

# Corporate Governance Principles for TECO Electric & Machinery Co., Ltd.

## Chapter I General Provisions

**Article 1** For reference the Corporate Governance Principles of Listed Company jointly adopted by Taiwan Stock Exchange Corporation ("TSEC") and the GreTai Securities Market ("GTSM"), TECO Electric & Machinery Co., Ltd. (this Company) promulgate this Corporate Governance Principles.

**Article 2** When setting up the corporate governance system, in addition to complying with relevant laws, regulations, articles of incorporation, contracts signed with the TSEC or GTSM and other relevant regulations, this Company shall follow the following principles:

1. establish an effective corporate governance framework;
2. protect shareholders' rights and interests;
3. strengthen the powers of the board of directors;
4. fulfill the function of supervisors;
5. respect stakeholders' rights and interests; and
6. enhance information transparency.

**Article 3** This Company shall follow the Criteria Governing the Establishment of Internal Control System by Public Reporting Companies and take into consideration the overall operational activities of itself and its subsidiaries in establishing an effective internal control system, and review it at all times, in order to keep up with the dynamics of environment inside and outside this Company and ensure that the design and enforcement of the system remain effective.

If this Company has elected independent directors, the adoption or amendment of its internal control system shall be submitted to the board of directors for approval by resolution unless approval has been obtained from the competent authority; when an independent

director has a dissenting opinion or qualified opinion, it shall be noted in the minutes of the directors meeting; however if this Company has established an audit committee in accordance with the Securities and Exchange Act, the adoption or amendment of its internal control system shall be subject to the consent of one-half or more of all audit committee members and be submitted to the board of directors for a resolution.

In addition to faithfully performing voluntary reviews of the internal control system, the board of directors and the management shall review the result of the voluntary reviews of each department and the report of the internal audit department at least annually. Supervisors shall also pay attention to and exercise oversight of this matter. If this Company has established an audit committee in accordance with the Securities and Exchange Act, the assessment of the effectiveness of the internal control system shall be subject to the consent of one-half or more of all audit committee members and be submitted to the board of directors for a resolution.

The management of this Company shall pay special attention to the internal audit department and its personnel, fully empower them and urge them to conduct audits effectively, evaluate problems of the internal control system and assess the efficiency of operations to ensure that such a system can be carried out effectively on a continuous basis and can assist the board of directors and the management to perform their duties effectively so as to ensure a sound corporate governance system.

## **Chapter II Protection of Shareholders' Rights and Interests**

### **Subchapter 1 Encouraging Shareholders to Participate in Corporate Governance**

**Article 4** When implementing the corporate governance system, this Company shall take the protection of shareholders' rights and

interests as its ultimate goals and treat all shareholders fairly.

This Company shall establish a corporate governance system which ensures shareholders' rights of being fully informed of, participating in and making decisions over important matters of the company.

**Article 5** This Company shall convene shareholders' meetings in accordance with the Company Law and relevant laws and regulations and provide comprehensive rules for such meetings. This Company shall faithfully implement resolutions adopted by shareholders' meetings in accordance with the rules for the meetings.

Resolutions adopted by shareholders' meetings of this Company shall comply with laws, regulations and articles of incorporation.

**Article 6** The board of directors of this Company shall properly arrange the proposals and agenda of shareholders' meetings. Shareholders shall be granted reasonable time to deliberate each proposal and afforded an appropriate opportunity to make statements.

For the shareholders' meetings that are convened by the board of directors, it would be advisable for a majority of the directors to attend the meeting in person.

**Article 7** This Company shall encourage its shareholders to actively participate in its corporate governance and hold shareholders' meetings on the premise of legal, effective and safe proceedings. This Company shall seek all ways and means, including fully exploiting technologies for information disclosure, so as to enhance the attendance rate of shareholders at the shareholders' meeting and ensure the exercise of shareholders' rights by shareholders at the shareholders' meeting in accordance with laws.

If this Company distributes souvenirs at its shareholders' meeting, it shall not practice differential treatment or discrimination.

**Article 8** This Company shall record the minutes of the shareholders' meeting in accordance with the Company Law and other applicable laws and regulations. With respect to unanimously adopted proposals, the meeting minutes shall state: "The resolution is unanimously adopted by all shareholders attending the shareholders' meeting after the chairman inquires all attending shareholders' opinion." As to any proposal that has received any dissent and been adopted in the shareholders' meeting, the meeting minutes shall record the method and result of the voting. With respect to the election of directors and supervisors, the meeting minutes shall record the method of voting adopted therefore and the total number of votes for the elected directors or supervisors.

