Billion in Green Bonds Issuance Amount

TPEX announced the “Taipei Exchange Operational Directions for Green Bonds” on April 21, 2017, and 23 green bonds were issued with issuers in the realm of domestic and foreign banks, state-owned enterprises and general enterprises and with a total issuance amount of NT\$ 53.9 billion by the end of 2018.

III Issue Scale of Bond ETFs Amounted over NT\$ 350 Billion, No.1 in Asia.

Following the exemption of transaction tax on bond ETFs took effective since January 1, 2017, TPEX actively encouraged investment trust enterprises to issue bond ETFs. In 2018, TPEX listed 36 new bond index-tracking ETFs. As of the end of 2018, TPEX bond ETFs listed scale amounted to NT\$ 351.2 billion. The trading value of these ETFs amounted to NT\$ 316.4 billion for the year as a whole.

IV Accumulator Trading Value of Foreign Bonds Amounted over NT\$6 Trillion, the Highest Ever

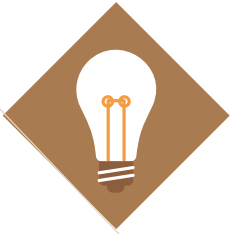
There were a total number of 70 securities firms (including concurrently operating financial institutions) had initiated dealing business of foreign bonds as of the end of 2018. Securities firms registered 1,468 foreign bonds in 2018, including 1,100 USD denominated bonds, the highest number of issues, and 76 CNY denominated bonds. The total trading value of foreign bonds registered by securities companies amounted to NT\$ 6.1921 trillion in 2018, achieving to its record height since the business was open in 2014.

V Built a System for Issuing and Trading ETNs

TPEX announced ETN rules in the third quarter of 2018 and there were 3 ETN underline indexes had passed the examination. Furthermore, the Ministry of Finance issued an interpretation announcement agreeing to TPEX's proposal to exempt ETN investors and issuers from the levy of securities transaction taxes on the repurchase and redemption by ETN investors and issuers since 3 January 2019. TPEX also gained approval from the competent authority for easing the foreign currency holding position limit for securities firms, to facilitate the diverse development of investment products in the market. These moves will effectively increase the appeal of ETN products and can help the expansion of the business of securities firms.

- PURSUING EXCELLENCE
in the BOND MARKET





Innovation in Market Mechanism

I Created a Startup-friendly and More Flexible GISA Fund-raising Mechanism

TPEX created a startup-friendly and more flexible management mechanism by amending the Regulations Governing the Go Incubation Board for Startup and Acceleration Firms in March. These adjustments could simplify the disclosure items of GISA companies' financial information. And they also diversified the examination system for innovative and creative companies, and then eased the procedures of company fund-raising, and also deleted the rule governing the capital amount of GISA application requirements. In addition, TPEX also amended the Regulations Governing the Conduct of Equity Crowdfunding by Securities Firms to increase the transferees of shares subscribed by securities firms and also easing paid-in capital restrictions on fund-raising companies to give equity fund-raising platforms more operating flexibility.

II Continued to Encourage Startups in the Realm of Important and Distinctive Industries to Enter GISA Market

