

## Procedures for Acquisition and Disposition of Assets of Far Eastern New Century Corporation (the "Company")

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### I General Provisions

Article 1 Acquisition or disposition of assets by the Company shall be carried out in accordance with the regulations on asset management and other relevant rules of the Company and these "Procedures for Acquisition and Disposition of Assets" ("Procedures").

Article 2 Assets in these Procedures include:

- 1) Securities: stocks, government bonds, corporate bonds, bank debentures, beneficiary certificates of mutual funds, depository receipts, call/put warrants, beneficiary securities, asset-backed securities and other investments.
- 2) Real estate (including land, houses and buildings, investment properties) and equipment;
- 3) Club memberships;
- 4) Patents, copyrights, trademarks, licenses and other intangible assets;
- 5) Right-of-use asset;
- 6) Derivative products;
- 7) Assets acquired or disposed through merger, spin-off, acquisition or transfer of shares in accordance with law;
- 8) Other key assets.

Article 3 1) "Derivatives": Forward contracts, option contracts, futures contracts, leverage contracts, and swap contracts whose value is derived from assets,

specific interest rates, price of financial instruments, products price, foreign exchange rates, indexes of price or rates, indexes of credits or credits rating, or other varieties, or combination of above contracts, or compound contracts or structured products of embedded derivative. The term “forward contracts” does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) agreements.

- 2) "Assets acquired or disposed through mergers, demergers, acquisitions or transfer of shares in accordance with act of law": Refers to assets acquired or disposed through mergers, demergers or acquisitions conducted under the Business Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institution Merger Act and other acts, or to transfer of shares [from another company] through issuance of new shares of its own as the consideration therefore (hereinafter “transfer of shares”) under Article 156-3 of the Company Act
- 3) "Related party or Subsidiary": As defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers.
- 4) "Professional appraiser": Refers to a real property appraiser or other person duly authorized by an act of law to engage in the value appraisal of real property or equipment;
- 5) "Date of occurrence": Refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, dates of Boards of Directors resolutions, or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier; provided, for investment for which approval of the Competent Authorities is required, the earlier of the above date or the date of receipt of approval by the Competent Authorities shall apply;
- 6) "Mainland area investment": Refers to investments in China approved by the Ministry of Economic Affairs Investment Commission or conducted in accordance with the provisions of the Regulations Governing Permission for Investment or Technical Cooperation in the Mainland Area.

Article 4 Where the approval of the Board of Directors is required in respect of acquisition or disposition of assets pursuant to these Procedures or by virtue of other law, Directors' dissents recorded in the meeting minutes or written statements shall also be forwarded by the Company to the Audit Committee. The Board of Directors shall take into account the opinions of the Independent Directors and furthermore record in the minutes of such meetings the Independent Directors' consenting or dissenting opinions and the reasons in holding a meeting discussing the acquisition and disposition of assets as required herein.

Material assets or derivative transactions shall be approved by more than half of all Audit Committee members, and approved by a resolution of the Board of Directors.

According to these Procedures, the matters shall be approved by the Audit Committee, if the matters have not been approved by more than half members of all Audit Committee members, the matters shall be approved by the Board of Directors with two-thirds of all Directors and the resolution of Audit Committee shall be recorded in the Board of Directors minutes. The Audit Committee members and the Board of Directors members as stated will only calculate the members in present position.

Article 5 The Company's total investment in securities shall not exceed one hundred and fifty per cent (150%) of its shareholders' equity reflected in the latest financial reports; furthermore individual securities in which it may invest shall not exceed sixty per cent (60%) of its shareholders' equity reflected in the latest financial reports, and investments in non-operational real estate, equipment, and their right-of-use asset shall not exceed fifty per cent (50%) of its shareholders' equity reflected in the latest financial reports.

Total equity investments by the Company and its subsidiaries shall not exceed one hundred and fifty per cent (150%) of its shareholders' equity reflected in the latest financial reports. The operational regulations of the Taiwan Securities Exchange Co., Ltd. and other relevant laws and regulations shall govern the calculation of percentages referred to herein.

The latest financial report referred to herein shall be the Company's financial statements duly audited or reviewed by certified public accountants prior to its acquisition or disposition of assets.

## II. Handling Procedures

### Article 6 Acquisition or Disposition of Securities

#### 1) Evaluation Process

- a) For investments in securities, the Finance Department or other relevant units shall undertake the relevant financial analysis and projection of potential returns as well as evaluation of potential investment risks in relation to the said investment.
- b) Investments by the Company in securities traded on centralized exchange markets or over the counter markets shall be decided by the responsible unit in accordance with the prevailing market conditions; investments by the Company in securities not traded on centralized exchange markets or over the counter markets shall require the latest audited or reviewed financial reports of the target company as reference for the evaluation of transaction price, taking into consideration the net asset value per share, profitability and future potential, etc.

