

Phison Electronics Corporation

Procedures for acquisition or disposal of assets

Section I General

Article 1 Purpose and basis

To strengthen the company's assets management and implement the information disclosure, pursuant to the provisions of Article 36 of the Securities Exchange Act (hereinafter referred to as the "SEA") and "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" (hereinafter referred to as the "Regulations"), these Procedures are established (hereinafter referred to as the "Procedures").

Article 2 Applicable scope

Matters related to the acquisition or disposal of assets for the Company and its subsidiaries shall be carried out according to Regulations and the provisions of the Procedures, unless otherwise provided by other laws and regulations.

Article 3 Scope of assets and terminology

The scope of assets mentioned in the Procedures is as follows:

1. long-term and short-term investment: stocks, government bonds, corporate bonds, financial debenture, securities of outstanding fund, depositary receipt, call (put) warrant, beneficiary securities, and asset backed securities.
2. Real property (including land, houses and buildings, investment property) and equipment.
3. Membership certificate.
4. Intangible asset: including patency, copyright, trade mark right, and franchise.
5. Right-of-use assets.
6. Financial institutes' debentures (including account receivable, foreign exchange buying discount, loan, and non-accrual debt).
7. Financial derivatives.
8. Asset acquired or disposed due to legal merger, division, acquisition, or receiving shares.
9. Other major assets.

Definitions:

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. Asset acquired or disposed due to legal merger, demerger, acquisition, or receiving shares: Assets acquired from or disposed through merger, demerger, or acquisition in accordance

with Business Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institutions Merger Act, or other laws and regulations, or receiving IPO shares of other company (herein after referred to as transfer of shares) in accordance with Article 156-3 of the Company Act.

3. Stakeholders/subsidiary: As the Regulations the Preparation of Financial Reports by Securities Issuers may define.
4. Professional appraiser: Real estate property appraiser or other professionals legally permitted for practicing appraisal on real estate property and equipment.
5. Actual occurrence date: a contract execution date, payment date, completion date, ownership transfer date, board of directors' resolution date, or date on which a counterparty and transaction amount become definitely certain, whichever happens earlier. However, for investment that requires approval from the competent authority, an actual occurrence date shall be either the date abovementioned or the date of the said approval, whichever happens earlier.
6. Investment in Mainland China area: An investment made in Mainland China in compliance with the Regulations Governing Approval for Investment or Technical Cooperation in Mainland China Area stipulated by the Investment Commission, Ministry of Economic Affairs.
7. Investment professional: Refers to financial holding companies, banks, insurance companies, bill finance companies, trust enterprises, securities firms operating proprietary trading or underwriting business, futures commission merchants operating proprietary trading business, securities investment trust enterprises, securities investment consulting enterprises, and fund management companies, that are lawfully incorporated and are regulated by the competent financial authorities of the jurisdiction where they are located.
8. Securities exchange: "Domestic securities exchange" refers to the Taiwan Stock Exchange Corporation; "foreign securities exchange" refers to any organized securities exchange market that is regulated by the competent securities authorities of the jurisdiction where it is located.
9. Over-the-counter venue ("OTC venue", "OTC"): "Domestic OTC venue" refers to a venue for OTC trading provided by a securities firm in accordance with the Regulations Governing Securities Trading on the Taipei Exchange; "foreign OTC venue" refers to a venue at a financial institution that is regulated by the foreign competent authority and that is permitted to conduct securities business.

For the valuation report obtained by the Company or the opinion of the accountants, attorneys or securities underwriters, the professional appraisers and the valuers, the accountants, attorneys or securities underwriters and the dealing party (hereinafter referred to professional) 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 professionals referred to in the preceding paragraph shall comply with the Regulations and the industry codes of their respective trade associations of which they are members as well as the related regulations.

Section II Acquisition or Disposal of Assets

Article 4 Evaluation Procedure:

The price determination method and reference basis for acquisition and disposal of assets of the Company shall comply with the following regulations:

1. Securities:

For acquisition and disposal of securities, the most recent financial statements audited and certified or checked and approved by accountants from the Company before the day of the event shall be taken as the reference for evaluating the transaction price, and the transaction price shall be determined as follows:

- (1) For acquisition and disposal of securities bought or sold at the centralized trading market or at the Over-the-counter venue, determine according to the transaction price at that time.
- (2) For acquisition and disposal of securities not bought or sold at the centralized trading market or at the Over-the-counter venue, decide with consideration of net value per share, profit-making ability, future expanding potential and others and according to the transaction price at that time, or decide by referring to the current market interest rate, coupon rate, debtor's credit and others.

