Q&A for Regulations Governing the Acquisition and Disposal of Assets by Public Companies (Amended in July 2017)

《Table of Contents》

I. General (Legislative basis, scope of assets) 2

II. Establishment of the Disposition Procedures 6

III. Acquisition or Disposal of Assets 9

IV. Related Party Transaction 14

V. Engaging in Derivatives Trading 21

VI. Mergers and Consolidations, Splits, Acquisitions, and Assignment of Share 25

VII. Public Disclosure of Information 26

VIII. Supervision of Subsidiary 32

《Q&A》

I. General (Legislative basis, scope of assets)

1. What is the legislative basis of the Regulations Governing the Acquisition and Disposal of Assets by Public Companies (hereinafter "the Regulations")? (Amended)

Answer:

(1) According to Article 36-1 of the Securities and Exchange Act, the Commission may prescribe rules governing the applicable scope, work procedures, required public disclosures, required filings and other matters in order to provide compliance standards to public companies for governance of financial or operational activities, including acquisition and disposal of assets and engagement in trading of derivatives.

(2) Accordingly, a public company shall comply with the Regulations for the acquisition or disposal of material assets, related party transactions, Mainland China area investments, and engagement in derivatives trading, merger, demerger, or issuance of new shares for acquisition of shares in other companies.

(The original Question 2 deleted.)

2. What are the penalties provided under the Regulations? (Wording revised)

Answer:

(1) Failure to establish procedure and failure to make, or provide timely public disclosure or filing in accordance with the Regulations: When a company fails to establish procedure, fails to procure its subsidiary to establish and implement the procedures, fails to make public disclosure or filing in accordance with the Regulations or delays in making public disclosure or filing, the Commission may impose a fine on the legal representative in accordance with Article 178(1)(vii) of the Securities and Exchange Act.

(2) False statement contained in public disclosure or filing: When a company makes a false statement in public disclosure or filing regarding the acquisition or disposal of assets, the Commission shall transfer the matter to the judicial authority for investigation on the ground of violation of Article 174 of the Securities and Exchange Act.

(3) Failure to follow the procedures established in accordance with the Regulations or failure to follow the procedures established by the company:

In any of the following events, the Commission may ask the company to provide relevant information in accordance with Article 38 of the Securities and Exchange Act. If the company fails to provide such information, a fine may be imposed in accordance with Article 178(1)(iii) and (vii) of the Securities and Exchange Act:

i. Establishment or amendment of the procedure for the acquisition or disposal of assets is neither approved by the board of directors nor submitted to the shareholders' meeting.

ii. Failure to acquire a valuation report or opinion of the CPA for the acquisition or disposal of assets that exceeds the prescribed threshold, or failure to acquire the latest financial statements audited, certified or approved by a CPA for acquisition or disposal of securities.

iii. Acquiring from or disposing to a related party real property or non-real property assets that are considered substantial without the resolution of the board of directors or recognition of the supervisors; or failure to assess the reasonableness of the asset value in accordance with Articles 15 and 16 of the Regulations when acquiring real property from a related party.

iv. The level of decision-making authority or amount involved in an acquisition or disposal of assets violates the procedure established by the company.

v. When a non-public company participates in a merger, demerger, acquisition or share transfer, and the public company fails to enter into an agreement with this non-public for terms of same-day meeting, confidentiality, and changes in the number of participants in accordance with the Regulations, the two companies shall recommence the full procedure and establish the required agreements.

vi. Other matters that constitute violation of the procedures established in accordance with the Regulations.

(4) Failure to set aside a special reserve in accordance with the Regulations in the event that an acquisition of real property from a related party is being assessed as unreasonable: When an assessment indicates that the price at which a company acquires real property from a related party is unreasonable, and there is evidence showing a conduct not conforming to normal business practice, the Commission will transfer the matter to judicial authority for investigation in accordance with Article 171 of the Securities and Exchange Act. Failure to set aside a special reserve in accordance with Article 17 of the Regulations shall be deemed as a violation of Article 41 of the Securities and Exchange Act, and the

Commission will impose a fine on the legal representative of that company pursuant to Article 178(1)(ii) of the Securities and Exchange Act and strictly review any subscription of securities by that company.

(5) If an acquisition or disposal of assets by a public company involves insider trading, the involved individuals shall be liable for compensating losses suffered by persons engaging in the reverse transactions with good faith in accordance with Article 157-1 of the Securities and Exchange Act. In the event of a violation of the Criminal Code such as breach of trust or embezzlement, which incurs damages to shareholder's interests, the Commission will transfer the matter to the judicial authority for investigation. In the situations specified in Article 171(1)(ii) and (iii) of the Securities and Exchange Act, where any director, supervisor, officer or employee of the company directly or indirectly causes the company to conduct any transaction to its disadvantage and not in the normal course of operation, thus causing substantial damage to the company thereof, the Commission will transfer the matter to the judicial authority for investigation. In addition, if any director of the company fails to perform his duties in accordance with the relevant laws and causes damage to the company, he/she shall be liable for compensating the company in accordance with Article 193 of the Company Act.

3. Does the term "acquisition" under Article 2 of the Regulations include an acquisition through a set-off of creditor's claim? Does the term "assets" under Article 3 of the Regulations include term deposit, demand deposit, government bonds, conditional securities, inventory, or account receivables? (New)

Answer:

(1) The term "acquisition" under Article 2 of the Regulations is not limited to the consideration made by cash. If the consideration of an acquisition is a set-off of creditor's claim, or an exchange of assets, the transaction is also subject to the Regulations.

(2) The term "assets" under Article 3 of the Regulations means:

i. Term deposit, demand deposit, government bonds or conditional securities, unless otherwise classified as cash or cash equivalents, or a term deposit longer than 3 months that can be terminated at any time without any loss of principal monies, shall be covered in the range of assets under Article 3 of the Regulations.

ii. Other types of term deposit (such as structural term deposit closed in association with a derivative or the host contract) shall be classified as

"derivatives" or "other material asses" under Article 3(vi) or (viii) and shall be subject to the Regulations.

iii. Inventory and account receivables arising from the company's regular operation, except for the construction enterprise inventory which shall be classified as real property under Article 3(ii), are not within the scope of the Regulations.

4. Are call (put) warrants and structural products within the scope of the derivatives under Article 4(i) of the Regulations? (Originally Question 26; wording revised)

Answer:

(1) A public company shall apply the requirements of acquiring or disposing securities other than derivatives under the Regulations when buying or sailing call (put) warrants.

