

KMC (Kuei Meng) International Inc.

Operating Procedures for Acquisition and Disposal of Assets

Chapter 1 General Principles

Article 1

These operating procedures ("Operating Procedures") are promulgated pursuant to Article 36-1 of the Securities and Exchange Act ("the Act") and other relevant laws and rules.

Article 2

The Company shall comply with these Operating Procedures when handling the acquisition and disposal of assets, provided that where another act or regulation provides otherwise, the provisions of such act shall prevail.

Article 3

The term "assets" as used in these Regulations includes the following:

1. 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.
2. Real property (including land, houses and buildings, investment property, and construction enterprise inventory) and equipment.
3. Memberships.
4. Patents, copyrights, trademarks, franchise rights, and other intangible assets.
5. Right-of-use assets.
6. Claims of financial institutions (including receivables, bills purchased and discounted, loans, and overdue receivables).
7. Derivatives.
8. Assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with law. Other major assets.

Article 4

Terms used in these Regulations are defined as follows:

1. Derivatives: Forward contracts, options contracts, futures contracts, leverage contracts, or swap contracts, whose value is derived from a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable; or hybrid contracts combining the above contracts; or hybrid contracts or structured products containing embedded derivatives. The term "forward contracts" does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) contracts.
2. Assets acquired or disposed through mergers, demergers, acquisitions, or transfer of shares in accordance with law: Refers to assets acquired or disposed through mergers, demergers, or acquisitions conducted under the Business Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institution Merger Act and other acts, or to transfer of shares from another company through issuance of new shares of its own as the consideration therefor (hereinafter "transfer of shares") under Article 156-3 of the Company Act.

3. Related party or subsidiary: As defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers.
4. Professional appraiser: Refers to a real property appraiser or other person duly authorized by law to engage in the value appraisal of real property or equipment.
5. Date of occurrence: Refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, dates of boards of directors resolutions, or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier; provided, for investment 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 the mainland China area approved by the Ministry of Economic Affairs Investment Commission or conducted in accordance with the provisions of the Regulations Governing Permission for Investment or Technical Cooperation in the Mainland Area.

Article 5

Professional appraisers and their officers, certified public accounts, attorneys, and securities underwriters that provide public companies with appraisal reports, certified public accountant's opinions, attorney's opinions, or underwriter's opinions shall meet the following requirements:

1. 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.
2. May not be a related party or de facto related party of any party to the transaction.
3. If the company 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 to which they belong and the following provisions:
 - (1) Prior to accepting a case, they shall prudently assess their own professional capabilities, practical experience, and independence.
 - (2) When conducting 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.
 - (3) 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.
 - (4) 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 appropriate and reasonable, and that they have complied with applicable laws and regulations.

Chapter 2 Disposition Procedures

Section 1 Establishment of Disposition Procedures

Article 6

After the procedures have been approved by the audit committee and the board of directors, they shall be submitted to a shareholders' meeting for approval; the same applies when the procedures are amended.

If approval of one-half or more of all audit committee members as required in the preceding paragraph is not obtained, the procedures may be implemented if approved by two-thirds or more of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.

Article 7

With respect to a the Company's acquisition or disposal of assets that is subject to the approval of the board of directors under the company's procedures or other laws or regulations, if a director expresses dissent and it is contained in the minutes or a written statement, the company shall submit the director's dissenting opinion to audit committee.

Where the position of independent director has been created in accordance with the provisions of the Act, when a transaction involving the acquisition or disposal of assets is submitted for discussion by the board of directors pursuant to the preceding paragraph, the board of directors shall take into full consideration each independent director's opinions. 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.

Any transaction involving major assets or derivatives shall be approved by one-half or more of all audit committee members and submitted to the board of directors for a resolution.

