

ITEQ CORPORATION

Procedures for the Acquisition or Disposal of Assets

Chapter I General Provisions

I. Purpose and legal basis

These Procedures are formulated in accordance with the provisions of Article 36-1 of the Taiwan Securities and Exchange Act and “Regulations Governing the Acquisition and Disposal of Assets by Public Companies” in order to strengthen asset management and implement information disclosure in practice.

II. Unless otherwise provided by laws and regulations, ITEQ Corporation (hereinafter referred to as “the Corporation”) shall follow the provisions of these Procedures to acquire or dispose of assets.

III. The term “assets” as used in these Procedures includes the following:

- (I) Investments in stocks, government bonds, corporate bonds, financial bonds, securities representing interest in a fund, depositary receipts, call (put) warrants, beneficial interest securities, and asset-backed securities.
- (II) Real property (including land, house and building, investment property, and construction enterprise inventory) and equipment.
- (III) Memberships.
- (IV) Patents, copyrights, trademarks, franchise rights, and other intangible assets.
- (V) Right-of-use assets.
- (VI) Derivatives.
- (VII) Assets acquired or disposed of in connection with mergers, demergers, acquisitions, or share transfer in accordance with law.
- (VIII) Other major assets.

IV. Appraisal procedures:

- (I) The finance and accounting departments shall conduct analyses of relevant benefits and assess possible risks regarding the Corporation’s acquisition or disposal of long-term and short-term securities, or engagement in derivatives trading; as for the acquisition or disposal of real property, or other right-to-use assets and other assets, relevant units shall draw up a capital expenditure plan to carry out feasibility assessment on the purpose of acquisition or disposal and the anticipated benefits; if it is a transaction with a related party, the reasonableness of the transaction conditions shall be evaluated in accordance with Chapter 2 of these Procedures.
- (II) The Corporation shall obtain the most recent period financial statements of the issuing company audited or reviewed by a certified public accountant (CPA) or other relevant information prior to the date of occurrence of the event, for reference in appraising the transaction price. If the transaction amount reaches 20% of the Corporation’s paid-in capital or NT\$300 million or more, the Corporation shall additionally engage a CPA to provide an opinion regarding the reasonableness of the transaction price prior to the date of occurrence of the event.

This requirement does not apply, however, to securities with publicly quoted prices in an active market or otherwise provided by regulations of the Financial Supervisory Commission (FSC).

- (III) If the Corporation acquires or disposes of real property, equipment or other right-to-use assets in a transaction amount of 20% or more of the Corporation's paid-in capital or NT\$300 million or more, the Corporation shall obtain an appraisal report from a professional appraiser prior to the date of occurrence of the event, and shall follow the asset appraisal procedures set forth in these Procedures.
- (IV) The calculation of the transaction amounts referred in the preceding two paragraphs shall be done in accordance with Article 6, paragraph 2, subparagraph 4 of these Procedures, and "within the preceding year" thereof refers to the year preceding the date of occurrence of the current transaction. Items for which appraisal reports from professional appraisers or CPA's opinions have been obtained in accordance with these procedures need not be counted toward the transaction amount.
- (V) In the event of a merger, demerger, acquisition or transfer of shares, prior to convening a resolution meeting of the Board of Directors, the Corporation shall engage a CPA, attorney or securities underwriter to express opinions on the reasonableness of the share exchange ratio, the acquisition price or the distribution of cash or other property to shareholders and submit it to the Board of Directors for discussion and approval. However, the Corporation's merger of its subsidiaries in which the Corporation directly or indirectly holds 100% of their issued shares or authorized capital, or mergers between the Corporation's subsidiaries in which the Corporation directly or indirectly holds 100% of the issued shares or authorized capital, are exempted from obtaining reasonableness opinions issued by the foregoing experts.
- (VI) In addition to the reference of an aforesaid opinions given by a professional appraiser or a CPA, the means of price determination and supporting reference materials for the acquisition or disposal of assets are specified as follows:
 - a. The acquisition or disposal of securities traded on the centralized securities exchange market or OTC exchange is determined by the prevailing price of the shares or bonds at the time of the transaction.
 - b. When acquiring or disposing of securities not traded on the centralized securities exchange market or OTC exchange, the acquisition or disposition of said securities should take into account the net value per share, technology capability and profitability, future development potential, market interest rate, coupon rate of the bonds and debtor's credit status, etc., and should be determined by reference to the most recent transaction price at the time.
 - c. The acquisition or disposal of other right-to-use assets or memberships shall be determined by taking into account the benefits they can generate and the most recent transaction price at the time. The acquisition or disposal of intangible assets, such as patents, copyrights, trademarks and licenses, shall be determined by taking into account international or market practice, their useful life and their impact on the Corporation's technology and business.
 - d. The acquisition or disposal of real property and equipment shall be determined by reference to the announced present value, assessed present value, actual transaction price or book value of adjacent real property, and

quotations from suppliers. If the transaction is a related party transaction, the transaction price should be calculated in accordance with the method stipulated in Chapter 2 of these Procedures to assess whether the transaction price is reasonable.

