

## **Rules and Procedures for Acquisition or Disposal of Assets** **(the “Procedures”)**

Approved on 25 November 1997

First Amendment on 30 September 1998

Second Amendment on 22 December 1999

Third Amendment on 30 April 2001

Fourth Amendment on 15 November 2001

Fifth Amendment on 25 June 2003

Sixth Amendment on 15 June 2004

Seventh Amendment on 15 June 2006

Eightieth Amendment on 15 June 2007

Ninth Amendment on 18 June 2010

Tenth Amendment on 22 June 2012

Eleventh Amendment on 12 June 2014

Twelfth Amendment on June 10, 2015

Thirteenth Amendment on June 14, 2017

Fourteenth Amendment on June 12 2019

### **Chapter I General Principles**

Article 1 The Procedures are promulgated pursuant to Article 36-1 of the Securities and Exchange Act and “Regulations Governing the Acquisition and Disposal of Assets by Public Companies”.

Article 2 The Company shall handle the acquisition or disposal of assets in compliance with the Procedures; provided, where another act or regulation provides otherwise, such provisions shall govern.

Article 3 The term "assets" as used in the Procedures includes the following:

1. Investments in stocks, government bonds, corporate bonds, financial bonds, securities representing interest in a fund, depositary receipts, call (put) warrants, beneficiary securities, and asset-backed securities.
2. Real estate (including land, houses and buildings, investment property) of Taiwan Mobile Co., Ltd. and equipment.
3. Membership.
4. Patents, copyrights, trademarks, franchise rights, and other intangible assets.

5. Right-of-use assets
6. Derivatives.
7. Assets acquired or disposed of in connection with mergers, spin-offs, acquisitions, or transfer of shares in accordance with law.
8. Other major assets.

Article 4 Terms used in the Procedures are defined as follows:

1. Derivatives: Forward contracts, options contracts, futures contracts, leveraged contracts, and swap contracts, whose value is derived from a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable; or hybrid contracts combining the above contracts; or hybrid contracts or structured products containing embedded derivatives. 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 of through mergers, spin-offs, acquisitions, or transfer of shares in accordance with the law: Refers to assets acquired or disposed of through mergers, spin-offs, 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 therefor (hereinafter "transfer of shares") under Article 156-3, paragraph 8 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 estate appraiser or other person duly authorized by law to engage in the value appraisal of real estate 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 counterparty and monetary amount of the transaction, whichever date is earlier; provided, for investment for which approval of the competent authority is required, the earlier of the above date or the date of

receipt of approval by the competent authority shall apply.

6. Mainland China area investment: Refers to investments in the mainland China area approved by the Ministry of Economic Affairs Investment Commission or conducted in accordance with the provisions of the Regulations Governing Permission for Investment or Technical Cooperation in the Mainland Area.
7. Investment Professional: Refers to financial holding companies, banks, insurance companies, bills finance companies, trust companies, securities firms operating proprietary trading or underwriting business, futures commission merchants operating proprietary trading business, securities investment trust companies, securities investment consulting companies, and fund management companies, that are lawfully incorporated and are regulated by the competent financial authorities of the jurisdiction where they are located.
8. Securities exchange: "Domestic securities exchange" refers to the Taiwan Stock Exchange Corporation; "foreign securities exchange" refers to any organized securities exchange market that is regulated by the competent securities authorities of the jurisdiction where it is located.
9. Over-the-counter venue ("OTC venue", "OTC"): "Domestic OTC venue" refers to a venue for OTC trading provided by a securities firm in accordance with the Regulations Governing Securities Trading on the Taipei Exchange; "foreign OTC venue" refers to a venue at a financial institution that is regulated by the foreign competent authority and that is permitted to conduct securities business.

Article 5 Professional appraisers and their officers, certified public accounts, attorneys, and securities underwriters that provide the Company with appraisal reports, certified public accountant's opinions, attorney's opinions, or underwriter's opinions shall meet the following requirements:

1. May not have previously received a final and unappealable sentence to imprisonment for 1 year or longer for a violation of the Securities and Exchange Act, the Company Act, the Banking Act of The Republic of China, the Insurance Act, the Financial Holding Company Act, or the Business Entity Accounting Act, or for fraud, breach of trust, embezzlement, forgery of documents, or occupational crime. However, this provision does not apply if 3 years have already passed since completion of service of the sentence, since expiration of the

period of a suspended sentence, or since a pardon was received.

2. May not be a related party or de facto related party of any party to the transaction.
3. If the company is required to obtain appraisal reports from two or more professional appraisers, the different professional appraisers or appraisal officers may not be related parties or de facto related parties of each other.

