

Delta Electronics, Inc. (the "Company")  
Operating Procedures of Acquisition or Disposal of Assets  
(Translation)

June 23, 1989--passed by the Board of Directors  
September 12, 1991--amendment passed by the Board of Directors  
May 29, 1995--amendment passed by the Board of Directors  
April 16, 1996--amendment passed by the Board of Directors  
November 26, 1999--amendment passed by the Board of Directors  
March 8, 2000--amendment passed by the Board of Directors  
February 13, 2003--amendment passed by the Board of Directors  
April 9, 2003--amendment passed by the Board of Directors  
May 6, 2003--amendment passed by the general shareholders' meeting  
May 18, 2004--amendment passed by the general shareholders' meeting  
June 8, 2007 – amendment passed by the general shareholders' meeting  
June 19, 2012 – amendment passed by the general shareholders' meeting  
June 10, 2014 – amendment passed by the general shareholders' meeting  
June 10, 2015 – amendment passed by the general shareholders' meeting  
June 8, 2016 – amendment passed by the general shareholders' meeting

## **Chapter 1    General Principles**

### **Article 1: Legal Basis**

These operating procedures ("Operating Procedures") have been promulgated in accordance with Article 36-1 of the Securities and Exchange Act and the "Regulations Governing the Acquisition or Disposal of Assets by Public Companies" promulgated by the Financial Supervisory Commission ("Competent Authority").

### **Article 2: Promulgation and Amendment of the Operating Procedures**

The Operating Procedures of Acquisition or Disposal of Assets of the Company shall be approved by one-half or more of all Audit Committee members and then for discussion and consent by the Board of Directors and be further submitted to the shareholders' meeting for approval. The same procedure shall apply to any amendment to the Operating Procedures.

If the Operating Procedures have not been approved by one-half or more of all Audit Committee members, the Operating Procedures may be undertaken upon the consent of two-thirds or more of all directors, and the resolution of the audit committee shall be recorded in the meeting minutes of the Board of Directors.

"All Audit Committee members" and "all directors" in the preceding paragraph referred to in these Operating Procedures shall mean the actual number of persons currently holding those positions.

When the Operating Procedures are submitted for discussion in the meeting of Board of Directors, the Board of Directors shall take into full

consideration of each independent director's opinion. If an independent director objects or expresses reservation about any matter, it shall be recorded in the meeting minutes of the Board of Directors.

### **Article 3: Definition of Terms**

1. Derivatives: refers to forward contracts, options contracts, futures contracts, leverage contracts, swap contracts, and compound contracts comprising combinations of the foregoing products, whose value is derived from assets, interest rates, foreign exchange rates, indexes or other interests. The term "forward contracts" does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) agreements.
2. Assets acquired or disposed through mergers or consolidations, splits, acquisitions, or assignment of shares in accordance with applicable laws: refers to assets acquired or disposed through mergers, splits, or acquisitions conducted in accordance with the Business Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institutions Merger Act or other applicable laws, or issuance of new shares and by use of the share equity so raised as the consideration payable for acquisition of another company's shares (the "assignment of shares") in accordance with Paragraph 8, Article 156 of the Company Law.
3. Related party and subsidiaries: as defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers.
4. Professional appraiser: refers to a real estate appraiser or other person authorized by applicable laws to engage in the appraisal of real estate or equipment.
5. Date of occurrence: refers to the date of contract signing, date of payment, date of completion of trading, date of transfer registration, date of board of directors resolution, or other date confirming the counterpart and amount of the transaction, whichever date is earlier. However, in the case of investments for which approval of the competent authority is required, the earlier of the above date or the date of receipt of approval by the competent authority shall apply.
6. Mainland China area investment: refers to investments in Mainland China area approved by the Investment Commission of the Ministry of Economic Affairs or conducted in accordance with the Regulations Governing the Approval of Investment or Technical Cooperation in Mainland China.
7. As used in the Operating Procedures, "within one year" refers to the year preceding the date of occurrence of the acquisition or disposal of assets; however, items duly announced in accordance with the Operating Procedures will be disregarded.

8. As used in the Operating Procedures, "latest financial statement" refers to the financial statement published and audited or reviewed by the Company's auditing CPA in accordance with applicable laws prior to the acquisition or disposal of assets.
9. As used in the Operating Procedures, "10% of the Company's total assets" is calculated based on the total assets as stated in the most recent stand-alone or individual financial statement prepared under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

## **Chapter 2     Scope of Assets and Investment Limits**

### **Article 4: Scope of assets applicable to the Operating Porcedures**

1. Securities: including long- term and short-term investments such as stocks, government bonds, corporate bonds, financial debentures, securities representing interest in a fund, deposit receipts, call (put) warrants, beneficiary certificates and asset-backed securities.
2. Real estate (including land, buildings and construction, investment real estate and rights to use land) and equipment.
3. Membership certificates.
4. Intangible assets: including patents, copyrights, trademarks, and franchises, etc.
5. Claims against financial institutions (including receivables, loans and bills purchase discounts, and overdue receivables).
6. Derivatives.
7. Assets acquired or disposed through mergers or consolidations, splits, acquisitions, or assignment of shares in accordance with applicable laws.
8. Other important assets.

**Article 5:** The total value of real property or securities purchased by the Company and its subsidiaries ("Subsidiaries") for non-operating use and limit on investment in each specific security are as follows:

1. The total value of real property purchased by the Company for non-operating use may not exceed 20% of the Company's net worth as stated in its latest financial statement. The total value of real property purchased by a Subsidiary for non-operating use may not exceed 20% of the Company's net worth as stated in its latest financial statement.