- e. Derivatives trading should take into account the trading conditions of the futures market, exchange rate and interest rate trends, etc.
- f. Merger, demerger, acquisition or share transfers should take into account things, such as the nature of the business, net value per share, asset value, technology capability and profitability, production capacity and future growth potential, etc.

V. Operational procedures:

(I) Authorization limits and levels

- a. Securities: the Chairperson of the Board is authorized to make transactions within the limits set forth in Article 8 of these Procedures and must submit them to the next Board of Directors meeting for ratification if they reach the threshold requiring public announcement in Article 6. However, if the acquisition or disposal of stocks, corporate bonds, or private placement securities not traded on the centralized securities exchange market or OTC exchange, and the transaction amount reaches the threshold requiring public announcement, said acquisition or disposal should be approved by the Board of Directors beforehand. In addition, investment in mainland China area shall not be allowed until it is approved by the shareholders' meeting or authorized by the shareholders' meeting to be executed by the Board of Directors and approved by the Investment Commission, MOEA, Taiwan.
- b. Derivative Trading
 - (a) Hedge trading: according to the Corporation's turnover and changes in risk positions, the Chairperson of the Board shall designate personnel to transact the single or cumulative transaction position below US\$1 million (or equivalents in other currencies). The single or cumulative transaction position over US\$1 million (or equivalents in other currencies) shall be transacted upon approval of the Chairperson of the Board.
 - (b) Non-hedge trading: In order to reduce risks, any cumulative transaction position under US\$1 million or less (including the equivalent in other currencies) must be approved by the Chairperson of the Board. Transactions over US\$1 million can only proceed with the approval of the Board of Directors.
 - (c) The authorized traders shall be registered to the bank for compiling the bank's supervision and management.
 - (d) The derivatives trading conducted under the aforesaid authority shall be later reported to the next Board of Directors meeting.
- c. Related party transaction: relevant information shall be prepared in accordance with Chapter 2 of these Procedures, submitted to the Audit Committee for approval, and submitted to the Board of Directors for approval in order to proceed.

- d. Merger, demerger, acquisition, or transfer of shares: relevant procedures and preparation of relevant materials shall be handled in accordance with Chapter 4 of the Procedures, wherein mergers, demerger, acquisitions of shares shall be subject to the resolution of the shareholders' meeting before being carried out. However, other cases exempted from convening a shareholders' meeting for resolutions are not subject to this provision. In addition, share transfer shall be approved by the Board of Directors before being conducted.
- e. Others: the operating procedures specified in the internal control system and the approval authorization shall be followed. If the transaction amount reaches the threshold requiring public announcement in Article 6, except for the acquisition or disposal of machinery and equipment for business use, which may be reported to the Board of Directors for subsequent ratification, the transaction should be approved by the Board of Directors in advance. In the event that there are circumstances stipulated in Article 185 of the Company Act, they shall be resolved and adopted by the shareholders' meeting in advance.

(II) Implementation Units and Transaction Process

The Corporation's implementation units for long- and short-term investments in securities and derivative transactions are the finance and accounting departments and the persons designated by the Chairperson of the Board, while for real property and other assets, the implementation units are the using departments and the relevant responsible units; for merger, demerger, acquisition or share transfers, the Chairperson of the Board shall designate the corresponding implementation units. Upon the required appraisal of and the approval of the acquisition or disposal of assets, the implementation units shall proceed with the process of contract initiation, payments, consignment, inspection and acceptance, and handle them, depending on the nature of the assets, with the related operational processes under the Corporation's internal control system. Meanwhile, related party transactions, derivatives trading, and merger, demerger, acquisition or transfer of shares shall be carried out in accordance with the provisions of Chapters 2 through 4 of these Procedures.

VI. Procedures for public disclosure of information:

- (I) If the Corporation acquires or disposes of assets under any of the following circumstances, the Corporation shall, in accordance with the nature and format of the regulations, disclose the relevant information on the website designated by the FSC within 2 days counting inclusively from the date of occurrence of the event.
 - a. Acquisition or disposal of real property or right-to-use assets from or to a related party, or assets other than real property or right-to-use assets with a related party whose transaction amount reaches 20% of the Corporation's paid-in capital, 10% of its total assets, or NT\$300 million or more; provided, this shall not apply to trading of domestic government bonds or bonds under repurchases and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises.
 - b. Engagement in merger, demerger, acquisition, or transfer of shares.
 - c. Losses from derivative transactions amounting to the upper limit of all or individual contract losses specified in Article 15, paragraph 4 of Chapter 3 of these Procedures.