The minutes of the shareholders' meeting shall be properly and perpetually kept by this Company during its legal existence. It would be advisable for this Company to fully disclose such meeting minutes on its website, if any.

**Article 9** The chairman of the shareholders' meetings shall be fully familiar and comply with the rules governing the proceedings of the shareholders' meetings established by the company. The chairman shall ensure the proper progress of the proceedings of the meetings and may not adjourn the meetings at will.

In order to protect the interests of most shareholders, if the chairman declares the adjournment of the meeting in a manner in violation of rules governing the proceedings of the shareholders' meetings, it would be advisable for the members of the board of directors other than the chairman of the shareholders' meeting to promptly assist the attending shareholders at the shareholders' meeting in electing a new chairman of the shareholders' meeting to continue the proceedings of the meeting, by a resolution to be adopted by a majority of the votes represented by the shareholders attending the said meeting in accordance with the legal procedures.

**Article 10** This Company shall respect the shareholders' rights to know and faithfully comply with the applicable regulations regarding the information disclosure to provide, regularly and timely, the shareholders with information relating to the financial conditions and operations, the insiders' shareholdings, and corporate governance status in the company by utilizing the Market Observatory Post System or the website established by this Company.

**Article 11** The shareholders shall be entitled to profit distributions by the company. In order to ensure the shareholders' investment interests, the shareholders' meeting may, according to Article 184 of the Company Law, examine the statements and books prepared and submitted by the board of directors and the audit reports submitted by the supervisors, and may decide, by resolution, profit distributions and deficit off-setting plans. In order to proceed with the above examination, the shareholders' meeting may appoint an inspector.

The shareholders may, according to Article 245 of the Company Law, apply with the court to select an inspector in examining the accounting records and assets of the company.

The board of directors, supervisors and managers of this Company shall fully cooperate in the examination conducted by the inspectors in the aforesaid two paragraphs without any obstruction, rejection or circumvention.

**Article 12** In entering into material financial and business transactions such as acquisition or disposal of assets, lending funds, and making endorsements or providing guarantees, this Company shall proceed in accordance with the applicable laws and/or regulations. This Company shall further establish the operating procedures in relation to these material financial and business transactions and have the same report to and approved by the shareholders' meeting so as to protect the interests of the shareholders.

**Article 13** In order to protect the interests of the shareholders, it would be advisable for this Company to designate personnel exclusively dedicated to handling shareholders' proposals, inquiries and disputes.

This Company shall properly deal with matters arising from any action instituted by shareholders pursuant to the applicable laws claiming damage to such shareholders' interests caused by the resolution adopted in its shareholders' meetings or the board of directors meetings in violation of the applicable laws, regulations or its articles of incorporation, or claiming a breach by its directors, supervisors or managers of applicable laws, regulations or the company's articles of incorporation in performing their duties.

## **Subchapter 2 Corporate Governance Relationships Between the Company and Its Affiliated Enterprises**

**Article 14** This Company shall clearly identify the allocation of its management authorities and responsibilities over personnel, assets and financial matters of its affiliated enterprises, and shall conduct risk evaluation and establish appropriate firewalls.

**Article 15** Unless otherwise provided by the laws and regulations, a manager of this Company may not serve as a manager of its affiliated enterprises.

A director, who engages in any transaction for himself or on behalf of another person that is within the scope of the company's business, shall disclose to the shareholders' meeting the material terms of such transaction and obtain its consent.

**Article 16** This Company shall establish a sound management system for finance, operations and accounting in accordance with the applicable laws and regulations. It shall further, together with its affiliated enterprises, properly conduct an overall risk evaluation of the major banks they are dealing with, their customers and their suppliers, and carry out the necessary control mechanism to reduce credit risks.

**Article 17** Where this Company and its affiliated enterprises enter into inter-company business transactions, a written agreement governing the relevant financial and business operations between each other shall be made in accordance with the principle of fair dealing and reasonableness. Both parties shall definitively stipulate the terms and conditions of the price and payment terms mechanism, and desist from any transactions that are other than at arm's length.

All transactions or contracts made by and between this Company and its affiliated persons and shareholders shall follow the principles set forth in the preceding paragraph and tunneling of profits is strictly prohibited.