Where the transaction amount reaches 20% of more of paid-in capital or NT\$300 million or more, the Company shall engage a certified public accountant to render an opinion on the reasonableness of the transaction price before the date of the occurrence; based on the provisions of Paragraph 4 of Article 3. 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 (hereafter referred to as the "FSC").

2. Real Property, Equipment, or right-of-use assets thereof:

Transaction term and price for acquisition or disposal of real property shall be referred to the publicly announced current value, appraisal value, neighboring or closely value of real property and others; the acquisition or disposal of equipment should be conducted after collecting relevant price information and based on inquiry, parity, negotiation or tender.

In acquiring disposing real property, or equipment, or right-of-use assets thereof where the transaction amount reaches 20% 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 business machinery and equipment or right-of-use assets thereof, shall obtain an appraisal report in advance from a professional appraiser before the date of the occurrence 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, except in the case when the appraisal results of acquiring an asset are higher than the transaction amount, or when the appraisal results of disposing an asset are lower than the transaction amount, a certified public accountant, based on the provisions of Paragraph 4 of Article 3, and render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:
 - I. The discrepancy between the appraisal result and the transaction amount is 20% or more of the transaction amount.
 - II. The discrepancy between the appraisal result and the transaction amount is 10% or more of the transaction amount.
 - (4) Where an appraisal from professional appraisers is conducted before a contract execution date, no more than three months may pass between the date of the appraisal report 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 appraisal.
3. Intangible Assets or right-of-use assets thereof or memberships:
- Acquisition or disposal of intangible Assets or right-of-use assets thereof or memberships shall be conducted after collecting relevant price information and assess regulations. Shall be prudently assess regulations and contract content to determine the transaction price. Acquisition or disposal of memberships shall be conducted after collecting relevant price information and based on inquiry or parity.
- Where the Company acquires or disposes intangible assets or right-of-use assets thereof or memberships and the transaction amount reaches 20% of more of paid-in capital or NT\$300 million or more, the Company, unless transacting with a domestic government agency, shall engage a certified public accountant to render an opinion on the reasonableness of the transaction price before the date of the occurrence; based on the provisions of Paragraph 4 of Article 3,
4. The amount of transactions above shall be calculated in compliance with the procedures set

out in paragraph 2 of Article 19, 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 certified public accountant opinion has been obtained need not be counted toward the transaction amount.

5. Other Major Assets

Acquisition or disposal of creditor rights in financial institution, derivatives, assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law or other major assets shall be conducted after collecting relevant price information depending on trading assets targets, and the transaction price shall be decided based on laws related to careful evaluation and contract content.

- 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 certified public accountant opinion.

Article 5 Operating Procedure

Authorization Limit and Level

- For acquisition or disposal of assets by the Company, the undertaker shall consolidate the information such as reason of acquisition or disposal, target object, counterpart, transfer price, payment conditions and price reference basis and submit to the Authority for approval depending on trading assets items. The regulations related to authorization limit and level of derivatives or others shall refer to the “Procedures for Engaging in Derivatives Trading” of company.

Item	Amount	Authority			
		Board of Directors	Chairman	CEO	General Manager
Long-term securities investment (including long-term equity investment)	Below 80 million (excluding)				Approval
	80 million (including) ~ 300 million (excluding)		Approval	Review	Review
	Over 300 million (including)	Approval	Review	Review	Review
Short-term securities investment	Total amount per level below 100 million (including)				Approval
	Total amount per level 100 million (excluding) ~ 300 million (including)		Approval	Review	Review
	Total amount per level over 300 million (excluding)	Approval	Review	Review	Review
Real property (or right-of-use assets thereof)	Below 300000 (excluding)	Implemented in accordance with the Table of Delegated Authority			
	300000 (including) ~ 300 million (excluding)		Approval	Review	Review
	Over 300 million (including)	Approval	Review	Review	Review
Equipment and intangible assets (or right-of-use assets thereof)	Below 300000 (excluding)	Implemented in accordance with the Table of Delegated Authority			
	300000 (including) ~ 30 million (excluding)				Approval
	30 million (including) ~ 300 million (excluding)		Approval	Review	Review
	Over 300 million (including)	Approval	Review	Review	Review
Memberships	Below 20 million (excluding)		Approval	Review	Review
	Over 20 million (including)	Approval	Review	Review	Review
Creditor rights in financial institution	Below 100 million (excluding)		Approval	Review	Review
	Over 100 million (including)	Approval	Review	Review	Review