2. The total value of securities invested by the Company may not exceed 100% of the Company's net worth as stated in its latest financial statement. The total value of securities invested by a Subsidiary may not exceed 60% of the Company's net worth as stated in its latest financial statement.
3. The investment in a specific security by the Company may not exceed 50% of the Company's net worth as stated in its latest financial statement. The investment in a specific security by a Subsidiary may not exceed 30% of the Company's net worth as stated in its financial statement.

### **Chapter 3 Evaluation and Operating Process**

**Article 6:** When assets are acquired or disposed in accordance with the Operating Procedures, the execution department shall evaluate the terms and conditions of the transaction according to the Company's internal operating procedures in advance and then submit it for approval by the authorized person according to the authorized limit table approved by the Board of Directors. If the amount of the assets to be acquired or disposed exceeds the amount as set forth in the authorized limit table, the transaction may be implemented only after approved by the Board of Directors.

The execution departments referred to in the foregoing paragraph are as follows:

1. For long-term and short-term securities: the Investment Department and the Finance Department.
2. For real property and equipment: the Department which uses such assets and the Finance Department.
3. For membership certificate: the Finance Department.
4. For intangible assets: each business unit, Legal and Intellectual Property Department or other competent department concerned.
5. For claims against financial institutions: the Finance Department.
6. For derivatives: the Finance Department.
7. For assets acquired or disposed through mergers or consolidations, splits, acquisitions, or assignment of shares in accordance with applicable laws: the Investment Department.
8. For other important assets: the Department which uses such assets.

**Article 7:** When the Company should appoint a professional appraiser, accountant, lawyer, or underwriter to assist in appraisal work and obtain an expert opinion in accordance with the "Regulations Governing the Acquisition or

Disposal of Assets by Public Companies" promulgated by the Competent Authority, the professional appraiser and its appraisal personnel, the accountant, lawyer, or underwriter so appointed shall not be a related party to the parties in the proposed transaction.

**Article 8:** When the Company acquires or disposes of assets through court auction procedures, the relevant evidence documentation issued by the court may be used as substitute for the appraisal report or the accountant opinion.

**Article 9:** If any acquisition or disposal of assets should be approved by the Audit Committee, the Board of Directors, or the shareholders' meeting in accordance with the "Regulations Governing the Acquisition or Disposal of Assets by Public Companies" promulgated by the Competent Authority or other applicable laws, paragraph 1 of Article 6 of the Operating Procedures shall not apply to such acquisition or disposal of assets. In this case, the execution department shall evaluate the terms and conditions of the transaction according to the Company's internal operating procedures in advance, and then approved by one-half or more of all Audit Committee members and submit it for approval by the Board of Directors, or approval by the shareholders' meeting.

When the Operating Procedures are submitted for discussion in the meeting of Board of Directors, the Board of Directors shall take into full consideration of each independent director's opinion. If an independent director objects or expresses reservation about any matter, it shall be recorded in the meeting minutes of the Board of Directors.

#### **Chapter 4      Guidelines for the Acquisition or Disposal of Assets and Operating Procedures**

**Article 10:** When acquiring or disposing of securities, the Company shall, prior to the date of occurrence of the event, first obtain the latest audited or reviewed financial statement of the issue company for reference in appraising the transaction price. If the transaction amount reaches 20% of the Company's paid-in capital or NT\$300 million or more, the Company shall, prior to the date of occurrence of the event, appoint an accountant to render an opinion on the reasonableness of the transaction price. If the accountant needs to use an expert's report, the accountant shall do so in accordance with the provisions of the Statement of Auditing Standards No. 20 published by the Accounting Research and Development Foundation (the "ARDF"). This requirement does not apply, however, to publicly quoted prices of securities that have an active market, or where otherwise provided by regulations of the Competent Authority.

**Article 10-1:** Where the total amount invested by a Subsidiary in securities after making a proposed investment will exceed 30% of the Company's net worth as stated in its latest financial statement, the proposed investment shall be approved by the Company's Audit Committee and the Board of Directors by resolution in advance. Where the transaction amount of a proposed investment in a specific security by a Subsidiary exceeds

10% of the Company's net worth as stated in its latest financial statement, the proposed investment shall be approved by the Company's Audit Committee and the Board of Directors by resolution in advance.

**Article 11:** The Company shall comply with the following guidelines with regard to the acquisition or disposal of real property and other fixed assets:

When acquiring or disposing real property or equipment, if the transaction amount reaches 20% of the Company's paid-in capital or NT\$300 million or more, except for transacting with a governmental agency, engaging others to build on its own land, engaging others to build on leased land, or acquiring equipment for operating use, the Company shall, prior to the date of occurrence of the event, obtain an appraisal report from a professional appraiser and shall further comply with the following provisions:

1. Where due to special circumstances a limited price, specific price or specified price should be used as reference price in determining the transaction price, such transaction shall be submitted for approval by the Board of Directors in advance, and the same procedures shall apply for any future changes to the terms and conditions of such transaction.
2. If the transaction amount is NT\$1 billion or more, the Company shall obtain appraisal reports from at least two professional appraisers
3. If the professional appraiser's appraisal results revealed any of the following circumstances, 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, the Company shall appoint an accountant to conduct the appraisal in accordance with the provisions of Statement of General Auditing Procedures No. 20 published by the ARDF and render a specific opinion regarding the cause of the differences and the reasonableness of the transaction price:
  - (1) Where the difference between the appraisal result and the transaction amount is 20% or more of the transaction amount.
  - (2) Where the difference between the appraisal results of two or more professional appraisers is 10% or more of the transaction amount.
4. The period from the date of the appraisal report issued by a professional appraiser to the execution date of the relevant sale and purchase agreement should be no more than three months. However, where the publicly announced current land value for the same period is used and not more than six months have elapsed from the original appraisal report, an opinion may still be issued by the same professional appraiser.
5. Items which should be included in an appraisal report are:

- (1) Items required in accordance with Regulations on Real Estate Appraisal.
- (2) Matters regarding the professional appraiser and its appraisal personnel:
  - a. The professional appraiser's name, amount of paid-in capital, organizational structure, and personnel composition.
  - b. The names, ages, academic records and curriculum vitae (with relevant evidences), number of years performing appraisal work and employment period, and number of appraisals conducted of the appraisal personnel.
  - c. Relationship between professional appraiser, appraisal personnel, and the client.
  - d. Declaration of no false statement or omission being contained in the appraisal report.
  - e. Date of appraisal report.
- (3) Basic information of the subject property, which shall at least include the name and nature, location, and area of the subject property.
- (4) Examples of transactions involving other properties that are located within the area as the subject property.
- (5) When the appraisal type is for a specific price or specified price, the conditions of the specific or specified price and whether said conditions are met under current circumstances, the reason for the difference between the normal prices and such specific or specified price and the reasonableness of such difference, and whether the specific price or specified price is qualified to be used as reference for the transaction price.
- (6) In terms of a joint development contract, the reasonable allocation percentage between the parties should be provided.
- (7) An estimate of land value incremental tax.
- (8) In case that appraised value of the subject property at the same appraisal date among appraisers differs and the difference is twenty percent or more, whether measures provided in Article 41 of the Real Estate Appraiser Act has been taken.
- (9) Attachments to the appraisal report shall include the appraisal details of the subject property, ownership registration information, photocopy of cadastral map, urban planning sketch, location map of the subject property, certificate of land use zoning, and photographs showing current condition of the subject property.

**Article 11-1:** Where the total amount invested by a Subsidiary in real property for

non-operating use after making a proposed investment will exceed 10% of the Company's net worth as stated in its latest financial statement, the proposed investment shall be approved by the Company's Audit Committee and the Board of Directors by resolution in advance. Where the transaction amount of a proposed investment by a Subsidiary in a specific real property for non-operating use exceeds 1% of the Company's net worth as stated in its latest financial statement, the proposed investment shall be approved by the Company's Audit Committee and the Board of Directors by resolution in advance.

**Article 12:** Procedures governing transactions with a related party are as follows:

1. When the Company acquires or disposes of assets from or to a related party, in addition to complying with the requirements set forth in Article 10, Article 11 and Article 13 and following required resolution procedures and assessing the reasonableness of the transaction terms and other relevant matters in accordance with the following provisions, if the transaction amount reaches 10% of the Company's total assets, the Company shall also obtain an appraisal report from a professional appraiser or an accountant's opinion in accordance with Article 10, Article 11 and Article 13.
2. The aforementioned calculation of the transaction amount shall be made in accordance with Article 13-1 hereof. Furthermore, when determining whether the transaction counterparty is a related party, in addition to legal formalities, the Company shall take into consideration of the substance of the relationship between the transaction parties.
3. Appraisal and operating procedures:  
Where the Company acquires or disposes of real property from or to a related party, or acquires or disposes of assets other than real property from or to a related party where the transaction amount reaches 20% of the Company's paid-in capital, 10% of the Company's total assets, or NT\$300 million, except for trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds, the Company may proceed to enter into a transaction contract and make only after submitting the following information to the Audit Committee and obtaining approval by one-half or more of all Audit Committee members and, after submitting the same to the Board of Directors, obtaining approval from the Board of Directors, and paragraphs 2 and 3 of Article 2 shall apply *mutatis mutandis*:
  - (1) The purpose, necessity and estimated benefits of the acquisition or disposal of assets.
  - (2) The reason for choosing the related party as the transaction counterparty.
  - (3) With respect to the acquisition of real property from a related party,



information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with the provisions of items (1) and (4), subparagraph 3 of this Article 12.

- (4) The date and price at which the related party originally acquired the real property, the original transaction counterparty, and that transaction counterparty's relationship to the Company and the related party.
- (5) Monthly cashflow forecasts for the year beginning from the anticipated month of execution of the contract, and evaluation of the necessity of the transaction, and reasonableness of the use of funds.
- (6) An appraisal report from a professional appraiser or an accountant's opinion obtained in accordance with this Article.
- (7) Restrictive covenants and other important terms in connection with the transaction.

The aforementioned calculation of the transaction amount shall be made in accordance with Subparagraph 5 of Paragraph 1 of Article 17 hereof, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been submitted to and approved by the Board of Directors in accordance with these Operating Procedures need not be counted toward the said transaction amount.

With respect to the acquisition or disposal of machinery and equipment for business use between the Company and its subsidiaries, the Board of Directors hereby authorizes the Chairman to decide such matters when the transaction is within NT\$300 million and subsequently submit the aforesaid decision to the next meeting of the Board of Directors for ratification.

When the items listed in subparagraph 2 of this Article 12 are submitted for discussion in the meeting of Board of Directors, the Board of Directors shall take into full consideration of each independent director's opinion. If an independent director objects or expresses reservation about any matter, it shall be recorded in the meeting minutes of the Board of Directors.

4. Assessment of reasonableness of transaction cost:
  - (1) The Company shall use the following methods to assess the reasonableness of the transaction cost when acquiring real property from a related party:
    - a. Based upon the related party's transaction price plus necessary interest on funding and the costs payable by the buyer in accordance with applicable law. "Necessary interest on funding" refers to and is calculated by use of the weighted average interest rate on funds borrowed by the Company in the year

when the Company plans to purchase the property as the basis. However, such necessary interest on funding may not be higher than the maximum non-financial industry lending rate announced by the Ministry of Finance.

