

# TECO Electric & Machinery Co., Ltd.

## Corporate Governance Best Practice Principles

(Summary Translation) This English version is a translation of the Chinese version. If there is any inconsistency or discrepancy between the Chinese and English versions, the Chinese version shall prevail for all intents and purposes.

### Chapter I General Provisions

#### Article 1

These Principles are established and an effective corporate governance system is erected in accordance with the Corporate Governance Best-Practice Principles prescribed jointly adopted by the Taiwan Stock Exchange Corporation ("TSEC") and the GreTai Securities Market ("GTSM"). These Principles are disclosed on the Market Observation Post System.

#### Article 2

In addition to complying with relevant laws and regulations, as well as contracts signed with the TSEC or GTSM and other relevant regulations, the Company shall follow the following principles:

1. Protect shareholders' rights and interests;
2. Strengthen the powers of the Board of Directors;
3. Fulfill the function of supervisors;
4. Respect stakeholders' rights and interests; and
5. Enhance information transparency.

#### Article 3

The Company shall follow the "Criteria Governing the Establishment of Internal Control System of Public Listed Company" and take into consideration the overall operational activities of itself and its subsidiaries in designing and actually implementing an internal control system, and review it at all times, in order to keep up with the dynamics of environment inside and outside the company and ensure that the design and enforcement of the system remain effective.

Except approved by the competent authority, the establishment or revision of internal control should be made with over one half of the members of the audit committee before being submitted to the board of directors for resolution.

In addition to faithfully performing voluntary evaluation of the internal control system, the Board of Directors and the management shall review the result of the voluntary evaluation of each department and the report of the internal audit department at least once each year quarterly. The auditing committee should notice and supervise the report.

The evaluation of the efficiency of the internal control system shall be a made with over one half of the members of the audit committee before being submitted to the board of directors for resolution.

The management of the 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.

To materialize internal-control system, strengthen the expertise of deputies of internal auditors, and enhance or uphold auditing quality or auditing result, the company should institute deputies of internal auditors.

Qualifications for internal auditors, specified in Article 11-6 of the “Criteria for Establishment of Internal Control Systems by Public Companies”, and stipulations of Article 16, 17, and 18 are applicable to the aforementioned deputies of internal auditors.

### **Article 3-1**

The company can institute unit or staffer(s) in charge of corporate governance, in a dedicated or part-time manner, and appoint ranking manager for supervision, who should have the qualification of lawyer or certified public accountant, or over three years of managerial experience for legal affairs, finance, or stock affairs at a company with public share offering.

The aforementioned corporate governance-related affairs should at least include:

1. Registration or revision of registration for incorporation.
2. Holding of meeting of the board of directors and shareholders' meeting according to law and assistance for the company in legal compliance for the board of directors and shareholders' meeting.
3. Production of minutes for meeting of the board of directors or shareholders' meeting.
4. Provide directors materials they need in executing their business duties and information on new laws/regulations related to corporate management, thereby facilitating legal compliance by directors.
5. Affairs regarding investor relationship.
6. Other items specified by corporate charter or contracts.

## **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, the Company shall take the protection of shareholders' rights and interests and treat all shareholders fairly.

The 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**

The Company shall convene shareholders' meetings in accordance with the Company Act and relevant laws and regulations and provide comprehensive rules for such meetings. The Company shall faithfully implement resolutions adopted by shareholders' meetings in accordance with the rules for the meetings.

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

## **Article 6**

The Board of Directors shall properly arrange the proposals and agenda of shareholders' meetings. Formulate principles and workflow for nomination of directors and proposal of motions for shareholders' meeting and properly address motions put forth by shareholders legally. Shareholders' meeting should be held at venue with convenient location and should set aside sufficient time and appoint proper receptionists for reporting by attending shareholders, who shouldn't be required to produce additional identity proofs. 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, the chairman should preside over the meeting in person, and it would be advisable for a majority of the directors (at least one independent director) and one member each of various functional committees should attend the meeting to attend the meeting in person. The state of their attendance should be recorded in the minutes of shareholders' meeting.

## **Article 7**

The Company shall encourage its shareholders to actively participate in its corporate governance, entrust professional stock-affairs institutions to handle the holding of shareholders' meeting and hold shareholders' meetings on the premise of legal, effective and safe proceedings. The Company shall seek all ways and means, including fully exploiting technologies for information disclosure, and meeting notice, meeting agenda, and supplementary information should be uploaded at the same time, 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.