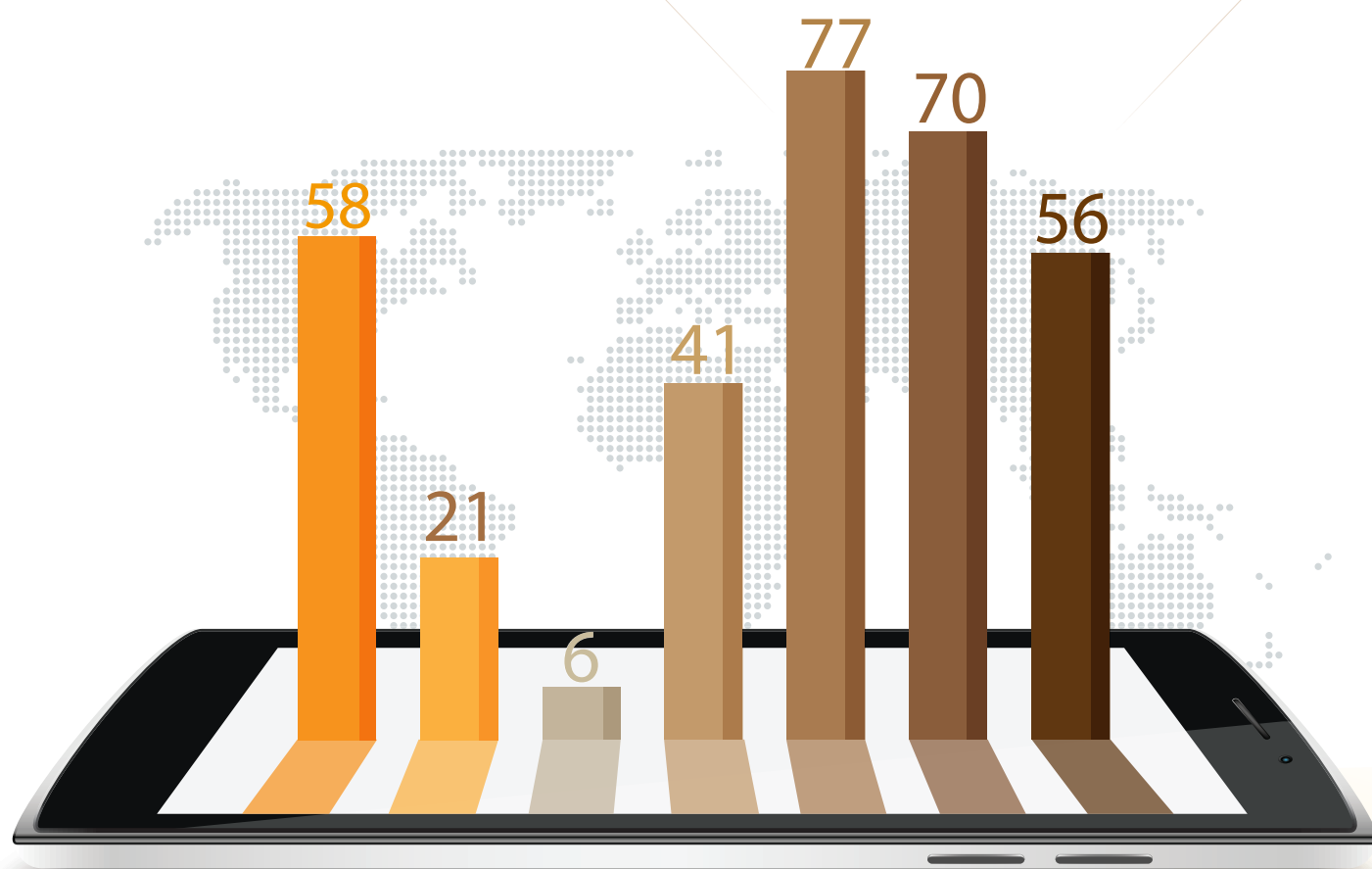
As of the end of 2018, a total of 126 companies in the realm of cultural-and-creative, agri-technical, social enterprises, and e-commerce industries had applied to GISA. After counseling, 57

• INNOVATION in
MARKET MECHANISM

創櫃公司投資媒合會



Industry Distribution of
Accum. No. of GISA Applicants



Cultural and
Creative

Agribusiness

Social
Enterprises

E-commerce

Electronics

Biotech and
Healthcare

Other

Units: Companies

Source: TPEx, year-end 2018

of them were registered on GISA, where they accounted for 40% of the 144 GISA registrants. GISA counseling and fund-raising assistance continue to be provided to startup companies not only to introduce systemizing or to help their operations on track, but also greatly increase their name recognition to the market.

III Diversified Listing Conducts and Ease Requirements to Strengthened Market Competitiveness

TPEX updated its listing rules and adopt exemption conditions on profitability requirement to encourage growth enterprises that have substantial and outstanding operation but have still not gained profits to apply for TPEX listing or the first listing. Apart from the criteria of Profitability, Net value, Operating revenue, and Cash flow from operating activities were newly added-in examining elements as TPEX listing criteria for measuring enterprise size and business performance since March of 2018. Associated measures were also introduced to provide the applicants with diverse choice of listing requirements. In addition, TPEX has shortened the listing examination tenor of TPEX IPO applications to 6 weeks so as to increase the efficiency and subsequently strengthen the competitiveness of domestic capital market.

