San Fang Chemical Industry Co., Ltd. and its subsidiaries

Regulations Governing the Acquisition and Disposal of Assets

2022.06.21

Chapter 1 General Provisions

I. Purpose and legal basis:  
These Regulations have been formulated pursuant to the provisions set forth in Article 36-1 of the Securities and Exchange Act and the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies” to enhance asset management and implement information transparency.

II. Acquisition and disposal of the following assets by this Company and its subsidiaries shall be handled pursuant to these Regulations.

III. The term “assets” as used in these Regulations shall refer to the following:

(1) Investments in stocks, government bonds, corporate bonds, financial bonds, securities representing interest in a fund, depositary receipts, call (put) warrants, beneficial interest securities, and asset-backed securities.

(2) Real property (including land, buildings, investment property) and equipment.

(3) Memberships.

(4) Patents, copyrights, trademarks, franchise rights, and other intangible assets.

(5) Right-of-use assets.

(6) Derivatives: Forward contracts, options contracts, futures contracts, leverage contracts, or 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) contracts.

(7) Assets acquired or disposed through mergers, demergers, acquisitions, or transfer of shares in accordance with law: Refers to assets acquired or disposed through mergers, demergers, or acquisitions conducted under the Business Mergers and Acquisitions Act, Financial Holding Company Act, the Financial Institutions 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.

(8) Other major assets.

IV. Operating procedures:

(1) Acquisition or disposal of securities  
Units responsible for execution: Personnel designated by the Finance Department or the Chairperson  
Methods for assessments and determination of transaction conditions:  
Acquisition or disposal of security investments, memberships, or intangible assets shall be handled pursuant to investment cycle procedures prescribed in the internal control system of this Company and its subsidiaries and the following provisions:

1. Acquisition or disposal of securities traded on a Securities Exchange or an OTC venue shall be decided based on current equity or bond prices.
2. Acquisition or disposal of securities not traded on centralized securities exchange markets or the Taipei Exchange shall be determined in consideration of net values per share, technologies and profitability, future development potential, market interest rates, bond coupon rates, and the debtor’s credit standing and with reference to the latest transaction prices.
3. Acquisition or disposal of memberships shall be determined in consideration of potential benefits and the latest transaction prices. Acquisition or disposal of intangible assets such as patents, copyrights, trademarks, and franchise rights shall be determined with reference to international or market practices, validity periods, and impacts on company technologies and operations.

Asset appraisal procedures:

1. When acquiring or disposing of securities, the Company shall, prior to the date of occurrence of the event, 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. If the transaction amount is 20 percent of the company's paid-in capital or NT$300 million or more, the company shall additionally engage a certified public accountant prior to the date of occurrence of the event to render an opinion regarding the reasonableness of the transaction price. ~~If the CPA needs to use the report of an expert as evidence, the CPA shall do so in accordance with the provisions of Statement of Auditing Standards No. 20 published by the ARDF (Accounting Research and Development Foundation in Taiwan).~~ However, this requirement does not apply to publicly quoted prices of securities that have an active market, or where otherwise provided by regulations of the Financial Supervisory Commission (hereinafter referred to as FSC).
2. Where the Company acquires or disposes of intangible assets or right-of-use assets thereof or memberships and the transaction amount reaches 20 percent or more of paid-in capital or NT$300 million or more, except in transactions with a domestic government agency, the company shall engage a certified public accountant prior to the date of occurrence of the event to render an opinion on the reasonableness of the transaction price; ~~the CPA shall comply with the provisions of Statement of Auditing Standards No. 20 published by the ARDF~~.

　(2) Acquisition or disposal of real property or equipment  
Units responsible for execution: Departments using such assets and competent units

Methods for assessments and determination of transaction conditions:

Acquisition or disposal of real property, equipment, or right-of-use assets by the Company or one of its subsidiaries shall be handled pursuant to fixed asset cycle procedures prescribed in the internal control system and determined with reference to publicly announced or assessed current values, actual transaction prices or book values of real property in the same neighborhood, or quoted prices of suppliers.

Asset appraisal procedures:

In acquiring or disposing of real property, equipment, or right-of-use assets thereof where the transaction amount reaches 20 percent of the company's paid-in capital or NT$300 million or more, the company and its subsidiaries, unless transacting with a domestic government agency, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of equipment or right-of-use assets thereof held for business use, shall obtain an appraisal report prior to the date of occurrence of the event from a professional appraiser and shall further comply with the following provisions: 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 CPA opinion.