(Continue on the table below)

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Item	Amount	Authority			
		Board of Directors	Chairman	CEO	General Manager
Assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law	Shall not be decided by resolution of the Board of Shareholders according to laws	Approval	Review	Review	Review
	Shall be decided by resolution of the Board of Shareholders according to laws	Review	Review	Review	Review
Other major assets	Below 150 million (excluding)		Approval	Review	Review
	Over 150 million (including)	Approval	Review	Review	Review

2. Pursuant to the Procedures or other laws and regulations, the acquisition or disposal of assets by the Company shall be submitted to the Board of directors for its approval. When the procedures for the acquisition and disposal of assets are submitted for discussion by the board of directors, 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 meeting.

The acquisition or disposal of major assets and derivatives shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution, and shall be subject to mutatis mutandis application of the provisions of Paragraph 4 and 5, Article 22.

The resolutions of Board of Directors specified herein shall be approved by more than half of all directors with more than two-thirds of all directors being present.

The acquisition or disposal of assets by the Company shall be executed by the following units:

1. Long-term investment in securities, memberships, assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law and other major assets: appraised and executed by the project team through directing of General Manager, CEO or Chairman.
2. Short-term investment in securities, derivatives and creditor rights in financial institution: appraised and executed by Finance Department.
3. Real property (or right-of-use assets thereof): undertaken by Administration Division.
4. Equipment and intangible assets (or right-of-use assets thereof): undertaken by requisition unit with Administration Division or Purchasing Department.
5. Public announcement and declaration: the public announcement and declaration personnel engage the undertaker to consolidate relevant information of public announcement and declaration and manage wholly.

The transaction process and operation for acquisition or disposal of assets shall comply with relevant laws and provisions related to internal control system of the Company.

Article 6 Total Assets and Individual Limit

The total amount of non-operating use real property , or right-of-use assets thereof or securities

acquired by the Company and each subsidiary and the limit of individual securities are as follows:

1. Total amount of real property, or right-of-use assets thereof acquired by the Company for non-operating use shall not be higher than 20% of shareholders' equity of the Company. Total amount of real property, or right-of-use assets thereof acquired by each subsidiary for non-operating use shall not be higher than 10% of shareholders' equity of the Company.
2. Total amount of long-term and short-term securities investment acquired by the Company shall not be higher than 100% of shareholders' equity of the Company. Total amount of long-term and short-term securities investment acquired by each subsidiary shall not be higher than 60% of shareholders' equity of the Company.
3. The amount of individual security acquired by the Company shall not be higher than 50% of shareholders' equity of the Company.
4. The amount of individual security acquired by acquired by each subsidiary shall not be higher than 40% of shareholders' equity of the Company.

Article 7 Control on procedures for the acquisition or disposal of assets of subsidiaries

The Company's procedures for controlling the acquisition or disposal of assets by subsidiaries are as follows:

1. The Company shall urge the Subsidiaries to prepare and execute the Disposal Procedure for the Acquisition or Disposal of the Assets. After this procedure is adopted by the subsidiaries' Board of Directors, it shall be submitted to the supervisors and the shareholders meeting for approval. The same shall apply to the amendment of this procedure.
2. Control on procedures for the acquisition or disposal of assets of subsidiaries by the Company, shall be handled in accordance with relevant laws and Internal Control System of the Company.
3. The subsidiaries of the Company are not domestic public offering companies, thus the acquisition or disposal of assets shall be reported or announced by the Company in accordance with the provisions of Section 5.

The foresaid subsidiaries reach paid-in capital or total assets and their information required to be reported in accordance with the provisions of paragraph 1 of Article 19, it is determined by the paid-in capital or total assets of the company.

