

# TECO Electric & Machinery Co., Ltd.

## **Ethical Corporate Management 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.

### **Article 1 (objective, application targets, and scope)**

For the company's sustainable development and establishment of a corporate culture featuring ethical corporate management, the company formulates the guidelines, patterned after the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" The principles are also applicable to subsidiaries, corporate bodies with over 50% of funds coming from the donations of the company, and other institutions, corporations, and organizations under actual control of the company.

### **Article 2 (ban on unethical behaviors)**

When conducting business acts, the company's directors, managements, or persons exercising actual control ("company staffers" in short, in the following), should not directly or indirectly provide, pledge, request, to accept any irregular benefit or conduct unethical acts, including those violating the ethical principle, the law, or the obligations of trust, in order to secure or retain interests ("unethical acts" in short, in the following).

Targets of the aforementioned acts include public functionaries, political candidates, party staffers or cadres, and any enterprise or institution, owned by government or private parties, and their directors, managers, persons exercising actual control, or other stake holders.

### **Article 3 (types of interests)**

Interests mentioned in the principles refer to any valuable object in various forms or names, including money, gift, commission, position, service, preferential treatment, or kickback, excluding, however, those associated with normal social activities or customs, carried out occasionally without involving specific right or obligation.

### **Article 4 (legal compliance)**

As a prerequisite for ethical corporate management, the company should abide by Company Law, Securities Transaction Law, Business Accounting Law, Political Donation Law, Statute on Incrimination of Corruption," "Government Procurement Law," "Law on Avoiding Conflict of Interest by Public Functionaries," and other laws/regulations on listed firms and other business acts.

### **Article 5 (policy)**

Based on the concept of clean, transparent, and accountable management, the company has formulated the basic policy of ethical management, on top of establishing good corporate governance and risk-management system, so as to create a management environment conducive to sustainable development.

## **Article 6 (precautionary program)**

Formulating integrity-oriented management policy and clearly institute in detail concrete integrity-oriented management methods and program preventing dishonest behaviors, including operating procedure, behavioral guidelines, and education/training.

In formulating the precautionary program, the company should comply with the laws/regulations of the localities housing the operations of the company and the enterprises and organizations under the auspices of the group.

## **Article 7 (scope for Ethical Corporate Management Best Practice Principles)**

The company's precautionary program should contain precautionary measures against the following behaviors:

1. Bribing and reception of bribes;
2. Providing illegal political donations;
3. Improper charitable donations or sponsorship;
4. Providing or receiving improper gifts, treatment, or other improper benefits.

## **Article 8 (commitments and implementation)**

The board of directors and the management should commit to actively implementing the commitment of policy of ethical corporate management, as demonstrated in the company's regulations and external documents, in internal management and external business activities.

## **Article 9 (business activities based on ethical corporate management)**

The company conducts business activities in a fair and transparent manner based upon Ethical Corporate Management Best Practice Principles.

Prior to business dealings, the company will take into account the legality and record of unethical behaviors of agents, suppliers, clients, or other business partners, avoiding dealing with those with record of unethical behaviors.

Major contracts signed by the company with agents, suppliers, clients, or other business partners should contain the policy of ethical corporate management and a clause warranting termination or revocation of the contracts whenever the transaction party is proved to have involved in unethical behaviors.

## **Article 10 (forbidding bribing and bribe taking)**

When exercising their duties, the company's staffers should not directly or indirectly provide, pledge, request, or accept any form of irregular benefit, including bribe, kickback, commission, smoothing-over fee, or other means, in dealing with customers, agents, contractors, suppliers, public functionaries, or other stake holders, unless the acts comply with local laws.

## **Article 11 (ban on provision of illegal political donations)**

Direct or indirect donation by the company and company staffers to political parties or organizations or individuals partaking political activities should comply with the Political Donations Act and should not be made in exchange with business interests or trading advantages.

### **Article 12 (ban on improper charitable donation or sponsorship)**

The company's staffers should comply with laws/regulations and internal operating procedure when making charitable donation or sponsorship and should not use such donation/sponsorship as guise for bribery.

### **Article 13 (ban on improper gifts, improper treatment, or other irregular benefits)**

The company and company's staffers should not directly or indirectly provide or accept any improper gift, improper treatment, or other irregular benefits, as a means for establishing business relationship or affecting business dealings.

### **Article 14 (Forbid infringement on intellectual properties)**

The company and its staff should abide by intellectual property-related laws/regulations, internal operating procedure of the company, and contracts. Without the consent of IP owners, behaviors should be forbidden concerning the usage, leakage, disposal, damage, or other forms of infringement on, of IP.

### **Article 15 (Forbid engagement in unfair competition)**

When undertaking business activities, the company should abide by competition-related laws/regulations, without fixing prices, manipulating bidding, restricting output and quota, or sharing or dividing market via allocation of customers, suppliers, business areas, or business category.

### **Article 16 (Prevent products or services harming stakeholders)**

The company and its staff should abide by related law/regulation and international criteria in R&D, procurement, manufacturing, provision, and sale of merchandises and services; assure information transparency and safety of merchandises and services, formulate and publicize policy safeguarding the interests of consumers and other stakeholders, as well as its enforcement in business activities, so as to prevent merchandises or services harming directly or indirectly the interests, health, and safety of consumers and other stakeholders. Merchandises should be recalled and services suspended, should there be facts proving their threat, either directly or indirectly, on the safety and health of consumers and other stakeholders.

### **Article 17 (organizations and duties)**

In fulfilling the obligation of notice as a good manager, the company's board of directors should push the company in preventing unethical behaviors and constantly review the result of implementation for constant improvement, so as to assure the materialization of the company's policy of ethical corporate management.

To assure sound management, Legal & Compliance Division should jointly formulate policy of ethical corporate management, with the auditing unit responsible for supervising and reporting to the board of directors regularly.

1. Assist in the incorporation of integrity and ethnic value into the company's management strategy and formulate measures preventing irregularities, to assure integrity-oriented management, in line with the stipulations of laws/regulations.
2. Formulate programs preventing dishonest behaviors, which include standard operating

- procedures and behavioral guidelines for works and businesses.
3. Plan internal organization, personnel structure, and responsibilities, including mechanism of mutual supervision and check-and-balance for business activities involving higher risk for dishonest behaviors.
  4. Pushing and coordinating the promotion and training of integrity-oriented policy.
  5. Plan the setup of a reporting system, to assure effective enforcement.
  6. Assist the board of directors and management in checking and evaluating the effectiveness for the operation of the precautionary measures, meant to assure the enforcement of integrity-oriented management policy, on top of periodic evaluation of the abidance of related workflow before reporting the finding.

#### **Article 18 (legal compliance in business activities)**

When conducting business activities, the company's staffers should comply with laws, regulations and the precautionary program.

#### **Article 19 (avoidance of conflict of interests)**

The company should formulate the policy of preventing conflict of interests, so that the company can identify, supervise and manage the risk of dishonest behavior resulted from interest conflict, and provides proper channels for the company's staffers and other stakeholders related to the attendee of Board of Director to explain potential conflict of interests with the company on their own.

Out of high extent of self discipline, the company's directors can express opinions and reply inquiries but should not participate in discussion and voting on items, while absenting themselves from the discussion and voting, on the agenda of the board of directors which involve their own interests or the interests of the legal entities which they represent. Directors should not exercise voting rights on behalf of involved directors on such items. For self discipline, they should not give improper support to each other.

The company's staffers should not take advantage of their positions or influence in helping themselves, spouses, parents, offspring, or any other party obtain improper benefits.

#### **Article 20 (accounting and internal control)**

The company should establish effective accounting system and internal-control system, meant to prevent business activities with higher risk of ethical behaviors, so as to assure continuing effectiveness in the design and execution of the systems.

The company's in-house auditors should regularly check the compliance of the aforementioned systems with laws/regulations and produce auditing reports for submission to the board of directors, and appoint CPA to certify. The professional should be appointed to assist if necessary.

#### **Article 21 (operational procedure and behavioral guide)**

In line with the operational procedure and behavioral norm in the program for preventing unethical behaviors stipulated in article 6, the company formulates items of notice for staffers in conducting business activities as the following:

1. Criteria in determining provision or acceptance of improper benefits;
2. Procedure for provision of legal political donations;
3. Procedure and value criteria for rightful charitable donation or sponsorship;
4. Regulations on avoiding job-related conflict of interest, procedure for the reporting and handling of such cases;

5. Regulations on the confidentiality of job-related secrets and sensitive business information;
6. Regulations and handling procedure on suppliers, customers, business partners with unethical behaviors;
7. Procedure for handling violation of the ethical corporate management principles;
8. Discipline and penalties on offenders of the ethical corporate management principles.

### **Article 22 (education, training, and evaluation)**

The company's chairman, president, or ranking managers should convey the importance of integrity to directors, employees, and agents regularly.

The company holds education, training, and promotion for staffers regularly. And invite the counterparty of commercial activity to attend, so that they can fully understand the determination company's ethical corporate, policy, precautionary and the consequences of violation of honest behavior.