1. 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; the same procedure shall also be followed whenever there is any subsequent change to the terms and conditions of the transaction.
2. Where the transaction amount is NT$1 billion or more, appraisals from two or more professional appraisers shall be obtained.
3. Where any one of the following circumstances applies with respect to the professional appraiser's appraisal results, unless all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be disposed of are lower than the transaction amount, a certified public accountant shall be engaged to perform the appraisal in ~~accordance with the provisions of Statement of Auditing Standards No. 20 published by ARDF and~~ render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:
   1. The discrepancy between the appraisal result and the transaction amount is 20 percent or more of the transaction amount.
   2. The discrepancy between the appraisal results of two or more professional appraisers is 10 percent 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. However, where the publicly announced current value for the same period is used and not more than 6 months have elapsed, an opinion may still be issued by the original professional appraiser.

(3) The calculation of the transaction amounts referred to in the preceding two paragraphs shall be done in accordance with Article 6, paragraph 1 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 CPA's opinion has been obtained need not be counted toward the transaction amount.

(4) Merger, demerger, acquisition, or transfer of shares.

Units responsible for execution: Designated by the chairperson

Methods for assessments and determination of transaction conditions:

Where the Company conducts a merger, demerger, acquisition, or transfer of shares, prior to convening the board of directors to resolve the matter, it shall consider the nature of business, net value per share, asset value, technologies and profitability, production capacities, and future growth potential and 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 of this Company for deliberation and passage.

(5) Related party transaction

Where the Company or one of its subsidiaries acquires real property or its right-of-use assets from a related party as defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers through purchase or swap or engages in assessment procedures with a related party, the provisions set forth in Chapter 2, 3, and 4 shall apply.

(6) Transactions on derivative  
Handled pursuant to the provisions set forth in Chapter 3.

V. Authorization levels and degrees and investment limits

(1) Securities

1. Authorization levels and degrees

The Presidents of the Company and its subsidiaries shall be authorized to conduct transactions within the investment limits listed below. Where transaction prices equal NT$ 300 million or less, transactions shall be subject to approval in accordance with the delegation of authority. Where transaction prices exceed NT$ 300 million, transactions shall be subject to approval by board resolution.

2. Investment limits

a. Total amounts of securities held by the Company or its subsidiaries shall not exceed 50% of the total assets as indicated in the company's latest financial statement or 25% of the total assets as indicated in the latest financial statement of a subsidiary

b. Limits of investments by the Company or its subsidiaries in individual securities shall not exceed 25% of the total assets as indicated in the latest financial statement of the Company or its subsidiaries or 15% of the total assets as indicated in the latest financial statement of a subsidiary.

c. Net investments in single Exchange- or OTC-listed companies by the Company or its subsidiaries shall not exceed 5% of the total assets as indicated in the Company's latest financial statement.

d. Equity investments in single Exchange- or OTC-listed companies by the Company or its subsidiaries shall not exceed 10% of the total issued shares of said listed company.

(2) Derivatives

1. Authorization levels and degrees

(1) Hedging transactions: Pursuant to the revenue and risk position changes of the Company and its subsidiaries, every hedging contract with a transaction amount in excess of 20 percent or more of paid-in capital or US$6 million (include equivalent value) shall be subject to board approval; contracts with transaction amounts of less than 20 percent of paid-in capital and less than US$6 million (include equivalent value) shall be subject to pre-approval by the chairperson upon board authorization. Upon carrying out of transactions by designated personnel, reports are submitted to the next board meeting for ratification.

(2) Non-hedging transactions: With a view to minimizing risks, every transaction contract with a transaction amount in excess of 20 percent or more of paid-in capital or US$6 million (include equivalent value) shall be subject to board approval; contracts with transaction amounts of less than 20 percent of paid-in capital and less than US$6 million (include equivalent value) shall be subject to pre-approval by the chairperson upon board authorization. Upon carrying out transactions by designated personnel, reports are submitted to the next board meeting for ratification.

2. Investment (transaction) limits: For more details on investment and investment loss limits, please refer to Chapter 3.