#### 2) Experts' Opinions

- a) The Company acquiring or disposing of securities shall, prior to the date of the transaction occurred, obtain financial statements of the issuing company for the most recent period, certified or reviewed by a certified public accountant, for reference in appraising the transaction price, and if the dollar amount of the transaction is twenty per cent (20%) of the Company's paid-in capital or NT\$300 million or more, the Company shall, prior to the date of the transaction occurred, also engage a certified public accountant to provide an opinion regarding the reasonableness of the transaction price. Should the aforesaid accountant needs to refer to experts' opinions, Auditing Standards No. 20 published by the R.O.C. Accounting Research and Development Foundation (ARDF) shall be abided by. This requirement does not apply, however, to publicly quoted price of securities that have an active market, or where otherwise provided by regulations of the Financial Supervisory Commission (FSC).

b) Where assets are acquired or disposed by way of judicial auctions, documentary proof furnished by the courts may replace valuation reports or accountants' opinions.

3) Process in Determining Authorized Investment Limit and Responsible Units

Prior to the Company acquiring or disposing securities, the Finance Department shall firstly submit the Board of Directors the relevant information for approval before undertaking the said transaction. Where the urgency of the matter does not permit prior approval, the General Manager (or any person so authorized by the General Manager) shall have the authority to approve/disapprove investments which amount is below NT\$ 10 million; the Chairman (or any person so authorized by the Chairman) shall have the authority to approve/disapprove investments which amount is in excess of NT\$ 10 million. In any case, the said transactions shall be submitted to the immediate following meeting of the Board of Directors for ratification.

Article 7 Acquisition or Disposition of Real Property, Equipment, or their right-of-use assets

1) Evaluation Process

a) For investments in real property, equipment, or their right-of-use assets, the Accounting Department or other relevant units shall undertake the projection of potential returns as well as evaluation of potential investment risks in relation to the said investment based on the current operation and financial conditions and future development plan.

b) The proposed acquisition or disposition of real property, or its right-of-use asset shall require analysis reports taking reference to their current published value, appraised values and transactions prices for neighboring real properties, etc., along with suggested transaction conditions and prices.

- c) The proposed acquisition or disposition of equipment or its right-of-use asset shall be carried out by way of any of the following: price inquiry; price comparison; negotiated prices or tender.

## 2) Valuation Reports

In the case of real property, equipment, or their right-of-use assets acquired or disposed by the Company other than as a result of transactions with the domestic government, entrusted construction on the Company's own property, entrusted construction on land leased by the Company, or acquisition or disposition of equipments or its right-of-use asset for business operation purposes, where their transaction value is the amount equivalent to twenty per cent (20%) of the Company's paid-in capital or NT\$ 300 million or above, the Company shall, prior to the date of the transaction occurred, require professional appraiser to furnish their valuation report (which report shall specify the matters set out in Appendix 1 herein); furthermore, the following provisions shall be complied with:

- a) Where due to special circumstances it is necessary to give a limited price, specified price, or special price as a reference basis for the transaction price, the transaction shall be submitted for approval in advance by the Board of Directors, and the same procedure shall be followed for any future changes to the terms and conditions of the transaction.
- b) Where the transaction amount is NT\$ 1 billion or more, two (2) or more professional appraiser shall be engaged to provide their appraisals.
- c) Where the appraisal prices from professional appraiser come under one of the following, unless the appraisal prices of acquired assets are higher than the transaction price, or the appraisal prices of assets being disposed are lower than the transaction price, accountants shall be engaged to handle the matter pursuant to the provisions of Auditing Standards No. 20 promulgated by ARDF; furthermore the said accountants shall be required to provide their opinions in respect of the reasons for such discrepancy and the fairness of the transaction price:

- i) The appraisal results differ from the transaction amount by twenty per cent (20%) or greater;
  - ii) The difference between the appraisal result provided by two or more professional appraisers and the transaction price is ten per cent (10%) or greater.
- d) Report made by the professional appraiser shall not be dated beyond three (3) months prior to the date of the contract; however where an appropriate value published during the same period but not exceeding six (6) months, the original professional appraiser may issue its opinion in respect of the said value.
- e) Where real property or other fixed assets are acquired or disposed by way of judicial auctions, documentary proof furnished by the courts may replace appraisal reports or accountants' opinions.
- 3) Process in Determining Authorized Investment Limit and Responsible Units

Prior to the Company acquiring or disposing real property, equipment, or their right-of-use assets, the Accounting Department shall firstly submit the Board of Directors the relevant information for approval before undertaking the said transaction. Where the urgency of the matter does not permit prior approval, the General Manager (or any person so authorized by the General Manager) shall have the authority to approve/disapprove investments which amount is below NT\$ 10 million; the Chairman (or any person so authorized by the Chairman) shall have the authority to approve/disapprove investments which amount is in excess of NT\$ 10 million. In any case, the said transactions shall be submitted to the immediate following meeting of the Board of Directors for ratification.