- b. Based upon the total appraisal value from a financial institution if the related party has previously taken a mortgage on the property as security for a loan; provided that the actual cumulative amount lent by the financial institution shall be 70% or more of the financial institution's appraisal value for the property and the loan shall have been disbursed and outstanding for one year or more. However, this method shall not apply if the financial institution is a related party of one of the transaction counterparties.
- (2) Where the land and the building situated thereupon are combined as a single property purchased in one transaction, the transaction costs for the land and the building may be separately appraised in accordance with either of the methods set forth in the preceding paragraph.
  - (3) When the Company acquires real property from a related party, it shall appraise the cost of the real property in accordance with the provisions of items (1) and (2), subparagraph 3 of this Article 12, and shall also engage an accountant to review the appraisal result and issue a specific opinion regarding appraisal result.
  - (4) Where the Company acquires real property from a related party and the results of appraisal performed in accordance with the provisions of items (1) and (2), subparagraph 3 of this Article 12 are both lower than the transaction price, the transaction shall be handled in accordance with the provisions of Item (5), subparagraph 3 of this Article 12. However, if any of the following circumstances occur and where any objective evidence has been provided and specific opinions on reasonableness of the transaction price have been obtained from a professional appraiser and an accountant have been obtained, the preceding paragraph shall not apply:
    - a. When the related party has acquired undeveloped land or leased land for development, it may submit proof of compliance with one of the following conditions:
      - i. The undeveloped land is appraised in accordance with the foregoing methods, and the building is appraised according to the related party's construction cost plus reasonable construction profit, and the total appraised value of the land and the building is in excess of the actual transaction price. "Reasonable construction profit" shall be deemed the average gross operating profit margin of the related party's construction division over the most recent three 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.

- ii. Concluded transactions by unrelated parties within the preceding year involving other floors of the same target property or properties located in the neighboring area, of which the property size and transaction terms are similar to the proposed transaction after taking into consideration of reasonable price differences in floor or area prices in accordance with standard real property market practices.
  - iii. Concluded leasing transactions by unrelated parties within the preceding year for other floors of the same target property, of which the transaction terms are similar to the proposed transaction after taking into consideration of reasonable price differences in floor according to standard real property leasing market practices.
- b. Where the Company provides evidences that the terms of the proposed acquisition of real property with the related party are similar to the terms of transactions concluded for the acquisition of property located in neighboring area of a similar size by unrelated parties within the preceding year. Concluded transactions for the acquisition of property located in neighboring area in the preceding paragraph in principle refers to property located at the same or an adjacent block of the target property and within a distance of no more than 500 meters or the publicly announced current value of the property is close to that of the target property; transaction of similar size refers to transactions concluded by unrelated parties with a land area of no less than 50% of the target property; within one year refers to one year preceding the date of occurrence of the proposed acquisition of the target property.
- (5) When the Company acquires real property from a related party and the results of appraisal performed in accordance with the provisions of items (1) and (2), subparagraph 3 of this Article 12 are both lower than the transaction price, the Company shall comply with the following provisions. In addition, if the Company and any public company that invests in the Company using the equity method have allocated a special reserve in accordance with the following provisions, the Company and the public company may not utilize such special reserve until it has recognized loss due to price decline for such real property, or such property has been disposed of, or adequate compensation has been made, or the original condition has been restored, or there is other evidence confirming that it is not unreasonable to do so, and approval in connection therewith from the Competent Authority shall have been obtained.

- a. The Company shall allocate the difference between the real property transaction price and the estimate cost as a special reserve in accordance with Paragraph 1, Article 41 of the Securities and Exchange Act, and shall not be distribute this reserve or use it for capitalization and issuance of new shares. If an investor that has investment in the Company by using the equity method is a public company, it shall also allocate special reserve in an amount in proportion to its shareholding in the Company according to paragraph 1, Article 41 of the Securities and Exchange Act.
  - b. The Audit Committee of the Company shall comply with Article 218 of the Company Law.
  - c. The Company shall report matters handled under the foregoing items (1) and (2) to the shareholders' meeting and shall disclose the details of the transaction in its annual report and prospectus.
- (6) When the Company acquires real property from a related party and any of the following circumstances occur, it shall implement the transaction in accordance with the appraisal and operating procedures in subparagraphs 1 and 2 of this Article 12, and items (1), (2), and (3), subparagraph 3 of this Article 12 regarding the assessment of the reasonableness of transaction cost are not applicable:
- a. The related party acquired the real property through inheritance or as a gift.
  - b. More than five years will have elapsed from the time the related party signed the contract to obtain the real property to the execution date of the proposed transaction.
  - c. The real property is to be acquired through signing of a joint development contract with the related party or through engaging the related party to build real property, either on the Company's own land or on a leased land.
- (7) When the Company acquires real property from a related party and there is other evidence indicating that such acquisition does not conform to conventional business practice, the Company shall act in accordance with item (5), subparagraph 3 of this Article 12.

**Article 13:** The Company shall comply with the following guidelines with regard to the acquisition or disposal of membership certificates or intangible assets: When the Company acquires or disposes of membership certificates or intangible assets and the transaction amount reaches 20% of the Company's paid-in capital or NT\$300 million or more, except for transacting with a government agency, the Company shall, prior to the

date of occurrence of the event, appoint an accountant to render an opinion on the reasonableness of the transaction price. The accountant so appointed shall act in accordance with Statement of General Auditing Procedures No. 20 published by the ARDF accordingly.