When shareholders' meeting adopts electronic voting, extempore motions and amendment to original motion should be avoided.

Shareholders should be arranged to vote case by case in shareholders' meeting, outcome of agreement, objection, and abstention of shareholders should be put into the Market Observation Post System on the day after the completion of the meeting.

The Company will adopt no discriminatory treatment or discrimination of any kind with respect to the distribution of souvenirs of the shareholders' meeting to the shareholders.

## **Article 8**

In accordance with Company Law and other related laws/regulations, the company should put the date, venue, name of chairperson, resolution method, as well as summary and outcome of the meeting process in meeting minute. For election of directors, it is necessary to specify voting method and the votes obtained by elected directors.

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

## **Article 9**

The chairperson at the shareholders' meetings shall be fully familiar and comply with the rules governing the proceedings of the shareholders' meetings established by the company.

The chairperson 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**

The 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 the company. In order to equally treat shareholders, major messages should be publicized in both Chinese and English. In order to equally treat shareholders, major messages should be publicized in both Chinese and English.

To safeguard the interests of shareholders and provide them equal treatment, the company should formulate regulations forbidding insider trading.

#### **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 Act, examine the statements and books prepared and submitted by the Board of Directors and the inspection reports submitted by the audit committee, 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 Act, apply with the court to select an inspector in examining the accounting records and assets of the company. The Board of Directors, audit committee and managers of the 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, the Company shall proceed in accordance with the applicable laws and/or regulations. The 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.

In case the company engages in merger or public acquisition, the transaction should be carried out according to related laws and regulations and attention should be made to assure the fairness and reasonableness of the dealing, as well as transparency of information and continuation of a sound financial structure.

In case of management buyout, pay attention to the regulation on information publication. Staffers handling the aforementioned item should notice conflict of interest and need for avoidance.

## **Article 13**

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

The 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 or managers of applicable laws, regulations or the company's articles of incorporation in performing their duties.

The company should formulate internal workflow to address the two aforementioned items properly, a process should be recorded in written form for reference and put under the oversight of the internal-control system.

## **Subchapter 2**

### **Erect a System to Interact with Shareholders**

#### **Article 13-1**

The board of directors is responsible for establishing a mechanism for interaction with shareholders, in order to boost mutual understanding of the company's development goal.

#### **Article 13-2**

In addition to encouraging shareholders attending shareholders' meeting for better communication, the board of directors should contact shareholders in an efficient manner and join hands with managerial staffers and independent directors for better grasp of the opinions of and issues concerned by shareholders and clear explanation of the company's policy, so as to win their support.

## **Subchapter 3**

### **Corporate Governance Relationships between the Company and Its Affiliated Enterprise**

#### **Article 14**

The Company shall clearly identify the allocation of its management target, authorities and responsibilities over personnel, assets and financial matters of its affiliated enterprises, and shall implement risk evaluation and establish appropriate firewalls.

#### **Article 15**

Unless otherwise provided by the laws and regulations, a manager of the 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**

The Company shall establish a sound management target and 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 implement the necessary control mechanism to reduce credit risks.

## **Article 17**

Where the 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 the Company and its affiliated persons and shareholders shall follow the principles set forth in the proceeding paragraph and tunneling of profits is strictly prohibited.

## **Article 18**

A corporate shareholder having controlling power over the 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 be engaged in transactions at other than arm's length or involved in a management conduct for illegal profit.
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 faithfully carry out the fiduciary duty and duty of care of a director.
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.
6. Representatives of legal entities on the board of directors should possess qualifications needed by the company and should not be replaced randomly.

## **Article 19**

The 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 ultimate control persons.

The 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 shareholders indicated in the first paragraph refers to those who own 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 shareholding of its actual controlling companies.

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

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

#### **Article 20**

The Board of Directors of the Company shall guide company strategy, supervise management team, and be responsible for 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 of the Company, the number of board members shall be properly determined by reviewing the scale of corporate management and operation and the shareholding of the major shareholders and taking into consideration of the practical needs for operation. While installing independent directors, it shall take into account the reasonable professional composition of the directors and the objective requirements for their duties independently.