When issuing an appraisal report or opinion, the personnel referred to in the preceding paragraph shall comply with the following:

1. Prior to accepting a case, they shall prudently assess their own professional capabilities, practical experience, and independence.
2. When examining a case, they shall appropriately plan and execute adequate working procedures, in order to produce a conclusion and use the conclusion as the basis for issuing the report or opinion. The related working procedures, data collected, and conclusion shall be fully and accurately specified in the case working papers.
3. They shall undertake an item-by-item evaluation of the comprehensiveness, accuracy, and reasonableness of the sources of data used, the parameters, and the information, as the basis for issuance of the appraisal report or the opinion.
4. They shall issue a statement attesting to the professional competence and independence of the personnel who prepared the report or opinion, and that they have evaluated and found that the information used is reasonable and accurate, and that they have complied with applicable laws and regulations.

## **Chapter II Disposition Procedures**

### **Section I Establishment of Disposition Procedures**

Article 6 The Procedures for the acquisition and disposal of assets shall be adopted after approved by more than half of all Audit Committee members, and then submitted to the board of directors for a resolution. After the Procedures have been approved by the board of directors, they shall be submitted to a shareholders' meeting for approval; the same

applies when the Procedures are amended. If any director expresses dissent which is contained in the minutes or a written statement, the Company shall submit the director's dissenting opinion to the Audit Committee.

The Company has created the position(s) of independent director(s) in accordance with the provisions of the Securities and Exchange Act. When the procedures for the acquisition and disposal of assets are 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. The minutes shall contain the dissenting opinions or reservations made by the independent directors, if any.

If the approval of more than half of all audit committee members as required in the first paragraph is not obtained, the Procedures may be implemented if approved by more than two-thirds of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.

The terms of "all Audit Committee members" in the first paragraph and "all directors" in the preceding paragraph shall be counted as the actual number of persons currently holding those positions.

Article 7 The following items shall be specified in the Procedures:

1. The scope of assets: refer to Article 3 of the Procedures.
2. Appraisal procedures:
  - (1) Acquisition or disposal of securities:
    - (i) Appraisal: the financial and accounting departments shall evaluate the reasonableness of the transaction with consideration of the book value per share, profitability, future development potential and market price.
    - (ii) Price decision methods:
      - A. The securities transacted on a centralized exchange market or OTC market, the prices shall be decided by the listed price or market price at the time of transaction.
      - B. The securities not transacted on a centralized exchange market or OTC market, the price decision shall refer to financial statements of the issuing company for the most recent period, certified or reviewed

by a certified public accountant.

C. The bonds not transacted on a centralized exchange market or OTC market, the price decision shall refer to the market interest rate, coupon rate of the bond and bond issuer's credit.

(2) Acquisition or disposal of real estate, equipment or right-of-use assets thereof:

(i) Appraisal: the application department shall issue a report to relevant departments to evaluate the necessity and reasonableness.

(ii) Price decision methods:

A. In the event that the Company acquires or disposes of the real estate or right-of-use assets thereof, the price decision shall refer to publicly announced current value, appraisal value, the actual transaction price of neighboring real estate or right-of-use assets thereof, or appraisal report issued by a professional appraiser.

B. The acquisition or disposal of equipment or right-of-use assets thereof shall be carried out by one of the following methods: price comparison, price negotiation, or bidding.

(3) Acquisition or disposal of membership and intangible assets or right-of-use assets thereof:

(i) Appraisal: the application department shall issue a report to relevant departments to review the necessity and reasonableness.

(ii) Price decision methods: the price decision shall refer to the market price at the time of transaction and the net present value for the potential return of the assets.

(4) Related party transactions: refer to Section 3 of the Procedures.

(5) Engaging in derivatives trading: refer to Section 4 of the Procedures.

(6) Mergers, spin-offs, acquisitions and transfer of shares: refer to Section 5 of the Procedures

3. Operating procedures:

(1) The amount and levels of authority delegated: Any acquisition and disposal of assets by the Company shall be resolved by the board of directors except for the following circumstances:

(i) The Company may delegate the chairman to decide such matters when a single transaction is less than NT\$1,000,000,000 (one billion), subject to ratifications at the next board meeting. The above does not apply to any membership and long-term securities investment of NT\$ 300,000,000 or more.

(ii) The Company may delegate the chairman to decide such matters when the purpose of acquisition or disposal is for short-term fund allocation (including but not limited to the transaction of short-term securities, bonds under repurchase and resale agreements, bond fund, money market fund, principal guaranteed structured deposit).

(iii) The stipulation of amount and levels of authority delegated for the derivatives trading shall be effective after approved by the board of directors.

(2) Implementation department:

(i) Investment of securities in long-term and short-term: financial and accounting departments.

(ii) Real estate, equipment, membership and intangible assets or right-of-use assets thereof: the departments which use and manage these assets.

(iii) Derivatives: financial and accounting departments.

(iv) Assets acquired or disposed of through mergers, spin-offs, acquisitions, or transfer of shares in accordance with law: project team.

4. Public announcement and regulatory filing procedures: refer to Chapter III of the Procedures.

5. Total investment amounts of the Company and each subsidiary

(1) Except for investment management companies, the total amounts of real estate and equipment or right-of-use assets thereof acquired by the Company

or each subsidiary for non-business use shall not exceed 30% of the total assets of the Company or each subsidiary at the time of purchase.