**Article 13-1:**The calculation of the transaction amount referred to in Articles 10, 10-1, 11, 11-1 and 13 shall be made in accordance with Subparagraph 5 of Paragraph 1 of Article 17 hereof, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items for which an appraisal report from a professional appraiser or an accountant's opinion is obtained in accordance with these Operating Procedures need not be counted toward the transaction amount.

**Article 14:** The Company shall comply with the following guidelines with regard to the acquisition or disposal of claims against financial institutions: The Company shall not engage in the acquisition or disposal of claims against financial institutions. If the Company wishes to acquire or dispose of claims against financial institutions in the future, it shall promulgate assessment and operating procedures after obtaining approval by the Board of Director.

**Article 15:** Procedures governing derivatives trading activities are as follows:

1. Trading principles and strategies:

(1) Types of trades:

The scope of the Company's derivatives trading shall be limited to forward foreign exchange, options, interest rate or exchange rate swaps, outright bond purchase and sale, and repurchase transactions. Prior approval of the Board of Directors is required for trading of other types of products.

(2) Operating and hedging strategies:

The Company shall engage in derivatives trading for the purpose of mitigating risks. When selecting derivatives products, the Company shall choose from the products with a view to mitigate the risks arising from the Company's business operating. In addition, to avoid creating credit risk, the Company shall choose derivatives trading counterparties from the Company's correspondent banks to the extent possible.

(3) Delegation of powers and duties:

a. Funds management: Funds management is the pivot of the foreign exchange management system; it is necessary to acquire foreign exchange market information, assess trends and risks, have knowledge of financial products, be familiar with relevant laws and regulations and have relevant skills in order to provide the management, sales, purchasing, accounting, and funds management departments with sufficient and up-to-date

information.

- b. Accounting Department: Accounting Department is responsible for the control of the Company's overall foreign exchange position and shall accurately calculate realized and future positions for the Company to set account exchange rates and lock in profit and cost, which may avert the performance of the Company's core business from being influenced by exchange rate fluctuations. Accounting Department needs to rely on the information provided by purchasing and sales departments for the prediction and creation of positions, and a high level of accuracy of such information is essential to the holding of positions.

(4) Trading limits:

- a. Hedging trade limit: The Company shall use the monthly trading-type foreign exchange hedge net position as the hedging limit. Any excess of such limit shall be approved by the Board of Directors in advance.
- b. Special purpose trade limit: Special purpose trading limit shall be confined to capital expenditures, corporate bonds, and long-term investments and the actual amount of such transactions is used as the maximum hedging amount.
- c. Others: The trading limit, stop-loss limit, and authorized limit for other trades which does not belong to the two foregoing categories should be approved by the Board of Directors before execution.

(5) Performance evaluation:

- a. Performance evaluation shall be based on the exchange rate costs on the Company's books and profit/loss from derivatives trading.
- b. The Company has adopted a monthly profit/loss appraisal approach in order to accurately manage and disclose price risks of derivatives trading.

(6) Setting of loss limits:

- a. Hedging trade:
  - i. After a trading position has been established, a stop-loss spot must be set to prevent over-limit losses. The stop-loss spot shall not exceed 10% of the trading contract amount. If the loss amount exceeds 10% of the trading amount, such event shall be immediately reported to CEO and the Board of Directors for discussion of necessary counter measures.
  - ii. The loss amount for each trading contract shall not exceed 10% of the contract amount.

iii. After a trading position has been established, a clear stop-loss exchange rate and interest rate shall be set based on 10% of the amount shown on the trade approval sheet. The stop-loss exchange rate and interest rate shall be recorded in the trade approval sheet and prior approval for the transaction shall be obtained in accordance with the authorized limit table. Market fluctuations must be monitored constantly so long as a position is held; if the exchange rate or interest rate reached the stop-loss spot, stop loss measures must be immediately implemented.

b. Special purpose trade:

Special purpose trade is used to hedge risks for definite purpose, and there must be specific corresponding hedge positions. In principle, a special purpose trade will not be early terminated.

2. Operating procedures:

(1) Authorized limit (including hedging trades and special purpose trades):

In accordance with the Company's growth of sales, change of risk positions, and designated purpose, the authorized limits of the Company are set as follows. Any amendment to the authorized limit shall be handled in accordance with these Operating Procedures.

	Upper limit on single trades	Total daily limit
CEO	US\$40 million	US\$100 million
Chief Officer of Finance Department	US\$20 million	US\$50 million
Officer of Funds Management Department	US\$5 million	US\$15 million

To ensure that the Company's authorization cooperate with the corresponding bank's oversight, the foregoing authorized limits and operating and hedging strategies shall be reported to the relevant corresponding bank. The bank shall be notified of any amendment to the authorized limit and make corrections thereof. In addition to compliance with the existing terms between Company and the bank, the bank shall be requested to continue to control the Company's trading and positions in accordance with the foregoing authorized limit table.

(2) Execution department:

As derivatives trading is characterized by rapid fluctuations, large monetary amounts, frequent trading, and complex calculations, it is necessary to appoint well trained professionals to conduct the trading and management. Thus, all derivatives trading shall be executed by authorized funds management personnel designated by the Chief Officer of the Finance Department.