To materialize the policy of ethical corporate management, the company has listed the policy as a criterion in evaluating staffers' performance at end of year

### **Article 23 (informing)**

The company should institute a concrete reporting system for substantive enforcement, with its contents covering:

1. Set up and publicize independent internal mailbox and dedicated line, or entrust an independent body to do so, for use by in-house staffers or outsiders.
2. Appoint specialized staffer(s) or unit for receiving complaints and submit complaints involving directors or ranking managers to independent directors, on top of categorizing complaints and instituting standard investigative procedure.
3. The reception, investigation, and findings, as well as production of related literature, of complaints, should be put on record and kept.
4. The identify of informants and contents of complaints should be kept in confidentiality.
5. Protect informants from improper treatments for their complaints.
6. Incentives for whistleblowers

The company's auditing unit is in charge of receiving complaints and would produce report for informing independent director(s) in written form after discovering major offenses or potential damage for the company.

### **Article 24 (Penalty and complaint system)**

The company should set up clear-cut punitive and complaining system and penalize those violating the integrity-oriented policy according to the company's regulations, on top of disclosing timely the title/name of the offender, date and contents of the offense, and handling of the case on the company's website. The identify of informants and contents of their complaints should be kept secret.

### **Article 25 (information disclosure)**

The company establish and push quantification of integrity-oriented management and continuously analyze and evaluate performance for the enforcement of the policy, publicizes the status in executing the principles on its website and in its annual report and public statement, on top of posting contents of guidelines for integrity-oriented management on the Market Observation Post System.

### **Article 26 (review of ethical corporate management and measures)**

The company should constantly notice the development of the norms on ethical corporate management, both abroad and on the domestic front, and encourage staffers to put forth suggestions for review and improvement of the principles, so as to boost the effect of the company's ethical management.

### **Article 27 (implementation)**

The principles are put into practice after approval by the board of directors before being submitted to the audit committee for reference and reported to the shareholders' meeting. The same procedure applies to the revision of the principles.

When the board of directors discusses the guidelines for integrity-oriented management, in line with the aforementioned regulation, it should take into account the opinions of independent directors and put opposing opinions or reservation on record in the minutes of the meeting. When independent directors cannot attend the meeting of the board of directors to express their opposition or reservation, due to some justified reason, they should put forth their opinions in written form, which should be put on record in the minutes of the meeting.

### **Article 28 (supplement)**

The principles were formulated on August 14, 2014.

The principles were amended on December 23, 2016

# TECO Electric & Machinery Co., Ltd.

## Corporate Social Responsibility Best Practice Principles

### Chapter one General rules

#### Article 1

For fulfilling corporate social responsibility and prod the progress of economy, environment, and society, as a means of achieving sustainable development, the company formulates the practical principles for compliance by staffers.

#### Article 2

The principles are applicable to overall business activities of the company and other enterprises of the group.

Alongside engagement in corporate management, the company should actively fulfill corporate social responsibility, in line with the international trend, thereby contributing, as a corporate citizen, to the nation's economic development and improvement of the life quality of staffers, community, and society, in addition to creating an edge based on corporate responsibility.

#### Article 3

In fulfilling corporate social responsibility, the company should notice the interests of stakeholders and in quest of sustainable development and profits, it should keep an eye on the factors of environment, social needs, and corporate governance, incorporating them into the company's management objective and business activities.

#### Article 4

In fulfilling corporate social responsibility, the company should abide by the following principles:

1. materialization of corporate governance;
2. creating sustainable environment;
3. upholding public benefits of the society;
4. intensifying information disclosure on corporate social responsibility.

#### Article 5

The company should take into account relationship between development trend for corporate social responsibility, both abroad and on domestic front, and its core businesses, as well as the effect of the business activities of the company and the group's other enterprises on stakeholders, in formulating the policy, system, and management objects and action plan on corporate social responsibility, which should be reported to shareholders' meeting following approval by the board of directors.

The board of directors should review proposals on corporate social responsibility raised by shareholders and consider putting them on the agenda of shareholders' meeting.

### Chapter two Materialization of corporate governance

#### Article 6

For the sake of sound corporate governance, the company should abide by "Corporate Governance Best Practice Principles", "Ethical Corporate Management Best Practice Principles", as well as "Rules of Ethical Conduct to Directors and Managers"

## **Article 7**

In line with the obligation of notice for a good manager, the company's directors should push the company in pushing the fulfillment of social responsibility and constantly review the effect of execution for continuing improvement, so as to assure materialization of the policy on corporate social responsibility.

In fulfilling the corporate social responsibility for the company, the board of directors should consider about stakeholder's benefits adequately, and carry out the following affairs:

1. putting forth mission or vision for corporate social responsibility and formulating policy, system, or management objective for corporate social responsibility;
2. incorporating corporate social responsibility into the company's business activities and development direction, and formulating action plan on corporate social responsibility;
3. assuring current and accurate disclosure of information on corporate social responsibility;

The board of directors authorizes ranking management to handle the economic, environmental, and social issues arising from business activities. The management should designate specific staffers to handle the issues according to specific flow and report the results to the board of directors.

## **Article 8**

The company should regularly hold education and training on fulfillment of corporate social responsibility, including affairs related to item 2 of the previous article.

## **Article 9**

For sound management of corporate social responsibility, the company should designate unit, either on dedicated or part-time basis, for pushing corporate social responsibility, and formulating and executing policy, system, related management objective, and action plan on corporate social responsibility. The unit should report to the board of directors regularly.

The company should formulate reasonable compensation policy, conforming to the organization's strategic objective and the interests of stakeholders.

Performance-evaluation system for staffers should blend with corporate social responsibility and a clear and effective rewarding and penalty system should be put in place.

## **Article 10**

To uphold the interests of stakeholders, the company should identify stakeholders and set up a section for stakeholders on its website. It should understand reasonable aspiration and demand of stakeholders via proper communications channel and properly address key issues on corporate social responsibility which concern stakeholders.

## **Chapter three Creating a sustainable environment**

### **Article 11**

The company should abide by related laws/regulations and international norms in properly protecting natural environment and should dedicate to upholding a sustainable environment in carrying out business activities and internal management.

### **Article 12**

The company should dedicate to boosting the efficiency in utilizing various resources and using renewable materials to lessen impact on the environment and assure sustainable usage of the earth's resources.

### **Article 13**

The company should establish environment-management system conforming to its industry nature, which should include the following items:

1. collecting and evaluating sufficient and current information on the effect of business activities on natural environment;
2. establishing measurable objective for sustainable environment and regularly review its continuity and relevance;
3. formulating implementation measures, including concrete plan or action plan, and regularly reviewing the effect of implementation.

### **Article 14**

The company should install dedicated environment-management unit or staffers, in charge of formulating, pushing, and upholding environment-management system and action plan, in addition to regularly holding environmental education courses for managers and rank-and-filers.

### **Article 15**

The company should consider the effect of corporate operation on ecological benefits, and push and promote the concept of sustainable consumption, in addition to carrying out various business activities, including R&D, procurement, production, operation, and service, according to the following principles, so as to lessen the impact of corporate operation on natural environment and humanity:

1. reducing consumption of resources and energy caused by products and services;
2. reducing discharge of pollutants, toxins, and wastes, as well as properly disposing wastes;
3. enhancing recyclability and reusability of materials or products;
4. attaining maximum sustainable utilization of renewable resources;
5. increasing endurance of products; boosting the efficacy of products and services.

### **Article 16**

In order to enhance the utilization efficiency of water resources, the company should properly utilize water resources on a sustainable basis and formulate related management measures. The company should construct and strengthen treatment facilities for environmental protection, so as to avoid polluting water, air, and soil, and should make utmost efforts in lessening adverse effect on human health and environment by embracing optimal feasible technologies for combating and containing pollution.

### **Article 17**

The company should embrace universal standards or guidance, applicable both abroad and on domestic front, in carrying out and disclosing corporate greenhouse gases, with the scope covering:

1. direct emission of greenhouse gases: greenhouse-gas emission sources are owned or controlled by the company;
2. indirect emission of greenhouse gases: greenhouse gases result from energy utilization, including procured power supply, heat, or steam.

The company should notice the effect of climate change on business activities and, based on business status and check on greenhouse-gas emission, formulates strategy for energy conservation and carbon/greenhouse-gas abatement, in addition to incorporate carbon right into the company's strategic planning for carbon abatement, so as to lessen the effect of the company's business activities on climate change.

## **Chapter four Upholding public benefits of the society**

### **Article 18**

The company should abide by related laws/regulations and international covenant on human rights, including gender equality, working right, and ban on discrimination.

In order to fulfill its responsibility in protecting human rights, the company should formulate related management policies and procedures, including:

1. putting forth corporate human-right policy or statement;
2. evaluating the effect of corporate business activities and internal management on human rights and formulating corresponding handling procedure;
3. regularly reviewing corporate human-right policy or statement;
4. disclosing handling procedure for related stakeholders, in case of infringement of human rights.