- d. Acquisition or disposal of equipment for business use or right-to-use assets, where the transaction is not with a related party, and the transaction amount reaches NT\$500 million or more.
 - e. Where the real property is acquired under an arrangement on engaging others to build on the Corporation's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and furthermore the transaction counterpart is not a related party, and the amount the Corporation expects to invest in the transaction reaches NT\$500 million.
 - f. Where an asset transaction other than any of those referred to in the preceding five subparagraphs, or an investment in the mainland China area reaches 20% or more of the Corporation's paid-in capital or NT\$300 million; provided, this shall not apply to the following circumstances:
 - (a) Trading of domestic government bonds or foreign government bonds with credit ratings not lower than the sovereign rating of Taiwan.
 - (b) Trading of bonds under repurchase/resale agreements or subscription or redemption of domestic money market funds issued by securities investment trust enterprises.
- (II) The amount of transactions above shall be calculated as follows:
- a. The amount of any individual transaction.
 - b. The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same transaction counterpart within the preceding year.
 - c. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of real property or right-of-use assets thereof within the same development project within the preceding year.
 - d. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.
- “Within the preceding year” as used in the preceding paragraph refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies” need not be counted toward the transaction amount.
- (III) The Corporation shall compile monthly reports on the status of derivatives trading engaged in up to the end of the preceding month by the Corporation and any subsidiaries that are not domestic public companies and enter the information in the prescribed format of the attached table into the information reporting website designated by the FSC by the 10th day of each month.
- (IV) When the Corporation at the time of public announcement makes an error or omission in items required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety within two days counting inclusively from the date of knowing of such error or omission.

- (V) Where any of the following circumstances occurs with respect to a transaction that the Corporation has already publicly announced and reported in accordance with paragraphs 1, 3 and 4 of this Article, a public report of relevant information shall be made on the information reporting website designated by the FSC within 2 days counting inclusively from the date of occurrence of the event:
- a. Change, termination, or rescission of a contract signed in regard to the original transaction.
 - b. The merger, demerger, acquisition, or transfer of shares is not completed by the scheduled date set forth in the contract.
 - c. Change to the originally publicly announced and reported information.

VII. Procedures for appraisal of assets:

In acquiring or disposing of real property, equipment, or right-of-use assets thereof where the transaction amount reaches 20% of the Corporation's paid-in capital or NT\$300 million or more, the Corporation, unless transacting with a domestic government agency, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of equipment or right-of-use assets thereof held for business use, shall obtain an appraisal report prior to the date of occurrence of the event from a professional appraiser and shall further comply with the following provisions. However, court documents can be substituted for said appraisal report or opinions issued by a CPA if said assets are acquired or disposed of through court auction.

- (I) Where due to special circumstances it is necessary to give a limited price, specified price, or special price as a reference basis for the transaction price, the transaction shall be submitted for approval in advance by the Board of Directors; the same procedure shall also be followed whenever there is any subsequent change to the terms and conditions of the transaction.
- (II) Where the transaction amount is NT\$1 billion or more, appraisals from two or more professional appraisers shall be obtained.
- (III) Where any one of the following circumstances applies with respect to the professional appraiser's appraisal results, unless all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be disposed of are lower than the transaction amount, a CPA shall be engaged to render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:
 - a. The discrepancy between the appraisal result and the transaction amount is 20% or more of the transaction amount.
 - b. The discrepancy between the appraisal results of two or more professional appraisers is 10% or more of the transaction amount.
- (IV) No more than 3 months may elapse between the date of the appraisal report issued by a professional appraiser and the contract execution date; provided, where the publicly announced current value for the same period is used and not more than 6 months have elapsed, an opinion may still be issued by the original professional appraiser.

VIII. Scope and amount limits to investment:

In addition to acquiring assets for business use, the Corporation and its subsidiaries may

acquire or dispose of real property and securities that are not for business use, subject to the following amount limits, respectively. For participating in the investment in establishing or serves as a Director of the Board and intends to hold the securities for a long period of time need not be counted.

- (I) Where the total amount of real property acquired or disposed of not for business use shall not exceed 20% of the Corporation's net value, and the total amount of real property purchased by each subsidiary of the Corporation not for business use shall not exceed 10% of the Corporation's net value.
- (II) Where the total amount of securities acquired or disposed of shall not exceed 40% of the Corporation's net value, and the total amount of securities invested by each subsidiary of the Corporation shall not exceed 20% of the Corporation's net value.
- (III) Where the limit on the acquisition or disposition of individual securities shall not exceed 20% of the Corporation's net value, except for subsidiaries 100% owned by the Corporation, and the limit on the acquisition or disposition of individual securities by each subsidiary of the Corporation shall not exceed 10% of the Corporation's net value.