3. Accounting treatment:

Accounting treatment shall be handled in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

4. Internal control system:

(1) Risk management measures:

- a. Credit risk considerations: In principle, transaction counterparties are limited to the Company's correspondent banks and those who could provide professional information.
- b. Market risk considerations: The major trading market is to trade in the OTC (over-the-counter) market via banks. The Futures market is not taken into consideration currently.
- c. Liquidity considerations: To ensure liquidity, the bank which the Company transacts with should have sufficient equipment, information, and trading capabilities, and should be able to trade in any market.
- d. Operation considerations: To avoid operation risk, the Company shall observe the authorized limit and operating procedures closely.
- e. Legal risk: To avoid legal risk, all documents to be entered into between the bank and the Company shall be reviewed by the Legal Department and the Finance Department before execution.
- f. Product risk: Internal trading officers and counterparty banks should possess extensive and correct professional knowledge in connection with the trading of financial products. It is required for the counterparty banks to fully disclose risks to the Company so as to avoid losses from incorrect use of financial products.
- g. Cashflow risk: In addition to strictly observe the limits as set forth in the authorized limit table, the trading officers shall pay close attention to the Company's foreign currency cash-flow so as to ensure that there is sufficient cash to pay for F/X settlements.

(2) Internal control:

- a. Trading personnel shall not concurrently serve as confirmation and settlement personnel.
- b. Trading personnel shall give trading vouchers or contracts to recording personnel for records.
- c. Recording personnel shall regularly check account balances with correspondent banks or request for bank statements.



- d. Recording personnel shall check whether the total amount of trades has exceeded the net position of foreign currency assets, liabilities and commitment net positions from time to time.
  - e. The Funds Management Department shall assess the profit/loss status based on the final posted daily exchange rates and produce a report thereof at the end of each month. The Funds Management Department shall submit such report to the Chief Officer of the Finance Department and the Company's senior management officers.
  - f. Personnel responsible for the risk assessment, monitoring, and control shall be assigned to different departments from the personnel referred to in the foregoing subparagraphs, and shall report to the Board of Directors or senior management officers not responsible for trading or position decisions.
- (3) Regular evaluation methods:
- a. The Board of Directors shall authorize senior management personnel to regularly monitor and evaluate whether derivative trades are executed in compliance with the Company's trading procedures, and determine whether the risk exposure is within the acceptable limits. Whenever a market price evaluation report contains any irregularity (such as the position held exceeding the loss limit), the aforementioned personnel shall immediately report to the Board of Directors and take necessary counter measures.
  - b. Derivative trading positions held shall be evaluated at least once each week. However, hedging trades executed for the Company's business needs shall be evaluated at least twice each month. Evaluation reports shall be submitted to the Chief Officer of the Finance Department.
- (4) Oversight principles for derivative trading by the Board of Directors:
- a. The Board of Directors shall appoint senior management officers to regularly monitor and control the derivatives trading risk. The guidelines for monitoring and control are as follows:
    - i. Periodically evaluate whether the risk management measures currently adopted are appropriate and are conducted in accordance with these Operating Procedures and derivative trading operating guidelines promulgated by the Company.
    - ii. Monitoring trading activities and profit/loss status, whenever irregularities are found, the senior management officers shall take appropriate counter measures and shall immediately report to the Board of Directors.

- b. Periodically evaluate whether derivatives trading performance is consistent with the Company's established operational strategy and whether the risk exposure is acceptable to the Company.
  - c. When engaging in derivatives trading, the Company shall report to the next Board of Directors meeting after it authorizes relevant personnel to conduct derivatives trading in accordance with the derivative trading operating guidelines promulgated by the Company.
  - d. The Company shall establish a memorandum book in which details of the types and amounts of derivatives trading engaged in, Board of Directors approval dates, and the matters required to be carefully evaluated under items 3-2, 4-1 and 4-2, subparagraph 4 of this Article 15, shall be recorded in detail in the memorandum book for inspection.
5. Internal audit system:
- (1) The Company's internal auditor shall periodically review the appropriateness of the internal control system of derivatives trading, conduct a monthly audit of compliance of derivatives trading operating procedures by the execution department, analyze trading cycles, and prepare an audit report accordingly. The internal auditor shall notify the Audit Committee of the Company in writing if any material violation is found.
  - (2) The Company's internal auditor shall file the audit report together with the annual internal audit review report for the preceding year with the Competent Authority by the end of February each year. The Company's internal auditor shall also report any improvements of irregularities during the preceding year to the Competent Authority by the end of May each year.

**Article 16:** Procedures governing mergers or consolidations, splits, acquisitions, or assignment of shares are as follows:

- 1. Appraisal and operating procedures:
  - (1) When the Company wishes to conduct a merger or consolidation, split, acquisition, or assignment of shares, it may engage an accountant, lawyer, and underwriter to jointly review statutory procedures and proposed timetable; the Company shall also form a project execution team to implement the transaction in accordance with statutory procedures. The Company should, prior to convening a meeting of the Board of Directors to decide on the matter, further engage an accountant, lawyer, or underwriter to render opinions regarding the reasonableness of the share swap ratio, acquisition price, or distribution of cash or other property to shareholders, and shall submit the same to the Board of Directors for discussion and approval.

(2) When conducting a merger or consolidation, split, or acquisition, the Company shall prepare a public report to its shareholders, specifying important contractual contents and matters relevant to the merger or consolidation, split, or acquisition prior to the shareholders' meeting. The Company shall attach such public report and the expert opinions referred to in item (1), subparagraph 1 of this Article 16 when sending the notice of shareholders' meeting for shareholders' reference in determining whether to approve the merger or consolidation, split, or acquisition. However, if the convention of shareholders' meeting to approve the merger or consolidation, split, or acquisition is exempted by applicable laws, the notification requirement for sending the notification in the preceding paragraph shall not apply. Moreover, where any one of the companies participating in a merger or consolidation, split, or acquisition fails to convene or obtain a resolution due to lack of a quorum, insufficient votes, or restrictions by applicable laws, or the proposal was vetoed by the shareholders' meeting, such company shall immediately publicly announce an explanation of the reason for such failure, follow-up measures to be taken, and the proposed date of the next shareholders' meeting.