• INNOVATION in MARKET MECHANISM



IV Allowed Futures Warrants Issuance

TPEX actively strived to allow non-single stock futures type domestic futures products to be categorized as the linked instruments of call (put) warrants. It promulgated related regulatory amendments on 21 February 2018 upon receiving approval from the competent authority, which expanded the current warrant instruments to index fund, ETF, single stock, gold and futures, while simultaneously shortening the call (put) warrants' duration to 3 months. These actions have not only further expanded linked instruments and enhanced the flexibility of securities firms, but also increased investor asset allocation tools.

V Allowed Futures ETFs and Warrants Linked to Futures ETF to get listed in TPEX

TPEX announced amendments to Rules Governing Securities Trading on the TPEX and related regulations on 9 August 2018. The regulation adjustments were to satisfy investor demand for exchange traded futures trust fund ("futures ETF) and associated call (put) warrant. The amendments allowed futures ETF beneficiary certificates raised and issued by futures trust enterprises to apply to list on the TPEX mainboard, and securities firms to issue call (put) warrants linked to such underlined ETFs.



Foreign Investment and International Interactions

I Foreign Investment Accounted over 20% of the Market

The total TPEX stock holdings by foreign and Mainland Chinese investors had risen steadily in recent years, growing to 21.48% of the TPEX market capitalization as of the end of 2018. Foreigners' participation in trading had also risen as a percentage of trading volume to 11.6 %, where a peak topped to 15.05% record in September, 2018. These figures indicate that foreign investors have a high level of confidence in the momentum of Taiwan's economy and remain focused on and affirm outstanding TPEX-listed companies.

II Continuing to Deepen Interactions with International Exchanges and Related Institutions

TPEX continued to deepen its relations and cooperation with international capital markets by attending 2018 TSE IR FESTA, participating in 9th Okinawa Venture Market at the invitation of Japan Exchange Group (JPX) and Okinawa J-Adviser, and hosting visits of some foreign financial institutions and securities firms such as a delegation of Vietnamese senior officials, Hanoi Stock Exchange and Croatia Economic Chamber of Commerce. TPEX also signed a MOU with the Qatar Stock Exchange on 3 October 2018, and successfully developed a connection with capital markets in the Middle East.



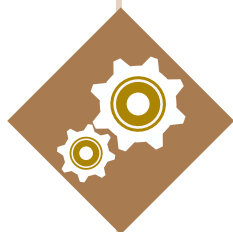
Sound Corporate Governance Mechanism

Promoted Crucial Measures in Line with Requirements of the New-version Corporate Governance Blueprint

TPEX continued to promote the new corporate governance blueprint (covering the 2018-2022 period) aiming at enhancing functions of board of directors, improving the adequacy and sufficiency of information disclosure, strengthening protection of shareholders' rights, and motivating the company fulfill its social responsibility. Operational Directions for the Establishment of Boards of Directors and Execution of Duty of the Board for TPEX Listed Companies were implemented in 2018, requiring listed companies to set up corporate governance staffs, and established a standard operation procedure for handing requests by board members. Another amendment to the "Sample Template of Self-Evaluation or Peer Evaluation of the Board of Directors." was also made to incorporate the latest developments of corporate governance rules and good practice across advanced nations to improve performance of the board.

Chapter 4

FUTURE PROSPECTS



Continue Promoting Enterprises' Entry into the Taipei Exchange Multi-tiered Market



Promoting TPEX200 ETF, Exchange Traded Note (ETN) and Other Diverse Financial Products



Advancing Developments of the International Bond Market



Promoting the Continuous Trading System



Formulating Suggestions of ICO (Initial Coin Offering) Supervisory Framework and Regulations



Fulfilling the Goals of 2019 Corporate Governance Roadmap



Continue Promoting Enterprises' Entry into the Taipei Exchange Multi-tiered Market

TPEx will cooperate with Industrial Development Bureau, Ministry of Economic Affairs, Council of Agriculture, and Ministry of Culture, and integrate the government's overseas offices, World Taiwanese Chambers of Commerce and other external units and the influence of underwriters and accountants, to actively promote application of outstanding domestic and foreign companies in the realm of advanced industries to list on the Taipei Exchange main Board and emerging stock Board.