(2) A structural product is a hybrid contract that includes a non-derivative host and an embedded derivative. According to SFAS no.34 or IAS 39, the application of the Regulations are as follows:

i. Embedded derivatives "are not" required to be separated from the host: The determination shall be made in accordance with the type of asset under the classification of the host. If the asset type of the host is within the scope of Article 3 under the Regulations, then the rules in relation to the asset of such type shall be applied.

ii. Embedded derivatives "are" required to be separated from the host, "and" can be measured separately: The rules in relation to the derivatives shall be applied to the embedded derivatives; the host shall be subject to applicable rules based on the classification of the type of asset.

iii. Embedded derivatives "are" required to be seperated from the host, "but" is unable to be measured separately: The entire hybrid contract shall be specified as the financial asset or financial liability which shall be designated as at fair value through profit or loss, and shall be classified as an derivative as a whole, to which the rules in relation to the derivatives shall be applied.

5. Is "acquiring all or part of other companies' shares" within the scope of the "acquisition" under Article 4(ii) of the Regulations, or only the type of acquisition set forth in Chapter 2 Section 2 of the Business Mergers And Acquisitions Act? (New)

Answer: According to Article 4(ii) of the Regulations, share tender or transfer means the acquisition of all of another company's shares through share swap, or

the receipt of another company's shares by issuing new shares pursuant to Article 156(8) of the Company Act. The acquisition of part of another company's share through the market, or subscription of increased shares by a public company shall be subject to Article 10 of the Regulations.

II. Establishment of Disposition Procedures

6. Is it required to include the procedures for derivatives trading, merger, demerger and acquisition in the procedure for acquisition or disposal of assets? Can they be established as separate procedures? If a company's internal procedure already includes long-term and short-term investment management and authorization rules, would the company be permitted to adapt the existing rules and procedures, instead of setting up a separate procedure for acquisition or disposal of assets? Is it a requirement to include the established procedure in the report or discussion of the shareholders' meeting?

Answer:

(1) Regarding setup of the procedures:

i. In accordance with Article 7 of the Regulations, a public company may decide, at its discretion based on its needs, whether to combine the procedures for derivatives trading, merger, demerger and acquisition with the procedure for acquisition or disposal of assets or to establish separate procedures. However, if separate procedures are established, reference to the other procedures shall be annotated for cross-reference in the procedure for acquisition or disposal of assets and the established procedures shall be consistent with the standards stipulated in the Regulations.

ii. If a company has already established long-term and short-term investment management rules and authorization rules, the company may also decide, at its discretion based on its needs, whether to make cross-reference to these rules in the procedure for acquisition or disposal of assets; however, the established long-term and short-term investment rules, authorization rules and procedures shall be consistent with the Regulations. Attention shall also be paid to avoid the issue of missing procedures since the procedures for acquisition or disposal of assets are scattered under different rules or procedures.

iii. In accordance with Articles 6 and 7 of the Regulations, the above-mentioned procedures or rules constitute parts of the procedure for acquisition or disposal of assets and shall be discussed and approved by the

shareholders' meeting, regardless whether such procedures or rules are established separately or scattered in other sets of rules and procedures.

(2) In accordance with Article 6 of the Regulations, establishment or amendment of the procedure for acquisition or disposal of assets shall be discussed and approved by the shareholders' meeting.

7. In accordance with Article 6 of the Regulations, if the public company has independent directors, are the independent directors required to be present when establishment or amendment of the procedure for acquisition or disposal of assets is discussed in the board meeting? (Amended)

Answer: Independent directors shall perform their duties in accordance with relevant regulations and the company charter to safeguard the interest of the company and shareholders. In accordance with Article 14-3 of the Securities and Exchange Act, if the company has appointed independent directors, the establishment of or amendment to the procedure for the acquisition or disposal of assets shall be submitted to the Board of Directors for approval by resolution. In addition, according to Article 7(5) of the Regulations Governing Procedure for Board of Directors Meetings of Public Companies, if the company has appointed independent directors, when the Board of Directors discusses the establishment of or amendment to the procedures for the acquisition or disposal of assets, each independent director shall attend that meeting in person, or appoint another independent director to attend as his or her proxy in order to enhance the functions of supervision and reinforce management mechanism and safeguard the interest of the company and shareholders.

8. When the company has set up the audit committee, the matters set forth in Articles 6(3) and 8(3) of the Regulations shall be approved by more than half of the members of the audit committee. Are those matters exempt from Articles 6(1), 8(1), and 33-1, which require the company to submit the directors' dissenting opinion to the audit committee after a resolution of the board of directors? (New)

Answer:

(1) According to Article 14-5 of the Securities and Exchange Act and Articles 6 and 8 of the Regulations, a company that has set up the audit committee shall have the whole or half of the members of the audit committee approves, and submit for the resolution of the board of directors its establishment of or amendment to the procedures for the acquisition or disposal of assets, and the transaction of materials assets or derivatives; if

not the whole or more than half of the members of the audit committee approves, such matter may be adopted by the consent of more than two-third of the directors and the minutes of the board meeting shall record the resolution of the audit committee.

(2) When the board meeting resolves to pass the aforesaid important measures, it is not required to submit the directors' dissenting opinion to the audit committee.

9. What is "a company with independent directors" under Article 6(2), Article 8(2) and Article 20(2) of the Regulations?

Answer: "A company with independent directors" under the Regulations means one of the following:

(1) A company that is required to have independent directors in accordance with the FSC Directive No. 1020053112 published on December 31, 2013.

(2) A public company that voluntarily appoints independent directors and complies with the provisions related to independent directors under Article 14-2 of the Securities and Exchange Act and the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies.

(3) A company which applies for initial public offering and appoints independent directors in accordance with the relevant rules for the review of securities listings set forth by the Taiwan Stock Exchange Corporation (hereinafter the "Exchange") and the Taipei Exchange (hereinafter the "TPEx").

(The original Question 7 is re-numbered as Question 53.)

10. Is a public company required to file with the Commission in writing when establishing or amending the procedures for the acquisition or disposal of assets? (Directive information updated)

Answer: According to FSC Directive No. 10400293346 dated August 6, 2015, a public company shall transmit the information through the online filing websites designated by the Commission when processing the matters subject to mandatory disclosure or filing. Once the transmission of information has been completed, the company shall be deemed sufficing the disclosure or filing requirements. Therefore, when a public company establishes or amends its procedures for the acquisition or disposal of assets, it is not required to file with the Commission in writing. However, when the Commission deems it necessary and asks the company to provide relevant

materials about the procedures, the company shall provide the written information regarding its procedures for the acquisition or disposal of assets as required.