2. Other matters to be noted:

(1) Date of shareholders' meeting or meeting of the Board of Directors: Companies participating in a merger or consolidation, split, or acquisition shall convene their board meetings and shareholders' meetings on the same day to resolve matters relevant to the merger or consolidation, split, or acquisition, unless otherwise provided by applicable laws or there are extraordinary conditions which should be reported to and approved by the Competent Authority in advance. Companies participating in an assignment of shares shall convene their board meetings on the same day, unless otherwise provided by applicable laws or there are extraordinary conditions which should be reported to and approved by the Competent Authority in advance.

When participating in a merger or consolidation, split, acquisition, or assignment of another company's shares, the Company shall prepare a full written record of the following information and retain it for five years for reference:

- a. 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 prior to disclosure of the information in the planning or implementation of any merger or consolidation, split, acquisition, or assignment of another company's shares.
- b. Dates of material events: including those for signing of any letter of intent or memorandum of understanding, engaging of a financial or legal advisor, execution of a contract, and convening of a board of directors meeting.
- c. Important documents and minutes: including merger or

consolidation, split, acquisition, or plan of assignment of share, any letter of intent or memorandum of understanding, material contracts, and minutes of board of directors meetings.

When participating in a merger or consolidation, split, acquisition, or assignment of another company's shares, the Company shall, within two days commencing from the date of passage of a resolution by the Board of Directors, report (in the prescribed format and via the Internet-based information system) the aforementioned basic identification data for personnel and dates of material events to the Competent Authority for recordation.

Where any of the companies participating in a merger or consolidation, split, acquisition, or assignment of another company's shares is neither listed in the securities exchange nor trading over-the-counter, the Company shall sign an agreement with such company in order to prepare a full written record of the information of basic identification data for personnel, dates of material events and important documents and minutes and retain it for five years for reference and to report (in the prescribed format and via the Internet-based information system) the aforementioned basic identification data for personnel and dates of material events to the Competent Authority for recordation.

- (2) Commitment to confidentiality obligations in advance: Each person participating in or being informed of the plan for merger or consolidation, split, acquisition, or assignment of shares shall execute a written undertaking of confidentiality and shall not disclose the contents of the plan prior to public announcement of information in connection with the plan and shall not trade, in their own names or under the name of another person, in any stock or other equity security of any company related to the plan for merger or consolidation, split, acquisition, or assignment of shares.
- (3) Principles for setting and amending share swap ratio or acquisition price: When conducting a merger or consolidation, split, acquisition, or assignment of shares, except for the following circumstances, the share swap ratio or acquisition price shall not be amended arbitrarily and the circumstances in which the share swap ratio or acquisition price could be amended should be provided in the contract for the merger or consolidation, split, acquisition, or assignment of shares:
  - a. Capital increase by cash, issuance of convertible bonds, free distribution of bonus shares, issuance of corporate bonds with warrants, preferred shares with warrants, stock warrants, and other equity securities.
  - b. Any disposal of material assets of the company or other action which may have a material adverse effect on the company's financial condition or business.

- c. A disaster or major technological shift or other event which may affect shareholder's equity or the share price.
  - d. An adjustment results from the buy-back of treasury stock by any of the companies participating in the merger or consolidation, split, acquisition, or assignment of shares.
  - e. An increase or decrease in the number of entities or companies participating in the merger or consolidation, split, acquisition, or assignment of shares.
  - f. Other terms and conditions allowing amendments which have been provided in the relevant contract and have been publicly disclosed.
- (4) Items to be provided in contract: In addition to those items required under Article 317-1 of the Company Law and Article 22 of the Business Mergers and Acquisitions Act, the contract for participation in a merger or consolidation, split, acquisition, or assignment of shares shall provide the following provisions:
- a. Remedy for breach of contract.
  - b. Principles for the handling of equity securities previously issued or treasury stock previously bought back by any company that is to be dissolved in a merger or that is spun off.
  - c. The amount of treasury stock that could be bought back by participating companies in accordance with applicable laws after the record date of calculation of the share swap ratio, and the handling principles thereof.
  - d. Methods for handling changes in the number of participating entities or companies.
  - e. Estimated schedule for execution of the plan, and anticipated completion date.
  - f. Scheduled date for convention of shareholders' meeting in accordance with applicable laws in the event that execution of the plan falls behind the estimated schedule and relevant handling procedures.
- (5) Changes in the number of companies participating in a merger or consolidation, split, acquisition, or assignment of shares: After relevant information has been publicly announced, if any company participating in the merger or consolidation, split, acquisition, or assignment of shares intends further to carry out a merger or consolidation, split, acquisition, or assignment of shares with another company, all of the participating companies shall repeat the

procedures or legal actions that had originally been completed toward the merger or consolidation, split, acquisition, or assignment of shares; except that where the number of participating companies is decreased and the participating company's shareholders' meeting has resolved and authorized the Board of Directors to amend the terms, such participating company could be exempted from convening another shareholders' meeting to resolve the matter again.

- (6) Where a company participating in a merger or consolidation, split, acquisition, or assignment of shares is not a public company, the Company shall sign an agreement with that company, and shall conduct the merger or consolidation, split, acquisition, or assignment of shares in accordance with the Board of Directors meeting convention date specified in item (1), the confidentiality obligation in item (2), and the requirements regarding changes in the number of companies participating in a merger or consolidation, split, acquisition, or assignment of shares in item (5), subparagraph 2 of this Article 16.