Makeup of the membership of the board of directors should be diversified. In addition to limit capping the seats on the board of directors filled by the company's managerial staffers at one third of the total, proper diversification guidelines should be formulated, considering the company's operation, business type, and development need, which should contain, but not limited to, the following two criteria:

Basic conditions and values: gender, age, nationality, and culture, among others  
Professional knowledge and skill: professional background (such as law, accounting, industry, finance, marketing, and technology), professional skill, and industrial experience, among others.

The board of directors should evaluate cautiously the aforementioned qualifications and conditions, as well as willingness of nominees, before putting forth the list of candidates for directors.

For the makeup of the board of directors, attention should be paid to gender equality and knowledge, skills, and specialties needed for the fulfillment of their duties. In order to achieve the target of corporate governance, the board of directors as a whole should possess the following capabilities:

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 of industrial knowledge;
6. Possession of perspective of international market;
7. Ability to lead; and
8. Ability to make decisions.

#### **Article 21**

Based upon the principles to safeguard shareholders' right and treat shareholders with fairness, the 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, according to the Company Law.

Except as otherwise approved by the competent authority, one half of the directors of the Company shall not be the spouse or a relative within the second degree to any of the other directors.

Where the number of directors of the Company falls below five, new directors shall be elected at the immediate following shareholders' meeting. However, if the number of vacancies on the Board of Directors amount to one third of the total seats, an extraordinary shareholders' meeting shall be convened within 60 days to elect new directors.

The aggregate shareholding percentage of all of the directors of the 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**

The company specifies that election of directors shall adopt the nomination system in Articles in incorporation in accordance with the Company Law, the qualifications, education, working experience, background and the existence of any other matters set forth in Article 30 of the Company Act with respect to the candidates recommended by shareholders or directors shall 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 the Company and those of its general manager.

It would be inappropriate for the chairman of the Board of Directors 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.

The company should delineate clearly the responsibilities of the functional committees it sets up.

## **Subchapter 2 Independent Directors**

### **Article 24**

The Company may establish independent directors who each shall have necessary special knowledge, in accordance with Articles of Incorporation. In addition to complying with related laws/regulations, there shouldn't be anyone serving as director (or independent director) or supervisor for more than five companies listed on the centralized market or over-the-counter market. Limitations shall be prescribed with respect to the shareholding and taking of concurrent jobs by the independent directors who shall maintain their independency in the course of performing their duties and functions and shall in no way act in direct or indirect conflict of interests against the Company.

The independent directors shall be elected by the shareholders in accordance with Article 192-1 of the Company Act from among the candidates determined by nomination. The election of independent directors shall be provided in the Articles of Incorporation. Directors and independent directors of the Company shall be elected at the same election in



accordance with Article 198 of the Company Act with the director elects and independent directors elects calculated separately.

If an independent director candidate included by the Company under the provisions of the preceding paragraph has already served as an independent director of the Company for three consecutive terms or more, the Company shall publicly disclosed, together with the review results under the preceding paragraph, the reasons why the candidate is nominated again for the independent directorship, and present the reasons to the shareholders at the time of the election at the shareholders' meeting.

In case the company, affiliates, and organizations nominate directors, supervisors, or managers of other company, its group affiliates, and organizations as candidates for independent directors on a reciprocal basis, specify the status and explain the qualifications of the candidates. If they are elected, specify their votes.

The aforementioned affiliates and organizations cover subsidiaries of companies listed on the stock exchange or over-the-counter markets, legal entities with 50% of funds coming from direct or indirect donations by those companies, or institutions or judicial persons in which those companies have actual control.

No independent director may exchange his or her capacity of the independent director of the Company with any non-independent director of the Company during their term of office.

Where the number of independent directors of the Company falls below the number provided in the first paragraph or the Articles of Incorporation, new independent directors shall be elected at the immediate following shareholders' meeting to fill the vacancies. However, if all of the independent directors are dismissed, an extraordinary shareholders' meeting shall be convened within 60 days to elect new independent directors.

The special qualification, independency of, and the limitations on the shareholding and taking of concurrent jobs by and the nomination of candidates of independent directors and other matters for compliance shall be in accordance with the Securities and Exchange Act, Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies, and the relevant rules established by the TSEC or the GTSM.

## **Article 25**

The Company (if any) shall submit the following matters to the meeting of the Board of Directors for approval in line with the requirement of the Securities & Exchange Act. Any opposition or qualified opinion expressed by the independent directors shall be indicated in the minutes of the relevant meeting of the Board of Directors.