11. Since the Regulations were amended on February 9, 2017, is the company required to amend its procedures accordingly? If the amended procedures have not yet been passed by the shareholders' meeting, is the company exempt from the new rules set forth in the amended Regulations? (Amended)

Answer: Public companies shall amend the procedures for the acquisition or disposal of assets for the parent companies and subsidiaries as soon as possible after the amended Regulations have been released on February 9, 2017, and submit the proposals for the discussion and approval of the annual shareholders' meeting of 2017. Before the company finishes revising the relevant procedures, any transaction that is subject to these Regulations shall be processed in accordance with the amended Regulation released by the Commission on February 9, 2017. However, if the company (or its subsidiary) has set up stricter procedures, than the company's own procedures shall govern according to Article 7 of the Regulations.

III. Acquisition or Disposal of Assets

12. Does the threshold of the transaction price set forth in Articles 9, 10 and 11 of the Regulations, which is NT$300 million or 20% of the company's paid-in capital, refer to single or accumulated transaction price? If the price is the accumulated amount, does the subject matter that requires expert's opinion include the calculation of such amount? (Wording revised)

Answer:

(1) Articles 9, 10 and 11 of the Regulations provide that the minimum price of acquisition or disposal of real property, equipment, securities, memberships and intangible assets requiring expert's opinion is NT$300 Million or 20% of the paid-in capital. This threshold shall be calculated in accordance with Article 11-1 and Article 30(2) of the Regulations; the term "within one year" means one year preceding the date of occurrence of the current transaction. If expert's opinion has already been obtained in accordance with the Regulations, such transactions do not need to be included in the calculation. Public companies that have set a minimum price in the procedure for the acquisition and disposal of assets or its internal control system lower than the above threshold shall still establish relevant control

procedures with regard to the transaction price in order to provide a reasonable basis for determination purpose.

(2) If the accumulated amount of assets acquired or disposed by a public company calculated in accordance with the above provisions meets the criteria of materiality as specified in Articles 9 to 11, which requires expert's opinion, a valuation report that covers all transactions that meet the criteria of materiality shall be obtained from an expert.

13. Are Articles 9, 13, 14 and 30 of the Regulations applicable to the public company that participates in collaborative development or urban renewal? If so, what is the calculation of the transaction amount? (Wording revised)

Answer:

(1) Articles 9, 13, 14 and 30 of the Regulations are applicable to the public company that participates in collaborative development or urban renewal.

(2) When a public company participates in collaborative development or urban renewal, the "transaction amount" in Article 9(1) and the "estimated transaction cost" in Article 30(1)(vi) refer to the "value before the urban renewal" of the house and land owned by the company (i.e. the estimated cost of total market value of the house and land on the "date of occurrence" shall be the amount of "acquisition or disposal"). If the participant is a construction company, the company shall obtain the expert's opinion and make public disclosure prior to the date of occurrence when the estimated amount of total construction cost has met the criteria of materiality set forth in Articles 9, 13, or 30.

14. Under what circumstances does the proviso of Article 10 of the Regulations that states no CPA opinion is required regarding the reasonableness of the transaction price apply? Does the scope cover the local and overseas transaction (subject)? (Amended)

Answer:

(1) The idea behind Article 10 of the Regulations is that it might be more difficult to form an objective judgment on the reasonableness of the transaction price when a public company acquires or disposes securities via a channel other than the public market. Therefore, this rule mandates that public companies shall obtain an opinion from a CPA in order to protect the investment through the function of an expert.

(2) Based on the foregoing, any separate rule established by the Commission, as indicated in the proviso of Article 10 of the Regulations, means

Financial-Supervisory-Securities-Corporate No. 1050044504 dated November 11, 2016, stating that a public company shall be exempt from Article 10 of the Regulations when it meets certain conditions prescribed therein.

(3) Financial-Supervisory-Securities-Corporate No. 1050044504 dated November 11, 2016 is explained as follows by each subsection:

i. Securities acquired for capital investment in cash pursuant to incorporation by promoters or incorporation by offering under the Company Act, and such securities represent the value or entitlements equivalent to the percentage of capital contribution.

[Side note] The definition of the incorporation by promoters or incorporation by offering in this subsection is subject to the Company Act of Taiwan, ROC.

ii. Participation in subscription to securities issued by the target company at par value pursuant to capital increase in cash in accordance with the applicable laws.

[Side note] This subsection waives the requirement of expert's opinion on the basis that the offering price cannot be lower than the par value pursuant to Article 140 of the Company Act when subscribing the stocks of a private company. Similar regulations of other countries shall also apply. On the other hand, Article 140 of the Company Act does not apply to the subscription to securities issued by public companies pursuant to capital increase in cash. Rather, Article 8 shall be considered for the applicability in this regard.

iii. Participation in subscription to securities issued by the 100% investee company pursuant to capital increase in cash.

[Side note] This subsection describes the subscription to the securities issued by a local or overseas investee company that is 100% owned, directly or indirectly, pursuant to capital increase in cash.

iv. Securities or emerging stocks listed and traded in the Exchange or TPEx.

[Side note] This subsection applies to the securities that are being transacted in local or overseas public exchanges (central transaction market) with fair market price quoted in an active market. This subsection shall also apply to the securities that are being transacted in "the broker's place of business" under the supervision of public exchange, such as the securities or emerging stocks listed in TPEx.

v. Bonds that are government bonds, or under repurchase or reverse repurchase agreements.

[Side note] This subsection applies to the bonds that are government bonds, or under repurchase or reverse repurchase agreements in Taiwan, ROC. .

vi. Onshore and offshore public funds.

vii. Securities of companies listed on the Exchange or TPEx acquired or disposed in accordance with the bidding or auction rules of the Exchange or TPEx for listed securities.

viii. Securities acquired through share subscription pursuant to capital increase in cash of a public company, or through the subscription to corporate bonds (including Bank Debentures) in Taiwan, and are not private placements.

[Side note] This subsection applies to the subscription to shares issued by a local public company pursuant to capital increase in cash, or straight (corporate) bonds and general Bank Debentures that do not involve shareholding rights offered by domestic or foreign issuer in the local primary market (including professional plank bonds, and excluding subordinated Bank Debentures). When a company sells or purchases the foreign bonds introduced by a local broker, it shall be deemed as a transaction that occurs in the secondary market and the application of subsection 4 shall be assessed therefore as if the transaction is occurred in a foreign Exchange.

ix. Subscription to domestic private funds before the establishment of the fund, or the subscription or redemption of domestic private funds, in accordance with Article 11(1) of the Securities Investment Trust and Consulting Act and the FSC's 3 September 2010 Order No. Financial-Supervisory-Securities-Investment-0990042831, provided that the trust agreement has specify the investment strategies will conform to the scope of investment in public funds except for the securities margin transactions and open positions held in securities-related products.