## **Chapter 5 Disclosure of Information and Public Announcement and Reporting Procedures**

**Article 17:** Items to be publicly announced and reported and requirements for public announcement and reporting are as follows:

1. Acquisition or disposal of real property from or to a related party, or acquisition or disposal of assets other than real property from or to a related party where the transaction amount reaches 20% of the Company's paid-in capital, 10% of the Company's total assets, or NT\$300 million; provided, however, that this paragraph shall not apply to trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds.
2. Merger or consolidation, split, acquisition, or assignment of shares.
3. Any losses from derivatives trading which reaches the limits on aggregate losses or losses for individual contracts as set out in the operating procedures promulgated by the Company.
4. Other asset transactions other than those referred to in the preceding three subparagraphs, disposal of receivables by a financial institution, or investment in the Mainland China area, and the transaction amount of which reaches 20% of the Company's paid-in capital or NT\$300 million or more; provided that the public reporting requirement shall not apply to the following circumstances:
  - (1) Trading of government bonds.

- (2) Where the company is an investment company, the securities trading in foreign securities exchanges or over-the-counter markets.
  - (3) Trading of bonds under repurchase/resale agreements, or subscription or redemption of domestic money market funds.
  - (4) Where the type of asset acquired or disposed of is equipment and machinery for operational use, and the transaction counterparty is not a related party, and the transaction amount is less than NT\$500 million.
  - (5) Acquisition or disposal of real property under arrangement of commissioned construction on self-owned or leased land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale and the transaction amount to be invested by the Company is less than NT\$500 million.
5. The transaction amount referred to in the foregoing four subparagraphs shall be calculated as follows; and the term "within one year" refers to the year preceding the date of occurrence of the proposed transaction; and items which has been duly announced in accordance with applicable regulations may be disregarded for the calculation:
- (1) The amount of each transaction.
  - (2) The cumulative transaction amount of acquisitions and disposals of the same type of assets with the same transaction counterparty within one year.
  - (3) The cumulative transaction amount of acquisitions and disposals of real property in the same development project within one year (the amount for acquisition and the amount for disposal shall be calculated separately).
  - (4) The cumulative transaction amount of acquisitions and disposals of the same security within one year (the amount for acquisition and the amount for disposal shall be calculated separately).

**Article 18:** Deadline for public announcement and reporting:

When acquiring or disposing of assets, if such acquisition or disposal is one of the items that should be publicly announced and reported, and the transaction amount reaches the requirements for public announcement and reporting, the Company shall make the public announcement and reporting on the website designated by the Competent Authority in the format prescribed by the "Regulations Governing Acquisition or Disposal of Assets by Public Companies" promulgated by the Competent Authority within two days commencing from the date of occurrence of the event.

**Article 19:** Procedures governing public announcement and reporting are as follows:

1. The Company shall make the public announcement and reporting of relevant information on the website designated by the Competent Authority in accordance with the preceding Article 18.
2. The Company shall post information regarding derivative trading activities of the Company and its subsidiaries that are not domestic public companies during the preceding month on the reporting website designated by the Competent Authority in the required format by the tenth day of each month.
3. If any required items publicly announced by the Company in accordance with applicable regulations contain errors or omissions and an correction thereof is necessary, the Company shall make an public announcement and report of such items in their entirety again.
4. When acquisition or disposal of assets, unless otherwise provided in other applicable laws, the Company shall keep all relevant contracts, resolution minutes, memorandum books, appraisal reports, and opinions of accountants, lawyers, or underwriters for at least five years.
5. After the Company has publicly announced and reported a transaction in accordance with applicable regulations, in case any of the following event occurs, it shall report relevant information on the website designated by the Competent Authority within two days commencing from the date of occurrence of the event:
  - (1) Any amendment, termination or discharge of the contracts originally executed in the transaction.
  - (2) The merger or consolidation, split, acquisition, or assignment of shares is not completed by the scheduled completion date set forth in the relevant contract.
  - (3) Change in publicly announced and reported information.

## **Chapter 6 Supplemental Provisions**

**Article 20:** The Subsidiaries shall comply with the following provisions:

1. The Subsidiaries shall promulgate its own "Operating Procedures of the Acquisition or Disposal of Assets" in accordance with the relevant provisions of the "Regulations Governing the Acquisition or Disposal of Assets by Public Companies," and shall submit the said operating procedures for approval by the Board of Directors first and then by the shareholders' meeting. The same procedure shall apply in the event of any amendment to the said operating procedures. If a Subsidiary has established an audit committee, the aforesaid promulgation shall be subject to the consent of one-half or more of all its audit committee members and be submitted to its board of directors for approval first and then by its shareholders' meeting. The same procedure shall apply



in the event of any amendment to the said operating procedures.

2. When a Subsidiary acquires or disposes of assets, the Subsidiary shall act in accordance with these Operating Procedures. The Audit Division of the Company shall include the operating specifics of the acquisition or disposal of assets by the Subsidiaries as one of the internal audit items and shall conduct audits regularly or randomly; and shall review the self-check report prepared by the Subsidiaries.
3. If a Subsidiary is not a public company but its transaction amount of acquisition or disposal of assets meets the requirement of public announcement and reporting as set forth in the "Regulations Governing the Acquisition or Disposal of Assets by Public Companies", the Company shall make the public announcement and reporting on behalf of the Subsidiary.
4. With regard to requirement of public announcement and reporting for subsidiaries, the provisions regarding "exceeding 20% of the Company's paid-in capital" or 10% of the total assets shall refer to the parent company's paid-in capital or total assets.

**Article 21:** Penalty provision is as follows:

If any of the Company's officers in charge of the acquisition or disposal of assets violates the Operating Procedures and such violation is verified, the person who violates the Operating Procedures will receive penalties commensurate with the severity of such violation according to the Company's working rules.

**Article 22:** Any matters not provided in these Operating Procedures shall be handled in accordance with applicable laws and regulations.