The company should uphold labor rights acknowledged internationally, including freedom for association, right of group consultation, care for underprivileged groups, ban on child labor, removal of forced labor in various forms, and removal of management-labor and employment discrimination, in addition to assuring absence of discriminatory treatment in policy of human-resources utilization, in terms of gender, ethnicity, social and economic class, age, marriage, and family, so as to achieve equality and fairness in employment conditions, compensation, fringe benefits, training, performance evaluation, and promotion.

For infringement of labor rights, the company should provide effective and proper mechanism for filing complaints and assure equality and transparency in the process of petition. The petition channel should be clear, simple, convenient, and unblocked. The company should respond properly to the petitions of staffers.

### **Article 19**

The company should provide staffers information, helping them understand labor law and labor rights in the host country of their works.

### **Article 20**

The company should provide staffers a safe and healthy working environment, including the provision of necessary health and first-aid facilities, and dedicate to removing potential hazards to the safety and health of staffers, so as to prevent vocational accidents.

The company should conduct regularly safety and health education and training for staffers.

### **Article 21**

The company should create a good environment for the career development of staffers and establish an effective plan for fostering the capabilities of staffers for career development.

The company should embrace a policy reflecting the fruits of its management in staffers' compensations, so as to facilitate the recruitment, retention, and motivation of staffers, thereby achieving the company's sustainable development.

### **Article 22**

The company should set up channels for communications with staffers regularly, thereby keeping them posted on the company's management and decision making and enabling them to express opinions accordingly.

The company should respect the right of labor representatives in consultation for working conditions and provide staffers necessary information and hardware facilities, to facilitate consultation and cooperation among employers, staffers, and labor representatives.

The company should inform via reasonable manner staffers material changes in the company's operation.

#### **Article 22-1**

The company should treat customers or consumers in a fair and reasonable manner, in line with the features of its products, services, and industry, in addition to formulating strategy and measures for enforcement.

Examples for the aforementioned fair and reasonable treatment follow:

1. Enter into contracts on the principles of mutual benefit, fairness, and integrity.
2. Fulfill the commission of customers carefully and faithfully.
3. Avoid exaggerated and false ads.
4. Assure provision of merchandises or services which are suited to customers or consumers.
5. Fully explain major contents, as well as potential risks, of the merchandises or services provided.
6. Consider in balance the interests of customers or consumers and the achievement of business goal when formulating commission system for salespersons.
7. Offer customers or consumers unobstructed channel for complaints and make substantive responses.
8. Professional businesses should be undertaken by staffers with professional qualifications or professional certificates.

#### **Article 23**

The company should be accountable for its products and services and have ethical consideration in marketing. In the flow of R&D, procurement, production, operation, and service, it should assure the transparency and safety of information on products and services, to prevent products and services from jeopardizing the interests, health, and safety of consumers.

#### **Article 24**

The company should abide by laws/regulations on industries in assuring the quality of products and services.

The company should abide by related laws/regulations and international criteria in the marketing and labeling of products and services and should abstain from deception, misleading, fraud, or any other behavior which betrays consumers' trust and jeopardize their rights and interests.

#### **Article 25**

The company should evaluate and manage various risks which could disrupt its operation and lessen the latter's effect on consumers and the society, should it happen.

The company should set up transparent and effective channel for consumers to file

complaints on products and services and address such complaints instantly in a fair manner, in addition to upholding consumers' privacy by protecting the secrecy of their personal data, according to law for production of personal data and other related laws/regulations.

#### **Article 26**

The company should evaluate the environmental and social effect of its procurements on the supplying communities and should cooperate with suppliers in fulfilling corporate responsibility concertedly.

Prior to business dealings, the company should ascertain whether the suppliers have record adversely affecting environment and society and should avoid dealings which run counter to its policy on corporate social responsibility.

#### **Article 27**

The company should take part in the activities of civil organizations, charities, and municipal governments in communal development and education, via stock investment, business activities, physical donations, corporate voluntary services, or other professional services for public benefits, invest resources in organizations which employ business model in solving social or environmental issues, so as to bolster communal development.

### **Chapter five Strengthen information disclosure on corporate social responsibility**

#### **Article 28**

The company should publicize information according to related laws/regulations and practical principles on corporate governance, in addition to fully disclosing critical and reliable information on corporate social responsibility, so as to enhance information transparency.

The company should disclose the following information related to corporate social responsibility:

1. policy, system, or management objective and action plan related to corporate social responsibility, approved by the board of directors;
2. risk and effect on the company's operation and finance caused by materializing corporate governance, creating sustainable environment, and upholding public benefits of the society.
3. objective and measures formulated by the company for fulfilling corporate social responsibility, as well as the result of performance;
4. major stakeholders and issues of their concern;
5. management and performance of major suppliers on environment and key social issues;
6. other information related to corporate social responsibility.

#### **Article 29**

The company should embrace criteria or principles with universal acknowledgement internationally in compiling report on corporate social responsibility, so as to disclose progress in pushing corporate social responsibility, and should attain confirmation or guarantee from third party, to enhance information reliability. The report should contain:

1. policy, system, or related management objective and action plan on corporate social responsibility;
2. major stakeholders and issues of their concern;
3. result and review of the company's performance in materializing corporate governance, developing sustainable environment, upholding public benefits of society, and boosting economic development.
4. improvement direction and objective.

### **Chapter six Supplements**

#### **Article 30**

The company should constantly notice development in related principles on corporate social responsibility, both abroad and on domestic front, and changes in business environment, for

reviewing and improving the company's system on corporate social responsibility, so as to enhance the performance in fulfilling corporate social responsibility.

**Article 31**

Formulation and revision of the principles should be approved by the board of directors and reported to shareholders' meeting.

**Article 32**

The principles have been put into practice following approval by the board of directors on March 20, 2015 for implementation.

The first amendment of the principle on 23 December 2016.

# TECO Electric & Machinery Co., Ltd.

## Procedure for Acquisition or Disposal of Assets

### Article 1 Purpose

This Procedure is established for the purpose of protecting the rights and interests of shareholders and the interests of investors.

### Article 2 Legal authority

This Procedure is established pursuant to Article 36-1 of the Securities And Exchange Act and the relevant provision and subsequent revision there of the “Regulations Governing the Acquisition or Disposal of Assets by Public Companies” established by the Financial Supervisory Commission, Executive Yuan (hereinafter “FSC”).

### Article 3 Scope of assets

1. The term *marketable securities* include investments in stocks, government bond, corporate bond, financial debenture, mutual fund securities, depository receipts, share warrant certificates, beneficiary securities, asset-back securities and so on.
2. Real property (including land, house & construction, investment real assets, land utilization right and inventory of construction business) and equipments.
3. Membership.
4. Intangible assets, including, patent, copyright, trademark, franchise and so on.
5. Credit claims in financial institutions (including accounts receivable, foreign exchange discount, lending, overdue receivables).
6. Derivatives.
7. Assets acquired or disposed of as a result of legal merger, spin-off, acquisition or assignment of shares.
8. Other important assets.

### Article 4 Definition

1. Derivatives means the forward contracts, options contracts, futures contracts, hedge margin contracts, swaps contracts, and compound contracts of the combination of the above the value of which is derived from assets, interest rates, exchange rate, indices or other interests. Forward contracts do not include insurance contracts, performance guaranty contracts, after-sale service contracts, long-term leases and long-term purchase (sale) contracts.
2. Assets acquired or disposed of as a result of legal merger, spin-off, acquisition or assignment of shares means the assets acquired from or disposed of as a result of a merger, spin-off or acquisition conducted in accordance with the Business Merger and Acquisition Act, Financial Holding Company Act, Financial Institutions Merger Act or other laws, or the stocks of another company acquired by issuing new shares pursuant to the eighth paragraph of Article 156 of the Company Act.

3. A related party & *subsidiary* means the party defined in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers.

4. A professional appraiser means real property appraisers or any other service which is legally authorized to appraise real property and equipments for business.

5. Date of occurrence means the transaction contracting date, payment date, the entrusted transaction closing date, transfer date, board resolution date or other date on which the transaction counterpart and the transaction value may be sufficiently ascertained, whichever is earlier. Notwithstanding, where the investment must be approved by the competent authority in advance, the date of occurrence shall mean the earlier of the above date applicable and the date of approval by the competent authority.

6. PRC investment means the investment made in the People's Republic of China in accordance with the Regulations Governing Approval of Investments or Technical Cooperation Conducted in the People's Republic of China prescribed by the Investment Commission, Ministry of Economic Affairs.

7. Within one year means the year counted backward from the date of acquisition or disposal of the asset in issue, excluding the items which have been publicly disclosed.

8. The most recent certified financial statements means the latest financial statements certified or audited by a certified public accountant and duly published immediately before the acquisition or disposal of assets in issue.

## **Article 5**

Limit on investment in non-business purpose real property and marketable securities

The limits on the above assets acquired by the Company are as follows:

1. Non-business purpose real property: The total investment amount shall not exceed 30% of the amount of shareholders' equity represented in the most recent certified financial statements. The total amount of investment in any specific short-term securities shall not exceed 5% of the amount of the above shareholders' equity.

2. Long- and short-term securities: The total investment amount (means the original investment amount) shall not exceed the amount of shareholders' equity represented in the most recent certified financial statements.