(2) Except for investment management companies, the total amounts of securities investment purchased by the Company or each subsidiary shall not exceed 100% of the total assets of the Company or each subsidiary at the time of purchase.

(3) Except for investment management companies, the total amounts of individual securities purchased by the Company or each subsidiary shall not exceed its book value at the time of purchase.

6. The Company shall supervise the acquisition or disposal implemented by the subsidiaries. The supervision and management shall comply with the Company's related regulations or each subsidiary's "Rules and Procedures for Acquisition or Disposal of Assets".

7. In the event that the related person who fails to comply with "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" or the Procedures, the Company shall resolve the matter in accordance with internal operating regulations.

The subsidiaries of the Company shall adopt and implement procedures for the acquisition or disposal of assets in compliance with the Procedures.

Article 8 With respect to the Company's Rules and Procedures for Acquisition or Disposal of Assets that is subject to the approval of the board of directors or other laws or regulations, if a director expresses dissent which is contained in the minutes or in a written statement, the Company shall, subject to mutatis mutandis application of paragraph 2 of Article 6, submit the director's dissenting opinion to the Audit Committee.

Any transaction involving major assets or derivative trading shall be approved by more than half of all Audit Committee members and submitted to the board of directors for a resolution, and shall be subject to mutatis mutandis application of paragraphs 3 and 4 of Article 6.

## **Section II Acquisition or Disposal of Assets**



Article 9 In acquiring or disposing of real estate, equipment or right-of-use assets thereof where the transaction amount reaches 20% of the Company's paid-in capital or NT\$300,000,000 or more, the Company, unless transacting with a local government agency/authority, engaging others to build on its own land, engaging others to build on leased land, or acquiring or disposing of equipment or right-of-use assets thereof for business use, shall obtain an appraisal report prior to the date of the occurrence of the event from a professional appraiser and shall further comply with the following provisions:

1. In the event that due to special circumstances it is necessary to give a limit 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 procedures shall apply to any future changes in the terms and conditions of the transaction.
2. In the event that the transaction amount is NT\$1 billion or more, appraisals from two or more professional appraisers shall be obtained.
3. Any one of the following circumstances applies with respect to the professional appraisers' appraisal results, unless all the appraisal results for the assets to be acquired are higher than the transaction amount, or the appraisal results for the assets to be disposed of are lower than the transaction amount, a certified public accountant shall be engaged to perform the appraisal in accordance with the provisions of the Statement of Auditing Standards No. 20 published by the foundation constituted as a juristic person in Taiwan -- Accounting Research and Development Foundation (ARDF) and render a specific opinion regarding the reasons for the discrepancy and the appropriateness of the transaction price:
  - (1) The discrepancy between the appraisal result and the transaction amount is 20% or more of the transaction amount.
  - (2) The discrepancy between the appraisal results of two or more professional appraisers is 10% or more of the transaction amount.
4. No more than 3 months may elapse between the date of the appraisal report issued by a professional appraiser and the contract execution date; provided, where the current land value for the same period announced by Ministry of Interior is used and not more than 6 months have elapsed, an opinion may still be issued by the

original professional appraiser.

Article 10 The Company, acquiring or disposing of securities, shall, prior to the date of the occurrence of the event, obtain financial statements of the target companies for the most recent period, certified or reviewed by a certified public accountant, for reference in evaluating the transaction price, and if the amount of the transaction is 20% of the Company's paid-in capital or NT\$300,000,000 or more, the Company shall additionally engage a certified public accountant (CPA) prior to the date of the occurrence of the event to provide an opinion regarding the reasonableness of the transaction price. If the CPA needs to use the report of a financial advisor as a reference, the CPA shall do so in accordance with the provisions of the Statement of Auditing Standards No. 20 published by the ARDF. This requirement does not apply, however, to publicly traded securities that have an active market, or where otherwise provided by regulations of the competent securities authority.

Article 11 Where the Company acquires or disposes of intangible assets, right-of-use assets thereof or membership and the transaction amount reaches 20% or more of the paid-in capital or NT\$300,000,000 or more, except in transactions with a local government agency/authority, the Company shall engage a CPA prior to the date of occurrence of the event to render an opinion on the reasonableness of the transaction price; the CPA shall comply with the provisions of Statement of Auditing Standards No. 20 published by the ARDF.

Article 12 The transaction amounts referred to in the preceding three articles shall be calculated in accordance with paragraph 2 of Article 31 herein, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the transaction. The amounts due to professional appraisers for the appraisal report and CPA for the CPA's opinions can be excluded from the calculation.

Article 13 Where the Company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may be substituted for the appraisal report or the CPA opinion.

### **Section III Related Party Transactions**

Article 14 When the Company engages in any acquisition or disposal of assets from or to a related

party, in addition to ensuring that necessary resolutions be adopted and the reasonableness of the transaction terms be evaluated according to the provisions of the preceding Section and this Section, if the transaction amount reaches 10% or more of the Company's total assets, the Company shall also obtain an appraisal report from a professional appraiser or a CPA's opinion in compliance with the provisions of the preceding Section.