Section III Procedures for Related Party Transactions

Article 8 Scope

In acquiring or disposing of assets with a Related Party not only practice in accordance with the provisions of the previous section and this section, and regulated by below-mentioned resolution procedures, evaluation of the reasonableness of the transaction terms and others, but also in the case when the transaction amount reaches 10% of more of the total assets, the company shall obtain an appraisal report in advance from a professional appraiser or engage a certified public accountant to render an opinion in accordance with the provisions of the previous Section.

The method for calculating the preceding transaction amount shall comply with the Paragraph 4 of Article 4.

Besides, determine the Related Party in accordance with the formal law and consider the substance relationship.

Article 9 Resolution Procedure

When the company intends to acquire or dispose of real property, or right-of-use assets thereof from a related party, or when it intends to acquire or dispose of assets or right-of-use assets thereof other than real property from a related party and the transaction amount reaches 20% or more of paid-in capital, 10% or more of the company's total assets, or NT\$300 million or more, except in trading of domestic government bonds or domestic 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 the board of directors:

1. The purpose, necessity and anticipated benefits of the asset acquisition or disposal.
2. The reason for choosing the Related Party as a trading counterparty.
3. With respect to the acquisition of real property from a Related Party, or right-of-use assets thereof, information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with the provisions of Article 10 and 11.
4. The date and price at which the Related Party originally acquired the real property, the original counterparty and the trading counterparty's relationship with the Company and the Related Party.
5. Monthly cash flow forecasts for the year commencing from the month of anticipated signing of the contract and evaluation of the necessity of the transaction and reasonableness of the use of proceeds.
6. Obtain an appraisal report in advance from a professional appraiser or engage a certified public accountant to render an opinion pursuant to the preceding paragraph.
7. Restrictive and other important stipulations associated with the transaction.

With respect to the types of transactions listed below, when to be conducted between 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 Board of Directors may first authorize the Chairman to execute within a certain amount in accordance with the provisions of Subparagraph 1, Paragraph 1 of Article 5, and shall report at the most recent meeting of the Board of Directors for ratification:

- (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

When the procedures are submitted for discussion by the Board of Directors according 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 issues which shall be recognized by Audit Committee according to Paragraph 1 shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution, and shall be subject to mutatis mutandis application of the provisions of Paragraph 4 and 5, Article 22.

If the Company or a subsidiary which is not a domestic public company has made a transaction stipulated in Paragraph 1, and the transaction amount is more than 10 percent of the Company's total assets, the Company shall submit the materials listed in the Paragraph 1 to the Shareholders' Meeting for approval before signing a transaction contract and making payments. However, the regulation does not apply in the transactions between the Company and its parent company and subsidiaries, or the transactions among its subsidiaries.

The calculation of the transaction amounts referred to in Paragraph 1 and the preceding paragraph shall be made in accordance with Paragraph 2 of Article 19 herein, and "within the preceding year" as used herein refers to one year preceding the date of occurrence of the current transaction. Items that have been approved by the shareholders' meeting, the board of directors and Audit Committee need not be counted toward the transaction amount.

Article 10 Assessment procedures

The company 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 in accordance with the law. "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% or more of the financial institution's appraised loan value of the property and the period of the loan shall have been one year or more. However, this shall not apply where the financial institution is a related party of one of the trading 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 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 2 paragraphs of this Article 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 five years will have elapsed or right-of-use assets thereof from the time the related party signed the contract to obtain the real property 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 engaging others to build on its own land, engaging the related party to build on rented land.
4. The real property right-of-use assets for business use are acquired by the 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 11 Procedures 1 in case of the assessment result uniformly lower than the transaction price
When the results of the company's appraisal conducted in accordance with the paragraphs 1 and 2 of the preceding Article are uniformly lower than the transaction price, the matter shall be handled in compliance with the provisions of Article 12. 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 has 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 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.
 - (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 practice.
2. Where the company acquires 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 transactions completed for the acquisition of neighboring real property of a similar size by unrelated parties within the preceding year.

Completed transactions for neighboring real property in the preceding paragraph in principle refers to real property 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; transaction for similarly sized real property in principle refer to transactions completed by unrelated parties for real property with an area of no less than 50% of the property in the planned transaction; within

one year refers to one year from the actual date of acquisition of the real property or obtainment of the right-of-use assets thereof.