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

- (I) These Procedures also apply to a subsidiary in which the Corporation holds its voting shares or contributes capital in excess of one-half of the total number of issued voting shares or one-half of its capital.
- (II) The Corporation's subsidiaries shall report to the Corporation in writing by the fifth day of each month any derivative transactions engaged in as of the end of the previous month.
- (III) If a subsidiary of the Corporation is not a public company and the assets it acquires or disposes of reaches the threshold requiring public announcement, it should notify the Corporation within the date of occurrence of the event, and the Corporation shall make an announcement and report on the designated website in accordance with the regulations.
- (IV) The exchange rate for these Procedures is 1:5 for RMB to NTD, and other currencies are subject to the exchange rate announced by the local bank on the date of transaction event.

X. Penalties:

In the event that the Corporation's personnel involved in the acquisition or disposal of assets violate the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" or these Procedures, the Corporation shall deal with it by the following rules depending on the circumstances of the violation. The violation will be recorded and used for annual personal performance evaluation.

- (I) Violation of the approval authorization: the first breach shall be treated with an oral warning. The re-offender shall be given a written warning and made to participate in the internal control training course within the Corporation. Those who are recidivist or made serious mistakes shall be transferred.
- (II) Violation of the assessment process: the first breach shall be treated with an oral warning. The re-offender shall be given a written warning and made to participate in the internal control training course within the Corporation. Those who are recidivist or made serious mistakes shall be transferred.

- (III) Non-compliance of public announcement: the first breach shall be treated with an oral warning. The re-offender shall be given a written warning. Those who are recidivists or made serious mistakes shall be transferred.
- (IV) The superior supervisor of a person who violates rules shall also receive penalties. However, if it can be reasonably explained that all precautions have been taken, the rule does not apply.
- (V) If the Board of Directors or a Director violates the relevant regulations and the resolutions of the shareholders' meeting, the Audit Committee shall notify the Board of Directors or said Director to cease its/his/her conduct in accordance with Article 218-2 of the Company Act.

Chapter II Related Party Transactions

XI. Basis of recognition:

- (I) When the Corporation engages in any acquisition or disposal of assets from or to a related party, in addition to ensuring that the necessary resolutions are adopted and the reasonableness of the transaction terms is appraised, if the transaction amount reaches 10% or more of the Corporation's total assets, the Corporation shall also obtain an appraisal report from a professional appraiser or a CPA's opinion in compliance with the provisions of the preceding Chapter.
- (II) The calculation of the transaction amount referred to in the preceding paragraph shall be made in accordance with Article 4, paragraph 4 herein.
- (III) The recognition of related parties and subsidiaries is defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers. When judging whether a transaction counterpart is a related party, in addition to legal formalities, the substance of the relationship shall also be considered.

XII. Resolution procedure:

When the Corporation intends to acquire or dispose of real property or right-of-use assets thereof from or to a related party, or when it intends to acquire or dispose of assets other than real property or right-of-use assets thereof from or to a related party and the transaction amount reaches 20% or more of the Corporation's paid-in capital, 10% or more of the Corporation's total assets, or NT\$300 million or more, except in trading of domestic government bonds or bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises, the Corporation may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by the Audit Committee and then submitted to the Board of Directors for a resolution:

- (I) The purpose, necessity and anticipated benefit of the acquisition or disposal of assets.
- (II) The reason for choosing the related party as a transaction counterpart.
- (III) With respect to the acquisition of real property or right-of-use assets thereof from a related party, information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with Article 13 and Article 14.
- (IV) The date and price at which the related party originally acquired the real property, the original transaction counterpart, and that transaction counterpart's relationship to the Corporation and the related party.

- (V) Monthly cash flow forecasts for the year commencing from the anticipated month of signing of the contract, and evaluation of the necessity of the transaction, and reasonableness of the funds utilization.
- (VI) An appraisal report from a professional appraiser or a CPA's opinion obtained in compliance with the preceding Article.
- (VII) Restrictive covenants and other important stipulations associated with the transaction.

With respect to the types of transactions listed below, when to be conducted between the Corporation and its parent or subsidiaries, or between its subsidiaries in which it directly or indirectly holds 100% of the issued shares or authorized capital, the Corporation's Board of Directors may pursuant to Article 5 delegate the Chairperson of the Board to decide such matters when the transaction is within a certain amount and have the decisions subsequently submitted to and ratified by the next Board of Directors meeting:

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

Where the Corporation or its subsidiaries that is not a domestic public company engages in any transaction listed in the first paragraph and the transaction amount is 10% or more of the Corporation's total assets, the Corporation shall submit all the information listed in paragraph 1 to the shareholders' meeting for approval before signing the transaction contract and making the relevant payment. However, this shall not apply to transactions between the Corporation and its subsidiaries or between its subsidiaries.

Transaction amounts referred to in the first paragraph and the preceding paragraph shall be calculated in accordance with the provisions in paragraph 2 of Article 6, and "within the preceding year" thereof refers to the year preceding the date of occurrence of the current transaction. Items that have been submitted to the shareholders' meeting, Audit Committee, and Board of Directors for approval in accordance with the provisions of these Procedures need not be counted toward the transaction amount.