The calculation of the transaction amount referred to in the preceding paragraph shall be made in accordance with Article 12 herein.

When judging whether a trading counterparty is a related party, in addition to legal formalities, the substance of the relationships shall also be considered.

Article 15 When the Company intends to acquire or dispose of real estate or right-of-use assets thereof from or to a related party, or when it intends to acquire or dispose of assets other than real estate or right-of-use assets thereof from or to a related party and the transaction amount reaches 20% or more of the paid-in capital, 10% or more of the Company's total assets, or NT\$300,000,000 or more, except in the trading of local government bonds or bonds under repurchase and resale agreements, or subscription or redemption of money market funds which are issued by domestic securities investment trust companies, subject to mutatis mutandis application of paragraphs 2, 3 and 4 of Article 6, the Company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by more than half of all Audit Committee members, and then submitted to the board of directors for a resolution:

1. The purpose, necessity and estimated benefit of the acquisition or disposal of assets.
2. The reason for choosing the related party as a trading counterparty.
3. With respect to the acquisition of real estate or right-of-use assets thereof from a related party, information regarding evaluation of the reasonableness of the pre-determined transaction terms in accordance with Articles 16 and 17.
4. The date and price at which the related party originally acquired the real estate, the original trading counterparty, and that trading counterparty's relationship to the Company and the related party.
5. Monthly cash flow forecasts for the year commencing from the anticipated month

of signing of the contract, and evaluation of the necessity of the transaction, and reasonableness of the funds utilization.

6. An appraisal report from a professional appraiser or a CPA's opinion obtained in compliance with the preceding article.
7. Restrictive covenants and other major terms associated with the transaction.

The calculation of the transaction amounts referred to in the preceding paragraph shall be made in accordance with paragraph 2 of Article 31 herein, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the transaction. The amounts approved by the board of directors and ratified by the Audit Committee can be excluded from the calculation.

With respect to the types of transactions listed below, when to be conducted between the Company and its subsidiaries, or between its subsidiaries in which it directly or indirectly holds 100% of the issued shares or authorized capital, the Company's board of directors may, pursuant to subparagraph 3, paragraph 1 of Article 7, delegate the chairman to decide such matters when the transaction is less than NT\$1,000,000,000 (one billion) and have the decisions subsequently ratified at the next board of directors meeting:

1. Acquisition or disposal of equipment or right-of-use assets thereof held for business use.
2. Acquisition or disposal of real estate right-of-use assets held for business use.

Article 16 The Company that acquires real estate or right-of-use assets thereof from a related party shall evaluate the reasonableness of the transaction costs by the following means:

1. Based upon the related party's transaction price plus necessary interest on funding and the costs to be duly borne by the buyer. "Necessary interest on funding" is imputed as the weighted average interest rate on borrowing in the year the Company purchases the property; provided, it may not be higher than the maximum non-financial industry lending rate announced by the Ministry of Finance.
2. Total loan value appraisal from a financial institution where the related party has previously created a mortgage on the property as security for a loan; provided, the actual cumulative amount loaned by the financial institution shall have been 70%

or more of the financial institution's appraised loan value of the property and the period of the loan shall have been 1 year or more. However, this shall not apply where the financial institution is a related party of one of the trading counterparties.

Where land and structures thereupon are combined as a single property purchased or leased in one transaction, the transaction costs for the land and the structures may be separately appraised in accordance with either of the means listed in the preceding paragraph.

The Company that acquires real estate or right-of-use assets thereof from a related party and appraises the cost of the real estate or right-of-use assets thereof in accordance with the preceding two paragraphs shall also engage a CPA to check the appraisal and render a specific opinion.

Where the Company acquires real estate or right-of-use assets thereof from a related party and one of the following circumstances exists, the acquisition shall be conducted in accordance with the preceding Article, and the preceding three paragraphs do not apply:

1. The related party acquired the real estate or right-of-use assets thereof through inheritance or as a gift.
2. More than 5 years will have elapsed from the time the related party signed the contract to obtain the real estate or right-of-use assets thereof to the signing date for the current transaction.
3. The real estate is acquired through the signing of a joint development contract with the related party, or through engaging a related party to build real estate, either on the Company's own land or on leased land.
4. The real estate right-of-use assets for business use are acquired by the Company with its subsidiaries, or by its subsidiaries in which it directly or indirectly holds 100% of the issued shares or authorized capital.