Article 12 Procedures 2 in case of the assessment result uniformly lower than the transaction price
Where the company acquires real property or obtainment of the right-of-use assets thereof from a related party and the results of appraisals conducted in accordance with the provisions of preceding 2 Articles are uniformly lower than the transaction price, the following steps shall be taken.

1. The difference between the real property or obtainment of the right-of-use assets thereof transaction price and the appraised costs shall be set aside as a special reserve in accordance with the provisions of the paragraph 1, Article 41 of the SEA and may not be distributed or used for capital increase or issuance of bonus shares. If an investor that has investment in the company and adopts the equity method for such investment and is a public company, it shall also set aside a special reserve under paragraph 1, Article 41 of the SEA in relation to its share of the above special reserve set aside by the company in proportion to its shareholding.
2. Independent directors that are members of the Audit Committee shall comply with the provisions of Article 218 of the Company Act.
3. The circumstances of handling under the provisions of preceding 2 paragraphs of this Article shall be reported to General Meeting and the detailed contents of the transaction disclosed in the annual report and prospectus.

If the company set aside a special reserve under the preceding paragraph, the company shall not utilize such special reserve until it has recognized a loss due to price decline for the assets it purchased at a premium or leased, or contract has been terminated, or they have 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 the FSC has agreed with the utilization.

When the company obtains real property or obtainment of the right-of-use assets thereof from a related party, it shall also comply with the provisions of paragraph 1 and paragraph 2 of this Article if there is other evidence indicating that the acquisition was not an arm length transaction.

Section IV Procedures for Conduct a Merger, Demerger, Acquisition or Transfer of Shares

Article 13 Resolution Procedure

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 and passage. However, for the merger of a subsidiary which directly or indirectly holds 100% issued shares or capital sum, or the merger between

subsidiaries which directly or indirectly hold 100% issued shares or capital sum, the opinion on the reasonableness issued by experts pursuant to the preceding paragraph shall be avoided. The Company participating in a merger, demerger, acquisition 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 preceding paragraph 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, this Company 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.

The 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.

The 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 authority is notified in advance of extraordinary circumstances and grants consent.

When participating in a merger, demerger, acquisition, or transfer of shares, the Company shall prepare a full written record of the following information and retain it for five 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 shares, the Company shall, in two days of passage 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 the Company 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 shall sign an agreement with such company whereby the latter is required to abide by the provisions of preceding 2 paragraphs.

Article 14 Non-disclosure commitment

Every person participating in or privy to the plan for merger, demerger, acquisition, or transfer of shares shall issue a written undertaking of confidentiality and may not disclose the content of the plan prior to public disclosure of the information and may not trade, in their own name or under the name of another person, in any share or other equity security of any company related to the plan for merger, demerger, acquisition, or transfer of shares.

Article 15 Alter principles of the share exchange ratio or acquisition price

The companies 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. Conduct 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 share.
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 16 Contents of a contract

The contract for participation by the company in a merger, demerger, acquisition, or transfer 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 share previously bought back by any company that is extinguished in a merger or that is demerged.
3. The amount of treasury share 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 General Meeting if the plan exceeds the deadline without completion, and relevant procedures.

Article 17 Changes of companies participated in

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 General 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 General Shareholders' Meeting to resolve on the matter anew.

Article 18 Disposal of a company that is not a public one

Where any of the companies participating in a merger, demerger, acquisition, or transfer of shares is not a public company, the public company(s) shall sign an agreement with the non-public company whereby the latter is required to abide by the provisions of paragraphs 4 through paragraphs 8 of Article 13 and Article 14 and preceding Article.