To ensure optimal coordination between authorization processes of the Company and its subsidiaries and bank monitoring and management, authorized transaction personnel shall notify the bank.

Derivative transactions conducted in accordance with the aforementioned authorizations shall be subsequently reported to the next board meeting.

(3) Merger, demerger, acquisition, or transfer of shares.

Relevant procedures and preparations shall be handled pursuant to the provisions set forth in Chapter 4 of these Regulations. Mergers, demergers, and acquisitions shall be subject to approval by a shareholders meeting resolution. This restriction shall not apply where a provision of another act exempts the Company from convening a shareholders meeting for approval. Transfer of shares shall be subject to approval by the board of directors of this Company.

(4) Others

1. Authorization levels and degrees

Transactions shall be handled in accordance with operating procedures prescribed by the internal control system and delegation of authority of the Company and its subsidiaries. Where transaction amounts reach 20 percent of the company's paid-in capital or NT$300 million or more, all transactions (other than acquisition or disposal of equipment for business use of a transaction amount within NT$ 500 million which shall be decided on by the chairperson upon authorization and subsequently submitted to and ratified by the next board meeting) shall be subject to prior approval by board resolution.

Where the provisions set forth in Article 185 of the Company Act apply, prior approval by a resolution of a shareholders meeting shall be required.

2. Investment (transaction) limits

If no limits are prescribed, prior approval by board resolution shall be required if the investment (transaction) amount reaches 20 percent of the Company's paid-in capital.

The following standards shall apply to the aforementioned provisions regarding 20 percent of the paid-in capital or 10 percent of the total assets: the total asset amount as stated in the most recent individual financial report prepared under the Regulations Governing the Preparation of Financial Reports by Securities Issuers shall constitute the total assets; 10 percent of equity attributable to owners of the parent shall be substituted for calculations based on paid-in capital.

VI. Announcement and reporting procedures.

(1) Where the Company or one of its subsidiaries acquires or disposes of assets under any of the following circumstances, the Company shall publicly announce and report the relevant information on the website designated by the competent authority in the appropriate format and with the required contents as prescribed by regulations within 2 days counting inclusively from the date of occurrence of the event:

1. Acquisition or disposal of real property or right-of-use assets thereof from or to a related party, or acquisition or disposal of assets other than real property or right-of-use assets thereof 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 or bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises.

2. Merger, demerger, acquisition, or transfer of shares.

3. Losses from derivatives trading reaching the limits on aggregate losses or losses on individual contracts set out in Chapter 3, Article 13, Paragraph 4 of these Regulations.

4. Where equipment or right-of-use assets thereof for business use represent the acquired or disposed of asset category, the transaction 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 exceeds NT$500 million.

(2) For a public company whose paid-in capital reaches NT$ 10 billion, the transaction amount exceeds NT$ 1 billion.

5. Where land is acquired under an arrangement of engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and furthermore the transaction counterparty is not a related party, and the amount the company expects to invest in the transaction reaches NT$500 million or more.

6. Where an asset transaction other than any of those referred to in the preceding five subparagraphs or an investment in the mainland China area reaches 20 percent of paid-in capital or NT$300 million or more. This shall not apply to the following circumstances:

(1) Trading of domestic government bonds or foreign government bonds of a credit rating not lower than Taiwan’s sovereign credit rating.

(2) Trading of bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises.

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 transaction counterparty within the preceding year.
3. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of real property or right-of-use assets thereof 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 current transaction. Items duly announced in accordance with the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies” need not be counted toward the transaction amount.

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

(3) When the Company at the time of public announcement makes an error or omission in an item required to be publicly announced and so is required to correct it, all the items shall be again publicly announced in their entirety within 2 days counting inclusively from the date of knowledge of such error or omission.

(4) Where any of the following circumstances occurs with respect to a transaction that has already been publicly announced and reported in accordance with the provisions set forth in (1), a public report of relevant information shall be made on the information reporting website designated by the competent authority within 2 days counting inclusively 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, demerger, acquisition, or transfer of shares is not completed by the scheduled date set forth in the contract.

(3) Change to the originally publicly announced and reported information.

VII. Control procedures for the acquisition and disposal of assets by subsidiaries:

(1) Acquisition and disposal of assets by the subsidiaries of this Company shall also be handled pursuant to provisions set forth in these Regulations.