Article 17 When the results of the Company's appraisal conducted in accordance with paragraphs 1 and 2 of the preceding Article are uniformly lower than the transaction price, the matter shall be handled in compliance with Article 18. However, where the following circumstances exist, objective evidence has been submitted and specific opinions on

reasonableness have been obtained from a professional real estate appraiser and a CPA, this restriction shall not apply:

1. Where the related party acquired undeveloped land or leased land for development, it may submit proof of compliance with one of the following conditions:
  - (1) Where undeveloped land is appraised in accordance with the means in the preceding Article, and structures according to the related party's construction cost plus reasonable construction profit are valued in excess of the actual transaction price. The "Reasonable construction profit" shall be deemed the average gross operating profit margin of the related party's construction division over the most recent 3 years or the gross profit margin for the construction industry for the most recent period as announced by the Ministry of Finance, whichever is lower.
  - (2) Completed transactions by unrelated parties within the preceding year involving other floors of the same property or neighboring or closely valued parcels of land, where the land area and transaction terms are similar after calculation of reasonable price discrepancies in floor or area land prices in accordance with standard property market practices or leasing practices.
2. Where the Company acquiring real estate or obtaining real estate right-of-use assets through leasing from a related party provides evidence that the terms of the transaction are similar to the terms of transactions completed for the acquisition of neighboring or closely valued parcels of land of a similar size by unrelated parties within the preceding year.

Completed transactions for neighboring or closely valued parcels of land in the preceding paragraph in principle refers to parcels on the same or an adjacent block and within a distance of no more than 500 meters, or parcels close in publicly announced current value; transaction for similarly sized parcels in principle refers to transactions completed by unrelated parties for parcels with a land area of no less than 50% of the property in the planned transaction; within the preceding year refers to the year preceding the date of occurrence of the acquisition of the real estate or obtainment of the real estate right-of-use assets thereof.

Article 18 Where the Company acquires real estate or right-of-use assets thereof from a related

party and the results of appraisals conducted in accordance with the preceding two Articles are uniformly lower than the transaction price, the following steps shall be taken:

1. A special reserve shall be set aside in accordance with Article 41, paragraph 1 of the Securities and Exchange Act against the difference between the real estate or right-of-use assets thereof transaction price and the appraised cost, and may not be distributed as cash/stock dividends. Where a public company uses the equity method to account for its investment in another company, then the special reserve called for under Article 41, paragraph 1 of the Securities and Exchange Act shall be set aside pro rata in a proportion consistent with the share of public company's equity stake in the other company.
2. The Audit Committee shall comply with Article 218 of the Company Act.
3. Actions taken pursuant to the preceding two Articles shall be reported to a shareholders meeting, and the details of the transaction shall be disclosed in the annual report and any prospectus.

The Company that has set aside a special reserve under the preceding paragraph may not utilize the special reserve until it has recognized a loss on decline in market value of the assets it purchased or leased at a premium, or they have been disposed of, or the leasing contract has been terminated, or adequate compensation has been made, or the status quo ante has been restored, or there is other evidence confirming that there was nothing unreasonable about the transaction, and the Financial Supervisory Commission (FSC) has given its consent.

When the Company obtains real estate or right-of-use assets thereof from a related party, it shall also comply with the preceding two paragraphs if there is other evidence indicating that the acquisition was not an arm's length transaction.

#### **Section IV Engaging in Derivatives Trading**

Article 19 The Company engaging in derivatives trading shall pay strict attention to control of the following important risk management and auditing matters, and incorporate them into the Procedures:

1. Trading principles and strategies:

- (1) Types of derivatives that may be traded: the Company may engage any derivatives as defined in paragraph 1, Article 4 of the Procedures.
- (2) Operating or hedging strategies: according to the purpose of acquisition or issuance, the derivatives trading may be categorized as derivatives for hedge purpose and derivatives for transaction purpose.

The Company's derivatives trading shall be mainly used for hedge purpose. Transaction counterparty shall be the financial institution with the business relationship with the Company to avoid the credit risk.

- (3) Segregation of duties:
  - (i) Accounting department: shall be responsible for creating the journal of the transaction, confirming the transaction report, generating accounting documents/vouchers and finalizing the accounting statements.
  - (ii) Financial department: the financial department shall:
    - A. Acknowledge the market information, determine the trend and risks, clearly understand the derivatives, the related laws and regulations, and provide sufficient and prompt information to relevant departments.
    - B. Evaluate the total amount of the Company's foreign exchange transactions and other hedge requirements, avoid potential risks according to the Company's policy, and fasten the costs and profits. The financial department shall control every derivatives transaction and assess the loss and profit which has not been realized subject to the market price.
    - C. Calculate the cash flow in compliance with the credit line offered by the bank to assist financial personnel to make the settlement.
    - D. Be responsible for drafting or modifying the relevant procedures of derivatives transactions, summarizing and managing the transaction records periodically reported by the Company and subsidiaries to make monthly public announcement.
  - (iii) Audit department: shall make periodical and non-periodical inspection pursuant to internal audit regulations.