Promoting TPEx 200 ETF, Exchange Traded Note (ETN) and Other Diverse Financial Products

TPEx will continue to develop innovative products. It is expected that the TPEx200 index will be launched in March 2019, and followed up with the listing of index-tracking products such as TPEx200 ETF, TPEx200 ETF Warrants, etc. In April 2019, we will introduce all-new ETN product listings in order to extend the business scope of securities intermediates, and provide investors with more product choices.

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Deutsche Bank 德意志銀行



Standard Chartered 渣打銀行



Advancing Developments of the International Bond Market

TPEX will promote listing mechanism of the Islamic fixed income securities-Sukuk (i.e. shariah-compliant bonds), and also plan to implement the supervision system for international bonds of Total Loss-absorbing Capacity (TLAC), as well as a fair price information disclosure system for medium- short term fixed interest rate US-dollar denominated international bonds without redemption rights.



Promoting the Continuous Trading System

In line with the planned adoption of continuous trading in March 2020, we scheduled to activate a continuous trading virtual trading platform on March 25, 2019. TPEX will invite investors to experience the virtual matching function before the implementation of the new continuous trading system, and we will conduct a series of quizzes with prizes for investors and securities brokers to enhance their incentive to participate in the trials. We hope all the securities brokers and investors can adapt themselves well as facing the major change of matching mechanism.



Formulating Suggestions of ICO (Initial Coin Offering) Supervisory Framework and Regulations

In response to the ascendant development of Initial Coin Offerings (ICO), internationally known as crypto currency IPO, we will actively collect the supervisory regulations of other countries governing ICO activities. TPEX also continue to focus on the development trends of international supervisory thinking, and will formulate related suggestions for the ICO supervisory mechanism as a reference for the government agencies when establishing a supervisory framework and regulations and promote the development of the FinTech industry in Taiwan.

107年中介機構輔導上櫃、興櫃及 創櫃頒獎典禮暨業務座談會

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Taipei Exchange



Fulfilling the Goals of 2019 Corporate Governance Roadmap

In 2019, we will continue to promote various measures according to corporate governance Roadmap, keep conducting corporate governance evaluation activities and related seminars, and evaluate the feasibility of compiling a sustainability index indicating the governance achievements of TPEX listed companies. We will revise "the Self-evaluation or Peer Evaluation Guidelines for the Board of Directors of TWSE/TPEX Listed Companies" and stipulate that the 2018 CSR reports of TPEX listed companies should be compiled according to GRI principles. We will also assist enterprises to improve disclosure quality of non-financial information, to upgrade corporate governance level, and to shape decent corporate culture based on integrity.

TPE_x SOCIAL SOLICITUDE



Chapter 5

SOCIAL SOLICITUDE



Other than enhancing the corporate governance of listed enterprises and promoting the fulfillment of Corporate Social Responsibility (CSR) by enterprises to allow investors to share the operational achievements of companies and promote economic development, in recent years, TPEx has continued to care for society, support social welfare events, actively care for disadvantaged groups, and fulfill our CSR.

I Supporting Children and Adolescents, Caring the Disadvantaged

In 2018, TPEx sponsored Taitung, Kaohsiung, and Hualien communities' tutoring programs, and donated to the special savings account of the Ministry of Education to subsidize the tuition fees of disadvantaged students and thus reduce the economic burden of families, to support the schoolwork of disadvantaged children and adolescents and allow them to develop normally both physically and psychologically. In addition, through Taiwan Financial Services Roundtable's "2018 Financial Services Caring Carnival", we donated to the relief accounts of Keelung City and Taoyuan City governments to care for local disadvantaged groups, and have given long-term support to the Taiwan Fund for Children and Families and food banks, in order to provide daily necessities to support disadvantaged families in Taiwan.