(2) Where acquisition or disposal of assets by a subsidiary that is not a public company meets the standards of public announcement and reporting, this Company shall be notified on the date of occurrence. The Company shall publicly announce and report the relevant information on the designated website.

(3) Where the public announcement and reporting standards set forth in Article 6 of these Regulations apply to the aforementioned subsidiaries, the provisions regarding 20 percent of the paid-in capital or 10 percent of the total assets shall be based on the paid-in capital or total assets of this Company. For the calculation of 10 percent of total assets, the total asset amount as stated in the most recent 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 percent of paid-in capital under these Regulations, 10 percent of equity attributable to owners of the parent shall be substituted; for calculations under the provisions of these Regulations regarding transaction amounts relative to a paid-in capital of NT$10 billion, NT$20 billion of equity attributable to owners of the parent shall be substituted.

VIII. Penalty provisions:  
Where personnel of this Company and its subsidiaries violated the provisions set forth in these Regulations, disciplinary action shall be taken pursuant to the personnel management regulations of this Company and its subsidiaries.

Chapter 2 Related party transactions

IX. Identification criteria:

(1) When the Company and its subsidiaries engage in any acquisition or disposal of assets from or to a related party, an appraisal report from a professional appraiser or a CPA's opinion shall be obtained in compliance with the provisions of the preceding Section if the transaction amount reaches 10 percent or more of the company's total assets. The calculation of such transaction amounts shall be handled pursuant to Article 4, Paragraph 2.

(2) Related parties shall be identified pursuant to the Regulations Governing the Preparation of Financial Reports by Securities Issuers. In addition to legal formalities, the substance of the relationship shall also be considered.

X. Resolution procedures  
When the Company and its subsidiaries intend to acquire or dispose of real property 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 property or right-of-use assets thereof from or to a related party and the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the company's total assets, or NT$300 million or more, except in trading of domestic government bonds or bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises, they may not proceed to enter into a transaction contract or make a payment until the following matters have been submitted by the unit responsible for execution and approved by the audit committee and the board of directors:

(1) The purpose, necessity and anticipated benefits of the acquisition or disposal of assets.

(2) The reason for choosing the related party as a transaction counterparty.

(3) With respect to the acquisition of real property or right-of-use assets thereof from a related party, information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with Article 11 and Article 12.

(4) The date and price at which the related party originally acquired the real property, the original transaction counterparty, and said transaction counterparty's relationship to the Company and the related party.

(5) Monthly cash flow forecasts for the year commencing from the anticipated month of the 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 important stipulations associated with the transaction.

The calculation of the transaction amounts referred to in the preceding paragraph shall be made in accordance with Article 6, paragraph 1 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 submitted to and approved by a shareholders meeting, the board of directors and the audit committee pursuant to these Regulations need not be counted toward the transaction amount.

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 percent of the issued shares or authorized capital, the Company's board of directors may pursuant to Article 2 and Article 5, paragraph 4 authorize the chairperson to decide such matters when the transaction is within a certain amount and have the decisions subsequently submitted to and ratified by the next board of directors meeting:

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

Where a matter is submitted for discussion by the board of directors pursuant to this Article, the board of directors shall take into full consideration independent director opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board of directors meeting.

Where the Company or a subsidiary that is not a publicly listed company in Taiwan engages in a transaction as specified in Paragraph 1 and the transaction amount reaches 10 percent or more of the total assets of the Company, it may not proceed to enter into a transaction contract or make a payment until the matters specified in Paragraph 1 have been submitted to a shareholders meeting for approval. This restriction shall not apply to transactions between this Company and its subsidiaries or their subsidiaries.

XI. Assessment of the reasonableness of transaction terms  
Where the Company or one of its subsidiaries acquires real property or right-of-use assets thereof from a related party, it shall assess 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 percent 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 transaction counterparties.

(3) Where land and buildings are combined as a single property purchased or leased in one transaction, the transaction costs for the land and the buildings may be separately appraised according to either of the means listed in subparagraphs (1) (2) above.

Where the Company or one of its subsidiaries acquires real property or right-of-use assets thereof from a related party and appraises the cost of the real property or right-of-use assets thereof in accordance with the preceding two paragraphs, it shall also engage a CPA to check the appraisal and render a specific opinion.