15. When a professional valuator is asked to issue a valuation report or to provide an opinion in accordance with Articles 9, 13 and 16 of the Regulations, what shall be noted regarding the qualifications of the professional valuator? (Wording revised)

Answer: Pursuant to the previous Securities and Futures Commission, Ministry of Finance (I) Document No. 0920001151 dated March 21, 2003, when a professional valuator is asked to issue a valuation report or to provide an opinion in accordance with Articles 9, 13 and 16 of the Regulations, the following matters shall be noted:

(1) Neither the professional valuator nor his/her staff shall be a related party to any parties involved in the transaction.
(2) Neither the professional valuator nor his/her staff shall have any criminal conviction or sentenced prison terms.
(3) If two or more valuation reports from different professional valuators are required, neither the professional valuators nor their staffs shall be related parties to each other.

16. When a CPA is asked to provide an opinion in accordance with Articles 9, 10, 11, 13, 15, 16 and 22 of the Regulations, can the opinion be provided by a CPA other than the CPA who certified the financial statements? Is it mandatory to engage an accountant who is licensed to practice in Taiwan? (Amended)

Answer: When a CPA is asked to provide an opinion in accordance with Articles 9, 10, 11, 13, 15, 16 and 22 of the Regulations, a CPA other than the CPA who certified the financial statements may be asked to provide an opinion. In addition, the accountant can be a local or foreign CPA provided that the person meets the requirements of professional evaluator in Article 5 of the Regulations, and that the evaluator or CPA is not a related party with the parties to the transaction.

17. When several public companies acquire the securities of the same company under private placement, is it allowed to ask the CPA who certified the financial statements for the issuer of the private securities to provide an opinion regarding the reasonableness of the transaction price for all involved public companies?

Answer: In accordance with Articles 5 and 10 of the Regulations, when several public companies are involved in the acquisition of the private securities of the same company, the same CPA may provide an opinion regarding the reasonableness of the transaction price, providing that this CPA shall not be a related party to any parties involved in the transactions.

18. When a CPA is asked to provide an opinion regarding the reasonableness of the transaction price of an intangible asset in accordance with Article 11 of the Regulations, what shall be noted regarding the expert's report adopted by the CPA?

Answer: When a CPA performs an assessment on the reasonableness of the transaction price of an intangible asset in accordance with the Audit Standard No. 20, it shall be noted whether the expert has issued an opinion

in accordance with the applicable domestic and international valuation standards.

19. Will a capital reduction or liquidation process of an investee company or a subsidiary be deemed as a disposal of assets by the investing or parent company and therefore shall be subject to mandatory public disclosure? Will the distribution of common stocks of an investee company or a subsidiary through capital increase from earnings or capital reserve be deemed as an acquisition of assets by the investing or parent company and therefore shall be subject to mandatory public disclosure? (Amended)

Answer:

(1) When an investee company or a subsidiary reduces capital to compensate the loss, or return the share capital in cash, or when a public company receives the common stocks distributed by an investee company or subsidiary through capital increase from earnings or capital reserve, none of these shall be deemed as an acquisition or a disposal of asset by the investing company or the parent company and therefore the rules of the Regulations will not apply. However, if the acquisition of stocks from a subsidiary through capital increase from earnings or capital reserve meets the criteria specified in the "Regulations Governing the Approval of Investment or Technical Cooperation in Mainland China" and shall be reported to the Investment Commission, Ministry of Economic Affairs (MOEAIC), it shall be deemed as a Mainland China area investment under Article 4(1)(vi) of the Regulations and shall be subject to the relevant rules thereunder.

(2) When an investee company or a subsidiary is subject to a liquidation process, it shall not be deemed as the disposal of assets by the investing company or the parent company. However, the investing company or the parent company shall evaluate whether such event will severely impact the shareholder equity or the securities prices under Article 36(2)(ii) of the Securities and Exchange Act, and requires public disclosure of material information. On the other hand, the Regulations shall apply when the subsidiary disposes the assets in the process of liquidation.

IV. Related Party Transaction

20. What are the rules for related party transactions? (Amended)

Answer: A company shall follow the following rules when acquiring from or disposing to related party any real property (regardless of the value), or any asset that meets the criteria of materiality (20% of the company's paid-in capital, 10% of the total asset or NT$300 million):

(1) Obtain expert's opinion according to Articles 9 to 11 and 13 of the Regulations, prepare the documents regarding related party transaction according to Article 14 of the Regulations (such as the purposes, necessity, and anticipated profit of the acquisition or disposal of assets, the reasons for selecting a related party as the counterparty of the transaction, the forecast of the company's cash receipts and expenditures), and submit the materials for the resolution of the board of directors and the confirmation of the supervisor before executing the transaction contract and making the payment.

(2) If the "accumulated" amount of the acquisition or disposal of a subject of the same nature with the same related party within one year meets the criteria of materiality, "all" of such transactions shall be classified as material according to Article 14(1) and (2) of the Regulations, and Article 14, which requires that "the documents shall be prepared" and submitted for "the resolution of the board of directors and the confirmation of the supervisor," shall apply. If the transaction has been completed before the resolution or confirmation, the procedures of the aforementioned board meeting may be moved for ratification.

(3) In the event of acquisition of real property from a related party, the company shall assess the reasonableness of the transaction cost pursuant to Articles 15 and 16 of the Regulations, and prepare the information for the board of directors. If the assessment result suggests a lower price than the transaction price for the acquisition of real property under Articles 15 and 16 of the Regulations, the company shall set aside a special reserve pursuant to Article 17 of the Regulations.

21. Does acquisition or disposal of assets from or to a related party under Article 13 of the Regulations include derivative trading, corporate merger, demerger, acquisition, share transfer, and subscription to the capital increase in cash by a subsidiary? (Amended)

Answer:

(1) The acquisition or disposal of assets from or to a related party under Article 13 of the Regulations refers to the assets defined under Articles 9 to 11 and

does not apply to any derivative trading or corporate merger, demerger, acquisition or share transfer.

(2) On the other hand, contribution to the capital increase of a related party (subscription to the capital increase in cash of a subsidiary) means the acquisition of securities from a related party, which is a related party transaction subject to the provisions dedicated to related party transactions as set forth in Chapter 2 Section 3 of the Regulations.

22. In accordance with Article 13 of the Regulations, under what circumstances will an external expert's opinion be required for the acquisition or disposal of assets from or to a related party? Is the professional valuator's appraisal report or CPA's opinion still required for the acquisition of securities traded in an active market from a related party, the subscription to capital increase in cash of a subsidiary, or the acquisition of machinery and equipment for business use from a related party? (Amended)

Answer:

(1) In accordance with Article 13 of the Regulations, if the transaction amount of acquisition or disposal of assets from or to a related party reaches any of the following thresholds: (1) 20% of the paid-in capital, (2) NT$300 Million or (3) 10% of total assets, a professional valuator's valuation report or a CPA's opinion is required in accordance with the "acquisition or disposal of assets" under Section 2, Chapter 2 of the Regulations.