Article 8

In acquiring or disposing of real property, equipment, or right-of-use assets thereof where the transaction amount reaches 20 percent of the company's paid-in capital or NT\$300 million or more, the company, 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:

1. 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.
2. Where the transaction amount is NT\$1 billion or more, appraisals from two or more professional appraisers shall be obtained.
3. 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 certified public accountant shall be engaged to perform the appraisal and render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:
 - (1) The discrepancy between the appraisal result and the transaction amount is 20 percent or more of the transaction amount

- (2) The discrepancy between the appraisal results of two or more professional appraisers is 10 percent or more of the transaction amount
4. 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.

Section 2 Acquisition or Disposal of Assets

Article 9

The Company acquiring or disposing of securities shall, prior to the date of occurrence of the event, obtain financial statements of the issuing company for the most recent period, certified or reviewed by a certified public accountant, for reference in appraising the transaction price, and if the dollar amount of the transaction is 20 percent of the Company's paid-in capital or NT\$300 million or more, the Company shall additionally engage a certified public accountant prior to the date of occurrence of the event to provide an opinion regarding the reasonableness of the transaction price.

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 Financial Supervisory Commission (FSC).

Article 10

Where the Company acquires or disposes of intangible assets or right-of-use assets thereof or memberships and the transaction amount reaches 20 percent or more of paid-in capital or NT\$300 million or more, except in transactions with a domestic government agency, the company shall engage a certified public accountant prior to the date of occurrence of the event to render an opinion on the reasonableness of the transaction price.

Article 10-1

The calculation of the transaction amounts referred to in the preceding three articles shall be done in accordance with Article 33, herein, 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 a CPA's opinion has been obtained need not be counted toward the transaction amount.

Article 11

Where the Company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may be substituted for the appraisal report or CPA opinion.

Article 12

The procedures for acquisition or disposal of assets by the Company and the limitation of amounts thereof should be as follows:

1. The acquisition or disposal of long term security investment should be reviewed and appraised by the department responsible therefor and implemented after approval by the Board of Directors while the Board can authorize the Chairman to handle the matter and report to the Board for recognition on an after-the-event basis.
2. The acquisition or disposal of short term security investment should be reviewed and appraised by the department responsible therefor and implemented within the limits of amount set forth in this Article.
3. The acquisition or disposal of real estate should be reviewed and appraised by the department responsible therefor and implemented after approval by the Board, while the Board can authorize the Chairman to handle the matter and report to the Board for recognition on an after-the-event basis.
4. The acquisition of other fixed assets, memberships or intangible assets should be handled by the department responsible therefor in accordance with relevant internal rules of the Company after approval by the Board. The disposal of other fixed assets should be directly handled by the department responsible therefor in accordance with relevant internal rules of the Company.
5. Responsible Departments:
Acquisition or disposal of long/short term security investments: Finance Department or other related departments.
Acquisition or disposal of real estate and other fixed assets, memberships and intangible assets: Management Department or other related departments.
6. Limits of Amount:
Total amount of investments that acquisition of real estate or securities by the Company and its subsidiaries for non-operating purpose shall be limited as follows:
 - (1) The accumulated amount of all short term security investments for short term fund dispatching shall not exceed 50% of the Company's shareholders' equity as stated in its latest financial statement and the net value of security acquisition from the same company shall not exceed 20% of the Company's shareholders' equity as stated in its latest financial statement. Each subsidiary's investments in the preceding paragraph shall not exceed 20% and 10% of its shareholders' equity as stated in its latest financial statement.
 - (2) The accumulated amount of all long term security investments shall not exceed 60% of the Company's shareholders' equity as stated in its latest financial statement and the net value of security acquisition from the same company shall not exceed 30% of the Company's shareholders' equity as stated in its latest financial statement. The subsidiary which is not investment holding company, its investments in the preceding paragraph shall not exceed 20% and 10% of its shareholders' equity as stated in its latest financial statement.The amount which is authorized by the Board of Directors:
 - (1) When engaging in derivatives transactions, the Company shall follow the Section 4 in the Operating Procedures.
 - (2) Except for the derivatives transactions, the chairman may acquire or dispose of assets within 50 million of each case.