3. The total amount of investment in any specific marketable securities (means the original investment amount) shall not exceed 30% of the amount of shareholders' equity represented in the most recent certified financial statements.

The limits on the total amount of the above asset acquired by a subsidiary of the Company are as follows:

1. Non-business purpose real property: The total amount shall not exceed 20% of the amount of shareholders' equity represented in the most recent certified financial statements of the subsidiary concerned. The total amount of investment in any specific short-term securities shall not exceed 5% of the amount of the above shareholders' equity.

2. Long- and short-term securities: The total investment amount (means the original investment amount) shall not exceed the amount of shareholders' equity represented in the most recent certified financial statements of the subsidiary concerned.

3. The total amount of investment in any specific marketable securities (means the original investment amount) shall not exceed 30% of the amount of shareholders' equity represented in the most recent certified financial statements of the subsidiary concerned.

## **Article 6**

No appraiser, certified public account, legal counsel or securities underwriter who has provided the Company with the appraisal report or opinion may involve in the transaction in issue as a related party. Nor shall the transaction counterpart be a related party in the transaction.

## **Article 7** Procedure for acquisition or disposal of real property or equipments

### 1. Evaluation and procedure of operation

Acquisition or disposal of real property and equipments by the Company shall be in accordance with the Company's internal control policy pertaining to the revolving of fixed assets.

### 2. Procedure for determining the terms of transaction and approval of transaction

2.1 The terms and transaction price of the acquisition or disposal of real property shall be determined by reference to, among others, the posted current value, appraised value, and the actual transaction price of other real property located nearby. Transactions with a value of less than TWD50 million may precede with the approval of the President. Transactions with a value of between TWD50 million and TWD100 million each may proceed with the approval of the Chairman of the Board of Directors and shall be reported to the immediately subsequent meeting of the Board of Directors. Transactions with a value of over TWD100 million must be approved by the Board of Directors in advance.

2.2 Acquisition or disposal of equipments shall be conducted by way of issuing request for proposal, price competition under restricted tendering, and price negotiation under single tendering or bidding. The approval thereof shall be in accordance with the Schedule of Functions and Authority compiled pursuant to the relevant bylaws of the Company.

2.3 Where the acquisition or disposal of assets by the Company in accordance with the relevant procedure or other laws must be approved by the Board of Directors in advance, the opposition expressed by the Director with written record thereof taken or in writing shall be submitted to Audit Committee. On the acquisition or disposal of assets duly proposed to the Board of Directors for approval, opinion expressed by the Independent Director shall be sufficiently considered with their concurrence or dissent expressed and the reason therefore duly recorded in the meeting minutes.

### 3 Unit in charge of execution of transaction

Upon approval of the proposed acquisition or disposal of real property or equipments pursuant to the preceding paragraph, the responsible department and the Corporate Finance & Management Division shall take charge of the execution thereof.

### 4. Appraisal report on real property or other fixed asset

Where the transaction value of the acquisition or disposal of real property or equipments amounts to 20% or more of the paid-in capital of the Company or TWD300 million or more, an appraisal report produced by a professional appraiser must be obtained before the date the fact happens in accordance with the following, except in cases where the transaction

counterpart is a government institutions, or the transaction is an entrusted construction project on a self-owned land or a leased land, or the objects to be acquired or disposed of is equipment for business purpose.

4.1 Where the transaction price shall be determined by reference to any restricted, designated price or special price for whatever special reason, the transaction and all subsequent changes to the terms thereof (if any) must be submitted to the Board of Directors for approval in advance.

4.2 Where the transaction value amounts to TWD1 billion or more, the appraisal shall be conducted by two or more professional appraisers.

4.3 If the appraisal conducted by the professional appraiser runs into either of the following conditions, except the appraisal value of the acquired assets is higher than the trading value or the appraisal value of the disposed assets is lower than the trading value, subsequent handling by certified public accountant in accordance with the No. 20 Statement of Financial Accounting Standards published by Accounting Research and Development Foundation (ARD Foundation) should be sought for as well as its opinion with respect to the reasons accounting for the price difference and the acceptability of the transaction price:

4.3.1 The amount difference between the appraised value and the transaction value amounts to 20% of the transaction value.

4.3.2 The amount difference among the appraised values as a result of the appraisals conducted by two or more professional appraiser's amounts to 10% or more of the transaction value.

4.4 The appraisal report date and the date of creation of the transaction contract conducted by professional appraiser must not be apart for more than 3 months. Notwithstanding, if the same posted present value has been adopted to calculate the value and the above two dates are less than 6 months apart, the written opinion of the original professional appraiser may be sought.

4.5 Where the Company has acquired or disposed of the asset by auction by the court, the relevant written evidence document issued by the court may operate in place of the appraisal report or certified public accountant's opinion.

5. The aforementioned trading value should be calculated according to Article 15.1.5. The period is the one year before the occurrence of the trading. The obtaining of appraisal report or CPA's opinions can not be included.

## **Article 8**

Procedure for acquisition or disposal of marketable securities

### **1. Evaluation and procedure of operation**

Trading of long- or short-term securities by the Company shall be in accordance with the Company's internal control policy pertaining to the revolving of investments. Acquisition or disposal of long-term securities mentioned in the procedure refers to the holding of over 20% stake or long-term equity investment. Acquisition or disposal of long-term securities mentioned in the procedure refers to the holding of over 20% stake or long-term equity investment in a company.

### **2. Procedure for determining the terms of transaction and approval of transaction**

2.1 For acquisition and disposal of long-term securities, the execution unit should evaluate transaction conditions and authorized quota before submitting its proposal to the board of directors for approval.

2.2 For acquisition and disposal of short-term securities, the execution unit should evaluate the transaction conditions and authorization quota before carrying out the move according to "Measures for the Management of Short-term Investment."

2.2.1 Purchasing and selling short-term marketable securities traded on the stock exchange or over-the-counter market shall be judged and determined by the responsible financial unit according to the market. The limits on the total investment amount and the amount of investment in any specific securities are as follows:

Securities	Limit	Limit on specific securities
Domestic finance bills		TWD600 million
Foreign finance bills		TWD600 million
Negotiable certificates of deposit		TWD600 million
Time deposit		TWD600 million
Open-end bonds funds	TWD2 billion	TWD500 million
Mutual funds (excluding open-end bonds mutual funds)	TWD1 billion	TWD100 million
Stocks traded on stock exchanges, over-the-counter market and relevant securities	TWD1 billion	TWD100 million
Share warrant certificates	TWD1 billion	TWD5 million

2.2.2 For purchase or sale of short-term marketable securities not traded on the stock exchange or over-the-counter market, the most recent certified financial statements of the target company must be obtained for an as reference for evaluating the transaction price for an analysis on, among others, the per share net value, profitability and potentiality of the objective company. The above proposed purchase or sale proposed must be submitted transaction conditions and authorization quota to the board of directors for approval in advance.

2.3 Where the acquisition or disposal of assets by the Company in accordance with the relevant procedure or other laws must be approved by the Board of Directors in advance, the opposition expressed by the Director with written record thereof taken or in writing shall be submitted to all Supervisors. On the acquisition or disposal of assets duly proposed to the Board of Directors for approval, opinion expressed by the Independent Director (if any) shall be sufficiently considered with their concurrence or dissent expressed and the reason therefore duly recorded in the meeting minutes.

### 3. Unit in charge of execution

Upon approval of the proposed acquisition or disposal of long- or short-term investment in securities by the Company pursuant to the preceding paragraph, the Corporate Finance & Management Division shall take charge of the execution thereof.

### 4. Expert opinion

4.1 For acquisition or disposal of marketable securities, the company should obtain the audited or reviewed financial statement of the target companies as the reference for

transaction price, the transaction value of which amounts to 20% of the paid-in capital of the Company or TWD300 million, certified public accountant's opinion shall be sought for with respect to the acceptability of the transaction price before the date the fact happens. In case CPA needs to adopt the report of experts, auditing criteria No. 20 publicized by Accounting Research and Development Foundation should be followed, except in cases where there is an active public quote on the subject securities or where the subject securities belongs to any of the following:

4.1.1 securities obtained on contribution of cash capital to the establishment of an entity by promoters or by placement.

4.1.2 securities issued at par value on the legal capital increase of an invested company.

4.1.3 securities issued on the cash capital increase of a 100%-owned invested company.

4.1.4 securities traded on the stock exchange, Over-the-Counter Market or on the GreTai Securities Market.

4.1.5 government bonds or bonds with re-purchase, re-sale agreements.

4.1.6 domestic or offshore mutual funds

4.1.7 corporate securities listed on the stock exchange or traded on the GreTai Securities Market to be acquired or disposed off pursuant to the Regulations Governing Purchase of Listed Securities by Tender Offer or by Auction of the Taiwan Stock Exchange Corporation or the GreTai Securities Market.

4.1.8 stocks of public companies issued on cash capital increase but not under private placement

4.1.9 the request for purchase of which was submitted prior to the establishment of the mutual fund as provided in the first paragraph of Article 11 of the Securities Investment Trust and Consulting Act and the Order of 1 November 2004 issued by the Financial Supervisory Commission (ref. Jin-Guan-Si-Tze No. 0930005249).