(2) In accordance with Articles 10 and 13 of the Regulations, if the acquisition of securities from a related party which are traded in an active market with a fair market value or the subscription to the capital increase in cash of a subsidiary meets the criteria provided in the FSC Directive No. 1050044504 dated November 11, 2016 (see Question 14 for details), no CPA opinion is required for the reasonableness of the transaction price even when the value of the assets reaches the threshold of materiality.

(3) For the acquisition of machinery and equipment for business use from a related party in accordance with Articles 9 and 13, no valuation report from a professional valuator is required in advance.

23. When a public company acquires or disposes of machinery and equipment for business use from or to its parent company or its subsidiary under Article 14(3) of the Regulations, and the transaction price meets the criteria of materiality, is it required to submit the transaction to the board of directors for approval and to the supervisors for confirmation? Can a company authorize the chairman to approve

the acquisition or disposal of the machinery and equipment for business use when the transaction is between two subsidiaries (or grandson companies) and the price does not exceed a "certain amount"? Can the "certain amount" under the chairman decision power be left undefined? (Amended)

Answer:

(1) In accordance with Article 14(3) of the Regulations, a transaction involving the acquisition or disposal of machinery and equipment for business use by a public company from or to its parent company or subsidiary is based on an overall business planning, and the transfer of machinery and equipment for business use is deemed necessary. Such event shall be a regular operating activity. Therefore, even though the criteria of materiality are met, the board of directors may still authorize the chairman to make decision when the price does not exceed a certain amount, and submit the transaction to the next board meeting for ratification. However, the rule only applies to the transaction between a company and its "parent company" or "subsidiary, rather than the acquisition of machinery and equipment for business use between two subsidiaries (or grandson companies).

(2) The term "certain amount" as referred to in the foregoing section means the "amount" clearly defined by the company pursuant to Article 7(1)(iii) of the Regulations within which the chairman has the decision power, rather than a "certain amount" that is not explicitly determined under the procedures of disposal.

24. When the company's factory construction on a leased or self-owned land is carried out by engaging a related party as the contractor, or under a collaborative development contract with a construction company and a related party, will the activity be an "acquisition of real property from a related party" or "acquisition of assets other than real property from a related party" as defined under Article 14 of the Regulations? Is an assessment of reasonableness of the transaction conditions under Articles 15 and 16 required? (Wording revised)

Answer:

(1) When a company engages a related party to perform the construction of factory and building, or enters into a collaborative development contract with a construction company and a related party on a leased raw land or a self-owned land, such activity shall be deemed as an "acquisition of real property from a related party" and subject to the applicable provisions of the "acquisition of real property from a related party" of the Regulations.

(2) On the other hand, according to Article 15(4)(iii) of the Regulations, Articles 15 to 17 of the Regulations regarding assessment of the reasonableness of the transaction costs will not apply.

25. The second part of Article 17(1)(i) of the Regulations provides that "if the investor who adopts the equity method of evaluation for its corporate investments is a public company, a special reserve shall be set aside in accordance with Article 41(1) of the Regulations in proportion to the percentage of shareholding". What is meant by this provision? Also, if Company A owns 100% of Subsidiary X and Subsidiary X purchases real property from Subsidiary Y, another company owned 100% by Company A (Company A, Subsidiary X and Subsidiary Y are all public companies), and if the transaction cost based on Subsidiary X's assessment in accordance with Article 15 of the Regulations is lower than the actual transaction price, a special reserve shall be set aside in accordance with Article 17 of the Regulations based on the difference between the transaction price of the real property and the assessed value. However, when Company A prepares its consolidated financial statements, both Subsidiary X and Subsidiary Z are consolidated companies. The above transactions are already offset under the preparation of consolidated financial statements and when Company A prepares its individual financial statements under which long-term investment is recognized under the equity method. Is Company A still required by the second part of Article 17(1) (i) of the Regulations to establish a special reserve in proportion to the percentage of shareholding?

Answer:

(1) This provision means that when Company A, a public company, acquires real property from a related party, a special reserve shall be set aside in accordance with the Regulations. When Company B, a public company, invests in Company A and if the investment in Company A is evaluated under the equity method, then Company B shall provide a special reserve in proportion to the percentage of shareholding.

(2) When Company A prepares the individual and consolidated financial statements, if the related party transaction has been offset against the related investment profit and loss and the sale of asset interest and if the long-term investment and the relevant real property have been reinstated to the cost before the transaction (original cost), then there is no need to set aside a special reserve in accordance with Article 17(1) of the Regulations. As for the assessed transaction cost of Subsidiary X that is lower than the actual transaction price, a special reserve shall be set aside in portion to the

difference in accordance with Article 41(1) of the Securities and Exchange Act.

26. If the company wishes to sign a transaction contract of NT$300 million or more with a related party, and if such contract covers both “asset transaction not involving the Regulations” (items of expenses in the account) and “asset transaction subject to the Regulations”, shall the part of the asset transaction not involving the Regulations under the same contract be included in the calculation of transaction amount under Article 14 of the Regulations when the portion of asset transaction subject to the Regulations does not exceed 20% of the company’s paid-in capital, 10% of total assets or NT$300 million?

Answer:

(1) When a company signs a transaction contract with a related party, the scope of assets under such transaction contract to which the Regulations are applicable shall be assessed in accordance with Articles 2 and 3 of the Regulations and the provisions related to related party transactions under Section 3, Chapter 2 of the Regulations shall be applicable.

(2) If the assessed value of a transaction involving acquisition of assets other than real property from a related party does not reach the threshold of major asset after calculated in accordance with Article 30(2) of the Regulations, there is no need to proceed in accordance with the Regulations. However, the company shall still assess whether entering such transaction contract is considered a major event, and, if so, the company shall submit such matter to the board of directors for discussion in accordance with Article 14-3 of the Securities and Exchange Act, the company’s articles of association and Article 7 of the Regulations Governing Procedure for Board of Directors Meetings of Public Companies. Assessment shall also be performed as to whether the transaction qualifies as a matter that has a significant impact on shareholders’ interest or securities price under Article 36(3)(ii) of the Securities and Exchange Act, and whether a public disclosure of major event shall be made.

27. How shall the Regulations apply to the procedural restrictions for the approval of transactions with the interested parties as set out in the procedures of transaction with related party in the business that requires special license such as financial institute pursuant to Article 45 of the Financial Holding Company Act, and the rules governing non-lending transactions between an insurance company and

interested parties established under the authorization of Article 146-7 of the Insurance Act?

Answer:

(1) In accordance with Article 2 of the Regulations, unless otherwise provided in other laws, the acquisition and disposal of assets by a public company shall be subject to the Regulations. Therefore, if such approval process has been set up in relevant regulations for the financial industry, such provisions shall apply. If there is no such regulation (such as the documents required for related party transactions, a special reserve fund or disclosure process, etc.), the Regulations shall apply.