Section 3 Related Party Transactions

Article 13

When the Company 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 percent or more of the Company's total assets, the Company shall also obtain an appraisal report from a professional appraiser or a CPA's opinion in compliance with the provisions of the preceding Section and this Section.

The calculation of the transaction amount referred to in the preceding paragraph shall be made in accordance with Article 10-1 herein.

When judging whether a trading counterparty is a related party, in addition to legal formalities, the substance of the relationship shall also be considered.

Article 14

When a the Company 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 percent or more of paid-in capital, 10 percent or more of the company'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 company 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 board of directors:

1. The purpose, necessity and anticipated benefit of the acquisition or disposal of assets.
2. The reason for choosing the related party as a transaction counterparty.
3. 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 15 and Article 16.
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 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.
6. An appraisal report from a professional appraiser or a CPA's opinion obtained in compliance with the preceding article.
7. Restrictive covenants and other important stipulations associated with the transaction.

With respect to the types of transactions listed below, when to be conducted between a the Company and its parent or subsidiaries, or between its subsidiaries in which it directly or indirectly holds 100 percent of the issued shares or authorized capital, the company's board of directors may pursuant to Article 12 delegate the board chairman 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:

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

Where the position of independent director has been created in accordance with the provisions of the Act, when a matter is submitted for discussion by the board of directors pursuant to paragraph 1, the board of directors shall take into full consideration each independent director's opinions. 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.

The matters for which paragraph 1 shall first be approved by one-half or more of all audit committee members and then submitted to the board of directors for a resolution, and shall be subject to mutatis mutandis application of Article 6, paragraphs 4 and 5.

If a public company or a subsidiary thereof that is not a domestic public company will have a transaction set out in paragraph 1 and the transaction amount will reach 10 percent or more of the public company's total assets, the public company shall submit the materials in all the subparagraphs of paragraph 1 to the shareholders meeting for approval before the transaction contract may be entered into and any payment made. However, this restriction does not apply to transactions between the public company and its parent company or subsidiaries or between its subsidiaries.

The calculation of the transaction amounts referred to in paragraph 1 and the preceding paragraph shall be made in accordance with Article 31, paragraph 2 herein, 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 approved by the shareholders meeting or board of directors need not be counted toward the transaction amount.

Article 15

The Company that acquires real property or right-of-use assets thereof from a related party shall evaluate the reasonableness of the transaction costs by the following means:

1. 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 company purchases the property; provided, it may not be higher than the maximum non-financial industry lending rate announced by the Ministry of Finance.
2. 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 percent 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 transaction counterparties.

Where land and structures thereupon are combined as a single property purchased or leased 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 paragraph. The Company that acquires real property or right-of-use assets thereof from a related party and appraises the cost of the real property or right-of-use assets thereof in accordance with the preceding two paragraphs shall also engage a CPA to check the appraisal and render a specific opinion. Where The Company acquires real property or right-of-use assets thereof from a related party and one of the following circumstances exists, the acquisition shall be conducted in accordance with the preceding article, and the preceding three paragraphs do not apply:

1. The related party acquired the real property or right-of-use assets thereof through inheritance or as a gift.
2. 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.
3. 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 company's own land or on rented land.
4. The real property right-of-use assets for business use are acquired by the public company with its

parent or subsidiaries, or by its subsidiaries in which it directly or indirectly holds 100 percent of the issued shares or authorized capital.

Article 16

When the results of The Company's appraisal conducted in accordance with paragraph 1 and paragraph 2 of the preceding Article are uniformly lower than the transaction price, the matter shall be handled in compliance with Article 18. However, where the following circumstances exist, objective evidence has been submitted and specific opinions on reasonableness have been obtained from a professional real property appraiser and a CPA have been obtained, this restriction shall not apply:

1. Where the related party acquired undeveloped land or leased land for development, it may submit proof of compliance with one of the following conditions:
 - (1) 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.
 - (2) 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.
2. Where The Company 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 percent 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.