**Article 18** A corporate shareholder having controlling power over this Company shall comply with the following provisions:

1. It shall bear a duty of good faith to other shareholders and shall not directly or indirectly cause the company to conduct any business which is contrary to normal business practice or not profitable.
2. Its representative shall follow the rules implemented by its company with respect to the exercise of rights and participation of resolution, so that at a shareholders' meeting, the representative shall exercise his/her voting right for the best interest of all shareholders and in good faith and exercise the fiduciary duty and duty of care of a director or supervisor.
3. It shall comply with relevant laws, regulations and the articles of incorporation of the company in nominating directors or supervisors and shall not act beyond the authority granted by the shareholders meeting or board meeting.
4. It shall not improperly intervene in corporate policy making or obstruct corporate management activities.
5. It shall not restrict or impede the management or production

of the company by methods of unfair competition such as monopolizing corporate procurement or foreclosing sales channels.

**Article 19** This Company shall ensure the command at any time of information on the identity of major shareholders, who own a higher percentage of shares and have an actual control over the company, and its control persons.

This Company shall disclose periodically important information about its shareholders holding more than ten percent of the outstanding shares of the company relating to the pledge, increase or decrease of share ownership, or other matters that may possibly trigger a change in the ownership of their shares.

The major shareholder indicated in the first paragraph refers to those who owns five percent or more of the outstanding shares of the company or the shareholding stake thereof is on the top ten list, provided however that the company may set up a lower shareholding threshold according to the actual shareholding stake that may control the company.

### **Chapter III      Enhancing the Function of Board of Directors**

#### **Subchapter 1 Structure of Board of Directors**

**Article 20** The board of directors of this Company shall be responsible to the shareholders' meetings. Procedures and arrangement relating to corporate governance shall ensure that, in exercising its authority, the board of directors will comply with laws, regulations, articles of incorporation, and the resolutions of shareholders' meetings of the company.

Regarding the structure of the board of directors, a This Company shall determine an appropriate number of board members not less

than five persons, in consideration of its business scale, the shareholding of its major shareholders and practical operational needs.

The board members shall have the necessary knowledge, skill, and experience for performing their duties. To achieve the ideal goal of corporate governance, the board of directors shall have the following abilities:

1. ability to make operational judgment;
2. ability to perform accounting and financial analysis;
3. ability to conduct management administration;
4. ability to conduct crisis management;
5. possession industrial knowledge;
6. possession perspective of international market;
7. ability to lead; and
8. ability to make decisions.

**Article 21** This Company shall incorporate a fair, just, and open procedure for the election of directors, and adopt the cumulative voting mechanism in order to fully reflect shareholders' views, unless a different mechanism has otherwise been implemented in the articles of incorporation.

Except where the competent authority has granted approval, a spousal relationship or a familial relationship within the second degree of kinship may not exist among more than half of the directors of this Company.

When the number of directors falls below five due to the dismissal of a director for any reason, the company shall hold a by-election for director at the next following shareholders meeting. When the number of directors falls short by one-third of the total number prescribed by the articles of incorporation, the company shall convene a special shareholders meeting within 60 days of the occurrence of that fact to hold a by-election for directors.

The aggregate shareholding percentage of all of the directors of this Company shall comply with the laws and regulations. Restrictions on the share transfer of each director and the creation, release, or changes of any pledges over the shares held by each director shall be subject to the relevant laws and regulations, and the relevant information shall be fully disclosed.

**Article 22** Before this Company convenes a shareholders' meeting to re-elect the directors, it would be advisable that the qualifications, education, working experience, background and the existence of any other matters set forth in Article 30 of the Company Law with respect to the candidates recommended by shareholders or directors be reviewed in advance and the result thereof be provided to shareholders for their reference, so that qualified directors will be elected.

**Article 23** Clear distinctions shall be drawn between the responsibilities and duties of the chairman of the board of this Company and those of its general manager.

It would be inappropriate for the chairman to also act as the general manager. If the chairman also acts as the general manager or they are spouses or relatives within one degree of consanguinity, it would be advisable that the number of independent directors be increased.

## **Subchapter 2 Independent Directors**

**Article 24** This Company can appoint independent directors. Independent directors shall possess professional knowledge and there shall be restrictions on their shareholdings and the positions they may concurrently hold. They shall maintain independence within the scope of their directorial duties, and may not have any direct or indirect interest in the company.