(2) The financial holding company, its subsidiary, or the insurance company may, in the event that the acquisition and disposal of the beneficiary certificate of securities investment trust fund has been processed according to Financial Supervisory Commission Order Jin-guan-yin-fa-zhi No. 10510001630 dated May 17, 2016 issued by the Commission, or Article 4(3) of the Regulations Governing Transactions Other Than Loans between Insurance Enterprises and Interested Parties shall apply Article 2 and be exempt from Article 14 of the Regulations.

28. How to calculate the amount in accordance with Articles 15 to 17 of the Regulations when the company acquires real property from a related party? What rules shall be noted in this regard? (New)

Answer:

(1) Transaction cost: (Select one of the calculations)

i. Transaction price of related party + Mandatory capital interests (based on the weighted average interest rate of the loans taken by the buyer company in the year of purchase) + Cost that shall be borne by the buyer (related party) according to applicable laws.

ii. Total collateral value of the subject estimated by the financial institute if the related party has taken out loans secured on the subject from the financial institute.

(2) Rules of principal: If the evaluation result suggests that the transaction price is higher than the transaction cost, a special reserve shall be set aside. (A company that adopts the equity method for the evaluation shall set aside a special reserve in proportion to the percentage of shareholding.)

(3) Exception: Objective evidence and substantive opinion of reasonableness from the valuator and CPA according the Article 16 of the Regulations.

(4) Notes:

i. In the event of an acquisition of real property constructed by the related party, the transaction value of the related party (i.e., the cost of acquisition) shall be the amount the related party spent in the construction, regardless other relevant depreciation.

ii. "Cost that shall be borne by the buyer according to applicable laws" means the expenses the related party is liable for according to applicable laws during the purchase transaction of such real property from the previous owner (such as contract tax, stamp tax, excluding the value-added tax of the land, which shall be the seller's responsibility).

iii. Whether the time lapse between the acquisition of real property from a related party under Article 15(4)(ii) and the contract date of the transaction has exceeded 5 years shall be determined based on the most recent acquisition by the related party if the real property of the same transaction (or the same development plan) is acquired by the related party at different time (for example, separate acquisition by different lot numbers, or separate acquisition of land and building).

iv. When the company attempts to prove that the transaction conditions of the purchase of real property from the related party are equivalent to "the deals of other non-related parties" in the ancillary area within that one year, and the sizes are similar, as set forth in Article 16(1)(ii), such deals shall not be made by or between the related parties of the company.

V. Engaging in Derivatives Trading

(The original Question 26 renumbered as Question 4)

29. Is a public company exempt from the requirement for establishing the procedures and preparing the records and books if the board of directors has resolved not to engage in derivatives trading? (New)

Answer: A public company with no plan to engage in derivatives trading may be exempt from establishing the procedures and preparing the records and books with respect to derivatives trading, and shall specify that no derivatives trading shall be taken in its procedures of the acquisition or disposal of assets.

30. Article 18 of the Regulations provides that there shall be a maximum loss limit in the procedure of derivative trading. Does it mean that the contracts shall be terminated when the maximum loss limit is reached? Also, if a company engages

in derivative trading for hedging purpose and, to increase the effect of hedging, the company does not define a maximum loss limit in its procedure for derivative trading, is it considered compliant with the Regulations?

Answer:

(1) In accordance with Article 18 of the Regulations, when a public company engages in derivative trading, it shall establish a procedure for derivative trading. An amount of maximum loss limit shall be defined for derivative trading, all positions shall be evaluated regularly and necessary measures shall be adopted in case of any anomaly in order to avoid excessive exposure for the company from derivative trading, causing damage to shareholders' interest. As for whether the contract shall be terminated, it shall be handled properly in consideration to the company's purpose of transaction and the risk undertaken by the company.

(2) When a company does not provide an amount of maximum loss limit in the procedure in order to increase the effect of hedging, it will constitute a violation of the Regulations. Also, when a company fixes an amount of maximum loss limit from derivative trading for hedging purpose, in addition to considering its own risk management measures and hedging strategies, the amounts of the positions for which hedging is required and the risk exposures shall also be taken into consideration in order for the reasonable amount of maximum loss limit to be defined. If the loss from any transaction reaches the defined amount of maximum loss limit, the information shall be disclosed in accordance with Article 30(1)(iii) of the Regulations.

31. Article 19(ii) of the Regulations stipulates that the person performing derivative trading shall not be the same person who confirms and settles the transaction. It means that three different persons shall be responsible for the trading, confirmation and settlement. Alternatively, two persons shall be responsible – one responsible for trading and another responsible for confirmation and settlement. Does Article 19(iii) refer to one person or three persons for risk evaluation, supervision and control? (Wording revised)

Answer:

(1) According to Article 19(ii), the person performing derivative trading shall not be the same person, who confirms and settles the transaction, i.e., there shall be at least 2 responsible persons. In addition, Article 19(iii) also stipulates that the risk evaluation, supervision and control can be performed by one person or different persons.

(2) Such tasks may be performed by the proper persons designated by the company in accordance with the actual requirements and without damaging the soundness and effectiveness of the internal control system. However, the person monitoring, confirming and settling the transactions may not be in the same department as the person performing risk measurement and control.

32. According to Article 20 of the Regulations, the board of directors shall appoint a senior manager to monitor the supervision and control of the risk of derivatives trading. Can a chief internal auditor executive be appointed as such senior manager? (New)

Answer: Article 21(2) of the Regulations states that "A public company's internal audit personnel shall periodically make a determination of the suitability of internal controls on derivatives……" and Article 11(1) of the Regulations Governing Establishment of Internal Control Systems by Public Companies states that "A public company shall establish an internal audit unit under the board of directors, and shall appoint…… qualified persons in an appropriate number as full-time internal auditors and have deputies in place for the internal auditors." Therefore, the company's board of directors may not authorize the chief internal auditor to conduct any management and supervision of derivatives trading.

33. In accordance with Article 20 of the Regulations, when a public company authorizes relevant staff to perform derivative trading in accordance with the procedure established by the company, a report shall be filed with the board of directors after the fact. Does the reporting to the board of directors refer to the name of the authorized person, transaction amount or each transaction? Furthermore, does the definition of the most recent board meeting include an extraordinary meeting convened for urgent matters? Is the report of transaction status of derivatives trading required to every board meeting? (Wording revised)

Answer:

(1) The post reporting to the board of directors under Article 20 of the Regulations refers to information of each single transaction, such as the consolidated amount and relevant gain and loss. The authorization level and transaction limit amount shall be specified in the procedure in accordance with Article 18, and submitted for the approval of the board of directors and the consent of the shareholders' meeting pursuant to Article 7.