XIII. Appraisal of the reasonableness of transaction terms:

Except for one of the following circumstances, the Corporation acquiring real property or right-of-use assets thereof from a related party shall evaluate the reasonableness of the transaction costs by the following means, and shall also engage a CPA to check the appraisal and render a specific opinion: where the related party acquired the real property or right-of-use assets thereof through inheritance or as a gift; where more than 5 years will have elapsed from the time the related party signed the contract to obtain the real property or right-of-use assets thereof to the signing date for the current transaction; where the real property is acquired through signing of a joint development contract with the related party, or through engaging a related party to build real property, either on the Corporation's own land or on rented land; or where the real property right-of-use assets for business use are acquired by the Corporation with its subsidiaries, or by its subsidiaries in which it directly or indirectly holds 100% of the issued shares or authorized capital.

- (I) Based upon the related party's transaction price plus necessary interest on funding and the costs to be duly borne by the buyer. "Necessary interest on funding" is imputed as the weighted average interest rate on borrowing in the year the Corporation purchases the property; provided, it may not be higher than the maximum non-financial industry lending rate announced by the Ministry of

Finance.

- (II) Total loan value appraisal from a financial institution where the related party has previously created a mortgage on the property as security for a loan; provided, the actual cumulative amount loaned by the financial institution shall have been 70% or more of the financial institution's appraised loan value of the property and the period of the loan shall have been 1 year or more. However, this shall not apply where the financial institution is a related party of one of the trading counterparties.
- (III) Where land and structures are combined as a single property purchased or lease in one transaction, the transaction costs for the land and the structures may be separately appraised in accordance with either of the means listed in the preceding subparagraph 1 and 2.

XIV. Matters to be handled when the appraised transaction cost is lower than the transaction price:

When the results of the appraised transaction cost conducted in accordance with the preceding Article are uniformly lower than the transaction price, the matters shall be handled in compliance with Article 3. However, where the following circumstances exist, objective evidence may be submitted, and specific opinions on reasonableness may be obtained from a professional real property appraiser and a CPA, this restriction shall not apply:

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

Completed transactions involving neighboring or closely valued parcels of land in the preceding paragraph in principle refers to parcels on the same or an adjacent block and within a distance of no more than 500 meters or parcels close in publicly announced current value; transactions involving similarly sized parcels in principle refers to transactions completed by unrelated parties for parcels with a land area of no less than 50% of the property in the planned transaction; within the preceding year refers to the

year preceding the date of occurrence of the acquisition of the real property or obtainment of the right-of-use assets thereof.

Where the Corporation acquires real property or right-of-use assets thereof from a related party and the results of the appraised transaction cost conducted in accordance with the preceding Article are uniformly lower than the transaction price in the absence of the circumstances mentioned in paragraph 1 of this Article, the following steps shall be taken:

- (I) A special reserve shall be set aside according to Article 41, paragraph 1 of the Securities and Exchange Act against the difference between the real property transaction price and the appraised cost, and may not be distributed or used for capital increase or issuance of bonus shares. Where the Corporation has set aside a special reserve under the preceding subparagraph, the Corporation shall not utilize said special reserve until it has recognized a loss or decline in market value of the assets it purchased at a premium, or they have been disposed of, or the leasing contract has been terminated, or adequate compensation has been made, or the status quo ante has been restored, or there is other evidence confirming that there was nothing unreasonable about the transaction, and the competent authority has given its consent.
- (II) Audit Committee shall comply with Article 218 of the Company Act.
- (III) Actions taken pursuant to the subparagraph 1 and 2 shall be reported to a shareholders' meeting, and the details of the transaction shall be disclosed in the annual report and any investment prospectus.

Chapter III Control of Derivatives Trading

XV. Trading principles and strategies:

- (I) Transaction type: the Corporation may engage in the types of derivatives, including forward contracts, options, interest rate swap and cross currency swap, futures, and composite contracts of the above-mentioned derivatives. Trading of any other type of derivatives shall be approved by the Board of Directors in advance.
- (II) Operating or hedging strategies: the Corporation engages in derivatives trading for the purpose of "hedging." Its strategies shall be primarily aimed at hedging operational risks, and the selection of trading derivatives shall be based on hedging the risk of foreign exchange income, expenses, assets or liabilities arising from the Corporation's business operations. Moreover, financial institutions doing business with the Corporation shall be prioritized as the counterpart of the derivatives trading to avoid the occurrence of credit risks. The type of derivatives trading must be clearly defined as a hedge or a financial operation in pursuit of investment income before trading, on which it is based for accounting record.
- (III) Trading amount limit:
The total amount of derivatives trading contracts entered into by the Corporation does not exceed, in principle, the Corporation's foreign currency requirements for six months. Additional written petition for any special requirement of derivatives trading must be submitted to the Chairperson of the Board for approval in order to proceed.
- (IV) Maximum loss limit on total trading and for individual contracts.
The Corporation shall engage in derivatives trading for hedging purposes, and

hedge trades shall be engaged in response to the Corporation's actual needs and the risks to which they are exposed shall be in accordance with the following provisions:

- a. After derivatives trading positions are held, a stop loss point should be set to prevent excess losses. The stop loss point shall be set at an upper limit of 10% of the trading contract amount. If the loss amount exceeds 10% of the trading amount, it shall be reported to the Chairperson of the Board immediately and subsequently reported to the Board of Directors to deliberate on necessary countermeasures.
- b. The maximum amount of loss for an individual trading contract shall not exceed 10% of said trading contract amount.

(V) Segregation of duties

- a. Trading personnel: a Corporation's personnel for derivatives trading, who is designated by the Chairperson of the Board. He/She shall be responsible for the formulation of trading strategies, execution of orders, disclosure of future trading risks, and provision of real-time information to the relevant departments for reference within the scope of the authorization.
- b. Accounting department: it shall be responsible for confirming transactions, recording them in accordance with relevant regulations, maintaining transaction records, regularly evaluating the fair market value of the derivatives trading positions held, and providing them to the designated trading personnel, and disclosing the related matters of derivatives in the financial statements.
- c. Finance department: it shall be responsible for the settlement of derivatives trading.

(VI) Essentials of performance evaluation

- a. Hedge trading: the performance shall be evaluated on the basis of both the cost of currency exchange (interest) rate in the Corporation's books and the gain or loss arising from engaging in derivatives financial trading. The performance shall be evaluated at least twice per month and presented to the management for reference.
- b. Trading for specific purpose
The performance shall be evaluated on the basis of actual gain or loss arising from the trading. The performance shall be evaluated at least once per month and presented to the management for reference.

XVI. Risk management measures:

When engaging in derivatives trading, the Corporation's scope of risk management and the risk management measures thereto are as follows:

- (I) Credit risk consideration: financial institutions and futures brokers with a good reputation for providing professional information are selected as counterparties for trading.
- (II) Market risk consideration: as losses arising from derivatives' market price fluctuations in the future are uncertain, once the position is established, the stop loss point shall be strictly observed.

- (III) Liquidity risk consideration: to ensure the liquidity of derivatives, the trading body must have sufficient equipment, information, trading capacity, and be able to trade in any market.
- (IV) Operational risk consideration: authorization trading amount limits and operational procedures must be followed to avoid operational risks.
- (V) Legal risk consideration: any contractual documents signed with financial institutions should, as far as possible, use international standardized documents to avoid legal risks.
- (VI) Derivatives risk consideration: an internal trading personnel should have complete and correct expertise in derivatives traded to avoid losses due to misuse of derivatives.
- (VII) Cash settlement risk consideration: the authorized trading personnel shall strictly comply with the requirements within the authorized trading amount, and not only that, he/she shall pay attention usually to the Corporation's cash flow to ensure that sufficient cash is available for payment at the time of settlement.
- (VIII) Personnel engaged in derivatives trading may not serve concurrently in other operations such as confirmation and settlement.
- (IX) Personnel in charge of confirmation shall regularly perform reconciliation or confirmation with the bank with which the Corporation does business, and constantly certify that the aggregated trading amount does not exceed the limits regulated in these Procedures.
- (X) Risk measurement, monitoring, and control personnel shall be assigned to a different department than the personnel in the subparagraph 1 and shall report to the Board of Directors or senior management with no responsibility for trading or position decision-making.
- (XI) Derivatives trading positions held shall be evaluated at least once per week; however, positions for hedge trades required by business shall be evaluated at least twice per month. Evaluation reports shall be submitted to senior management (Note: senior management not from executive units should be designated.) authorized by the Board of Directors.

XVII. Internal audit system:

- (I) The Corporation's internal audit personnel shall periodically make a determination of the suitability of internal controls on derivatives and conduct a monthly audit of how faithfully derivatives trading by the trading department adheres to the procedures for engaging in derivatives trading and prepare an audit report. If any material violation is discovered, it should be reported immediately to the Chairperson of the Board and senior management designated by the Board of Directors, and each Independent Director of the Board shall be notified in writing.
- (II) The Corporation's internal audit personnel shall include derivatives trading in the audit plan and report the implementation of the previous year's audit plan to the competent authority by the end of February; in addition, the improvement in irregular circumstances shall be reported to the competent authority for future reference no later than the end of May.