Where the Company or one of its subsidiaries acquires real property 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 shall not apply:

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

XII. Requirements when calculated transaction costs are lower than transaction prices:

(1) Where the transaction costs appraised by the Company and its subsidiaries pursuant to the provisions set forth in the preceding Article are lower than the transaction prices, the provisions set forth in (2) shall apply unless one of the following conditions exists, objective evidence has been submitted, and specific opinions on reasonableness have been obtained from a professional real property appraiser and a CPA.

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:

a. Where undeveloped land is appraised in accordance with the means in the preceding Article, and buildings 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.

b. 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 sale or leasing practices.

2. Where the Company or one of its subsidiaries acquiring real property, or obtaining real property right-of-use assets through leasing, from a related party provides evidence that the terms of the transaction are similar to the terms of completed transactions involving neighboring or closely valued parcels of land of a similar size by unrelated parties within the preceding year.

Completed transactions involving 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; transactions involving similarly sized parcels in principle refers to transactions completed by unrelated parties for parcels with a land area of no less than 50 percent 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 property or obtainment of the right-of-use assets thereof.

(2) Where the transaction costs appraised by the Company and its subsidiaries for the acquisition of real property or right-of-use assets thereof from a related party pursuant to the provisions set forth in the preceding Article and this Article are lower than the transaction prices and none of the conditions specified in Paragraph 1 of this Article exist, the following provisions shall apply:

1. A special reserve shall be set aside by the Company and its subsidiaries in accordance with Article 41, paragraph 1 of the Securities and Exchange Act against the difference between the real property or right-of-use asset transaction price and the appraised cost. It may not be distributed or used for capital increase or issuance of bonus shares. Where the aforementioned conditions apply to an investee which is a public company that has been evaluated by the Company by adopting the equity method, 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 the Company's equity stake in the investee. Where the Company has set aside a special reserve under the preceding paragraph, it may not utilize the special reserve until it has recognized a loss on the 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 competent authority has given its consent.

2. The independent directors who make up the audit committee shall comply with the provisions set forth in Article 218 of the Company Act.

3. Actions taken pursuant to subparagraphs 1 and 2 shall be reported to a shareholders' meeting, and the details of the transaction shall be disclosed in the annual report and any investment prospectus.

(3) Other matters requiring attention  
When the Company obtains real property or right-of-use assets thereof from a related party, it shall also comply with the provisions set forth in (2) of the preceding paragraph if there is other evidence indicating that the acquisition was not an arms length transaction.

Chapter 3 Control of derivative transactions

XIII. Transaction principles and strategies:

(1) Transaction categories: The Company and its subsidiaries may engage in the following derivative transactions: Forward contracts, options, interest rate and currency swaps, futures, and compound contracts combining the above products. Other derivative transactions shall be subject to approval by resolution of the board of directors of this Company.

(2) Business or hedging strategies: The Company and its subsidiaries engage in derivative transactions for hedging and non-hedging (transaction) purposes. Strategies shall focus on business risk avoidance as the primary objective. Selection of traded products shall be based on the principle of avoidance of risks in the fields of foreign exchange earnings, expenditures, assets, or liabilities generated in the business operations of the Company and its subsidiaries. The Company and its subsidiaries shall engage in derivative, non-hedging transactions at opportune moments in response to the objective environment change to increase non-operating income and reduce non-operating losses. In addition, when selecting transaction counterparties, the Company and its subsidiaries shall give priority to financial institutions that have dealings with them to prevent credit risks. Prior to transactions, the trading pattern of financial operations (hedging or pursuit of investment income) must be clearly defined as a basis for bookkeeping.

(3) Investment (transaction) limits:

Hedging transactions: The net foreign exchange position based on consolidated assets and liabilities (incl. projected net positions in the future) shall be the hedging limit.

Non-hedging transactions: Total transactions of the Company and its subsidiaries shall not exceed 20 percent of the paid-in capital as indicated in the most recent financial statement. Prior to the execution of transactions, responsible personnel shall submit foreign exchange trend analysis reports that clearly identify foreign exchange market trends and recommended operation modes. All transactions shall be subject to approval by competent departments of the Company.