This Company shall, in accordance with Article 192-1 of the Company Act, adopt a candidates nomination system for election of the independent directors and expressly stipulate such system in the articles of incorporation; and the shareholders shall elect the directors from among the nominees listed in the roster of director candidates. Independent and non-independent directors shall be elected at the same time but on separate ballots according to the provisions in Article 198 of Company Act.

Change of status between independent directors and non-independent directors during their term of office is prohibited.

When the number of independent directors falls below the required number due to the dismissal of an independent director for any reason, the company shall hold a by-election for director at the next following shareholders meeting. Where all independent directors are discharged, the company shall convene a special shareholders meeting within 60 days of the occurrence of that fact to hold a by-election for independent directors.

The professional qualifications, restrictions on both shareholding and concurrent positions held, determination of independence, method of nomination and other requirements with regard to the independent directors shall be set forth in accordance with the Securities and Exchange Act, Regulations Governing Appointment of Independent Directors and Compliance Matter for Public Companies, and the rules and regulations of Taiwan Stock Exchange or GreTai Securities Market.

Article 25 When a company has elected independent directors, the following matters shall be submitted to the board of directors for approval by resolution unless approval has been obtained from the competent authority; when an independent director has a dissenting opinion or qualified opinion, it shall be noted in the minutes of the directors'

meeting:

1. Adoption or amendment of the internal control system pursuant to Article 14-1 of Securities and Exchange Act.
2. Adoption or amendment, pursuant to Article 36-1 of Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, or endorsements or guarantees for others.
3. A matter bearing on the personal interest of a director or a supervisor.
4. A material asset or derivatives transaction.
5. A material monetary loan, endorsement, or provision of guarantee.
6. The offering, issuance, or private placement of any equity-type securities.
7. The hiring or dismissal of a certifying CPA, or the compensation given thereto.
8. The appointment or discharge of a financial, accounting, or internal auditing officer.
9. Any other material matter so required by the competent authority.

**Article 26** This Company shall stipulate expressly the scope of duties of the independent directors and empower them with manpower and material support related to the exercise of their power. The company or other board members shall not restrict or obstruct the performance of duties by the independent directors.

This Company shall stipulate expressly the compensation of the directors in its articles of incorporation or pursuant to a resolution of the shareholders' meeting. Different but reasonable compensation from that of other directors may be set forth for the independent directors.

### **Subchapter 3 Audit Committee and Other Functional Committees**

**Article 27** For the purpose of developing monitoring functions and strengthening management mechanisms, the board of directors of this Company may, taking into account the size of the board and the number of the independent directors, set up audit, nomination, compensation or any other functional committees, and based on the beliefs in corporate responsibility and sustainable operation, set up an environmental protection or other committees, and have them stipulated in the articles of incorporation.

Functional committees shall be responsible to the board and submit the proposals to the board of directors for approval.

Functional committees shall adopt an organizational charter to be approved by the board of directors. The organizational charter shall contain the number, term of office, and power of committee members, as well as the meeting rules and resources to be provided by the company for exercise of power by the committee.

**Article 28** This Company shall establish either an audit committee or a supervisor.

The audit committee shall be composed of the entire number of independent directors. It shall not be fewer than three persons in number, one of whom shall be convener, and at least one of whom shall have accounting or financial expertise.

For a company that has established an audit committee, the provisions regarding supervisors in the Securities and Exchange Act, the Company Act, other laws and regulations, and the Best-Practice Principles herein shall apply *mutatis mutandis* to the audit committee.

For this Company that has established an audit committee, Article 25 herein does not apply to the following matters, which shall be subject

to the consent of at least one half or more of all audit committee members and be submitted to the board of directors for a resolution:

1. Adoption or amendment of internal control system pursuant to Article 14-1 of Securities and Exchange Act.
2. Assessment of the effectiveness of the internal control system.
3. Adoption or amendment, pursuant to Article 36-1 of Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, or endorsements or guarantees for others.
4. A matter bearing on the personal interest of a director.
5. A material asset or derivatives transaction.
6. A material monetary loan, endorsement, or provision of guarantee.
7. The offering, issuance, or private placement of any equity-type securities.
8. The hiring or discharge of an attesting CPA, or the compensation given thereto.
9. The appointment or dismissal of a financial, accounting, or internal auditing officer.
10. Annual and semi-annual financial reports.
11. Any other material matter so required by the company or the competent authority.