II Caring for Sports Development, and Supporting the Planting of Cultural Seedlings

In 2018, TPEx donated the training funds, purchased training equipment, and supported athlete training for senior high school baseball teams in the Hualien area. In addition, we continued to sponsor Paper Windmill Theater's 368 townships show around and children art construction project and the Art with Zero Distance – Dream Project of the National Theater and National Concert Hall. We support cultivation of the arts in every corner of cities and rural areas, to nurture the arts and cultural literacy and creative energy of children and adolescents.

III Supporting Environment-friendly Farming, Caring for People in Rural Areas Lacking Medical Resources

In 2018, TPEx continued to sponsor the organic farmland in Sanxing Township in Yilan County. Through organic contract farming method, we exhibited our support for farmers who use organic and non-toxic farming methods and development of organic agriculture. In addition, to respond government's long



term healthcare 2.0 policy, in 2018, we donated 1 welcab to Mennonite Christian Hospital in Hualien to provide a shuttle vehicle long-term healthcare for rural areas. In addition, we used the feedback credit card fund of “TPEx Winner Life Card” issued by Hua Nan Bank for social welfare; together we donated one rehabilitation bus to Taitung Christian Hospital, and provided financial assistance for Taitung Christian Hospital and Luodong St. Mary’s Hospital to supplement medical care resources for remote areas.

IV Promote Charity Projects under the Guidance of Competent Authorities

In 2018, TPEx under the guidance of competent authorities support charity projects and activities, including the Taiwan Financial Service Roundtable 2018 financial service industry education social welfare fund, college student financial employment social welfare class, donation of emergency funds to Hualien earthquake, and 823 Flood in Southern Taiwan. We combined with peripheral securities and futures units to engage social welfare work, to bring more power into effect.