Article 17

Where The Company acquires real property or right-of-use assets thereof from a related party and the results of appraisals conducted in accordance with the preceding two articles are uniformly lower than the transaction price, the following steps shall be taken:

1. A special reserve shall be set aside in accordance with Article 41, paragraph 1 of the 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 Company uses the equity method to account for its investment in another company, then the special reserve called for under Article 41, paragraph of the Act shall be set aside pro rata in a proportion consistent with the share of public company's equity stake in the other company.
2. Audit Committee shall comply with Article 218 of the Company Act.

3. Actions taken pursuant to the preceding two subparagraphs shall be reported to a shareholders meeting, and the details of the transaction shall be disclosed in the annual report and any investment prospectus.

The Company that has set aside a special reserve under the preceding paragraph may not utilize the special reserve until it has recognized a loss on decline in market value of the assets it purchased or leased 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 FSC has given its consent.

When The Company obtains real property or right-of-use assets thereof from a related party, it shall also comply with the preceding two paragraphs if there is other evidence indicating that the acquisition was not an arms length transaction.

Article 18 Trading principle and approach

1. When the Company engage in derivatives trading, the type of derivatives are used for hedging purpose only, which includes foreign exchange forward and foreign exchange option.
2. Operating or hedging strategies: The foreign exchange derivatives transactions mentioned in the preceding paragraph is used for reducing the foreign exchange risk during operating and fund dispatching. The Company shall not engage in trades on any other derivatives for trading purpose. And the currency of the position held shall be the same as the one used actually in the Company's import/export transactions.
3. Authorization:
Finance treasury management: Responsible for foreign exchange management system, for example: collect market information about foreign exchange; evaluate trend and risk and familiar with financial instruments and transaction skill. Besides, accepting the instructions from financial officer, being authorized to manage the foreign exchange positions and preventing risk in accordance with Company's policy then submitting the report of hedged and non-hedged position on Board meeting periodically.
General accounting department: Responsible for the transaction confirmation, settlement and enter the transaction into the account book.
Audit department: To measure, monitor and control the risk of transactions in financial department and report to the Board of Directors in the event of a material deficiency.
4. Performance evaluation: When engaging in derivatives transactions, the Company shall daily record the transactions in detail in order to control the performance, and shall also settle exchange gains and losses monthly, quarterly, half yearly and yearly.
5. Transaction contract dollar amount:
 - (1) Transactions to avoid exchange risk: The total amount of the contracts shall not exceed the aggregate amount of import and export in the current year.
 - (2) Transactions to avoid interest rate risk: The total amount of the contracts shall not exceed the amount of total debt.
 - (3) Transactions to avoid the exchange rate and interest rate risk arising from projects: The total amount of the contracts shall not exceed the aggregate amount of the project budget.
6. Maximum loss limit:
For hedging transactions, the upper limit of losses is 20% of the contract amount for all contracts in aggregate or for any individual contract.

Article 19 Operating procedures

1. Level of authorization:

The level of authorization for derivatives transactions: The Company shall engage in transactions after chairman's approval.

2. The unit responsible for implementation and transaction process:

- (1) Execution of transactions: The financial department trading personnel shall engage in transactions with financial institutions after chairman's approval in accordance with the provisions of the preceding paragraph. After the complete, the trading personnel shall fill out the transaction form indicate the content in accordance with the transaction record provided from financial institutions, assess the position and provide a copy of the transaction record to general accounting department personnel after supervisory ratification.
 - (2) Confirmation of transactions: The general accounting department personnel shall confirm the transaction terms in accordance with the copy of transaction record provided from trading personnel and then make the settlement and enter the transaction into the account book. The treasury personnel shall maintain the statement monthly and provide to the general accounting department personnel for accounting evaluation basis.
3. When engaging in derivatives transaction, the Company shall comply with these Operating Procedures to authorize relevant personnel and submit in the coming Board meeting.