4.1.10 newly purchased or re-purchased domestic private equity, the scope of investment of which is identical with that of publicly raised mutual funds except the investment strategy with respect to securities credit trading and position of the un-covered products relating to the securities as indicated in the relevant trust agreement

4.2 Where the subject asset is acquired or disposed of by auction in the court, the appraisal report or certified public accountant's opinion may be replaced by the relevant certifying document issued by the court.

5. The aforementioned trading value should be calculated according to Article 15.1.5. The period is the one year before the occurrence of the trading. The obtaining of appraisal report or CPA's opinions can be excluded.

## **Article 9**

Transaction with related parties

1. In addition to the procedure for acquisition or disposal of assets from a related party provided in Article 7-11, requirements with respect to the procedure of approval and evaluation of the acceptability of the terms of transaction. According the stipulations of article 7-11 of the handling procedure, when the trading value exceeds 10% of the company's total

assets, the appraisal report of professional appraisers or the opinions of CPA should be obtained. The substance of the relationship other than the formation as a legal matter must be considered when determining whether the transaction counterpart is a related party

## 2. Evaluation and procedure of operation

Acquisition or disposal of real property from a related party, or acquires or disposes non-property assets with related parties and the trading value exceeds 20% of the company's paid-in capital, 10% of total assets, or NT\$300 million, must be approved by the Board of Directors based on the materials on the following matters and ratified by the Audit Committee in advance to sign the transaction contract and make payment:

2.1 The purpose, necessity and anticipated efficacy of the proposed acquisition or disposal of assets.

2.2 The reason for selecting the related party in issue as the transaction counterpart.

2.3 Acquiring real property from related parties, the evaluation materials regarding the acceptability of the proposed terms of transaction produced pursuant to paragraphs .1 and 3.4 of this Article.

2.4 The acquisition date and the transaction price at which the related party acquired the subject real property and the related party's transaction counterpart in that transaction and the relationship between them.

2.5 Forecast on the statement of receipts and disbursements of cash within one year from the month of the proposed contract signing date, and an evaluation of the necessity of the proposed transaction and the acceptability of the application of the relevant funds.

2.6 Obtain the appraisal report of professional appraisers or the opinions of CPA according to item 1 of the Article9.

2.7 The restrictions and other important arrangements on the transaction.

The aforementioned trading value should be calculated according to item 1-5 of Article 15. The one-year period refers to the one year before the date for the implementation of the trading. The trading which has been submitted to the board of directors for approval and the auditing committee for acknowledgement can be excluded.

The opinion expressed by the Independent Directors each at the relevant meeting of the Board of Directors convened for discussing according to the previous two items, transaction proposed pursuant to the preceding paragraph shall be sufficiently considered. Opposition or qualified opinion expressed by the Independent Director shall be clearly indicated in the minutes of the relevant meeting of the Board of Directors.

The board of directors could authorize the chairperson to make decision for acquiring from, or disposing with, related parties equipment whose value falls within a certain scope.

## 3. Evaluation of acceptability of the transaction cost

3.1 The acceptability of transaction cost of the proposed acquisition of real property by the Company from a related party shall be evaluated in accordance with the following:

3.1.1 The transaction cost shall be the sum of the proposed transaction price plus the

necessary capital interest and the legal cost to be incurred by the buyer. *Necessary capital interest* shall be calculated according to the weighted average interest rate on loans extended to the Company in the year of the purchase of the real property, provided that the said interest rate shall not exceed the maximum non-financing borrowing interest rate announced by the Ministry of Finance.

3.1.2 Where the related party has mortgaged the subject real property to any financial institution, the total value adopted by the financial institution to determine the line of credit shall be taken into account, provided that the accumulated amount of the actual advanced credit on the subject real property has amounted to 70% or more of the line of credit for over one year except in cases where the financial institution is a related party to the related party in issue or vice versa.

3.2 Where the subject real property comprises the land and the building thereon, the transaction cost of the land and the building may be evaluated separately according to any of the methods provided in the preceding paragraph

3.3 The cost of the real property to be acquired by the Company from a related party shall be evaluated in accordance with paragraph 3.1 and 3.2 of this Article and review and workable opinion by a certified public accountant on such evaluation should be sought for.

3.4 Where the values of the real property to be acquired by the Company from a related party in conclusion of the evaluation pursuant to paragraphs 3.1 and 3.2 of this Article respectively both are lower than the proposed transaction price, paragraph 3.5 of this Article shall apply except in the following cases where objective evidence has been produced and workable opinion has been sought for from the professional appraiser and a certified public on the acceptability of the transaction price:

3.4.1 The related party has acquired or leased a vacant land to build the building and evidence has been produced to prove fulfillment of any of the following:

3.4.1(1) The sum of the value of the vacant land appraised according to the method provided in the preceding Article and the value of the building appraised as the total of the construction cost incurred by the related party plus reasonable construction profit exceeds the actual transaction price. Reasonable construction profit shall be determined based on the average gross margin ratio of the construction department of the related party in the past three years or the gross margin ratio applicable to the construction industry published by the Ministry of Finance, whichever is lower.

3.4.1(2) The terms of the proposed transaction are considered acceptable by reference to the successful transactions of the other floors of the same building or nearby buildings concluded by non-related parties, each of which is of similar square measure to that of the subject real property, and the term of such successful transactions are considered comparable to the relevant terms of the proposed transaction according to the common practice of real property transaction applicable to the area.

3.4.1(3) The terms of the proposed transaction are considered acceptable by reference to the successful leases of the other floors of the same building or nearby buildings concluded by non-related parties within one year and the terms of such successful leases are considered comparable to the relevant terms of the proposed transaction according to the common practice of real property leases applicable to the area.

3.4.2 The Company has produced evidence to prove the terms of the proposed purchase of real property from a related party are comparable to the terms of successful transactions of nearby real property of similar square measure which were concluded by non-related parties

within one year. Successful transaction of nearby real property means the successful transaction of a real property which is located in the same block as the subject real property and within a radius of 500 meters from the subject real property or the posted present value of which is similar to that of the subject real property. Of similar square measure means, basically, the square measure of the real property in the successful transaction concluded by a non-related party being referred to is no less than 50% of the square measure of the subject real property. Within one year means within the year immediately preceding the date of occurrence of the proposed transaction.

3.5 Where the values of the real property to be acquired by the Company from a related party appraised in conclusion of the evaluation pursuant to paragraphs 3.1 and 3.2 of this Article respectively both are lower than the proposed transaction price, the Company shall act in accordance with the following:

3.5.1 The Company shall appropriate an amount equal to the difference between the transaction price and the appraised cost of the real property for special earnings reserve pursuant to the first paragraph of Article 41 of the Securities and Exchange Act, which shall be set aside from distribution or new issues of shares for capital increase. Investors who recognize their investment in the Company on equity method and who are public listed companies shall also appropriate an amount equal to the recognized value according to the shareholding percentage for special earnings reserve pursuant to the first paragraph of Article 41 of the Securities and Exchange Act.

3.5.2 Audit Committee shall act in accordance Article 218 of the Company Act.

3.5.3 The result of handling pursuant to paragraphs 3.5.1 and 3.5.2 of this Article shall be reported to the Shareholders Meeting and the particulars of the transaction shall be disclosed in the relevant annual report and the prospectus.

The special earnings reserve set aside pursuant to the above shall not be applied for use without the prior approval by the Financial Supervisory Commission until the loss from depreciation arising from the purchase of the asset by paying a high premium price is duly recognized, disposed of, appropriately made up, restored or there being no other evidence challenging the acceptability issue.

3.6 Acquisition of real property by the Company from a related party will be forthwith handled in accordance with paragraphs 1 and 2 of this Article in any of the following cases, in which case paragraphs 3.1, 3.2 and 3.3 of this Article regarding evaluation of acceptability of the transaction cost shall not operate:

3.6.1 The related party has acquired the subject real property by inheritance or as a gift.

3.6.2 Over five years has lapsed since the related party signed the contract on acquisition of the subject real property.

3.6.3 The related party acquired the subject real property under a signed joint construction contract with its related party or entrustment of related parties for realty constructions, either on own land or leased land.

3.7 In case there is any evidence proving any irregularity of the proposed transaction for the Company to acquire the subject real property from a related party, the Company shall still act in accordance with paragraph 3.5 of this Article.

Article 10 Procedure for acquisition or disposal of membership

The Company will, in principle, not conduct acquisition or disposal of memberships. Should any such transaction be proposed in the future, the Company shall submit the proposal to the meeting of the Board of Directors for approval and, thereafter, lay down the procedure for the evaluation and operation thereof.

## **Article 11**

### Procedure for acquisition or disposal of intangible assets

#### 1. Evaluation and procedure for operation

The acquisition or disposal of intangible assets by the Company shall be conducted in accordance with the Company's internal control policy pertaining to the revolving of fixed assets.