(2) On the other hand, except for an extraordinary board meeting convened for urgent matters, any board meeting convened by the company under regular process according to Article 204(1) of the Company Act shall be counted. A public company shall report any unreported transaction of derivatives trading to the most recent board meeting according to the Regulations.

34. Does the derivative trading that shall be recorded in the logbook in accordance with Article 21 of the Regulations refer to each transaction or amount? Also, does the date of board approval that shall be recorded refer to the date on which each transaction is approved or the date on which the amount limit is approved? If relevant persons are authorized, what shall be recorded as the date of board approval in the logbook?

Answer:

(1) Derivative trading to be recorded in the logbook shall include each transaction and the authorized amount limit.

(2) The date of board approval to be recorded in the logbook shall be the date on which each transaction is approved and the date on which the amount limit is approved.

(3) If relevant persons are authorized, the logbook shall record the date of reporting to the board of directors.

35. Article 21(2) of the Regulations stipulates that the transaction department shall be audited every month for compliance with the procedure for derivative trading and that audit report shall be prepared. Should this matter be included in the audit plan?

Answer: Article 13(2) of the "Regulations Governing Establishment of Internal Control Systems by Public Companies" provides that "A public company shall include as audit items in its annual audit plan for each year the control activities for major financial or business activities such as for acquiring or disposing of assets, engaging in derivatives transactions, extending loans to others and granting endorsements or guarantees for others." Therefore, the matters set forth in Article 21(2) of the Regulations shall be included in the scope of monthly audit under the annual audit plan.

36. Does Article 21(2) of the Regulations that requires the internal audit officer shall perform monthly audit and prepare audit report with respect to the compliance of the procedures of derivatives trading by trading unit apply to financial industry?

Answer: Article 2 of the Regulations provides that "Public companies shall handle the acquisition or disposal of assets in compliance with these Regulations; provided, where another law or regulation provides otherwise, such provisions shall govern." Therefore, if there are relevant regulations of financial industry in place, such regulations shall govern the internal audit of derivatives trading; otherwise, the Regulations shall apply.

37. What information shall be provided in each column of the monthly reporting of derivatives trading? (New)

Answer:

(1) "Margin paid" means the margin that has been paid (including the initial margin, maintenance margin and margin call amount) for the open position until the end of the previous month. The amount of such margin shall be removed from the reporting after offsetting the contract.

(2) "Premium paid/received" means the premium received/paid at the time of signing the call option contract that has not been offset until the end of previous month. The amount shall not be removed until the settlement, default, execute, knock out, early termination, sales or other causes for removing the financial assets or liabilities.

(3) "Open position amount" means the cumulative balance of notional amount of the unsettled contracts until the end of the previous month.

(4) "Open position – fair value" means the net fair value of the unsettled contracts until the end of the previous month.

(5) "Open position – unrealized gain/loss recognized in the year" means the cumulative amount of unrealized gain/loss of unsettled contracts until the end of the previous month that is recognized in that year.

(6) "Total amount of offset contract" means the cumulative notional amount of settled contracts until the end of the previous month of that year. Any amount cross the year-end shall be accumulated and disclosed.

(7) "Offset contract – realized gain/loss recognized in the year" means the accumulated amount of realized gain/loss of settled contracts until the end of the previous month that is recognized in that year.

VI. Mergers and Consolidations, Splits, Acquisitions, and Assignment of Share

38. If the amount of an acquisition of all shares of a subsidiary is only a few million dollars, is it required to submit to the shareholders' meeting for approval,

including relevant matters such as board meeting on the same day and confidentiality in accordance with Chapter 2 Section 5of the Regulations?

Answer: Whether or not the acquisition of all shares of a subsidiary shall be approved by the shareholders' meeting is subject to the provisions of Business Mergers and Acquisitions Act and the Regulations.

39. If the law provides that one of the merging parties shall obtain the approval of the board of directors and no shareholders' meeting is required, can the party call the board meeting at the same time when the other party convenes the board meeting or the shareholder's meeting? (New)

Answer: The purpose of Article 24(1) of the Regulations is to avoid the impact on the securities prices due to different meeting dates. Therefore, regardless of whether both merging parties are being required to convene the shareholders' meetings, the board meeting shall be called at the same day and the public disclosure shall be made in accordance with Article 30 of the Regulations.

40. When a public company carries out a merger, demerger, acquisition or share transfer, relevant information shall be disclosed in the prescribed format. The prescribed format requires disclosure of the impact of the acquisition on the book value per share and earning per share. Is it required to disclose the actual impacted figures of book value per share and earning per share? If the actual impacted figures of book value per share and earning per share are disclosed, are the provisions regarding preparation of financial forecasts applicable?

Answer: When a public company carries out a merger, demerger, acquisition or share transfer, the impact of the acquisition on the book value per share and earnings per share shall be disclosed in the prescribed format in accordance with Article 30 of the Regulations. However, the actual impacted figures of book value per share and earning per share do not need to be disclosed.

VII. Public Disclosure of Information

41. What is referred to by the "date of occurrence" under Article 30 of the Regulations? For investment in Mainland China, is the date of approval by the Investment Review Commission of the Ministry of Economic Affairs (hereinafter the "Investment Commission") the date of occurrence?

Answer:

(1) In accordance with Article 4(1)(vi) of the Regulations, the date of occurrence means the date of contract signing, date of payment, date of consignment trade, date of transfer, date of board of director resolution, or other date that can confirm the transaction counterparty and transaction amount, whichever date is the earlier. However, if the investment requires approval by the competent authority, the date shall be the earlier of the above date or the date of receipt of approval by the competent authority .

(2) The date of occurrence shall be determined based on the time when the conditions such as the transaction counterparty and transaction amount can be confirmed. If the company makes investment in Mainland China pursuant to a board resolution and if the transaction counterparty and transaction amount may be determined on the date of board resolution, the date of board resolution shall be the date of occurrence, not the date of approval by the Investment Commission.

42. Article 30 of the Regulations stipulates that the company shall make public disclosure and filing "within 2 days" from the date of occurrence. How shall the days be calculated?

Answer: The date on which the transaction counterparty and transaction amount can be confirmed is the date of occurrence (such as May 10th). The company shall make public disclosure or filing within 2 days from the date of occurrence (May 10th), i.e., before May 11th.

43. If the company signs an important contract such as for acquisition or disposal of major assets or for investment in Mainland China, which has certain impact on shareholders' interest or securities price, is it true that only information of the major events are subject to public disclosure and public disclosures required by the Regulations are waived?