The exercise of power by audit committee and independent directors and related matters shall be set forth in accordance with the Securities and Exchange Act, Regulations Governing the Exercise of Powers by Audit Committees of Public Companies, and the rules and regulations of the Taiwan Stock Exchange or GreTai Securities Market.

**Article 29** This Company shall select a professional, responsible and independent CPA to be its external auditor, who shall perform regular reviews of the financial conditions and internal control measures of the

company. With regard to the irregularity or deficiency timely discovered and disclosed by the auditor during the review, and the concrete measures for improvement or prevention suggested by the auditor, the company shall faithfully implement improvement actions.

This Company shall evaluate the independence of the auditor engaged by the company regularly and no less frequently than once annually. In the event that the company engages the same auditor without replacement for five years consecutively, or if the auditor is subject to disciplinary actions or other circumstances prejudicial to the independence of the auditor, the company shall review the necessity of replacing the auditor, and shall submit to the board the conclusion of such review.

**Article 30** It is advisable that this Company engage a professional and competent legal counsel to provide adequate legal consultation services to the company, or to assist the directors, the supervisors and the management to improve their knowledge of the law, for the purposes of preventing any infraction by the company or its staff of laws or regulations, and ensuring the corporate governance matters will proceed pursuant to the relevant legal framework and the prescribed procedures.

In the event that the directors, supervisors or the management are involved in litigation as result of performing his or her duties as provided by the law or arising from shareholders disputes, depending on the circumstances the company shall retain a legal counsel to provide assistance.

Audit committee or an independent director may enlist the service of legal counsel, accountant or other professionals on behalf of the company to conduct the necessary audit or provide consultation on matters in relation to the exercise of their power, at the expense of the company.

## **Subchapter 4 Rules for the Proceedings of Board Meetings and the Decision-Making Procedures**

**Article 31** The board of directors of this Company shall meet at least once every quarter, or convene at any time in case of emergency. To convene a board meeting, a meeting notice which specifies the purposes of meeting shall be sent to each director and supervisor no later than seven (7) days before the scheduled date.

This Company shall adopt the rules of proceedings for board meetings and follow the provisions in Regulations Governing Procedure for Board of Directors Meetings of Public Companies with regard to the content of deliberations, procedures, matters to be recorded in the meeting minutes, public announcement, and other matters for compliance.

**Article 32** A director shall exercise a high degree of self-discipline and shall voluntarily abstain from participating in discussion and voting, for himself or herself or as proxy for another director, on a proposal submitted to the board of directors that risks the involvement of the director's own interest to the detriment of the interest of the company. The directors shall practice self-discipline as to their internal relationship and must not support each other in an inappropriate manner.

The matters that a director shall voluntarily abstain from voting shall be clearly set forth in the rules for the proceedings of board meetings.

**Article 33** If this Company has independent directors, the independent directors must attend a board meeting in person without being represented by a non-independent director via proxy when the meeting is convened for considering any of the matters submitted to the board pursuant to Article 14-3 of the Securities and Exchange Act. When an independent director has a dissenting or qualified opinion, it shall be noted in the minutes of the board of directors' meeting; if the independent director

cannot attend the board meeting in person to voice his or her dissenting or qualified opinion, he or she should provide a written opinion before the board meeting unless justifiable reasons exist for failure to so comply, and the opinion shall be noted in the minutes of the board of directors' meeting.

In any of the following circumstances, decisions made by the board of directors shall be noted in the meeting minutes, and in addition, announced and reported on a website designated by the competent authority within two days after the date of said board meeting:

1. An independent director has a dissenting or qualified opinion which is on record or stated in a written statement; or
2. The matter was not approved by the audit committee (if the company has set up an audit committee), but had the consent of more than two-thirds of all directors.

During the proceeding of the board meetings, managers from the relevant departments who are not directors may, in view of the meeting agenda, sit in at the meetings, make report on the current business conditions of the company and respond to inquiries raised by the directors. Where necessary, accountant, legal counsel or other professionals may be invited to sit in at the meetings to assist the directors in understanding the conditions of the company for the purpose of adopting an appropriate resolution.

**Article 34** Staff personnel of this Company attending board meetings shall collect and correctly record the meeting minutes in detail, and the summary, method of resolution, and voting results of all the proposals submitted to the board meeting in accordance with relevant regulations.