#### 2. Terms of transaction and procedure for approval of transaction

2.1 The terms and transaction price of the proposed acquisition or disposal of intangible assets shall be determined by reference to the evaluation report produced by an expert or the fair market value. Transactions with a transaction value of less than TWD30 million each may proceed with the approval of the President. Transactions with a value of between TWD30 million and TWD60 million may proceed with the approval of the Chairman and shall be reported to the immediate subsequent meeting of the Board of Directors. Transactions with a value of over TWD60 million each must be approved by the Board of Directors in advance.

2.2 Where the acquisition or disposal of assets by the Company in accordance with the relevant procedure or other laws must be approved by the Board of Directors in advance, the opposition expressed by the Director with written record thereof taken or in writing shall be submitted to Audit Committee. On the acquisition or disposal of assets duly proposed to the Board of Directors for approval, opinion expressed by the Independent Director shall be sufficiently considered with their concurrence or dissent expressed and the reason therefore duly recorded in the meeting minutes.

#### 3 Unit in charge of execution of transaction

Upon approval of the proposed acquisition or disposal of membership or intangible assets or other fixed assets pursuant to the preceding paragraph, the responsible department and the Corporate Finance & Management Division shall take charge of the execution thereof.

#### 4 Expert evaluation report on membership or intangible assets

Except the transaction with government institutions, where the transaction value of the acquisition or disposal of membership or intangible asset by the Company amounts to 20% of the paid-in capital of the Company or TWD300 million, the opinion of a certified public accountant on the acceptability of the proposed transaction price should be sought for before the date the fact happens, who shall act in accordance with the No. 20 Statement of Auditing Standards published by the ARD Foundation.

5. The aforementioned trading value should be calculated according to Article 15.1.5. The period is the one year before the occurrence of the trading. The obtaining of appraisal report or CPA's opinions can be excluded.

## **Article 12**

### Procedure for acquisition or disposal of credit claims in financial institutions

The Company will, basically, not conduct the transaction of acquiring or disposing of credit claims in financial institutions. Should any such transaction be proposed in the future, the Company shall submit the proposal to the meeting of the Board of Directors for approval and, thereafter, lay down the procedure for the evaluation and operation thereof.

## **Article 13**

### Procedure for acquisition or disposal of financial derivatives

#### 1. Principle and policy of transaction

All derivatives transactions by the Company shall basically be conducted with a view to prevent possible risks arising from business operation of the Company. The responsible personnel of a derivatives transaction shall conduct a detailed analysis of the possible risks in advance, conduct the hedge transaction with care, and get hold of all possible risks that may arise from the transaction.

##### 1.1 Derivatives transactions:

Derivatives means the transaction contracts the value of which is derived from assets, interest rates, exchange rates, indices or the interests in any of the above (such as forward contracts, options contracts, futures, swap and compound contracts of a combination of the above). For purposes of this Procedure, forward contracts exclude insurance contracts, performance guaranty, after-sale services warranty, long-term leases and long-term purchase (sale) contracts.

##### 1.2 Operational or hedging strategy:

The Company's demand for foreign currency to meet the calls for purchases of imported materials and equipment shall be hedged by buying forward foreign exchange and receipts of foreign currency from exports shall be hedged by selling forward foreign exchange.

##### 1.3 Division of powers and duties:

1.3.1 Only the personnel approved by the Chairman authorized to do so by the relevant meeting of the Board of Directors may conduct foreign exchange transactions. Necessary increase or reduction in the staff of such personnel, if any, must also be approved by the Chairman.

1.3.2 The accounting department shall be responsible for administering foreign exchange transactions.

1.3.3 The relevant financial managerial office shall act as the supervisor of the foreign exchange transaction within the scope of their power of authority with respect to the transaction amount.

##### 1.4 Key points of performance evaluation:

1.4.1 Transaction part shall be evaluated according to the accumulated realized amount of net foreign exchange gain (loss) of the year.

1.4.2 Non-transaction part shall be evaluated according to their compliance with the relevant

policy and rules for operation of forward foreign exchange of the Company.

1.5 Total contractual transaction amount shall be the Company's total authorized transaction amount on forward foreign exchange contracts.

1.5.1 Limit of hedging transactions: The total hedging transaction amount of the Company as a whole shall basically be determined according to the Company's call for imports and exports both for a term of six month of the year. Any position call beyond the 6-month term must be approved by the Chairman authorized to do so by the relevant meeting of the Board of Directors.

1.5.2 Limit of non-hedging transactions: The total non-hedging transaction amount of the Company as a whole shall be within the range of the amount equal to 15% of the Company's call for imports and exports both for a term of six month of the year.

1.5.3 The maximum uncovered position of the Company as a whole shall not exceed 150% of the Company's call for imports and exports both for a term of six month of the year and the sum of the position of hedging transactions and that of non-hedging transactions combined shall not exceed the maximum uncovered position of the Company.

1.6 Limits on total loss from all transaction contracts and the loss from each individual transaction contract

The uncovered position of derivative transactions by the Company as a whole shall be calculated according to the closing price of TWD at the current day on and that of the New York foreign exchange market of the previous day. When the loss incurred amounts to TWD2.5 million, 25% thereof shall be covered and the trader shall be instructed to suspend all transactions. When the loss incurred amounts to TWD5 million, 50% of the uncovered position must be covered with a relevant report submitted to the President. If the loss incurred amounts to TWD10 million, all positions shall be closed with a relevant report submitted to the President and the Chairman.

Please see the Trader Authorization and Stop-Loss Points Schedule attached hereto (1, 2) for the stop-loss point applicable to foreign exchange transactions. Each trader shall act according to the stop-loss point for each individual transaction and for accumulated loss respectively which are fixed according to the limit on his/her authorization and the foreign currency traded. The trader will be suspended from conducting transactions for a term of three months on his/her initial breach in conducting closing of position at the relevant stop-loss point and he/she will be disqualified on a second non-compliance, in which case, he/she will be reported to the President for determining the disciplinary action against him/her.

## 2. Risk management

### 2.1 Credit risk management:

In consideration of the changing market, risks management in connection with the operation of derivatives transactions shall be administered in accordance with the following principles: The transaction counterparts shall mainly be well known local or foreign financial institutions. The commodity transacted shall be among those offered by local or foreign financial institutions.

The total uncovered transaction amount with respect to the same transaction counterpart shall not exceed 10% of the total authorized amount except as otherwise approved by the President.

## 2.2 Market risk management:

The operation shall focus on the public foreign exchange transaction provided by banks without regard to the futures market.

## 2.3 Liquidity risk management:

In consideration of liquidity, the derivative commodities transacted by the Company shall be selected from among those with high liquidity (i.e. those which may be covered at any time on the market). The financial institution entrusted to conduct the transaction must be able to get hold of the relevant information and is able to conduct transactions on any market at any time.

## 2.4 Cash flow risk management:

In consideration of stable working capital, the Company shall basically conduct derivatives transactions by using self-owned fund and take into account the capital calls forecast for the next three months when deciding the amount to be applied to conduct derivatives transactions.

## 2.5 Operational risk management

The transactions shall be conducted within the relevant authorized amount in full compliance with the procedure for operation and put under internal control to prevent operational risks.

The personnel conducting derivatives must not act concurrently as the personnel responsible for making the relevant verification and delivery and vice versa.

The personnel responsible for weighing, monitoring and controlling the risks and the personnel provided in the preceding subparagraph must be serving in different departments of the Company and they must report to the Board of Directors or a high-ranking managerial officer who is not in charge of the transaction or decision-making on the positions to be taken.

The positions taken by derivatives transaction shall be evaluated at least once a week except hedging transactions which have been conducted to meet business needs and which shall be evaluated twice a month. The evaluation report shall be submitted to the relevant high-ranking managerial officer authorized to do so by the Board of Directors.

## 2.6 Commodities risk management

Internal trading personnel must have complete and accurate special knowledge with respect to derivatives and shall request the bank for full disclosure of risks in order to prevent the risk of utilizing inappropriate commodities.

## 2.7 Legal risk management

In consideration of prevention of possible legal risks, documents to be entered into by and between the Company and financial institutions must be examined in advance by personnel with special knowledge in foreign exchange and the legal compliance personnel or by the legal counsel.

## 3. Internal audit policy

3.1 Internal audit personnel must conduct periodical audit of the acceptability of the internal control with respect to derivatives transactions and, on a monthly basis, audit the compliance with the procedure for derivatives transactions by the departments responsible for the transactions and evaluate the transaction cycle, produce the relevant internal reports, and give a written notice of any material breach to the Audit Committee.

3.2 The internal audit personnel shall, by the end of February the following year, submit the internal audit report and the annual internal audit inspection report to the Financial Supervisory Commission and report the correction of irregularities (if any) to the Financial

Supervisory Commission by the end of May the following year.

#### 4. Periodical evaluation

4.1 The Board of Directors shall authorize high-ranking managerial officers to supervise and evaluate, on a regular basis, the compliance of the procedure for derivatives transactions and the acceptability limits on risks, as well as report to the Board of Directors upon finding of any irregularity in the market value evaluation report (e.g. a position taken having exceeded the limit of loss), and take proper measures in response.

4.2 The positions taken by derivatives transaction shall be evaluated at least once a week except hedging transactions which have been conducted to meet business needs and which shall be evaluated twice a month. The evaluation report shall be submitted to the relevant high-ranking managerial officer authorized by the Board of Directors.