#### Article 8 Transactions of Real Property with Related Parties

- 1) Where the Company acquires or disposes real property from or to related parties, without prejudice to the applicability of the aforesaid articles in respect of real property, the Company shall pursuant to the provisions of this Article undertake the relevant resolution and appraisal of the fairness of transaction conditions, etc., and shall pursuant to the provisions of this

Article obtain appraisal reports made by professional appraisers or accountants' opinions when the transaction amount is ten per cent (10%) of the total assets of the Company or more. In deciding whether the other party to the transaction is a related party, in addition to the forms as provided by law, the Company shall also consider the substantive relationship.

## 2) Evaluation and Procedures

The Company shall, if it acquires or disposes real property or its right-of-use asset from or to related parties, or if it acquires or disposes other assets except real property or its right-of-use asset from or to related parties and the said transaction amount is twenty per cent (20%) of the paid-in capital of the Company, or ten per cent (10%) of the total assets of the Company, or NT\$300 million or more, except in trading of domestic government bonds or bonds under repurchase and resale agreements, or subscription or repurchase of money market funds issued by domestic securities investment trust enterprises, submit to the Audit Committee and the Board of Directors for approval of the following information prior to the signing of the transaction contract and making payments:

- a) Purpose of acquiring or disposing the said assets, its necessity and projected benefits;
- b) Reasons for transacting with related parties;
- c) Information relating to the appraisal of the fairness of the proposed transaction conditions pursuant to items 3) a) and d) herein, when acquiring real property or its right-of-use asset from related parties;
- d) Date and price of acquisition by the related party, party to the transaction and relationship between the said party and the Company and related party;
- e) Forecast of monthly cash income within one (1) year from the date of the contract; furthermore evaluation shall be conducted in respect of the necessity of the transaction and the fairness of the use of fund; and



- f) Pursuant to the paragraph 1 of this Article, the appraisal reports made by the professional appraisers or accountants' opinions.
- g) Restrictions on this transaction and other key contractual issues.

When a matter is submitted for discussion by the Board of Directors pursuant to the preceding paragraph, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board meeting.

### 3) Evaluation of the Fairness of Transaction Costs

- a) In the case of the Company obtaining real property or its right-of-use asset from related parties, it shall evaluate the fairness of the transaction costs in the following manner:
  - i) Addition to the related party's transaction price the necessary interest on funding and the costs to be borne by the purchaser. "Necessary interest on funding" shall be calculated by the weighted average interest rate over the period during which the asset is purchased on the amount of money borrowed by the Company in its purchase of the said asset, subject to it being not higher than the maximum interest rate charged by non-financial institutions as published by the Ministry of Finance.
  - ii) In the case of related party having previously pledged the subject matter with financial institutions, the total appraised value for the subject matter by the said financial institution for the purposes of the extension of the loan shall be used, subject to the total cumulative amount of loans by the said financial institution not being lesser than seventy per cent (70%) of the appraised value of such subject matter and that the loan period was for a period of one (1) year or more. The aforesaid shall not apply where the said financial institution and the party to the transaction are themselves related parties.

- b) Where both the land and the buildings on it are purchased or leased in toto, the transaction costs for both the land and the buildings shall be separately evaluated using either of the abovementioned methods.
- c) In the case of the Company acquiring real property or its right-of-use asset from related parties, in addition to the appraisal of the costs of the said real property or its right-of-use asset in the manner provided above, the Company shall furthermore engage accountants to review and provide their opinions in respect of the same.
- d) Under any one of the following circumstances in which the Company acquires real property or its right-of-use asset from related parties, it need only undertake items 1) and 2) herein; the evaluation of fairness of transaction cost as provided for in items a), b) and c) hereunder shall not apply:
  - i) The related party having obtained the real property or its right-of-use asset by way of inheritance or gift;
  - ii) The time lapse between the related party's contract for acquisition of the real property or its right-of-use asset and this transaction exceeds five (5) years; or
  - iii) The Company obtaining the real property by way of joint-development contract entered with the related party, or through engaging a related party to build real property, either on the Company's own land or on rented land.
  - iv) The acquisition of the right-of-use asset of real estate for business operation purposes between the Company and subsidiary, or between subsidiary companies, whose total number of issued shares or total capital is 100%-owned, directly or indirectly, by the Company.
- e) Where the evaluated results pursuant to items a) and b) hereinabove are lower than the transaction price, the Company shall follow items f) and g) hereunder; however, under one of the following situations, with the objective evidence, professional appraisal for the real property and

the accountants' opinion of the fairness of the transaction being provided, the aforesaid shall not apply:

- i) The related party having undertaken construction on undeveloped land or rental land, may offer evidence in respect of its conformity to one the following conditions:
  - A. The undeveloped land being valued in the methods provided hereinabove, and the buildings being valued by adding reasonable development profits to their construction costs, and the total amount exceeding the actual transaction price. "Reasonable development profits" herein shall comprise of the average gross profit margin of the related party's construction department within the last three (3) years, or the latest gross profit margin for the construction industry published by the Ministry of Finance, whichever is the lower;
  - B. Transactions by non-related parties involving other floors of the same subject matter or of the neighboring areas within the past one (1) year, with comparable areas, and their transaction conditions being comparable to those of transactions with evaluations of acceptable price difference between floor levels or areas in accordance with the practice for sale and purchase or lease of real property.
- ii) The Company providing evidence that the transaction conditions of its purchase of real property or its lease of right-of-use asset of real property from related party are comparable with those cases within the neighboring areas within the past one (1) year and between non-related parties and with approximately similar space. "Cases within the neighboring areas" shall in principle include those in the same or adjacent street and within a radius of five hundred (500) meters of the subject matter or where their published current values are approximately similar. "Approximately similar space" shall in principle include the spaces of those cases between non-related parties that are not less than fifty per cent (50%) of that of the subject matter.

- f) Where the appraisal results pursuant to the preceding items are all lower than the transaction price, the Company shall undertake the following:
    - i) With respect to the difference between the transaction price for the real property or its right-of-use asset and the evaluated costs, set aside special profit/loss reserve, in compliance with Article 41(1) of the Securities and Exchange Act, which shall not be distributed or allocated in the form of stock dividends. Where investors of the Company that adopt the equity accounting in respect of their investments in the Company are public companies, the investor shall set aside special profit/loss reserve for the amount according to their respective shareholding;
    - ii) The Independent Directors shall undertake measures in compliance with Article 218 of the Company Act;
    - iii) The shareholders' meeting shall be informed of measures under items i) and ii) hereinabove, with details of the transaction to be disclosed in the Company's annual report or prospectus.
  - g) Where the Company has set aside a special reserves under preceding paragraph may not utilize the special reserve until it has recognized a loss on decline in market value of the assets it purchased at premium or leased, or they have been disposed of, or lease agreement had been terminated, or adequate compensation had been made, or status quo ante has been restored, or there is other evidence confirming that there was nothing unreasonable about the transaction, and FSC has given its consent.
  - h) When the Company obtains real property or its right-of-use asset from a related party, it shall also comply with the provisions of the preceding paragraph (f) and (g) if there is other evidence indicating that the acquisition was not an arms length transaction.
- 4) Process in determining authorized investment limit and responsible units
- In terms of the following transactions between the Company and its subsidiaries , or between the subsidiaries, whose total number of issued

shares or total capital is 100%-owned, directly or indirectly, by the Company, the Accounting Department shall firstly submit the Board of Directors the relevant information for approval before undertaking the said transaction. When the dollar amount of the said transactions is below NT\$300 million; the Chairman shall have the authority to approve/disapprove the said transactions. In any case, the said transactions shall be submitted to the immediate following meeting of the Board of Directors for ratification.

a) Acquisition or disposal of the equipment or its right-of-use asset for business operation purposes.

b) Acquisition or disposal of the right-of-use asset of real estate for business operation purposes.

5) With respect to the regulations of 10 percent of total assets, the calculation is based upon total assets stated in the most recent parent company only financial report or individual financial report prepared under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Article 9 Acquisition or Disposition of Intangible Assets or its Right-of-use Asset or Club Membership

1) Evaluation and Process

a) Acquisition or disposition of club memberships shall be by way of suggestions in respect of transaction conditions and prices, taking into consideration fair market price, and compiled into analysis report. Where the transaction is NT\$ 3 million or below, the said analysis report shall be submitted to the General Manager for approval before submitting to the Board of Directors at the immediate following meeting for review. Where the transaction is above NT\$ 3 million, the approval of the Board of Directors shall be required before proceeding with the same.

b) Acquisition or disposition of intangible assets or its right-of-use asset shall be by way of suggestions in respect of transaction conditions and prices, taking into consideration expert's valuation report or fair market price, and compiled into analysis reports. Where the transaction is

NT\$ 3 million or below, the said analysis report shall be submitted to the General Manager for approval before submitting to the Board of Directors at the immediate following meeting for review. Where the transaction is above NT\$ 3 million, the approval of the Board of Directors shall be required before proceeding with the same.

## 2) Expert's Valuation Report

- a) Expert's valuation report shall be required in the case of acquisition or disposition of intangible assets or its right-of-use asset or club membership.
- b) Where the transaction amount for acquisition or disposition of intangible assets or its right-of-use asset or club membership exceeds twenty per cent (20%) of the Company's paid-in capital or NT\$300 million, except in transaction with domestic government agency, accountants shall be engaged, prior to the date of occurrence, to provide an opinion with respect to the fairness of the transaction price; the said accountants shall undertake the same in conformity with Auditing Standards No. 20 promulgated by the ARDF.
- c) Where the club membership or intangible assets are acquired or disposed by way of judicial auctions, documentary proof furnished by the courts may replace valuation reports or accountants' opinions.