The minutes of the board of directors' meetings shall be signed by the chairman and secretary of the meeting and be sent to each director and supervisor within twenty (20) days after the meeting. The director attendance records shall become a part of the meeting minutes, and be treated as important corporate records and be kept

safe permanently during the life of the company.

Meeting minutes may be produced, distributed and preserved by electronic means.

This Company shall record on audio or video tape the entire proceedings of a board of directors meeting, and preserve the recordings for at least five years, in electronic form or otherwise.

If before the end of the preservation period referred to in the preceding paragraph a lawsuit arises with respect to a resolution of a board of directors meeting, the relevant audio or video recordings shall be preserved for a further period, in which case the preceding paragraph does not apply.

Where a board of directors meeting is held via tele- or video-conference, the audio or video recordings of the meeting form a part of the meeting minutes and shall be preserved permanently.

Where a resolution of the board of directors violates laws, regulations, articles of incorporation, or resolutions adopted in the shareholders' meeting, and thus causes an injury to the company, dissenting directors whose dissent can be proven by minutes or written statements will not be liable for damages.

**Article 35** This Company shall submit the following matters to its board of directors for discussion:

1. Corporate business plan.
2. Annual and semi-annual financial reports.
3. Adoption or amendment of an internal control system pursuant to Article 14-1 of Securities and Exchange Act.
4. Adoption or amendment, pursuant to Article 36-1 of Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of

assets, derivatives trading, extension of monetary loans to others, and endorsements or guarantees for others.

5. The offering, issuance, or private placement of any equity-type securities.
6. The appointment or discharge of a financial, accounting, or internal audit officer.
7. Any matter required by Article 14-3 of Securities and Exchange Act or any other law, regulation, or bylaw to be approved by resolution at a shareholders' meeting or to be submitted to a meeting of the board of directors, or any such significant matter as may be prescribed by the competent authority.

Except for matters that must be submitted to the board of directors for discussion as provided in the foregoing paragraph, the board of directors may delegate others to exercise its power when it is in recess according to laws or regulations, or its articles of incorporation. The delegation however shall be specific with regard to the level, content or matters of authorization, and general authorization is not permitted.

**Article 36** This Company shall ask the appropriate corporate department or personnel to handle matters and implement actions pursuant to the board of directors' resolutions in a way consistent with the program schedule and objectives. It shall also follow up on these matters and faithfully review their implementation.

The board of directors shall ensure full control of the implementation and progress of these matters and make a report in subsequent meetings so as to ensure that the board's management decisions are faithfully implemented.

#### **Subchapter 5 Fiduciary Duty, Duty of Care and Responsibility of Directors**

**Article 37** Members of the board shall faithfully conduct corporate affairs and discharge this duty of care as a good administrator. In conducting the affairs of the company, they shall exercise their power with a

heightened level of self-discipline and prudential attitude. Unless matters are reserved for approvals in shareholders' meetings by law or in the articles of incorporation of the company, they shall ensure that all matters will faithfully adhere to the board's resolutions.

Where resolutions of the board involve major policy directions and the corporate management, the board shall make careful consideration and may not affect the implementation and effectiveness of corporate governance.

Independent directors shall perform their duties in accordance with relevant laws, regulations and the company's articles of incorporation so as to protect the interest of the company and shareholders.

**Article 38** If a resolution of the board of directors violates law, regulations or the company's articles of incorporation, at the request of shareholders holding shares continuously for a year or an independent director, or at the notice of a supervisor to discontinue the implementation of the resolution, members of the board shall take appropriate measures or discontinue the implementation of such resolution as soon as possible.

Upon discovering any threat of the company suffering material injury, members of the board of directors shall immediately report to the audit committee, an independent director member of the audit committee, or a supervisor in accordance with the foregoing paragraph.

**Article 39** According to the articles of incorporation or resolution adopted in the shareholders' meeting, this Company may take out liability insurance for directors with respect to their liabilities resulting from exercising their duties during their terms of occupancy so as to reduce and spread the risk of material harm to the company and shareholders arising from the wrongdoings or negligence of a director.

**Article 40** Members of the board are advised to participate in training courses on finance, business, commerce, accounting or law offered by institutions designated in Guidelines for the Continuing Education of Directors and Supervisors of TSEC/GTSM Listed Companies, which cover subjects relating to corporate governance upon becoming directors and throughout their terms of occupancy. They shall also ensure that company employees at all levels will enhance their professionalism and knowledge of the law.