- (4) Essentials of performance evaluation: the accounting department shall evaluate the net balance, provide the report of foreign exchange transaction to the competent supervisors as the reference of management and performance assessment periodically to adjust and improve the hedge policy.
  - (5) Total amount of derivatives contracts that may be traded:
    - (i) Total amount of hedge product transactions: shall be limited to the maximum amount of estimated assets or debts that the Company may acquire or generate now and within following six months. If the hedge product transactions exceed the maximum amount, it shall submit to the board of directors for approval.
    - (ii) Total amount of transaction products: the Company shall not engage the trade of transaction products unless approved by the board of directors.
  - (6) Maximum loss limit on total trading and for individual contracts: Except the hedge product transactions, the maximum amount of transaction risk in an individual contract shall not exceed US\$ 100,000, the maximum loss amount and stop loss limit of the whole transactions/contracts shall not exceed US\$ 1,000,000 or other currency in equivalent amount. Any alternation of the content in this article shall be approved by the board of directors.
2. Risk management measures: pursuant to Article 19 of the Procedures.
  3. Internal audit system: pursuant to paragraph 2, Article 21 of the Procedures.
  4. Regular evaluation methods and the handling of irregular circumstances: pursuant to the relevant articles of the Procedures.

Article 20 The Company engaging in derivatives trading shall adopt the following risk management measures:

1. Risk management scope:
  - (1) Consideration of credit risk: the counterparty of derivatives trading shall be the bank which has a business relationship with the Company or a prominent international financial institution which may provide professional information.
  - (2) Consideration of market price risk: the Company shall control the market

price risks arising from the fluctuations of interest rate, exchange rate or other reasons from time to time.

- (3) Consideration of liquidity risk: the counterparty of derivatives trading shall be capable of sufficient equipment, information and ability to execute trading in any market.
- (4) Consideration of cash flow risk: the Company shall maintain sufficient quick assets and credit facilities to meet the cash settlement requirement.
- (5) Consideration of operating risk: the Company shall illustrate the delegated amount and operating procedure to avoid operation risk.
- (6) Consideration of legal risks: all of the documents signed by the Company with the counterparty shall be reviewed by internal legal personnel or legal counsel to avoid legal risks.

2. The respective functions of trading, confirmation and settlement should be performed by different personnel.
3. Risk measurement, monitoring, control personnel and the personnel mentioned in the preceding subparagraph shall be assigned to different departments and shall report to the board of directors or senior management personnel with no responsibility for trading or making decision on position.
4. Derivatives trading positions held for trading purposes shall be evaluated at least once per week; however, hedge purpose positions for meeting operational requirements shall be evaluated at least twice per month. Evaluation reports shall be submitted to senior management personnel authorized by the board of directors and submitted to the board of directors for reference quarterly.

Article 21 Where the Company engaging in derivatives trading, its board of directors shall faithfully supervise and manage such trading in accordance with the following principles:

1. Designate senior management personnel to pay continuous attention to monitoring and controlling derivatives trading risk.
2. Periodically evaluate whether derivatives trading performance is consistent with established operational strategy and whether the risk undertaken is within the

Company's permitted scope of tolerance.

Senior management personnel authorized by the board of directors shall manage derivatives trading in accordance with the following principles:

1. Periodically evaluate the risk management measures currently employed are appropriate and are faithfully conducted in accordance with the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies” and the Procedures for engaging in derivatives trading formulated by the Company.
2. When irregular circumstances are found in the course of supervising trading and profit-loss circumstances, due measures shall be adopted and reported immediately to the board of directors and independent director(s) shall be present at the board meeting and express opinions.

The Company shall report to the earliest meeting of the board of directors after it authorizes the relevant personnel to handle derivatives trading in accordance with the Procedures for engaging in derivatives trading.

Article 22 The Company engaging in derivatives trading shall establish a log book in which details of the types and amounts of derivatives trading engaged in, board of directors approval dates, and the matters required to be carefully evaluated under subparagraph 4 of Article 20 and subparagraph 2 of paragraph 1, and subparagraph 1 of paragraph 2, of the preceding Article shall be recorded in detail in the log book.

The Company's internal audit personnel shall periodically examine the appropriateness of internal controls over derivatives trading and conduct a monthly audit of the compliance of derivatives trading by the trading department with the procedures, and prepare an audit report. In the event of any material violations, the Audit Committee shall be notified in writing.

## **Section V Mergers, Spin-offs, Acquisitions, and Transfer of Shares**

Article 23 The Company that conducts a merger, spin-off, acquisition, or transfer of shares, prior to convening the board of directors to resolve on the matter, shall engage a CPA, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and submit it to the board of directors for deliberation and passage.

However, the requirement of obtaining an aforesaid third-party fairness opinion may be exempted in the case of a merger by the Company of a subsidiary in which it directly or indirectly holds 100 percent of the issued shares or authorized capital, and in the case of a merger between subsidiaries in which the Company directly or indirectly holds 100 percent of the respective subsidiaries' issued shares or authorized capital.