XVIII. Regular evaluation methods and the handling of irregular circumstances:

- (I) Derivatives trading shall be regularly evaluated on a monthly or weekly basis, and the gain and loss for the month or week and the open positions of non-hedging trading shall be compiled and presented to senior management authorized by the Board of Directors and the Chairperson of the Board for management performance evaluation and risk measurement purposes.
- (II) Senior management designated by the Corporation's Board of Directors shall monitor and control the risk of derivatives trading at all times. The Board of Directors shall also evaluate whether derivatives trading performance is consistent with established operational strategy and whether the risk undertaken is within the Corporation's permitted scope of tolerance.
- (III) Senior management authorized by the Board of Directors shall manage derivatives trading in accordance with the following principles:
 - a. Periodically evaluate whether the risk management measures currently employed are appropriate and faithfully conducted in accordance with the relevant provisions in the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" established by the competent authority and these Procedures for engaging in derivatives trading formulated by the Corporation.
 - b. When irregular circumstances are found in the course of supervising trading and gain/loss circumstances, appropriate measures shall be adopted and a report immediately submitted to the Board of Directors, which an Independent Director shall be present at the Board meeting and express an opinion.
- (IV) When engaging in derivatives trading, the Corporation shall establish a log book in which details of the types and amounts of derivatives trading engaged in, the Board of Directors approval dates, monthly or weekly evaluation reports, and regular assessments performed by the Board of Directors and senior management authorized by the Board of Directors shall be recorded.

Chapter IV Mergers and Consolidations, Splits, Acquisitions, and Assignment of Shares

- XIX. In the event of a merger, demerger, acquisition or transfer of shares, prior to convening a resolution meeting of the Board of Directors, the Corporation shall engage a CPA, attorney or securities underwriter to express opinions on the reasonableness of the share exchange ratio, the acquisition price or the distribution of cash or other property to the shareholders and submit it to the Board of Directors for discussion and approval.
- XX. Where the Corporation participates in a merger, demerger, acquisition, or transfer of shares, the Corporation shall prepare a public report to shareholders detailing important contractual content and matters relevant to the merger, demerger, or acquisition prior to the shareholders' meeting and include it along with the expert opinion referred to in the preceding Article when sending shareholders notification of the shareholders' meeting for reference in deciding whether to approve the merger, demerger, or acquisition. Provided, where a provision of another act exempts the Corporation from convening a shareholders' meeting to approve the merger, demerger, or acquisition, this restriction shall not apply. Where the shareholders' meeting of any one of the companies participating in a merger, demerger, or acquisition fails to convene or pass a resolution, or the proposal is rejected by the shareholders' meeting, the Corporation shall immediately publicly explain the reason, the follow-up measures, and the preliminary date of the next shareholders' meeting.

When participating in a merger, demerger, acquisition, or transfer of another company's shares, the Corporation shall prepare a full written record of the following information and retain it for 5 years for reference:

- (I) Basic identification data for personnel: including the occupational titles, names, and national ID numbers (or passport numbers in the case of foreign nationals) of all persons involved in the planning or implementation of any merger, demerger, acquisition, or transfer of another company's shares prior to disclosure of the information.
- (II) Dates of material events: including the signing of any letter of intent or memorandum of understanding, the hiring of a financial or legal advisor, the execution of a contract, and the convening of a Board of Directors meeting.
- (III) Important documents and minutes: including merger, demerger, acquisition, and share transfer plans, any letter of intent or memorandum of understanding, material contracts, and minutes of Board of Directors' meetings.

When participating in a merger, demerger, acquisition, or transfer of shares, the Corporation shall, within 2 days counting inclusively from the date of passage of a resolution by the Board of Directors, report (in the prescribed format and via Internet-based information system) the information set out in subparagraphs 1 and 2 of the preceding paragraph to the competent authority for recordation.

Where any of the companies participating in a merger, demerger, acquisition, or transfer of another company's shares is neither listed on an exchange nor has its shares traded on an OTC market, the Corporation shall sign an agreement with such company whereby the latter is required to abide by the provisions as set forth under paragraphs 2 and 3 of this Article.

XXI. When participating in a merger, demerger, or acquisition, the Corporation shall convene a Board of Directors meeting and shareholders' meeting on the day of the transaction to resolve matters relevant to the merger, demerger, or acquisition, unless another act provides otherwise or the competent authority is notified in advance and grants consent; when participating in a transfer of shares, the Corporation shall convene a Board of Directors meeting on the day of the transaction, unless another act provides otherwise or the competent authority is notified in advance and grants consent.

XXII. Share exchange ratio and acquisition price:

The share exchange ratio or acquisition price of a merger, demerger, acquisition, or transfer of shares shall not be arbitrarily altered unless under the below-listed circumstances:

- (I) Cash capital increase, issuance of convertible corporate bonds, or the issuance of bonus shares, issuance of corporate bonds with warrants, preferred shares with warrants, stock warrants, or other equity-based securities.
- (II) An action, such as a disposal of major assets, that affects the Corporation's financial operations.
- (III) An action, such as a major disaster or major change in technology, that affects shareholder equity or share price.
- (IV) An adjustment where any of the companies participating in the merger, demerger, acquisition, or transfer of shares from another company, buys back treasury stock.