## **Chapter IV Empowering the Supervisors**

### **Subchapter 1 Duties of Supervisors**

**Article 41** This Company shall stipulate a fair, impartial, and open procedure for the election of supervisors, and shall adopt the cumulative voting mechanism to fully reflect the opinions of the shareholders, unless a different mechanism has otherwise been implemented in the articles of incorporation.

This Company shall take into consideration the needs for overall business operation and comply with the rules of the TSEC or GTSM in setting the minimum number of supervisors.

The aggregate shareholding percentage of all of the supervisors of a This Company shall comply with the laws and regulations. Restrictions on the share transfer of each supervisor and the creation, release, or other changes of any pledges over the shares held by each supervisor shall comply with the relevant laws and regulations, and the relevant information shall be fully disclosed.

**Article 42** Before this Company convenes a shareholders' meeting to re-elect the supervisors, it would be advisable that the qualifications, education, working experience, background and the existence of any other matters set forth in Article 30 of the Company Law with respect to the candidates recommended by the shareholders or directors be reviewed

in advance and the result thereof be provided to shareholders for their reference, so that qualified supervisors will be elected.

**Article 43** Unless it is otherwise approved by the competent authority, at least one seat of supervisor shall not have a spousal relationship or a familial relationship within the second degree of kinship with another supervisor or a director.

This Company is advised to refer to the provisions on independence as provided in the Regulations Governing Appointment of Independent Directors and Compliance Matter for Public Companies to appoint a suitable supervisor so as to enhance the risk management, and financial and operational control of the company.

A supervisor preferably has a domicile within the territory of R.O.C. in order to timely perform the supervisory functions.

## **Subchapter 2 Duties and Obligations of Supervisors**

**Article 44** A supervisor shall be familiar with the relevant laws and regulations, understand the rights, obligations, and duties of directors of the company and the functions, duties, and operation of each department, and frequently attend meetings of the board of directors to supervise the operations and to state his/her opinions when appropriate so as to control or discover any abnormal situation early on.

**Article 45** A supervisor shall supervise the implementation of the operations of the company, and the performance of duties by directors and managers, and care the enforcement of the internal control system so as to reduce the financial and operational risks of the company.

**Article 46** A supervisor shall investigate the operational and financial conditions of the company from time to time, and the relevant departments in the

company shall provide the books or documents that will be needed for the supervisor's review.

When reviewing the finance or operations of the company, a supervisor may retain attorneys or accountants on behalf of the company to perform the review; however, the company shall inform the relevant persons of their confidentiality obligations.

The board of directors or managers shall submit reports in accordance with the request of the supervisors and shall not for any reason obstruct, circumvent, or refuse the inspection of the supervisor.

When a supervisor performs his/her duties, this Company shall provide necessary assistance as needed by the supervisor, and the reasonable expenses that the supervisor needs shall be borne by the company.

**Article 47** For supervisors to timely discover any possible irregular conduct in the company, this Company shall establish a channel for supervisors to communicate with the employees, shareholders, and stakeholders.

Upon discovering any irregular conduct, a supervisor shall take appropriate measures timely to curb the expansion of the irregular conduct, and file a report to the relevant regulatory authorities or agencies if necessary.

Where any of the independent directors, general managers, officers of finance, accounting, research & development, and internal audit department, or CPAs resigns or is removed from his/her position, the supervisors shall further investigate the reason thereof.

In the event that a supervisor neglects his/her duties and therefore causes harm to the company, the supervisor shall be liable to the company.

**Article 48** When exercising his/her supervisory power, each supervisor of this Company may, after taking into consideration the overall interest of the company and shareholders, convene a meeting to exchange opinions among all the supervisors when he or she feels necessary, but may not by such way obstruct supervisors in exercising their duties.

**Article 49** According to the articles of incorporation or resolution adopted in a shareholders' meeting, this Company may take out liability insurance for supervisors with respect to their liabilities resulting from exercising their duties during their terms of occupancy so as to reduce and spread the risk of material harm to the company and shareholders arising from the wrongdoings or negligence of a supervisor.