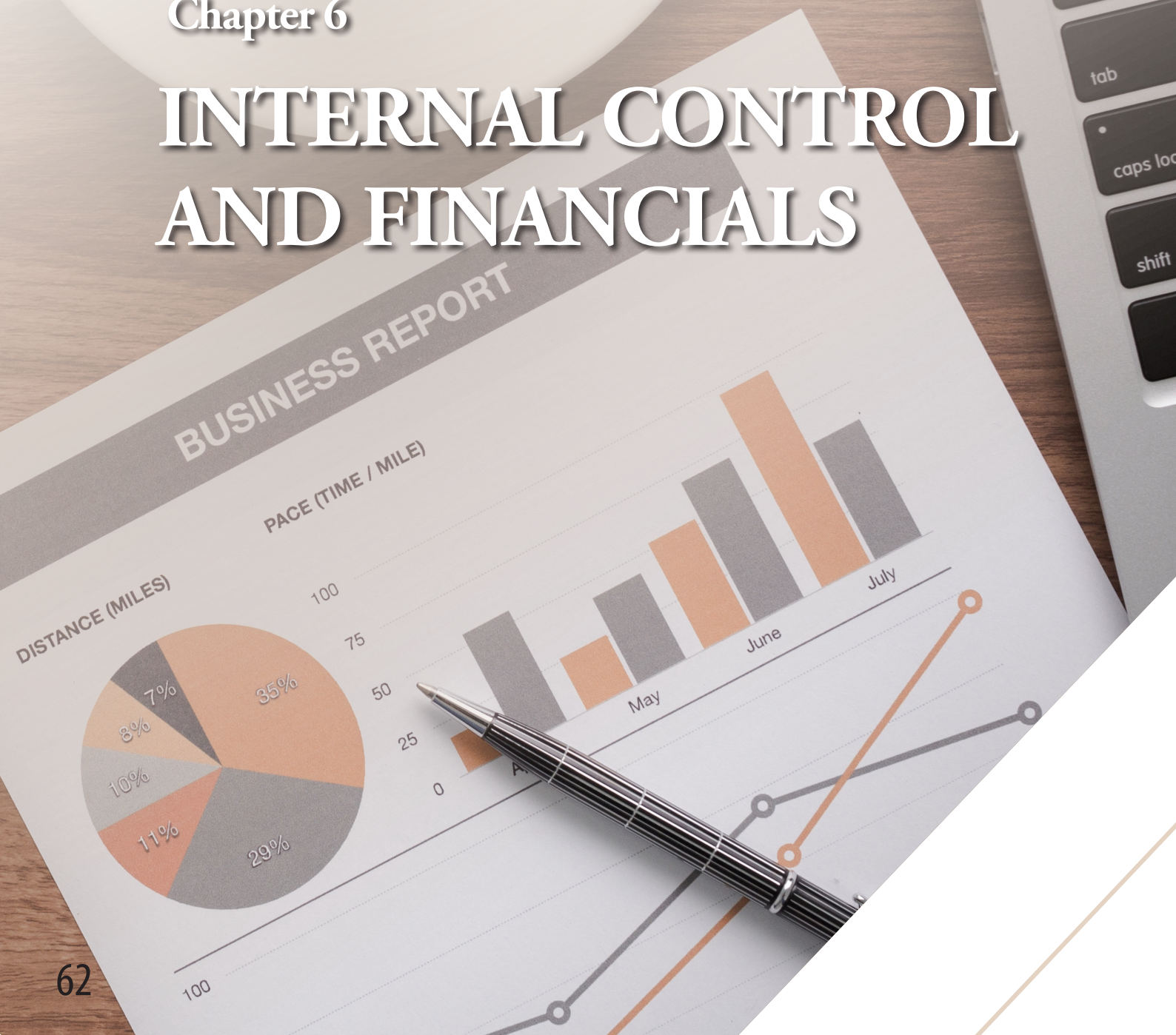


TPE_x

INTERNAL CONTROL AND FINANCIALS

Chapter 6

INTERNAL CONTROL AND FINANCIALS





INTERNAL
CONTROL



FINANCIAL
STATEMENT

Taipei Exchange

INTERNAL CONTROL STATEMENT

March 22, 2019

The Taipei Exchange states the following with regard to its internal control system during the year of 2018 based on the results of self-evaluation:

1. TPEx is fully aware that the establishment, implementation, and maintenance of the internal control system are the responsibility of the board of directors and management. TPEx has established such a system with the objective to reasonably ensure the achievement of goals with respect to the effectiveness and efficiency of business operations (including profitability, performance and security of assets), reliability, timeliness, and transparency of financial reporting, and compliance with relevant regulatory requirements.
2. An internal control system has its inherent limitations. No matter how perfect the system is in design, an effective internal control system can only provide reasonable assurance for the attainment of the 3 goals described above. However TPEx internal control system is equipped with the function of self-monitoring, that TPEx will take immediate action once a deficiency is identified.
3. TPEx determines if the design and implementation of its internal control system are effective based on the criteria provided in the Regulations Governing the Establishment of Internal Control System by Service Enterprises in Securities and Future Markets (referred to as the Guidelines hereunder). Said criteria divides internal control into 5 elements based on the process of management control: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, and (5) Monitoring Activities. Each element contains several items. Please refer to the Guidelines.

• INTERNAL CONTROL

4. TPEx has evaluated the validity of the design and implementation of its internal control system based on the aforesaid criteria.
5. Based on the results of aforementioned evaluation, it is found that the internal control system of TPEx in December 31, 2018 was effective in design and implementation, that it reasonably assures the attainment of aforesaid goals, including the effectiveness and efficiency of business operations, reliability, timeliness, and transparency of financial reporting, and compliance with relevant regulatory requirements.
6. Any false representation or concealment in this Statement shall be subjected to legal consequences as stipulated in Articles 174 of the Securities & Exchange Law.
7. This statement has been passed by the board of directors in the meeting held on March 22, 2019, where none of the 15 attending directors voiced any dissenting view to the content of this statement.