Section V Procedures for the Information Disclosure

Article 19 Public Announcement and Declaration Procedure

In acquiring or disposing of assets, should any of the following conditions occur after the filing and public announcement of transactions, the Company needs to file and make public announcement at the website specified by FSC accordingly in two days from the Date of the Event by using the prescribed format according to the nature:

1. Acquisition or disposal real property or right-of-use assets thereof from a Related Party, or in acquiring or disposing any other asset than the real property or right-of-use assets thereof with a Related Party and also the transaction amount reaches 20% of paid-in capital, 10% of the total assets or NT\$300 million or more; Provided, however, this shall not apply to the trading of domestic government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds issued by securities investment trust enterprise.
2. Merger, demerger, acquisition, or transfer of share.
3. The loss of trading derivatives reaches the limit for all or individual contract set forth by the Procedures for Engaging in Derivatives Trading.
4. Where the type of asset acquired or disposed is equipment for business use or right-of-use

assets thereof and the trading counterparty is not a Related Party, the transaction amount shall meet one of the following conditions:

- (1) For the public companies with paid-in capital less than NT\$10 billion, the transaction amount is NT\$ 500 million or more.
 - (2) For the public companies with paid-in capital more than NT\$10 billion, the transaction amount is NT\$1 billion or more.
5. 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, the amount the Company expects to invest in the transaction reaches NT\$500 million.
6. Where an asset transaction other than any of those referred to in the preceding five subparagraphs, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20% of paid-in capital or NT\$300 million or more; provided, this shall not apply to the following circumstances:
- (1) Trading of domestic government bonds or foreign government bonds with the credit rating not lower than the sovereign credit rating of Taiwan.
 - (2) Where done by professional investors-securities trading on securities exchanges or OTC markets, or subscription of foreign government bonds, or 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 (ETN), 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/resale agreements and the purchase or redemption of domestic money market funds issued by securities investment trust enterprise.

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 trading counterparty within the preceding year.
3. The cumulative transaction amount of real estate acquisitions and disposals (cumulative acquisitions and disposals, respectively) within the same development project or right-of-use assets thereof 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.

“Within the preceding year” as used in the preceding paragraph refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with the Procedures need not be counted toward the transaction amount.

The Company shall, on a monthly basis, report and make a public announcement of the financial derivative transactions engaged by it and its subsidiary which is not a domestic public company up to the end of the previous month in accordance with relevant regulations by the tenth day of each month, and enter the information at the website for declaration specified by FSC.

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 headquarters, where they shall be retained for 5 years except where another act provides otherwise.

Article 20 Other important matters

The Company shall, within one of the following circumstances, within two days from the date of the occurrence of the transaction in accordance with the provisions of the preceding Article, declare the relevant information on the designated website of the FSC:

1. The contract signed related to the original transaction has been changed, terminated or rescinded.
2. The merger, demerger, acquisition, or transfer of shares has not been completed according to the contracted schedule.
3. The contents of original public announcement have changed.

For the 10 percent related to the total assets specified in the procedures, it is calculated based on the total amount of the assets in the most recent individual or separate financial statements prepared by the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

If the shares with no value or not valued at NT\$10 per share, the amount of the transaction amount of 20% of the paid-in capital under these procedures shall be calculated based on 10% of the equity attributable to the owners of the parent company; 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.

Section VI Supplementary Provisions

Article 21 Penalties

Any director and manager of the Company who violates the Regulations promulgated by the FSC or the provisions of this procedure and causes the Company to be subject to significant damage, shall be dismissed.

The company's persons-in-charge breach of the Regulations or these operating procedures, shall be handled in accordance with Procedures for management on employee of the Company.

Article 22 Revision procedure

The Company shall establish the Procedures according to the Regulations, which shall be implemented after it is resolved by the Audit Committee and the Board of Directors, and approved at the shareholders meeting, and the same to amendment.

When the Procedures are submitted for discussion by the Board of Directors according to the preceding paragraphs, 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 Meeting.

Establishment or amendment of the procedure for acquisition and disposal of assets shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution.

If approval of more than half of all Audit Committee members as required in the preceding paragraph is not obtained, the Procedures may implemented if approved by more than two-thirds of all directors, provided that the resolution of the Audit Committee is recorded in the minutes of the Board of Directors meeting.

The terms "all audit committee members" in Paragraph 3 and "all directors" in the previous Paragraph shall be calculated as the actual number of persons currently holding those positions.

The public announcement and declaration shall be made according to relevant regulations when the Procedures are amended.

Article 23 Other Important Issues

Any other matters not set forth in the Procedures or any doubts in application shall be dealt with in accordance with the applicable laws, rules, and regulations for matters not specified by law, rules, and regulations, they shall be dealt with in accordance with relevant provisions of the Company or decided by discussion of the Board of Directors.