**Article 50** Supervisors are advised to participate in training courses of finance, business, commerce, accounting or law offered by institutions designated in the Guidelines for the Continuing Education of Directors and Supervisors of TSEC/GTSM Listed Companies, which cover subjects relating to corporate governance upon becoming supervisors and throughout their terms of occupancy.

## **Chapter V Respecting Stakeholders' Rights**

**Article 51** This Company shall maintain channels of communication with its banks, other creditors, employees, consumers, suppliers, community or other stakeholders and shall respect and safeguard their legal rights.

When a stakeholder's legal rights is harmed upon, the company shall handle such matter in a proper manner and in good faith.

**Article 52** This Company shall provide sufficient information to banks and its other creditors to facilitate their evaluation of the operational and financial conditions of the company and decision-making process. When any

of their legal rights or interest is harmed upon, the company shall respond with a responsible attitude and assist creditors in obtaining compensation through proper means.

**Article 53** This Company shall establish channels of communication with employees and encourage employees to communicate directly with the management, directors or supervisors so as to reflect employees' opinions about the management, financial conditions and material decisions of the company concerning employee welfare.

**Article 54** In developing its normal business and maximizing the shareholders' interest, this Company shall pay attention to consumers' interest, environmental protection of community and public interest issues, and shall have high regard for the social responsibility of the company.

## **Chapter VI Improving Information Transparency**

### **Subchapter 1 Enhancing Information Disclosure**

**Article 55** Publication of information is the major responsibility of a This Company. This Company shall perform its obligations faithfully in accordance with the relevant laws, and related TSEC and GTSM rules.

This Company shall establish an internet-based reporting system for public information, appoint personnel responsible for gathering and disclosing the information, and establish a spokesperson system so as to ensure the proper and timely disclosure of information about policies that might affect the decisions of shareholders and stakeholders.

**Article 56** In order to enhance the accuracy and timeliness of the material information disclosed, this Company shall appoint a spokesperson and

acting spokesperson(s) who understand thoroughly the company's financial and business conditions and who are capable of coordinating among departments for gathering relevant information and representing the company in making statements independently.

This Company shall appoint one or more acting spokesperson who shall represent the company, when the spokesperson cannot perform his/her duties, in making statements independently, provided that the order of authority is established to avoid any confusion.

In order to implement the spokesperson system, a This Company shall unify the process of making external statements and require the management and employees to maintain the confidentialities of financial and operational secrets and prohibit disclosure thereof by them at will.

The company shall disclose the relevant information regarding any change to the position of a spokesperson or acting spokesperson upon such change.

**Article 57** In order to keep shareholders and stakeholders fully informed, it is advisable that this Company utilizes the convenience of the Internet and set up a website containing the information regarding the company's finance, operation and corporate governance. It is also advisable to contain the corporate governance information in English as well.

To avoid misleading information, the aforesaid website shall be maintained by specified personnel, and the recorded information shall be accurate, in detail and updated timely.

**Article 58** This Company shall hold an institutional investor meeting in compliance with the regulations of the TSEC and GTSM, and it would be advisable to audio or video record the meeting. The

financial and business information disclosed in the institutional investor meeting shall be disclosed on the designated internet information posting system and provided for inquiry through the website established by the company or other channels according to the TSEC or GTSM rules.

## **Subchapter 2 Disclosure of Information on Corporate Governance**

**Article 59** This Company shall disclose the following information regarding corporate governance in the fiscal year in accordance with laws and regulations of the TSEC and GTSM.

1. corporate governance framework and rules;
2. ownership structure and shareholders' equity;
3. structure and independence of the board of directors;
4. responsibility of the board of directors and managerial personnel;
5. composition, duties and independence of the audit committee or supervisors;
6. the progress of training of directors and supervisors;
7. stakeholders' rights and relationships;
8. details of the events subject to information disclosure required by law and regulations;
9. the enforcement of corporate governance, deficiency between the corporate governance principles implemented by the company and the Principles, and the reason for the deficiency; and
10. other information regarding corporate governance

This Company is advised, according to the actual performance of the corporate governance system, to disclose the plans and measures to improve its corporate governance system through appropriate mechanisms.

## **Chapter VII      Ancillary Rules**

**Article 60**      This Company shall at all times monitor domestic and international development of corporate governance and thereby review and improve the company's corporate governance mechanism so as to enhance the performance of corporate governance.

**Article 61**      The adoption and revision of his Principal shall be consent by the meeting of director of this Company and reported to the meeting of shareholders.