(4) Limits on aggregate losses and losses on individual contracts

Hedging transactions: Upon establishment of positions, stop-loss points not exceeding 10 percent of the transaction contract amount shall be set to prevent excessive losses. Cumulative losses for the whole year shall not exceed US$ 2 million.

Non-hedging transactions: Upon establishment of positions, stop-loss points not exceeding 5 percent of the transaction contract amount shall be set to prevent excessive losses. Cumulative losses for the whole year shall not exceed US$ 1 million.

Where aggregate or individual losses exceed the prescribed limits, corrective measures shall be adopted immediately as required and reported to the board of directors. If independent directors have been appointed, they shall attend board meetings to express their opinions. However, personnel authorized by the board may carry out transactions on an exception basis if there is clear objective evidence that such losses are within a controllable range.

(5) Authorities and responsibilities

1. Board of directors

a. Approval of transaction objects and product types.

b. Designation of senior executives for the supervision and control of derivative transactions.

c. Approval of single transactions or cumulative trading positions of hedging and non-hedging contracts exceeding 20 percent of the paid-in capital or US$ 6 million (include equivalent value); authorization of the chairperson to pre-approve hedging contracts with single transactions of less than 20 percent of paid-in capital and less than US$6 million (include equivalent value) subject to reporting to the board for ratification.

2. Transaction personnel

Personnel responsible for derivative transactions shall be designated by financial units or the chairperson of this Company. Such personnel shall be responsible for formulating transaction strategies and executing transaction orders within the scope of authorization. They shall further be responsible for the disclosure of future transaction risks and the provision of real-time information for reference by relevant departments.

3. Financial units of the Company and its subsidiaries

These units shall be responsible for the confirmation and bookkeeping of transactions and preservation of transaction records. They shall conduct fair mark-to-market accounting for all held positions on a regular basis and provide relevant information to dedicated transaction personnel. Derivative-related matters shall be disclosed in the financial statements of the Company and its subsidiaries.

4. General affairs units of the Company and its subsidiaries

These units shall be responsible for matters pertaining to the settlement of derivative transactions.

(6) Performance evaluation guidelines

1. Hedging transactions: Performance evaluations shall be based on the profits and losses generated by the difference between exchange and interest rate costs on the books and derivative financial transaction revenues. This performance shall be evaluated at least twice a month. The results of these evaluations shall be submitted to the Company's management level and its subsidiaries as a reference.

2. Special purpose transactions: Performance evaluations shall be carried out at least twice a week based on actual losses and profits. The results of these evaluations shall be submitted to the Company's management level and its subsidiaries as a reference.

XIV. Risk management measures:

The risk management scope and required risk management measures for derivative transactions engaged in by the Company and its subsidiaries shall be as follows:

(1) Credit risk considerations: Transaction counterparties shall be financial institutions and futures commission merchants in good standing that have dealings with the Company and its subsidiaries and are capable of providing professional information.

(2) Market risk considerations: Due to the fact that losses generated by future market price fluctuations of derivates are difficult to predict, stop-loss points set after the establishment of positions shall be strictly observed.

(3) Liquidity risk considerations: To ensure the liquidity of traded products, trading institutions must have sufficient equipment, information, and transaction capabilities and be able to conduct transactions in any market.

(4) Operational risk considerations: Degree of authority delegated and relevant operating procedures must be faithfully observed to prevent operational risks.

(5) Legal risk considerations: Standardized international documents shall be used as templates for contracts concluded with financial institutions to prevent legal risks.

(6) Product risk considerations: Internal traders shall possess complete and accurate professional knowledge of traded derivatives to prevent losses generated by misuse of derivatives.

(7) Cash delivery risk considerations: Authorized traders shall strictly observe relevant regulations within the degree of authority delegated and pay constant attention to the Company's cash flows to ensure the availability of sufficient cash for settlements.

(8) Transaction personnel may not serve concurrently in other operations such as confirmation and settlement.

(9) Confirmation personnel shall check and confirm accounting records with cooperating banks on a regular basis and constantly verify that total transaction amounts do not exceed the upper limits prescribed in these Regulations.

(10) Risk measurement, monitoring, and control personnel shall belong to a different department than the personnel specified in (1) and shall report to the board of directors or senior management personnel with no responsibility for trading or position decision-making.