Article 20 Risk management measures

1. Scope of risk management:

- (1) Credit risk management: The Company shall only deal with to those counterparties who have banking relationship with. After trading, the general accounting department personnel who enter the transaction into the account book shall finish the form of budget control and check the bank statement with the counterparties regularly.
 - (2) Market/ price risk management: General accounting department personnel who enter the transaction into the account book should always check whether the total amount of transaction meets the limits in accordance with the Operating Procedures. General accounting department personnel should always conduct market assessment, and pay attention to the impact on the possible position of the profit and loss due to the market fluctuation. °
 - (3) Liquidity, cash flow risk management: To ensure to market liquidity, the Company shall choose the financial institutions with adequate equipment, information and trading capacity. Trading personnel shall always pay attention to cash flow to make sure the Company has the sufficient cash to make the settlement.
 - (4) Operating risk management: The Company shall comply with the authorized trading amount and the rules of operating procedure.
 - (5) Legal risk management: Any legal document between the Company and banks shall be based on the principle of financial department signature. And document shall be signed after reviewing by internal legal personnel if necessary.
2. Personnel engaged in derivatives trading may not serve concurrently in other operations such as confirmation and settlement.
3. Risk measurement, monitoring, and control personnel shall be assigned to a different department that the personnel in the preceding subparagraph and shall report to the Board of Directors or senior management personnel with no responsibility for trading or position decision-making.
4. 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 personnel authorized by the Board of Directors.

Article 21 Internal audit system:

The Company'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, the audit committee shall be notified in writing.

Article 22 Regular evaluation methods and the handling of irregular circumstances

The positions of derivatives shall be evaluated by financial department once a week; however, for hedging purpose, the positions shall be evaluated every two weeks. Trading position, term of contract, evaluation of loss/gain contingency and the points of future management shall be listed in the report and then submit to the Board of Directors periodically.

Board of Directors shall designate senior management personnel to pay continuous attention to monitoring and controlling derivatives trading risk and periodically evaluate whether derivatives trading performance is consistent with established operational strategy and whether the risk undertaken is within the Company's permitted scope of tolerance. Senior management personnel authorized by the Board of Directors shall periodically evaluate the risk management measures currently employed are appropriate and are faithfully conducted in accordance with these Regulations and the Operating Procedures. When irregular circumstances are found in the evaluation report (for example, trading position is excess than the limits of loss), the report shall be submitted to the board of directors immediately and appropriate measures shall be adopted. Where the Company has independent directors, an independent director shall be present at the meeting and express an opinion.

Article 23 Public disclosure of information

1. In the event of losses by engaging in derivatives transactions up to the maximum loss limit on total trading or for individual contracts, the Company shall publicly announce and report the relevant information on the FSC's designated website within 2 days counting inclusively from the date of occurrence of the event.
2. The Company shall enter the information on the status of derivatives trading engaged in up to the end of the preceding month by itself and any subsidiaries that are not domestic public companies in the prescribed format into the information reporting website designated by the FSC by the 10th day of each month.

Article 24

The Company engaging in derivatives trading shall establish a log 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 the preceding article shall be recorded in detail in the log book.

The Company'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, the audit committee shall be notified in writing.

Article 25

The Company that conducts a merger, demerger, acquisition, or transfer of shares, prior to convening the Board of Directors to resolve on the matter, shall engage a CPA, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and submit it to the Board of Directors for deliberation. However, the requirement of obtaining an aforesaid opinion on reasonableness issued by an expert may be exempted in the case of a merger by the Company of a subsidiary in which it directly or indirectly holds 100% of the issued shares or authorized capital, and in the case of a merger between subsidiaries in which the Company directly or indirectly holds 100% of the respective subsidiaries' issued shares or authorized capital.

Article 26

The Company participating in a merger, demerger, acquisition, or transfer of shares 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 paragraph 1 of 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 a company 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 due to lack of a quorum, insufficient votes, or other legal restriction, or the proposal is rejected by the shareholders meeting, the companies participating in the merger, demerger or acquisition shall immediately publicly explain the reason, the follow-up measures, and the preliminary date of the next shareholders meeting.

Article 27

A company participating in a merger, demerger, or acquisition 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 FSC is notified in advance of extraordinary circumstances and grants consent.