Taipei Exchange

Chairman



Managing Director & CEO



BALANCE SHEETS

Unit:NTD

A S S E T S	December 31, 2018		December 31, 2017	
	A m o u n t	%	A m o u n t	%
CURRENT ASSETS				
Cash and cash equivalent	\$238,191,867	1	\$235,826,044	2
Held-to-maturity financial assets	-	-	300,000,000	2
Amortised cost of Financial assets at cost	399,468,425	2	-	-
Notes and accounts receivable	97,697,452	1	105,657,757	1
Other financial assets	4,091,475,073	26	3,571,948,883	28
Other current assets	46,362,696	-	37,750,037	-
Securities settlement debit	9,089,396,455	58	6,352,980,860	51
Total current assets	13,962,591,968	88	10,604,163,581	84
NON-CURRENT ASSETS				
Financial asset at fair value through profit or loss	35,111,520	-	-	-
Financial asset at fair value through other comprehensive income	43,501,443	-	-	-
Available-for-sale financial assets	-	-	130,524,891	1
Held-to-maturity financial assets	-	-	1,100,000,000	9
Amortised cost of Financial assets at cost	1,098,950,444	7	-	-
Financial assets at cost	-	-	65,772,536	1
Special securities settlement fund	400,000,000	3	400,000,000	3
Default damage fund	122,289,797	1	122,289,797	1
Property and equipment	63,129,931	1	72,854,991	1
Prepayment for equipment	7,124,500	-	-	-
Refundable deposits	15,042,048	-	15,074,246	-
Other assets	29,489,045	-	42,227,480	-
Total non-current assets	1,814,638,728	12	1,948,743,941	16
TOTAL	\$15,777,230,696	100	\$ 12,552,907,522	100
LIABILITIES AND FUNDS AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$31,389,227	-	\$37,528,158	-
Other payable	302,100,342	2	289,282,456	2
Current income tax liabilities	101,645,211	1	72,565,003	1
Other current liabilities	85,987,589	-	95,010,201	1
Securities settlement credit	9,089,396,455	58	6,352,980,860	51
Total current liabilities	9,610,518,824	61	6,847,366,678	55
NON-CURRENT LIABILITIES				
Deferred tax liabilities	520,675	-	-	-
Net defined benefit liabilities	249,229,598	2	269,405,056	2
Provisions	6,569,185	-	6,501,569	-
Guarantee deposit received	16,060,253	-	14,801,043	-
Total non-current liabilities	272,379,711	2	290,707,668	2
Total liabilities	9,882,898,535	63	7,138,074,346	57
FUNDS AND NET ASSETS				
Funds				
Initial fund	345,450,000	2	345,450,000	3
Donated fund	5,000,000	-	5,000,000	-
Surplus transferred to fund	4,834,304,387	31	4,442,199,506	35
Total funds	5,184,754,387	33	4,792,649,506	38
Accumulated surplus	717,117,349	4	587,566,364	5
Unrealized gain (loss) from available-for-sale financial assets	-	-	34,617,306	-
Unrealized gain or loss on financial asset at fair value through other comprehensive income	(7,539,575)	-	-	-
Total funds and net assets	5,894,332,161	37	5,414,833,176	43
TOTAL	\$15,777,230,696	100	\$12,552,907,522	100

• FINANCIAL STATEMENT

STATEMENTS OF COMPREHENSIVE INCOME

Unit:NTD

	2018		2017	
	A m o u n t	%	A m o u n t	%
OPERATING REVENUES	\$ 2,114,443,094	100	\$ 1,909,150,921	100
OPERATING EXPENSES	1,615,786,126	76	1,518,239,483	79
NET OPERATING INCOME	498,656,968	24	390,911,438	21
NON-OPERATING INCOME AND EXPENSE	81,192,644	4	78,891,763	4
SURPLUS BEFORE INCOME TAX	579,849,612	28	469,803,201	25
INCOME TAX EXPENSE	99,907,379	5	69,696,180	4
SURPLUS AFTER INCOME TAX	479,942,233	23	400,107,021	21
OTHER COMPREHENSIVE INCOME (NET, AFTER TAX)	9,011,238	-	3,772,152	-
TOTAL COMPREHENSIVE INCOME	\$ 488,953,471	23	\$ 403,879,173	21

TPEx



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