(11) Positions held shall be evaluated at least once per week; however, positions for hedging transactions required by business shall be evaluated at least twice per month. Evaluation reports shall be submitted to senior management personnel authorized by the board of directors of the Company (senior executives that do not belong to the unit responsible for execution shall be designated).

XV. Internal audit system:

(1) Internal auditors of this Company and its subsidiaries shall periodically make a determination of the suitability of internal controls on derivatives, conduct a monthly audit of how faithfully derivative trading by the trading department adheres to the procedures for engaging in derivative trading, and prepare an audit report. If any material violation is discovered, the matter shall be reported to the chairperson and the senior executives designated by the board of directors of the Company. In addition, the audit committee shall be notified in writing. Where subsidiaries have not yet established an audit committee, supervisors shall be notified.

(2) Auditors of the Company and its subsidiaries shall include derivative transactions in their audit plans. They shall report the implementation status of the annual audit plan for the previous year to the competent authority by the end of February of the following year. The status of adopted corrective action for detected irregularities shall be reported to the competent authority for future reference by the end of May of the following year at the latest.

XVI. Regular evaluation methods and handling of irregularities:

(1) The Company and its subsidiaries shall evaluate derivative transactions on a monthly or weekly basis. Reports on monthly and weekly profits and losses and open interest positions of non-hedging transactions shall be compiled and submitted to the senior executives authorized by the board of directors and the chairperson of the Company as a reference for management performance evaluations and risk measurement.

(2) The board of directors of the Company shall designate senior executives to pay continuous attention to the supervision and control of derivative trading risks. The board of directors of the Company shall also periodically evaluate whether derivative trading performance is consistent with established operational strategy and whether the risk undertaken is within the company's permitted scope of tolerance.

(3) Senior executives authorized by the board of directors shall manage derivative trading in accordance with the following principles:

1. Periodic evaluation of the adequacy of currently adopted risk management measures and confirmation of compliance with the provisions set forth in the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies” and herein.

2. When irregularities are detected in the course of supervising trading and profit-loss circumstances, appropriate measures shall be adopted and a report immediately submitted to the board of directors; independent directors shall be present at the meeting and express opinions.

(4) Where the Company or one of its subsidiaries engages in derivative transactions, a log book shall be established which records in detail the types and amounts of such transactions, board of directors approval dates, monthly or weekly evaluation reports, and periodic evaluations by senior executives authorized by the chairperson and board of directors of the Company.

Chapter 4 Merger, demerger, acquisition, or transfer of shares

XVII. Where the Company or one of its subsidiaries conducts a merger, demerger, acquisition, or transfer of shares, a CPA, attorney, or securities underwriter shall be engaged to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders prior to convening the board of directors to resolve on the matter. This opinion shall be submitted to the board of directors for deliberation and passage.

However, the requirement of obtaining an aforesaid opinion on reasonableness issued by an expert may be exempted in the case of a merger by a public 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 public company directly or indirectly holds 100 percent of the respective subsidiaries’ issued shares or authorized capital.

XVIII. The Company or its subsidiary shall prepare a public report to shareholders detailing important contractual content and matters pertaining to the merger, demerger, or acquisition prior to the shareholders meeting and include it along with the expert opinion referred to in the preceding Article when sending shareholders notification of the shareholders meeting for reference in deciding whether to approve the merger, demerger, or acquisition. Provided, where a provision of another act exempts a company from convening a shareholders meeting to approve the merger, demerger, or acquisition, this restriction shall not apply. Where the shareholders meeting of any one of the companies participating in a merger, demerger, or acquisition fails to convene or pass a resolution or the proposal is rejected by the shareholders meeting, the companies participating in the merger, demerger or acquisition shall immediately publicly explain the reason, the follow-up measures, and the preliminary date of the next shareholders meeting.

XIX. Unless another act provides otherwise or prior approval has been obtained from the competent authority, the Company or its subsidiary, when participating in a merger, demerger, or acquisition, shall convene a board of directors meeting and shareholders meeting on the day of the transaction together with the other participating companies to resolve matters pertaining to the merger, demerger, or acquisition. When participating in a transfer of shares, a board of directors meeting shall be convened on the day of the transaction together with the other participating companies.

The company participating in a merger, demerger, acquisition, or transfer of another company's shares shall prepare a full written record of the following information and retain it 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 persons involved in the planning or implementation of any merger, demerger, acquisition, or transfer of another company's shares.