## 3) Implementation

The Company may only proceed with the acquisition or disposition of intangible assets or its right-of-use asset or club membership after the Accounting Department has submitted its application for approval in accordance with item 1) hereunder.

Article 9-1 The calculation of the dollar amount of the transactions referred to in the paragraph 1 of Article 6, Article 7, and Article 8, and transactions referred to in the Article 9 shall be done in accordance with Article 12, paragraph 1-(g) herein, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items for which an appraisal

report from a professional appraiser or a accountant' opinion has been obtained need not be counted toward the dollar amount of transactions.

The calculation of the dollar amount of the transactions referred to in the paragraph 2 of Article 8 be made in accordance with Article 12, paragraph 1-(g) herein, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been approved by the Audit Committee and Board of Directors need not be counted toward the dollar amount of transactions.

## Article 10 Acquisition or Disposition of Derivative Products

### 1) Principles and Policies for Transactions

#### a) Types of Transaction

- i) Derivative products the Company is permitted to undertake shall be those contracts as defined in Article 3 1) hereinabove.
- ii) "For transactional purposes" herein shall refer to the holding or producing of derivative products the purpose of which is to earn the difference in transaction prices of the products, including transaction activities in which profits or loss are measured and realized in the current period by way of fair value. "For non-transactional purposes" herein shall refer to those transactions for reasons other than those provided above.

#### b) Operational or Hedging Strategy

- i) "For transactional purposes": The operation strategy shall be one of nimbleness and flexibility.
- ii) "For non-transactional purposes": The hedging strategy shall be one of prudence and caution.

#### c) Duties and Responsibilities

- i) Execution of transaction contracts and relevant documents: By the Chairman or a person so appointed by him as representative of the Company.
- ii) Execution of transaction and profit/loss evaluation:
  - A. The Procurement Department shall be responsible for contracts involved goods related to raw materials; the Finance Department shall be responsible for contracts relating to finance.
  - B. Account opening, transaction, confirmation, settlement: director of the relevant department to decide or authorize.
  - C. Production of transaction slip, invoice and application for funding to be undertaken by traders and approved by supervisors at various levels before forwarding the same to Finance, Accounting and Audit Departments.
  - D. Designated staff at all relevant departments shall be responsible for profit/loss evaluation; evaluation forms shall be forwarded to the Chairman or a person so appointed by him.
- iii) Accounting: The Accounting Department shall formulate record slips and enter into accounts based on the various receipts, and shall complete the relevant accounting reports according to the accounting cycles.
- iv) Audit: The Audit Department shall conduct regular and ad hoc audit based on the internal audit system.
- v) Legal: Legal counsel shall be responsible for review of transaction contracts.
- vi) Unless otherwise provided, only the administrator or those ranking above may implement the transaction for derivative products.



d) Performance Appraisal

The benchmark for performance appraisal shall be the year-end net profit or loss.

e) Total Contract Amount and Authorized Limit

i) "For transactional purposes": The total contract amount for any single subject matter at any one time shall not exceed ten per cent (10%) of the Company's net asset value for the preceding year; subject to the amount being less than five per cent (5%) of the net asset value, the various supervisors of the relevant departments shall be authorized to decide on their own, followed by their report to the immediate following Board of Directors meeting for report. For amounts exceeding five per cent (5%) of net asset value, the approval of the Board of Directors shall be required before proceeding with the contract.

ii) "For non-transactional purposes": Limited to the existing and expected assets or liabilities of transactions; the various supervisors of the relevant departments shall be authorized to decide on their own, followed by their report to the immediate following Board of Directors meeting for review.

f) Limit on Losses

i) "For transaction purposes": The upper limit of losses of individual contract is less than 5% of that contract's amount. The upper limit of losses of all the contracts is less than 5% of total amount of all contracts.

ii) "For non-transactional purposes": The upper limit of losses of individual contract is less than 25% of that contract's notional amount. The upper limit of losses of all the contracts is less than 25% of total notional amount of all contracts.

2) Risk Management Measures:

- a) Counterparty's credit risk – Counterparties shall be financial institutions of good credit standing;
- b) Market risk in which prices turnaround – in accordance with 1) f) herein.
- c) Liquidity risk of products – There shall be at least two (2) financial institutions in the market and at the same time offering two-way pricing for products, before transactions are permitted.
- d) Cash-flow risk – There shall be periodic disclosures of fair market prices for financial products undertaken, for appropriate disclosure of projected cash flow volume from the financial product.
- e) Internal operation risk – In accordance with 1) c) herein.
- f) Legal risk for execution of contracts and related documents – Professional opinions of the Legal Department shall be required.
- g) Trading staff for derivative products shall not also work as operational staff for the purposes of confirmation and settlement.
- h) Risk measurement, supervision and control staff shall be from departments that differ from those described in g) hereinabove, and shall furthermore report to the Board of Directors or to senior managers who are not responsible for making decisions in respect of the transaction or for the department concerned.
- i) All positions in derivative trades shall be appraised on a weekly basis; where hedge positions trades are entered out of business necessity they shall be appraised at least twice a month. Appraisal reports shall be forwarded to the Chairman or a person so appointed by him.