#### 5. Principles of supervision and control of derivatives transactions by the Board of Directors

5.1 The Board of Directors shall appoint high-ranking managerial officers to oversee and control the risks from derivatives transactions from time to time according to the following principles:

5.1.1 Suitability of the current risk management measures and the compliance of the Company's procedure for derivatives transactions should be evaluated on a regular basis.

5.1.2 Necessary measures shall be taken upon finding of any irregularity with respect to the transaction and profit (loss) from the transaction. Such finding must be reported to the Board of Directors immediately and the relevant opinion expressed by the Independent Director shall be heard at the relevant meeting.

5.1 Performance consistency of derivatives transactions with the relevant operation policy and the acceptability limit of risks must be evaluated on a regular basis.

5.3 Where the relevant personnel have been authorized pursuant to the procedure for derivatives transactions to handle the transaction, the transaction shall be reported to the Board of Directors up to date after the transaction.

5.4 The Company shall maintain a derivatives transactions record book in which the type, value, date of the relevant resolution adopted by the meeting of the Board of Directors, and the matters subject to evaluation provided in paragraphs 4.2, 5.1 and 5.2 of this Article of each transaction shall be indicated in detail for reference.

### **Article 14**

Procedure for handling merger, spin-off, acquisition or assignment of shares

#### 1. Evaluation and procedure of operation

1.1 The Company shall, for the purpose of a merger, spin-off, acquisition or assignment of shares, call a meeting of the legal counsel, certified public accountant and underwriter for joint discussion to determine the timetable of the legal proceeding and organize a special group to execute the legal proceeding. The Company shall also seek the opinion of the certified public accountant, legal counsel or underwriter with respect to the acceptability of the proposed swap ratio, acquisition price or, cash or other property to be distributed to the shareholders and submit the same to the meeting of the Board of Directors for approval.

1.2 The Company shall, prior to the convention of the relevant Shareholders Meeting,

produce the document on disclosure of the material agreement and relevant matters on the proposed merge, spin-off or acquisition and submit such document to all shareholders together with the expert opinion provided in paragraph 1.1 of this Article and the meeting minutes as reference for the shareholders to determine to or not to approve the proposed merger, spin-off or acquisition, except in case where a relevant resolution adopted by the Shareholders Meeting is not legally required. If any of the participant companies is unable to convene the meeting, or to obtain the resolution of its shareholders meeting on the proposed merger, spin-off or acquisition because the number of shares represented at the meeting fell short of the quorum for the meeting or the proposal is denied by the meeting, the participant companies shall promptly give a public explanation of the cause, the subsequent handling and reschedule a date for convening the shareholders meeting.

## 2. Other matters for attention

### 2.1 Date of convention of the relevant meeting of the Board of Directors:

Except as otherwise provided by law or there being any special factor which has been approved by the FSC, companies participating in the merger, spin-off or acquisition shall convene the meeting of the board of directors and the shareholders meeting on the same day to adopt the resolution on the matters in connection with the proposed merger, spin-off or acquisition. Except as otherwise provided by law or there being any special factor which has been approved by the Financial Supervisory Commission, companies participating in the assignment of shares shall convene the meeting of the board of directors on the same day.

Companies participating in the merger, spin-off, acquisition or assignment of shares whose stocks are traded on the stock exchange or the over-the-counter market shall maintain complete written record on the following materials and keep the same for a term of five years.

2.1.1 Basic personal information: including all personnel who participate in the execution of the merger, spin-off, acquisition or assignment of shares before the relevant information was publicly released, including their titles, names, and identification card (or passport) number.

2.1.2 Dates of important matters including, among others, execution of the relevant memorandum of intent (MOI) or memorandum of understanding (MOU), engagement of financial or legal counsel, execution of the relevant contract(s) and the date of the relevant meeting of the Board of Directors.

2.1.3 Important documents and meeting records on, among others, the proposed merger, spin-off, acquisition or assignment of shares, and the relevant MOI or MOU, important contract(s) and minutes of the relevant meeting of the Board of Directors.

Companies participating in the merger, spin-off, acquisition or assignment of shares, whose stocks are traded on the stock exchange or the over-the-counter market shall each, within two days from the date following the adoption of the relevant resolution by the meeting of their Board of Directors, make a report online of the information provided in subparagraphs 1 and 2 of the preceding paragraph in the required form and substance to the Financial Supervisory Commission.

Companies participating in the merger, spin-off, acquisition or assignment of shares, whose stocks are traded on the stock exchange or the over-the-counter market shall enter into the relevant agreement with companies participating in the merger, spin-off, acquisition or assignment of shares, whose stocks are not traded on the stock exchange or the over-the-counter market (if any) and make the report provided in the two preceding paragraphs.

## 2.2 Prior non-disclosure agreement:

All persons who participate in or have knowledge about the Company's project of merger, spin-off, acquisition or assignment of shares shall each sign a non-disclosure agreement to undertake that they will not externally disclose the project before the Company makes the relevant public disclosure and that they will not buy or sell any stocks or equity securities of any company involved in the proposed merger, spin-off, acquisition or assignment of shares, either in their own name or using any other person's name to do so.

## 2.3 Determination and change of the proposed swap ratio or acquisition price:

Each participant company shall seek the opinion of the certified public accountant, legal counsel or underwriter with respect to the acceptability of the proposed swap ratio, acquisition price, or cash or other property to be distributed to shareholders before the meetings of Board of Directors, then submit the same to the Shareholders Meeting. Basically, neither the swap ratio nor the acquisition price shall be changed except in case of the conditions for a change provided in the contract (if any) and such conditions have been publicly disclosed. The swap ratio or acquisition price may be changed in the event of any of the following:

2.3.1 The subject securities are issued for capital increase, issuance of convertible bonds, stock grant, and issuance of corporate bond with stock option, issuance of preferred shares with stock option, issuance of share warrant certificates or other equity securities.

2.3.2 Any of the participant companies has done any act that may affect the financial operation of the company such as disposal of its material assets.

2.3.3 The shareholders' equity or securities price of any of the participant companies has been affected by, among others, a major disaster or material technical change.

2.3.4 Any of the participant companies has adjusted legal buy-back of treasury stocks.

2.3.5 The principal participant companies or the number of participant companies has changed.

2.3.6 The contract has provided the other conditions for changes and such conditions have been publicly disclosed.

## 2.4 Provision of the contract:

The contract on the proposed merger, spin-off, acquisition or assignment of shares shall provide the matters set forth below, except those in accordance with the provision of Article 317-1 of the Company Act and Article 22 of the Business Merger Act:

2.4.1 Handling of defaults.

2.4.2 The procedure for issuance of equity securities or buy-back of treasury shares adopted by the company to extinct as a result of the proposed merger or to spin off.

2.4.3 The amount of treasury stocks the participant company may legally buy back after the swap ratio record date and such company's procedure therefore.

2.4.4 Ways to handle matters arising from a change of the principal participant company or the number of participant companies.

2.4.5 The schedule for executing the project and the scheduled date of completion.

2.4.6 Procedure for handling relevant matters and the date to duly convene the relevant Shareholders Meeting in case the project is not completed as scheduled.

2.5 Change of the participant companies:

Where, after any of the companies participating in the proposed merger, spin-off, acquisition or assignment of shares has publicly disclosed the information, there is another company to participate in the proposed merger, spin-off, acquisition or assignment of shares, the original participant companies each shall re-new all relevant proceedings or legal acts except in the case of there being reduction in the number of the original participant companies and the Board of Directors is authorized to act accordingly by the resolution of the Shareholders Meeting.

2.6 The Company shall enter into an agreement with the participant company which is not a public company and set the date to convene the relevant meeting of the Board of Directors, execute the prior non-disclosure agreement, and act accordingly in consideration of the change of the participant companies in accordance with paragraphs 2.1, 2.2 and 2.5 of this Article.

## **Article 15 Procedure for public disclosure reports**

1. Matters which should be reported for public disclosure and the relevant standards

1.1 Acquisition of real property, or disposal of properties with, related parties, or acquisition of non-property assets from, or disposal of non-property assets with, related parties with the trading value exceeding 20% of the company's paid-in capital or 10% of total assets, or NT\$300 million. However, trading in government bonds or bonds with repurchase and resale agreements, or subscription or repurchase of money market funds by domestic securities investment trust enterprises and subscription or redemption of domestic money-market funds are not included.

1.2 Merger, spin-off, acquisition or assignment of shares.

1.3 The amount of loss incurred from the derivatives transaction exceeds the limit on loss from all contracts or the relevant individual contract provided in the relevant handling procedure.

1.4 Assets transactions or disposals of credit claims in financial institutions or investment in PRC other than those provided in the preceding three subparagraphs, the transaction value of which amounts to 20% of the paid-in capital of the Company or TWD300 million each, except for these transactions:

1.4.1 The transaction is the purchase or sale of government bonds.

1.4.2 The transaction is for investment purposes only of securities traded on local or foreign stock exchange or over-the-counter market or obtaining of securities by securities firms on the primary market.