A company participating in a transfer of shares shall call a Board of Directors meeting on the day of the transaction, unless another act provides otherwise or the FSC is notified in advance of extraordinary circumstances and grants consent.

When participating in a merger, demerger, acquisition, or transfer of another company's shares, a company that is listed on an exchange or has its shares traded on an OTC market shall prepare a full written record of the following information and retain it for 5 years for reference:

1. 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.
2. 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.
3. 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 another company's shares, a company that is listed on an exchange or has its shares traded on an OTC market shall, within 2 days

counting inclusively from the date of approval of a resolution by the Board of Directors, report (in the prescribed format and via the Internet-based information system) the information set out in subparagraphs 1 and 2 of the preceding paragraph to the FSC 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 company(s) so listed or traded shall sign an agreement with such company whereby the latter is required to abide by the provisions of paragraphs 3 and 4.

Article 28

Each 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.

Article 29

The Company participating in a merger, demerger, acquisition, or transfer of shares may not arbitrarily alter the share exchange ratio or acquisition price unless under the below-listed circumstances, and shall stipulate the circumstances permitting alteration in the contract for the merger, demerger, acquisition, or transfer of shares:

1. 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.
2. An action, such as a disposal of major assets that affects the Company's financial operations.
3. An event, such as a major disaster or major change in technology that affects shareholder equity or share price.
4. An adjustment where any of the companies participating in the merger, demerger, acquisition, or transfer of shares from another company, buys back treasury stock.
5. An increase or decrease in the number of entities or companies participating in the merger, demerger, acquisition, or transfer of shares.
6. Other terms/conditions that the contract stipulates may be altered and that have been publicly disclosed.

Article 30

The contract for participation by the Company in a merger, demerger, acquisition, or of shares shall record the rights and obligations of the companies participating in the merger, demerger, acquisition, or transfer of shares, and shall also record the following:

1. Handling of breach of contract.
2. 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.
3. 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.
4. The manner of handling changes in the number of participating entities or companies.
5. Preliminary progress schedule for plan execution, and anticipated completion date.
6. Scheduled date for convening the legally mandated shareholders meeting if the plan exceeds the deadline without completion, and relevant procedures.

Article 31

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.

Article 32

Where any of the companies participating in a merger, demerger, acquisition, or transfer of shares is not the Company, the Company shall sign an agreement with that company whereby the latter is required to abide by the provisions of Article 27, Article 28, and Article 31.

Chapter 3 Public Disclosure of Information

Article 33

Under any of the following circumstances, The Company acquiring or disposing of assets shall publicly announce and report the relevant information on the FSC's designated website in the appropriate format as prescribed by regulations within 2 days counting inclusively from the date of occurrence of the event:

1. Acquisition or disposal of real property or right-of-use assets thereof from or to a related party, or acquisition or disposal of assets other than real property or right-of-use assets thereof from or to a related party where the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the company's total assets, or NT\$300 million or more; provided, this shall not apply to 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.
2. Merger, demerger, acquisition, or transfer of shares.
3. Losses from derivatives trading reaching the limits on aggregate losses or losses on individual contracts set out in the procedures adopted by the company.
4. Where equipment or right-of-use assets thereof for business use are acquired or disposed of, and furthermore the transaction counterparty is not a related party, and the transaction amount meets any of the following criteria:
 - (1) For The Company whose paid-in capital is less than NT\$10 billion, the transaction amount reaches NT\$500 million or more
 - (2) For The Company whose paid-in capital is NT\$10 billion or more, the transaction amount reaches NT\$1 billion or more.
5. Acquisition or disposal by The Company in the construction business of real property or right-of-use assets thereof for construction use, and furthermore the transaction counterparty is not a related party, and the transaction amount reaches NT\$500 million; among such cases, if the public company has paid-in capital of NT\$10 billion or more, and it is disposing of real property from a completed construction project that it constructed itself, and furthermore the transaction counterparty is not a related party, then the threshold shall be a transaction amount reaching NT\$1 billion or more.
6. Where land is acquired under an arrangement on engaging others to build on the company'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 counterparty is not a related party, and the amount the company expects to invest in the transaction reaches NT\$500 million.