### 3) Internal Audit System

The Company's internal auditors shall regularly review the appropriateness of internal controls for derivative product trading, and shall on a monthly basis conduct compliance of these Procedures by the Trading Department,

with audit reports to be compiled thereafter; where major irregularities are discovered, the Audit Committee shall be notified by writing.

4) Regular Appraisal and Measures In the Event of Irregularities

- a) The Chairman or a person so appointed by him shall closely monitor and control the trading risk for derivative trades.
- b) The Chairman or a person so appointed by him shall specifically conduct regular appraisal of the performance of derivative trades so as to establish whether there has been conformity with the pre-set operation policies and whether the risks to be undertaken in respect thereof are within the scope allowed by the Company.
- c) The Chairman or a person so appointed by him shall regularly review the suitability of the existing risk management measures and whether the procedures set out in this Article have been complied with; This person shall furthermore monitor the trades and profits/losses status, and shall take the necessary measures and immediately report to the Board of Directors where irregularities are discovered; the Independent Directors shall attend meetings of the Board of Directors and shall express their opinions.
- d) The Company shall set up accounts books in respect of derivative trades, which books shall record in details the types, amounts, the date of approval by the Board of Directors and the matters for due evaluation as required under items 2) i) and 4) b) and c) herein, for ease of checking.

Article 11 Mergers, Demergers, Acquisitions or Transfer of Shareholding

1) Evaluation and Process

- a) The Company shall, prior to the Board of Directors' meeting to approve propose mergers, demergers, acquisitions or transfer of shareholding by way of its resolution, require the Accounting Department to seek opinions from accountants, lawyers or securities underwriters in respect of the share swap ratio, acquisition price or distribution of cash to

shareholders or the propriety for other assets, the said opinions to be forwarded to the Board of Directors for their discussion. However, in the mergers between the Company and its subsidiary company, whose total number of issued shares or total capital is 100%-owned, directly or indirectly, by the Company, or the mergers between foregoing subsidiary companies, the said opinions will not be required.

- b) Public companies involved in the merger, demerger or acquisition shall, prior to their respective shareholders' meeting, compile public documents addressed to their shareholders, which documents shall set out the key contractual terms of the said merger, demerger or acquisition as well as relevant issues including experts' opinions abovementioned as reference, forwarded to their shareholders along with the notices of shareholders' meeting to vote for or against the said merger, demerger or acquisition. Without prejudice to the aforesaid, it shall not apply where pursuant to other laws and regulations, shareholders' resolutions are not required in respect of mergers, demergers or mergers.
- c) Where there is insufficient quorum, votes or other legal restrictions for convening shareholders' meetings of any of the companies involved in the merger, demerger or acquisition, such that the shareholders' meeting or resolutions cannot be convened or passed or where the proposal has been voted against, the said companies shall immediately publicly disclose the occurrence, reasons, subsequent measures and projected dates for shareholders' meetings.

## 2) Other Issues of Note

- a) Dates of Board of Directors' meeting and shareholders' meeting:  
A company participating in a merger, demerger, or acquisition shall convene a Board of Directors meeting and shareholders meeting on the day of the transaction to resolve matters relevant to the merger, demerger, or acquisition, unless another act provides otherwise or the FSC is notified in advance of extraordinary circumstances and grants consent. A company participating in a transfer of shares shall call Board of Directors meeting on the day of the transaction, unless

another act provides otherwise or the FSC is notified in advance of extraordinary circumstances and grants consent.

When participating in a merger, demerger, acquisition, or transfer of another company's shares, the Company shall prepare a full written record of the following information and retain it for five (5) years for reference:

1. Basic identification data for personnel: Including the occupational titles, names, and national ID numbers (or passport numbers in the case of foreign nationals) of all persons involved in the planning or implementation of any merger, demerger, acquisition, or transfer of another company's shares prior to disclosure of the information.
2. Date of material events: Including the signing of any letter of intent or memorandum of understanding, the hiring of a financial or legal advisor, the execution of a contract, and the convening of a Board of Directors meeting.
3. Important documents and minutes: Including merger, demerger, acquisition, and share transfer plans, any letter of intent or memorandum of understanding, material contracts, and minutes of Board of Directors meetings.

When participating in a merger, demerger, acquisition, or transfer of another company's shares, the Company shall, within two (2) days commencing immediately from the date of passage of a resolution by the Board of Directors, report (in the prescribed format and via the Internet-based information system) the information set out at preceding paragraph "basic identification data for personnel" and "date of material events" to the FSC for recordation.