- (V) An increase or decrease in the number of entities or companies participating in the merger, demerger, acquisition, or transfer of shares.
- (VI) Other terms/conditions that the contract stipulates may be altered and that have been publicly disclosed.

XXIII. Matters to be recorded in the contract regarding a merger, demerger, acquisition, or transfer of shares:

The contract for participation by the Corporation in a merger, demerger, acquisition, or transfer of shares shall record the rights and obligations of the companies participating in said merger, demerger, acquisition, or transfer of shares, the circumstances in which the share exchange ratio or the acquisition price may be changed as described in the preceding Article, and the following matters as well:

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

XXIV. Other matters to note when the Corporation participates in a merger, demerger, acquisition, or transfer of shares:

- (I) Every person participating in or privy to the plan for merger, demerger, acquisition, or transfer of shares shall issue a written undertaking of confidentiality and may not disclose the content of the plan prior to public disclosure of the information and may not trade, in their own name or under the name of another person, in any stock or other equity security of any company related to the plan for merger, demerger, acquisition, or transfer of shares.
- (II) After public disclosure of the information, if any company participating in the merger, demerger, acquisition, or share transfer intends further to carry out a merger, demerger, acquisition, or share transfer with another company, all of the participating companies shall carry out anew the procedures or legal actions that had originally been completed toward the merger, demerger, acquisition, or share transfer; except that where the number of participating companies is decreased and a participating company's shareholders' meeting has adopted a resolution authorizing the Board of Directors to alter the limits of authority, such participating company may be exempted from calling another shareholders meeting to resolve on the matter anew.
- (III) Where any of the companies participating in a merger, demerger, acquisition, or transfer of shares is not a public company, the Corporation shall sign an agreement with said non-public company whereby the latter is required to abide

by the provisions of Article 21 and the preceding two subparagraphs of this Article.

Chapter V Other Material Matters

- XXV. Upon acquiring or disposing of assets, the Corporation shall keep all relevant contracts, meeting minutes, log books, appraisal reports and CPA, attorney, and securities underwriter opinions at the Corporation, where they shall be retained for 5 years except where another act provides otherwise.
- XXVI. Professional appraisers and their officers, CPAs, attorneys, and securities underwriters that provide the Corporation with appraisal reports, CPA's opinions, attorney's opinions, or underwriter's opinions shall meet the following requirements:

- (I) May not have previously received a final and unappealable sentence to imprisonment for 1 year or longer for a violation of the Act, the Company Act, the Banking Act of The Republic of China, the Insurance Act, the Financial Holding Company Act, or the Business Entity Accounting Act, or for fraud, breach of trust, embezzlement, forgery of documents, or occupational crime. However, this provision does not apply if 3 years have already passed since completion of service of the sentence, since expiration of the period of a suspended sentence, or since a pardon was received.
- (II) Shall not be a related party or de facto related party of any party to the transaction.
- (III) If the Corporation is required to obtain appraisal reports from two or more professional appraisers, the different professional appraisers or appraisal officers may not be related parties or de facto related parties of each other.

When issuing an appraisal report or opinion, the personnel referred to in the preceding paragraph shall comply with the self-regulatory rules of the industry associations they belong to and the following:

- (I) Prior to accepting a case, they shall prudently assess their own professional capabilities, practical experience, and independence.
 - (II) When executing a case, they shall appropriately plan and execute adequate working procedures, in order to produce a conclusion and use the conclusion as the basis for issuing the report or opinion. The related working procedures, data collected, and conclusion shall be fully and accurately specified in the case working papers.
 - (III) They shall undertake an item-by-item evaluation of the appropriateness and reasonableness of the sources of data used, the parameters, and the information, as the basis for issuance of the appraisal report or the opinion.
 - (IV) They shall issue a statement attesting to the professional competence and independence of the personnel who prepared the report or opinion, and that they have evaluated and found that the information used is reasonable and appropriate, and that they have complied with applicable laws and regulations.
- XXVII. Amendments to these Procedures and the Corporation's acquisition or disposal of asset in according to these Procedures or other regulations which are legally required to be approved by the Board of Director, if any Director expresses dissent and it is contained in the minutes or a written statement, the Corporation shall submit the Director's dissenting opinion to Audit Committee. The Board of Directors shall also take into full consideration each Independent Director's opinion. If an Independent Director objects to or expresses

reservations about any matter, it shall be recorded in the minutes of the Board of Directors meeting.

XXVIII. Prior to implementing these Procedures, said Procedures shall be approved by the Audit Committee, submitted to the Board of Directors for approval, and then submitted to the shareholders' meeting for approval; the same applies when these Procedures are amended.