(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, demerger, acquisition, and share transfer plans, any letter of intent or memorandum of understanding, material contracts, and minutes of the board of directors meetings.

The company participating in a merger, demerger, acquisition, or transfer of another company's shares shall, within 2 days counting inclusively 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 in subparagraphs 1 and 2 of the preceding paragraph 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 latter is required to abide by the provisions of the preceding two paragraphs.

XX. Share exchange ratio and acquisition price:  
The Company or one of its subsidiaries participating in a merger, demerger, 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, demerger, 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, demerger, 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, demerger, acquisition, or transfer of shares.

(6) Other terms/conditions that the contract stipulates may be altered and that have been publicly disclosed.

XXI. Mandatory contract provisions:  
The contract for participation by the Company or one of its subsidiaries in a merger, demerger, acquisition, or transfer of shares shall record the rights and obligations of the participating companies, conditions pertaining to the alteration of the share exchange ratio or acquisition price as stipulated in the preceding Article, and the following matters:

(1) Handling of breach of contract.

(2) Principles for the handling of equity-type 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.

XXII. Other matters requiring attention when the Company and its subsidiaries participate in mergers, demergers, acquisitions, or transfer of shares:

(1) It is required that every person participating in or privy to the plan for the merger, demerger, 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.

(2) After public disclosure of the information pertaining to the merger, demerger, acquisition, or share transfer, if the company intends further to carry out a merger, demerger, acquisition, or share transfer with other companies, the procedures or legal actions of the original case shall be carried out anew; except that where the number of participating companies is decreased and a shareholders meeting has adopted a resolution authorizing the board of directors to alter the limits of authority, the company may be exempted from calling another shareholders meeting to resolve on the matter anew.

(3) Where any of the companies participating in a merger, demerger, 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 set forth in Article 19, Article 21, and the preceding two subparagraphs.

Chapter 5 Other important matters

XXIII. Where the Company or one of its subsidiaries acquires or disposes of assets, it shall keep all relevant contracts, meeting minutes, logbooks, appraisal reports and CPA, attorney, and securities underwriter opinions at its premises, where they shall be retained for 5 years except where another act provides otherwise.

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

1. They may not have previously received a final and unappealable sentence of 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. They 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 to each other.

When issuing an appraisal report or opinion, the personnel referred to in the preceding paragraph shall comply with the code of conduct of their respective trade association and the following:

(1) Prior to accepting a case, they shall prudently assess their own professional capabilities, practical experience, and independence.

(2) When conducting case ~~examinations~~, 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 executing 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 adequacy, ~~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 adequate, reasonable, and ~~accurate~~, and that they have complied with applicable laws and regulations.

XXV. With respect to the acquisition or disposal of assets by the Company and its subsidiaries that are subject to the approval of the board of directors under these Regulations or other laws or regulations, if a director expresses dissent and it is recorded in the minutes or a written statement, the director's dissenting opinion shall be submitted to the audit committee or each supervisor if the subsidiaries have not yet established an audit committee.

When a transaction involving the acquisition or disposal of assets is submitted by the Company 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 board of directors meeting minutes. Any transaction involving major assets or derivatives shall be approved by more than half of all audit committee members and submitted to the board of directors for a resolution. If approval of one-half or more of all audit committee members is not obtained, the transaction may be executed if approved by two-thirds or more of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.

The terms “all audit committee members” in the preceding paragraph and “all directors” in the preceding paragraph shall be defined based on the actual number of persons currently holding those positions.

XXVI. These Regulations and all amendments hereto shall be put into effect upon approval by the audit committee and the board of directors and ratification by a shareholders meeting. Where a matter is submitted for discussion by the board of directors, the board of directors shall take into full consideration all independent director opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the board of directors meeting minutes.

If the approval of one-half or more of all audit committee members after submission to the committee for discussion as prescribed in the preceding paragraph is not obtained, the Regulations may be implemented if approved by two-thirds or more of all directors, and the resolution of the audit committee shall be recorded in the board of directors meeting minutes.

The terms “all audit committee members” in the preceding paragraph and “all directors” in the preceding paragraph shall be defined based on the actual number of persons currently holding those positions.

XXVII. These Regulations were put into effect on June 12, 2019. The 1st amendment was made on June 21, 2022.