1. Adoption or amendment of the internal control system pursuant to Article 14-1 of the Securities and Exchange Act, and assessment of the effectiveness of the internal control system.
2. Adoption or amendment, pursuant to Article 36-1 of the 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. Matters involving personal interests of the directors;
4. Major assets or derivatives transactions;
5. Major lending, endorsement or guarantee proposed;
6. The offering, issuance, or private placement of any equity-type securities;
7. Engagement, discharge of or consideration paid to the certified public accountant;
8. Appointment and discharge of financial, accounting or internal auditing officers;

9. Other important matters of the Company or required by the competent authority.

#### **Article 26**

The Company shall clearly establish the scope of functions and duties of the independent directors and empower them with support of human and logistics resources to them to facilitate their exercise of their power and functions. Neither the Company nor any of the other members of the Board of Directors shall restrain or in any way obstruct the performance of functions and duties by the independent director.

The Company shall stipulate expressly the compensation of the directors based upon related regulation. Different but reasonable compensation from that of other directors may be set forth for the independent directors.

#### **Subchapter 3 Functional Committees**

##### **Article 27**

For the purpose of developing healthy monitoring functions and strengthening management mechanisms, the Board of Directors of the Company may, taking into account the basis of the size and business nature of the corporate, board size and the number of the independent directors, set up audit, salary, nomination, compensation or any other functional committees and have them stipulated in the Articles of Incorporation.

Functional committees shall be responsible to the Board of Directors and submit the proposals to the meeting of the Board of Directors for approval. Exercise of the duties of supervisor by the audit committee according to item 4-4 of article 14, Securities and Exchange Act, is excluded.

Functional committees shall adopt regulations governing the exercise of their power and duty to be approved by the Board of Directors. The regulations governing the exercise of their power and duty shall provide the number of members of each committee, their term of office, functions and duties, meeting rules, resources to be provided by the Company to facilitate the performance of their functions and duties.

##### **Article 28**

The Company shall set up the audit committee or supervisors. The audit committee shall be formed by all of the independent directors, whose number shall be no less than three with one of them to act as the convener and at least one of them shall have professional expertise in accounting and finance.

The Securities and Exchange Act, Company Act, other laws and regulations and these Principles applicable to supervisors shall operate to the audit committee with necessary and appropriate alteration.

The following matters shall be approved by the majority of the entire body of the audit committee and then submitted to the meeting of the Board of Directors for resolution, in which case Article 25 of these Principles shall not apply:

1. Adoption or amendment of the internal control system pursuant to Article 14-1 of the Securities and Exchange Act;
2. Assessment of the effectiveness of the internal control system;
3. Adoption or amendment, pursuant to Article 36-1 of the 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. Matters involving personal interests of the directors;
5. Major assets or derivatives transactions;
6. Major lending, endorsement or guarantee proposed;
7. The offering, issuance, or private placement of any equity-type securities.
8. Engagement, discharge of or consideration paid to the certified public accountant;
9. Appointment and discharge of financial, accounting or internal auditing officers;
10. Annual and semi-annual financial reports; and
11. Other important matters of the Company or required by the competent authority.

The audit committee and its independent director members shall act in accordance with the Securities and Exchange Act, Regulations Governing the Exercise of Powers by Audit Committees of Public Companies and the requirements of the TSEC and the GTSM.

#### **Article 28-1**

The company should establish compensations committee, with qualifications of its members, exercise of power, and the formulation of organizational charter conforming to “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is listed on the Stock Exchange or Traded Over the Counter”.

Compensations committee should exercise the following powers faithfully in the role of a prudent administrator and submit its proposals to the board of directors for discussion:

1. Formulate and regularly review the policy, system, standards and structure of the performance evaluation and compensations of directors and managerial staffers.
2. Regularly evaluate and determine the compensations of directors and managerial staffers.

In exercising the aforementioned powers, compensations committee should follow the following principles:

1. Performance evaluation and compensations of directors and managerial staffers should refer to the general payment levels of peers and take into account individual performance, the company’s business performance, and future risks.
2. Avoid inducing directors and managerial staffers to undertake risky behaviors beyond the limit of the company for the pursuit of compensations.
3. In issuing bonus for short-term performance of directors and ranking managers and paying some variable compensation, industry features and the company’s business nature should be taken into account.

#### **Article 28-2**

The company should set up and publicize a reporting channel, for both in-house staffers and outsiders, on top of a system protecting whistleblowers. The complaints should be received and handled by an independent unit, which should keep the materials provided by informants confidential and restrict access to them, according to internal operating procedure and put under the monitoring of internal control system.