Article 24 In the event that the Company participating in a merger, spin-off, acquisition, or transfer of shares shall prepare a public report to shareholders detailing important contractual content and matters relevant to the merger, spin-off, or acquisition prior to the shareholders meeting and include it along with the expert opinion referred to in paragraph 1 of the preceding Article when sending shareholders notification of the shareholders meeting for reference in deciding whether to approve the merger, spin-off, or acquisition. Provided, where a provision of another act exempts a company from convening a shareholders meeting to approve the merger, spin-off, or acquisition, this restriction shall not apply.

Where the shareholders meeting of any one of the companies participating in a merger, spin-off or acquisition fails to convene or pass a resolution due to lack of a quorum, insufficient votes, or other legal restriction, or the proposal is rejected by the shareholders meeting, the companies participating in the merger, spin-off or acquisition shall immediately publicly explain the reason, the follow-up measures, and the preliminary date of the next shareholders meeting.

Article 25 A company participating in a merger, spin-off, 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, spin-off, or acquisition, unless another act provides otherwise or the competent securities authority is notified in advance of extraordinary circumstances and grants consent.

A company participating in a transfer of shares shall call a board of directors meeting on the day of the transaction, unless another act provides otherwise or the competent securities authority is notified in advance of extraordinary circumstances and grants consent.

When participating in a merger, spin-off, acquisition, or transfer of shares where shares are listed on an exchange or traded on an OTC market, a full written record of the following information shall be kept for 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, spin-off, acquisition, or transfer of another company's shares prior to disclosure of the information.
2. Dates 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, spin-off, acquisition, and transfer of shares plans, any letter of intent or memorandum of understanding, material contracts, and minutes of board of directors meetings.

When participating in a merger, spin-off, acquisition, or transfer of shares where shares are listed on an exchange or traded on an OTC market, within 2 days immediately from the date of passage of a resolution by the board of directors, a report (in the prescribed format and via the Internet-based information system) with the information set out in subparagraphs 1 and 2 of the preceding paragraph shall be sent to the Financial Supervisory Commission (FSC) for review.

Where any of the companies participating in a merger, spin-off, acquisition, or transfer of shares where shares are neither listed on an exchange nor traded on an OTC market, the Company(s) so listed or traded shall sign an agreement with such company whereby the latter is required to abide by the provisions of the preceding two paragraphs.

Article 26 Every person participating in or privy to the plan for merger, spin-off, acquisition, or transfer of shares shall issue a written undertaking of confidentiality and may not disclose the content of the plan prior to public disclosure of the information and may not trade, in their own name or under the name of another person, in any stock or other equity security of any company related to the plan for merger, spin-off, acquisition, or transfer of shares.

Article 27 The Company participating in a merger, spin-off, acquisition, or transfer of shares may not arbitrarily alter the share exchange ratio or acquisition price unless under the below-listed circumstances, and shall stipulate the circumstances permitting alteration in the contract for the merger, spin-off, acquisition, or transfer of shares:

1. Cash capital increase, issuance of convertible corporate bonds, or the issuance of bonus shares, issuance of corporate bonds with warrants, preferred shares with warrants, stock warrants, or other equity-based securities.
2. An action, such as a disposal of major assets that affects the Company's financial operations.
3. An event, such as a major disaster or major change in technology that affects shareholder equity or share price.
4. An adjustment where any of the companies participating in the merger, spin-off, acquisition, or transfer of shares from another company, buys back treasury stock.
5. An increase or decrease in the number of entities or companies participating in the merger, spin-off, acquisition, or transfer of shares.
6. Other terms/conditions that the contract stipulates may be altered and that have been publicly disclosed.

Article 28 The contract for participation by the Company in a merger, spin-off, acquisition, or of shares shall record the rights and obligations of the companies participating in the merger, spin-off, acquisition, or transfer of shares, and shall also record the following:

1. Handling of breach of contract.
2. Principles for the handling of equity-based securities previously issued or treasury stock previously bought back by any company that is extinguished in a merger or that is demerged.
3. The amount of treasury stock participating companies are permitted under law to buy back after the record date of calculation of the share exchange ratio, and the principles for handling thereof.
4. The manner of handling changes in the number of participating entities or companies.
5. Preliminary progress schedule for plan execution, and anticipated completion date.
6. Scheduled date for convening the legally mandated shareholders meeting if the plan exceeds the deadline without completion, and relevant procedures.

Article 29 After public disclosure of the information, if any company participating in the merger, spin-off, acquisition, or transfer of shares intends further to carry out a merger, spin-off, acquisition, or transfer of shares with another company, all of the participating companies shall carry out anew the procedures or legal actions that had originally been completed toward the merger, spin-off, acquisition, or share transfer; except that where the number of participating companies is decreased and a participating company's shareholders meeting has adopted a resolution authorizing the board of directors to alter the limits of authority, such participating company may be exempted from calling another shareholders meeting to resolve on the matter anew.

Article 30 Where any of the companies participating in a merger, spin-off, acquisition, or transfer of shares is not a public company, the Company shall sign an agreement with the non-public company whereby the latter is required to abide by the provisions of Articles 25, 26, and the preceding Article.