1.4.3 The subject asset to be acquired or disposed of is bond with re-purchase, re-sale agreements. Subscription to and redemption of domestic money-market funds

1.4.4 The subject asset to be acquired or disposed of is equipment for business use and the transaction counterpart is a non-related party and the transaction value is less than TWD500 million.

1.4.5 The subject real property is to be acquired or disposed of by the construction business

division of the Company for construction use and the transaction counterpart is a non-related party and the transaction value is less than TWD500 million.

1.4.6 The subject real property to be acquired is a building is to be constructed on a self-owned land, leased land, jointly constructed and shared by units, jointly constructed and shared by percentage, jointly constructed and sold by units and the anticipated transaction value is less than TWD500 million.

1.5 The transaction value provided in previous paragraph 1.5 above shall be calculated as follows, where within one year means within the year immediately preceding the date of occurrence of the proposed transaction, excluding the items which have been publicly disclosed.

1.5.1 The value of each transaction.

1.5.2 The total value of the property of the same nature acquired from or transferred to the same transaction counterpart within one year.

1.5.3 The total value of the real property under the same development project acquired or disposed of within one year (the sum acquired and the sum disposed of shall be calculated separately).

1.5.4 The total value of the same specific securities acquired or disposed of within one year (the sum acquired and the sum disposed of shall be calculated separately).

1.6 The calculation for 10% of total assets, as referred in the handling procedure, is based on the sum of assets included in recent alone-basis financial reports, formulated according to the "Regulations Governing the Preparation of Financial. For stocks without par value or with par value other than NT\$10, the calculation of 20% of paid-in capital for transaction value, as referred in the procedure, is based on 10% of the owner's equity of the parent firm.

## 2. Time period for making public disclosure

If the acquisition or disposal of assets involves any item which should be published pursuant to paragraph 1 of this Article and the transaction value meets the public disclosure standards provided in this Article, the Company shall make a public disclosure on such acquisition or disposal of assets within two days following the date of occurrence of such transaction.

## 3. Procedure for making public disclosure

3.1 The Company shall cause the relevant information publicly disclosed on the website designated by the Financial Supervisory Commission.

3.2 The Company shall on a monthly basis make a report on the derivatives transactions conducted in the month by itself and its local subsidiaries which are not public companies on the website designated by the FSC in the form and substance required by the tenth day the following month.

3.3 The Company shall renew the entire public disclosure report in case the public disclosure report made contains any error or omission.

3.4 The Company shall keep all agreements, meeting minutes, reference record book, appraisal report, opinions of the certified public account, legal counsel or underwriter in the Company relating to the acquisition or disposal of any asset for a term of at least five years except as otherwise provided by law.

3.5 In the event of any of the following after submitting the public disclosure report in accordance with the preceding paragraph, the Company shall, within two days following the occurrence of such event, publicly disclose the relevant information on the website designated by the Financial Supervisory Commission:

3.5.1 There is change to the relevant original signed agreement(s) or the original signed agreement(s) is terminated or rescinded.

3.5.2 The proposed merger, spin-off, acquisition or assignment of shares is not completed as scheduled under the relevant agreement.

3.5.3 There are changes for the original reporting.

#### Article 16

The Company shall cause all subsidiaries to act in accordance with the following:

1. The subsidiaries of the Company each shall prescribe their own rules for acquisition or disposal of assets pursuant to the Regulations Governing the Acquisition or Disposal of Assets by Public Companies.

2. For a subsidiary of the Company which is not a public company, if the acquisition or disposal of asset by such subsidiary meets the public disclosure standards provided in the paragraph 1 of Article 15, the Company shall make the relevant public disclosure report for such subsidiary.

3. The “amounts to 20% of the paid-in capital of the company or 10% of the total assets” provided in the public disclosure standards applicable to the subsidiaries of the Company means the paid-in capital of the Company.

#### Article 17 Penalty

Any employee of the Company who has handled acquisition or disposal of asset for the Company in breach of these Rules shall be subject to periodical evaluation according to the personnel administration rules and employees handbook and punished according to the degree of severity of the breach.

#### Article 18 Implementation and amendment

Subject to the approval by the meeting of the Board of Directors, the Board of Directors shall submit the Procedure for Acquisition or Disposal of Assets and all subsequent amendment thereto to Audit Committee and to the Shareholders Meeting for approval. Opposition expressed by the Director with written record thereof taken or in writing shall be submitted to Audit Committee. Opinion expressed by the Independent Director (if any) at the relevant meeting of the Board of Directors on the Procedure for Acquisition or Disposal of Assets shall be sufficiently considered. Opposition or qualified opinion expressed by Independent Directors shall be clearly indicated in the minutes of the Board of Directors.

#### Article 19

This Procedure was established on 11 August 1989 and subsequently amended as follows:  
the first amendment on 30 September 1991;  
the second amendment on 26 June 1995;  
the third amendment on 28 April 1997;  
the fourth amendment on 28 October 1999;

the fifth amendment on 6 June 2003;  
the sixth amendment on 13 June 2007;  
the seventh amendment on 15 June 2012.  
the eighth amendment on 21 June 2013.  
and the ninth amendment on 23 June 2014.

TECO Electric & Machinery Co., Ltd.  
**Shareholding of All Directors**

1. Types and number of issued shares: common stocks, 2,002,692,886 shares in total.
2. Minimum required shareholding by all Directors: 48,064,629 shares (Note)
3. Minimum required shareholding by all Supervisors: Not Applicable (Already set up Audit Committee)
4. The total shareholding of all Directors meets the minimum shareholding requirement.

Period of suspension of share transfer: April 18 2017 ~ June 16 2017

Title	Name	Date elected (yy.mm.dd)	Term of office	Shareholding when elected		Number of shares held recorded in the shareholders roster as of the date of suspension of share transfer	
				Number of shares held	%	Number of shares held	%
Chairman	Tung Kuang Investment Co., Ltd. Representative: Chwen-Jy, Chiu	20150611	3yrs	30,341,364	1.52%	30,341,364	1.52%
Managing Director	Tong Ho Gloabl Investment Co., Ltd Representative: Chao-Kai, Liu	20150611	3yrs	2,240,262	0.11%	2,240,262	0.11%
Managing Director	Cheng-Tsung, Huang	20150611	3yrs	15,279,849	0.76%	15,279,849	0.76%
Managing Director	Creative Sensor Inc. Representative: Yu-Ren, Huang	20150611	3yrs	10,000,000	0.50%	10,000,000	0.50%
Managing & Independent Director	Chien-Yuan, Lin (note)	20150611	3yrs	0	0	0	0
Independent Director	Jing-Shown, Wu	20150611	3yrs	0	0	0	0
Independent Director	Ting-Wong, Cheng (note)	20150611	2yrs	0	0	0	0
Director	Mao-Hsiung, Huang	20150611	3yrs	18,486,633	0.92%	18,486,633	0.92%
Director	Po-chih, Huang	20150611	3yrs	21,614,831	1.08%	21,614,831	1.08%
Director	Hsien-Sheng Kuo	20150611	3yrs	9,126,238	0.46%	9,126,238	0.46%
Director	Yaskawa Electric Corporation Representative: Hiroyuki Ougi	20150611	3yrs	29,541,089	1.48%	29,541,089	1.48%
Director	Kuang Yuan Industrial Co., Ltd. Representative: Shih-Chien, Yang	20150611	3yrs	22,033,919	1.10%	22,033,919	1.10%
Director	Tong Kuang Investment Co., Ltd. Representative: Hong-Hsiang, Lin	20150611	3yrs	30,341,364	1.52%	30,341,364	1.52%
Director	Lien Chang Electronic Co., Ltd. Representative: Ming-Feng, Yeh	20150611	3yrs	4,173,000	0.21%	4,173,000	0.21%
Director	Mao Yang Co., Ltd. Representative: Yung-Hsiang, Chang	20150611	3yrs	5,000,893	0.25%	5,000,893	0.25%
Total number of shares held by all Directors				167,838,078	8.38%	167,838,078	8.38%

Note: According to Article 2 of "Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies", if there are two or more independent directors elected, the minimum shareholding of all directors and supervisors, excluding independent directors, could drop to 80% of original requirement.

Note: Managing & Independent Director Tian-Jy, Chen resigned on May 12 2016, and Ting-Wong, Cheng was elected as Independent Director in by-election in Annual General Meeting on June 16, 2016. Independent Director Chien-Yuan, Lin was put forward as Managing Director on June 16, 2016.

# TECO Electric & Machinery Co., Ltd.

## Notes

1. Impact on Company's business performance, EPS and ROI from the stock grant proposed by Shareholders Meeting: Not applicable.
2. Information on proposals submitted to the shareholders' meeting
  - a. According to article 172-1 of the Company Law, shareholders with over 1% holding of total shares issued can submit only one written proposal, containing up to 300 words, to shareholders' meeting.
  - b. Shareholders can put forth proposals to the shareholders' meeting during April 7-18, 2017, which had been posted on the Market Observation Post System of the Taiwan Stock Exchange, according to law.
  - c. The company didn't receive any proposal from shareholders during the period
3. Information on nomination submitted to the shareholders' meeting: Not applicable.