#### **Article 29**

In order to improve the quality of financial report, the company should institute deputy for accounting chief.

The deputy should undergo advanced study annually, similar to the accounting chief, for betterment of his/her expertise.

Accounting staffers involved in the compilation of financial report should also take over six hours of related courses, as part of the company’s education and training program or held by institutions specializing in advanced study for accounting chiefs.

The Company shall select a professional, responsible and independent certified public accountant 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, as well as should install communications channel or mechanism for independent directors, members of the auditing committee, and certified public accountants.

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

### **Article 30**

It is advisable that the Company engage a professional and competent legal counsel to provide adequate legal consultation services to the company, or to assist the directors 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 or the management are involved in litigation as a result of performing his or her duties as provided by the law or arising from shareholders disputes, the Company shall retain a legal counsel to provide assistance depending on the circumstances. The audit committee or the independent director member thereof may retain the legal counsel, certified public account or other professional personnel on behalf of the Company to perform necessary audit or provide consultation with respect to the matters concerning the exercise of powers and duties.

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

### **Article 31**

The Board of Directors shall meet no less frequently than once every quarter and at any time in case of emergency. The notice of meeting shall indicate the agenda of the meeting and be sent to all directors and supervisors seven days prior to the scheduled meeting date.

The Company shall adopt the rules for proceedings of board meetings and the agenda, relevant operational procedure, meeting minutes, public notice and other matters for compliance shall be in accordance with the Regulations Governing Procedure for Board of Directors Meetings of Public Companies.

### **Article 32**

A director shall exercise a high degree of self-discipline. In cases involving interests of himself/herself or of the legal entities he/she represents, should explain key contents of the involvement at the next meeting of the board of directors. And shall voluntarily abstain from discussion and voting as well as evade during 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**

At Least one independent director shall attend each meeting in person. In the case of a meeting concerning any matter required to be submitted for a resolution by the board of directors under the first paragraph of Article 35 herein, each independent director shall attend in person; if an independent director is unable to attend in person, he/she shall appoint another independent director to attend as his/her proxy. Any opposition or qualified opinion expressed by the independent director at the meeting of the Board of Directors shall be indicated in the minutes of the meeting. Except with a good cause given, the independent director shall, produce his/her opinion in writing in advance if he/she is unable to express his/her opinion at the meeting of the Board of Directors in person, and such written opinion shall be indicated in the minutes of the meeting.

In either of the following cases, the resolution adopted by the meeting of the Board of Directors shall be indicated in the minutes of the meeting and reported for public disclosure on the Market Observation Post System before the start of next trading session from the meeting date on the website designated by the competent authority.

1. There is opposition or qualified opinion from the independent directors, which has been recorded or made with a written statement.
2. There is any matter which has not been approved by the audit committee of the Company but has been approved by two thirds of all directors.

During the proceeding of the board meetings, managers from the relevant departments who are not directors shall 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, the Company may invite certified public accountants, legal counsels or other professional personnel to sit in at the meetings so as to assist the directors in understanding the conditions of the Company for the purpose of adopting an appropriate resolution.

### **Article 34**

Staff personnel of the 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 board meeting minutes shall be signed or sealed by the chairman and secretary of the meeting and distributed to each of the directors of the Company within 20 days after the meeting. The directors' attendance record constitutes an integral part of the meeting minutes and shall be treated as important corporate records and kept safely through the life of the Company.

The meeting minutes may be produced, distributed and kept electronically.

The entire process of each board meeting shall be taped or video-recorded with the tape or video recording kept for a term of at least five years. The tape or video recording may be kept electronically.

In case of any lawsuit arising from the resolution adopted by the Board of Directors, the keeping of the tape or video recording of the relevant board meeting shall continue without regard to the expiration of the time period of record keeping provided in the preceding paragraph.

The tape- or video-recording of the board meeting held by teleconference constitutes an integral part of the meeting minutes and shall be kept permanently.

Where a resolution of the Board of Directors is held in contravention of 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 meeting minutes or written statements will not be liable for damages.