### **Chapter III Public Disclosure of Information**

Article 31 Under any of the following circumstances, the Company acquiring or disposing of assets shall publicly announce and report the relevant information on the FSC's designated website in an appropriate format as prescribed by regulations within 2 days commencing immediately from the date of occurrence of the event:

1. Acquisition or disposal of real estate or right-of-use assets thereof from or to a related party, or acquisition or disposal of assets other than real estate or right-of-use assets thereof from or to a related party where the transaction amount reaches 20% or more of the paid-in capital, or 10% or more of the Company's total assets, or NT\$300,000,000 or more; provided, this shall not apply to trading of local government bonds or bonds under repurchase and resale agreements, or subscription or redemption of money market funds which are issued by domestic securities investment trust companies.
2. Merger, spin-off, acquisition, or transfer of shares.
3. Losses from derivatives trading reaching the limits of aggregate losses or losses on individual contracts set out in the procedures adopted by the Company.
4. Where equipment or right-of-use assets thereof for business use are acquired or

disposed of, and furthermore the trading counterparty is not a related party, and the transaction amount meets any of the following criteria:

- (1) For a public company whose paid-in capital is less than NT\$10 billion, the transaction amount reaches NT\$500 million or more.
  - (2) For a public company whose paid-in capital is NT\$10 billion or more, the transaction amount reaches NT\$1 billion or more.
5. Engaging others to build on the Company's own land, engaging others to build on leased land, joint construction and allocation of housing units, joint construction and allocation of ownership, or joint construction and separate sale, and furthermore, the trading counterparty is not a related party, with estimated amount of investment by the Company reaching NT\$500,000,000 or more.
6. Any asset transactions other than those referred to in the preceding five subparagraphs, or an investment in the mainland China area with an amount reaching 20% or more of the paid-in capital or NT\$300,000,000 or more, excluding the following circumstances:
- (1) Trading of local government bonds.
  - (2) Securities trading by investment professionals on securities exchanges or over-the-counter markets, or subscription of straight bonds or of non-equity related general bank debentures (excluding subordinated debt) that are offered and issued in the primary market, or subscription or redemption of securities investment trust funds or futures trust funds.
  - (3) Trading of bonds under repurchase/resale agreements, or subscription or redemption of money market funds which are issued by domestic securities investment trust companies.

The amount of transactions above shall be calculated as follows:

1. The amount of any individual transaction.
2. The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year.
3. The cumulative transaction amount of real estate or right-of-use assets thereof acquisitions and disposals (cumulative acquisitions and disposals, respectively)



within the same development project within the preceding year.

4. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.

"Within the preceding year" as used in the preceding paragraph refers to the year preceding the date of occurrence of the transaction. Items duly announced in accordance with the Procedures need not be re-announced.

The Company shall compile monthly reports on the status of derivatives trading engaged in up to the end of the preceding month by itself and any subsidiaries that are not domestic public companies and enter the information in the prescribed format into the information reporting website designated by the FSC by the 10th day of each month.

If the Company at the time of public announcement makes an error or omission in an item required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety within two days inclusive of the date of knowing of such errors or omissions.

Article 32 Where any of the following circumstances occurs with respect to a transaction that the Company has already announced publicly and reported in accordance with the preceding article, a public announcement of relevant information shall be made on the information reporting website designated by the FSC within 2 days commencing immediately from the date of occurrence of the event:

1. Change, termination, or rescission of a contract signed in regard to the original transaction.
2. The merger, spin-off, acquisition, or transfer of shares is not completed by the scheduled date set forth in the contract.
3. Change in the originally publicly announced and reported information.

#### **Chapter IV Additional Provisions**

Article 33 Information required to be publicly announced and reported in accordance with the provisions of the preceding Chapter on acquisitions and disposals of assets by a

subsidiary of the Company that is not itself a public company in Taiwan shall be reported by the Company.

The paid-in capital or total assets of the Company shall be the criteria for determining whether or not the subsidiary referred to in the preceding paragraph is subject to Article 31, paragraph 1 requiring a public announcement and regulatory filing depending on paid-in capital or total assets; provided, the term “paid-in capital” in subparagraph 4, paragraph 1 of Article 31 shall be based on the Company’s and its subsidiaries’ paid-in capital respectively.

Article 34 For the calculation of 10% of total assets under the Procedures, the total assets stated in the most recent parent company only financial report or in the individual financial report prepared under the Regulations Governing the Preparation of Financial Reports by Securities Issuers shall be used.

In the case of a company whose shares have no par value or a par value other than NT\$10, for the calculation of transaction amounts of 20% of the paid-in capital under the Procedure, 10% of equity attributable to owners of the parent company shall be substituted; for calculations under the provisions of the Procedures regarding transaction amounts relative to paid-in capital of NT\$10,000,000,000 (ten billion), NT\$20,000,000,000 (twenty billion) of equity attributable to owners of the parent shall be substituted.

Article 35 The Procedures shall be effective from the date approved by the shareholders’ meeting.