7. Where an asset transaction other than any of those referred to in the preceding six subparagraphs, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20 percent or more of paid-in capital or NT\$300 million; provided, this shall not apply to the following circumstances:
 - (1) Trading of domestic government bonds or foreign government bonds with a rating that is not lower than the sovereign rating of Taiwan.
 - (2) Where done by professional investors—securities trading on securities exchanges or OTC markets, or subscription of foreign government bonds, or of ordinary corporate bonds or general bank debentures without equity characteristics (excluding subordinated debt) that are offered and issued in the primary market, or subscription or redemption of securities investment trust funds or futures trust funds, or subscription or redemption of exchange traded notes, or subscription by a securities firm of securities as necessitated by its undertaking business or as an advisory recommending securities firm for an emerging stock company, in accordance with the rules of the Taipei Exchange.
 - (3) Trading of bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises.

The amount of transactions above shall be calculated as follows:

1. The amount of any individual transaction.
2. The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same transaction counterparty within the preceding year.
3. 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.
4. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.
5. "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 these Regulations need not be counted toward the transaction amount.

The Company shall compile monthly reports on the status of derivatives trading engaged in up to the end of the preceding month by the company and any subsidiaries that are not domestic public companies and enter the information in the prescribed format into the information reporting website designated by the FSC by the 10th day of each month. When The Company at the time of public announcement makes an error or omission in an item 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. The Company acquiring or disposing of assets shall keep all relevant contracts, meeting minutes, log books, appraisal reports and CPA, attorney, and securities underwriter opinions at the company, where they shall be retained for 5 years except where another act provides otherwise.

Article 34

Where any of the following circumstances occurs with respect to a transaction that the Company has already publicly announced and reported in accordance with the preceding 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:

1. Change, termination, or rescission of a contract signed in regard to the original transaction.
2. The merger, demerger, acquisition, or transfer of shares is not completed by the scheduled date set forth in the contract.
3. Change to the originally publicly announced and reported information.

Article 35

Information required publicly announced and reported in accordance with the provisions of Chapter 3 on acquisitions and disposals of assets by a subsidiary of the Company that is not The Company in Taiwan shall be reported by the Company. The paid-in capital or total assets of the Company shall be the standard for determining whether or not a subsidiary referred to in the preceding paragraph is subject to Article 33 requiring a public announcement and regulatory filing in the event the type of transaction specified therein reaches 20% of paid-in capital or 10% of the total assets. For the calculation of 10% of total assets under these Regulations, the total assets stated in the most recent parent company only financial report or individual financial report prepared under the Regulations Governing the Preparation of Financial Reports by Securities Issuers shall be used. In the case of a company whose shares have no par value or a par value other than NT\$10—for the calculation of transaction amounts of 20 percent of paid-in capital under these Regulations, 10 percent of equity attributable to owners of the parent shall be substituted; for calculations under the provisions of these Regulations regarding transaction amounts relative to paid-in capital of NT\$10 billion, NT\$20 billion of equity attributable to owners of the parent shall be substituted.

Article 36

Where an audit committee has been established in accordance with the provisions of the Act, the provisions regarding supervisors set out in Articles 6, 8, and 14, and in Article 21, paragraph 2, shall apply mutatis mutandis to the audit committee. And the provisions regarding independent directors set out in Article 17, paragraph 1, subparagraph 2 shall apply mutatis mutandis to the audit committee.

Article 37

When handling with the acquisition and disposal of assets, the personnel of the Company shall comply with these Operating Procedures for preventing losses by the inappropriate operations. If there is any violation of related regulations and the Operating Procedures, the penalty is in accordance with related Personnel Articles of the Company.

Article 38

The Operating Procedures shall be enforced after approved by the Board of Directors and consented by the shareholders' meeting; the same procedure shall be followed when amended.