Where any of the companies participating in a merger, demerger, acquisition, or transfer of another company's shares is neither listed on an exchange nor has its shares traded on an OTC market, the Company shall sign an agreement with such company whereby the later is required to abide by the previous provisions.

- b) Undertaking to maintain confidentiality prior to public disclosure: All persons involved in or aware of the proposals relating to the merger, demerger or acquisition of their companies or transfer of shareholding

shall furnish in writing their undertaking to maintain confidentiality, and shall not, prior to the information being publicly disclosed, not disclose the contents of the said proposal, or on their own names or in the names of other persons, trade in the shares and other securities of an equity nature, of all the companies involved in the said merger, demerger, acquisition or transfer of shareholding.

- c) Principles regarding determination of and amendment to share-swap ratio or acquisition price: Except under the following circumstances, which circumstances shall be also stipulated in the contracts for merger, demerger, acquisition or shareholding transfer for the purposes of variations to the terms therein, the Company shall not change the share swap ratio or acquisition price:
- i) Increase in share capital by way of new issues; issuance of convertible bonds; distribution of stock dividends without consideration; issuance of corporate bonds attached with warrants; issuance of special shares attached with warrants; issuance of warrants or other securities of equity nature;
  - ii) Disposal of the Company's major assets such that the Company's finances and businesses will be affected;
  - iii) Occurrence of major disasters and major transformation in technology such that the shareholders' equity or the price of its stock will be affected;
  - iv) Adjustments by any of the companies involved in the said merger, demerger, acquisition or shareholding transfer resulting from treasury stock in accordance with law;
  - v) Changes in the corporate entity or number of companies involved in the said merger, demerger, acquisition or shareholding transfer; and
  - vi) Other terms stipulated in the contracts as being variable, and which have already been publicly disclosed.

- d) Items to be stipulated in the contracts: Other than in conformity with Article 317-1 of the Company Act and Article 22 of Corporate Merger and Acquisition Act, the contracts for merger, demerger, acquisition or shareholding transfer shall stipulate the following items:
- i) Measures for breach of contract;
  - ii) Principles for handling shares or securities of an equity nature that have been issued by extinguished companies as a result of merger or companies prior to their demerger or shares that have been acquired following a buyback program;
  - iii) The principles for handling treasury stock by the companies involved and the quantity associated therewith in accordance with law subsequent to the record date on which the share-swap ratio is set;
  - iv) Measures to be taken where there are changes in the corporate entity or number of companies involved;
  - v) Projected progress of implementation of proposal and projected completion date;
  - vi) Where the proposal could not be completed in time, the relevant measures to be taken such as the date of shareholders' meeting to be convened in accordance with law.
- e) Where, following the public disclosure of information relating to the merger, demerger, acquisition or shareholding transfer, any of the companies involved proposes to undergo merger, demerger, acquisition or shareholding transfer with other companies, the completed processes or legal proceeding relating to the original merger, demerger, acquisition or shareholding transfer shall be re-instituted by all of the companies involved (re-acted upon), except where there is a reduction in the number of companies involved, and the shareholders' meeting had resolved and authorized the Board of Directors to undertake variations, in which case the companies involved shall not be required to convene another shareholders' meeting for new resolutions.

- f) Where the companies involved in the merger, demerger, acquisition or shareholding transfer are not public companies, the Company shall execute contracts with the same, and shall furthermore be in compliance with items a), b) and e) herein.

### III. Public Disclosure of Information

#### Article 12 Procedure for Public Disclosure of Information

- 1) Items to be publicly disclosed and standard for public disclosure and report
  - a) Acquisition or disposal of real property or its right-of-use asset from or to a related party, or acquisition or disposal of assets other than real property or its right-of-use asset from or to a related party where the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the Company's total assets, or NT\$300 million or more; provided, this shall not apply to trading of domestic government bonds, bonds under repurchase and resale agreements, or subscription or repurchase of money market funds issued by domestic securities investment trust enterprises;
  - b) Undertaking merger, demerger, merger or shareholding transfer;
  - c) Loss in derivative trade in an amount exceeding the limits for all trades or individual trade as stipulated in Article 10 1) f);
  - d) The acquisition or disposal of the equipments or its right-of-use asset for business purposes and in which the counterparties are not related parties, and that the transaction amounts reach 1 billion
  - e) Real property obtained by way of entrusted construction on own land, engaging others to construct on rented land, division of property or profits deriving from sale of property following joint-development, and in which the counterparties are not related parties, where the projected amount to be invested in the transaction reaches NT\$500 million.
  - f) Transactions relating to assets other than those stipulated hereinabove, or undertaking investments in Mainland, where their transaction



amounts reach twenty percent (20%) of the Company's paid-in capital or equal or greater than NT\$300 million, with the following exceptions:

- i) Sale and purchase of domestic government bonds;
- ii) Sale and purchase of bonds with call or put options, or subscription or repurchase of money market funds issued by domestic securities investment trust enterprises.

g) The calculation of transaction amount for g) above as follows:

- i) Each single transaction amount;
- ii) Cumulative amount for transactions with the same counterparty within one (1) year or acquisition or disposal of subject matters of similar nature;
- iii) Cumulative amount for acquisition or disposition (separate accounting for cumulative amounts in respect of acquisitions and disposals) of real property or its right-of-use asset under the same development project within one (1) year;
- iv) Cumulative amount for acquisition or disposition (separate accounting for cumulative amounts in respect of acquisitions and disposals) of the same securities within one (1) year.

h) "Within one (1) year" as used in the preceding paragraph refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with these Regulations need not be counted toward the transaction amount.

## 2) Time Limit for Public Announcement and Reports

Public announcement and submission of report in respect of acquisition or disposition of assets by the Company under items a) to f) above shall be undertaken within two (2) days of the occurrence of the event.

## 3) Procedure for Public Announcement

- a) The Company shall undertake public announcement and report at the web-site appointed by the FSC;
  - b) The Company shall on a monthly basis, and before the 10<sup>th</sup> day of each month, enter at the information and reporting web-site appointed by the FSC, all derivative trades undertaken for the preceding month by the Company and its non-public subsidiaries;
  - c) Where there are errors and omissions for which corrections are required in the Company's public announcement and reports in conformity with regulations, the Company shall cause all of the items to be re-published within two days after becoming aware of these errors and omission;
  - d) Where any of the following events has occurred following the Company's public announcement and reports in respect of its transactions pursuant to regulations, the Company shall within two (2) days, commencing immediately from the date of the occurrence of the said events, undertake public announcement and report in respect of the relevant information at the web-site appointed by FSC:
    - i) Amendment, termination or cancellation of the contracts relating to the original transaction;
    - ii) Failure of merger, demerger, acquisition or shareholding transfer to be completed at the prescribed dates.
    - iii) Change to the originally publicly announced and reported information
- 4) Format of Public Announcement

The necessary items and contents of public announcement which the Company shall comply with are referred to the appendixes of "Regulations Governing the Acquisition and Disposal of Assets by Public Companies".

#### **IV. Miscellaneous**

Article 13 Filing of Information Relating to Acquisition or Disposition of Assets and Archive

The Company shall file at its premises all contracts, minutes of meetings, record books, valuation reports and opinions of accountants, lawyers or securities underwriters relating to its acquisition or disposition of assets for a minimum of five (5) years, unless otherwise stipulated by the law.

Article 14 Subsidiaries of the Company shall comply with the following:

- 1) The subsidiaries shall also formulate and implement their respective "Procedures for Acquisition or Disposition of Assets" in accordance with the provisions of "Regulations Governing Acquisition and Disposition of Assets by Public Companies", after the approval of their respective Board of Directors and shareholders' meeting, a copy of the said procedures shall be submitted to the accounting department of the Company for supervision. The aforesaid shall also apply to amendments to the said procedures.
- 2) The Board of Directors of the respective subsidiaries shall formulate the limits in respect of the said subsidiaries' acquisition of real property or its right-of-use asset that are not for business use or the aggregate amount of securities or individual securities it may invest.
- 3) Where the subsidiaries are not local public companies, the Company shall undertake the public announcement and report in respect of the said subsidiaries' acquisition or disposal of assets, where the same are required to be disclosed pursuant to the provisions of "Regulations Governing Acquisition or Disposition of Assets by Public Companies".
- 4) For public announcement and reports of subsidiaries, "paid-in capital or total asset" shall mean the paid-in capital and the total assets of the Company.
- 5) Subsidiaries of the Company shall on their own evaluation whether their procedures in relation to Acquisition and Disposition of Assets are in compliance with the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" and whether acquisition and disposition of assets are in compliance with their procedures. The Company's internal audit department shall review the self-evaluation reports of the said subsidiaries.

Article 15 Penalties

In the event that any employee undertaking the matters with respect herewith are found to be in breach of provisions herein in material aspect or causing damage to the Company, the Company shall discipline the said persons in accordance with the internal rules on employee reward and punishments and the relevant personnel regulations.

Article 16 The amendment of these Procedures shall be approved by the Audit Committee and the Board of Directors, and shall furthermore be submitted for approval at the shareholders' meeting. The same procedure shall apply in the case of amendments. The Directors' dissents recorded in the meeting minutes or written statements shall also be forwarded by the Company to the Audit Committee.

When a matter is submitted for discussion by the Board of Directors pursuant to the preceding paragraph, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board meeting.

Article 17 Miscellaneous

Other matters not covered in these Procedures shall be handled in accordance with the relevant laws and regulations or other relevant regulations of the Company.

*\*In case of any discrepancy between this English translation and the Chinese text of this document, the Chinese text shall prevail.*