### **Article 35**

The Company shall submit these matters to the meeting of the Board of Directors for discussion:

1. Corporate business plans.
2. Annual and semi-annual financial reports, with the exception of semi-annual financial reports which, under relevant laws and regulations, need not be CPA audited and attested.
3. Adoption or amendment of the internal control system pursuant to Article 14-1 of the Securities and Exchange Act, and assessment of the effectiveness of the internal control system.
4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, to the 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. Structure and system of remuneration for the managerial officers and directors.
7. Appointment or discharge of a financial, accounting, or internal audit officer.
8. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation of disaster relief for a major natural disaster may be submitted to the next board meeting for retroactive recognition.
9. Any matter required by Article 14-3 of the 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 under the preceding paragraph, when the board of directors is in recess, it may delegate the exercise of its power to others in accordance with law, regulations, or its articles of incorporation. However, the level of delegation or the content or matters to be delegated shall be clearly specified, and general authorization is not permitted.

### **Article 36**

The 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 exercise the due care of 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 in accordance with the resolution adopted by the Board of Directors except those matters which must be adopted by the shareholders' meeting pursuant to the relevant laws and regulations or the Articles of Incorporation of the Company.

Where the resolution to be adopted by the Board of Directors involves major policy directions and the corporate management, the Board of Directors shall carefully consider with no adverse effect of any kind on 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.

The company should formulate measures and procedure for evaluating the performance of the board of directors. The board of directors should evaluate regularly the annual performances of the board of directors, functional committees, and individual directors.

#### **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 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 shall immediately report to the audit committee or the independent directors of the audit committee in accordance with the foregoing paragraph.

#### **Article 39**

According to the Articles of Incorporation or resolution adopted in the shareholders' meeting, the Company may take out liability insurance for directors with respect to their liabilities resulting from exercising their duties during their terms of office so as to reduce and disperse the risk of material harm to the Company and shareholders arising from the fault or negligent conduct of the directors.

After taking out or extending liability insurance for directors, the company should report the insured amount, coverage, premium, and other important contents of the insurance policy to the next meeting of the board of directors.

#### **Article 40**

Members of the board are advised to participate in training courses of finance, business, commerce, accounting or law which cover subjects relating to corporate governance upon becoming directors and throughout their terms of occupancy. They shall also ensure that company employees will enhance their professionalism and knowledge of the law at all levels.

### **Chapter IV Respecting Stakeholders' Rights**

#### **Article 41**

The 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. It would be advisable to install dedicated section for stakeholders on the company's website. When any of a stakeholder's legal rights is harmed upon, the Company shall handle such matter in a proper manner and in good faith.

#### **Article 42**

The 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 43**

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

#### **Article 44**

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

### **Chapter V Improving Information Transparency**

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

#### **Article 45**

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

The 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 46**

In order to enhance the accuracy and timeliness of the material information disclosed, the 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.

The 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, the Company shall unify the process of making external statements and require the management and employees to maintain the confidentiality 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 47**

In order to keep shareholders and stakeholders fully informed, it is advisable that the 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 finance, corporate governance, and other 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 48**

The Company shall hold an institutional investor meeting in compliance with the regulations of the TSEC and GTSM, and it should make audio or video record the meeting. The financial and business information disclosed in the institutional investor meeting shall be disclosed on Market Observation Post 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 49**

The 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 (including clear dividend payout policy);
3. Structure, professionalism and independence of the Board of Directors;
4. Responsibility of the Board of Directors and managerial personnel;
5. Composition, duties and independence of audit committee;
6. Composition, duties and operating status of compensations committee
7. Compensation paid to chairman, president and vice president, analysis of ratio between total compensation and net profit of individual financial statement, compensation policy, standard and combination, the procedure of compensation decision, and relation between performance and future risk. Compensation of individual director should be disclosed under particular situation.
8. The progress of training of directors;
9. Stakeholders' rights, relationships, complaint system, concerning issue and appropriate feedback mechanism;
10. Details of the events subject to information disclosure required by law and regulations;
11. 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
12. Other information regarding corporate governance.

The 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 VI Ancillary Rules**

### **Article 50**

The 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 51**

The establishment of these Principles and all subsequent amendments thereto shall be approved by the Board of Directors of the Company and reported to the shareholders' meeting.

**Article 52**

These Rules were approved by Board of Directors and came into force on 25 March 2008.

The first amendment of the Rule on 26 March 2013.

The second amendment of the Rule on 22 December 2014.

The third amendment of the Rule on 20 March 2015.

The fourth amendment of the Rule on 23 December 2016.

The fifth amendment of the Rule on 13 November 2017.