Answer: In accordance with Article 30 of the Regulations, when a company acquires or disposes of any asset that meets the criteria requiring public disclosure, the company shall make a public disclosure and filing within 2 days from the date of occurrence. Also, the Regulations provides for different formats of public disclosures for acquisition or disposal of assets based on the type of asset transaction, so that public investors can learn about the relevant information. Even if the company has disclosed the information of major event in accordance with Article 36(2) of the Securities and Exchange Act, the company shall still disclose the information on the Market Observation Post System in the format required by the Regulations.

(The original Question 38 deleted; revised and included in Article 30 of the Regulations)

44. Article 30(1)(iii) of the Regulations stipulates that the standard of public disclosure and filing for timely information disclosure regarding derivative trading is when the "loss" from derivative trading has reached the maximum loss limit for all or individual contracts provided under the procedure". Does "loss" refer to realized or unrealized loss?

Answer: The term "loss", under the above-mentioned provision, means the total amount of realized losses and unrealized losses.

45. What is the definition of "investment professionals" referred to under Article 30(1)(iv)(2) of the Regulations? Is any disclosure and reporting required for the acquisition or disposal of securities by such investors? (Amended)

Answer:

(1) According to the rules specified in Securities and Futures Commission, Ministry of Finance (I) Document No. 0920001151 dated March 21, 2003, the term "investment professionals" under Article 30(1)(iv)(2) of the Regulations means the financial institutes that can operate securities activities such as securities firms (dealers and underwriters), financial companies or insurance companies in accordance with the Securities Transaction Act, Banking Act, Insurance Act, Financial Institution Act. Investment holding companies that apply for listing of stocks on the Exchange or TPEx in accordance with the "Rules Governing Review of Securities Listings (Listing on the TPEx) of the Exchange or TPEx" are still subject to the requirements of disclosure and filings as set forth therein.

(2) If "investment professionals" as described in the said trade securities on domestic or foreign securities exchanges or over-the-counter markets, or subscribe to straight (corporate) bonds or general Bank Debentures(do not involve shareholding right) that are issued and offered in the domestic primary market, the investor is exempt from the requirement of disclosure and filing according to Article 30(1)(vii)(2) of the Regulations.

(3) Furthermore, the subscription to securities by a broker for the purpose of its brokerage business, or in accordance with the TPEx rules applicable to counseling/recommended broker of OTC companies is also exempt from the foregoing requirement of disclosure and filing.

46. What are the definitions of the “transaction amount,” “same counterparty,” “subject of the same nature,” and “same securities” in Article 30(2) of the Regulations? (New)

Answer:

(1) “Transaction amount” means the transaction price upon the acquisition of the assets (including the corresponding cost associated with such assets), or the sales price upon the disposal of assets.

(2) “Same counterparty” means the same counterparty to a transaction.

(3) “The same type of underlying asset” means the assets types described in the subsections of Article 3 of the Regulations. The securities set forth in Article 3(1) of the Regulations shall have the type of equity or debt.

(4) “Same securities” mean the securities issued by the same firm that bears the same rights and obligations.

47. Is the provision regarding “The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year.” under Article 30(2)(ii) of the Regulations applicable to acquisition or disposal of different funds from or to the same financial institution?

Answer:

(1) Article 30(2)(ii) of the Regulations regarding “The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year.” is set forth for the following purposes. If a public company acquires or disposes of major assets of the same nature from or to the same counterparty and if the accumulated amount within one year is significant, such counterparty will have an impact on the prices of the relevant transactions and the profit and loss thereof and the acquisition or disposal of the relevant assets will have an impact on the use of the company’s funding. Therefore, major transactions for acquisition or disposal of target assets of the same nature from or to the same counterparty that are accumulated within one year are important information and shall be disclosed timely in order to protect the investors’ interest.

(2) Based on the purpose of the regulation mentioned above, when a public company acquires or disposes of different funds from or to the same financial institution, and if the target of such transaction is a public fund, since the relevant transaction price already has an objective determination basis, application of Article 30(2)(ii) of the Regulations regarding “The

cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year." may be waived.

48. When information regarding acquisition or disposal of the same fund from or to the same financial institution is disclosed, other than the public disclosure required for transactions exceeding the threshold of major assets by the amount of single transaction, how shall the cumulative amount prescribed under Article 30(2) of the Regulations be calculated if the amount of the single transaction does not exceed the threshold of major assets?

Answer: If the same public fund is acquired or disposed of from or to the same financial institution within the same year, the accumulated transaction amount may be calculated in accordance with Article 30(2)(ii) to (iv) of the Regulations.

49. Article 31 of the Regulations requires a public disclosure and filing within 2 days from the date of occurrence of the event if any merger, demerger, acquisition or share transfer is not completed on the date designated under the contract. Does the date of occurrence of the event refer to the designated date or the date on which knowledge of the transaction is received?

Answer: In accordance with Article 4 of the Regulations, the date of occurrence of the event referred to in the above provision means the date on which it is learned that the merger, demerger, acquisition or share transfer is not completed on the date designated under the contract.

50. If a public company and its subsidiary (or subsidiaries) jointly acquire another company's shares, and the accumulated amount meets the criteria of materiality, is it required to obtain the expert's opinion and make public disclosure and filing? (New)

Answer:

(1) When a public company and its subsidiary (or subsidiaries) jointly acquire another company's shares, the rules of the Regulations shall apply as if "each" of them respectively calculates the amount of the securities acquired or disposed of.

(2) If the acquisition of another company's share is subject to the requirements of filing with MOEAIC pursuant to the "Regulations Governing the Approval of Investment or Technical Cooperation in Mainland China," the event shall be deemed as a Mainland China area investment as described in

Article 4(1)(vi) of the Regulations. The amount of Mainland China area investment is determined by the amount filed with MOEAIC. Therefore, whether the Mainland China area investment under Article 30(1)(vii) meets the criteria of materiality and therefore shall be disclosed shall be determined based on the amount filed with MOEAIC.

51. What is the scope of "Mainland China area investment" referred to in the Regulations? If a domestic public company invests in Mainland China through a third territory and raises funding required for the operation of the invested business in Mainland China, with bank loans borrowed by a company in the third territory and endorsed and guaranteed by a domestic public company, and if the funding acquired is considered a type of investment under Article 4 of the Regulations Governing the Approval of Investment or Technical Cooperation in Mainland China, which results in a obligation to make filing with or seek approval from the Investment Commission in advance, is it required to issue a public disclosure regarding investment in Mainland China in accordance with Article 30 of the Regulations? (Legislation information updated)

Answer:

(1) In accordance with Article 4(1)(vi) of the Regulations, "Mainland China area investment" refers to investment in Mainland China in accordance with the Regulations Governing the Approval of Investment or Technical Cooperation in Mainland China (hereinafter the "Approval Regulations"). Article 4 of the Approval Regulations stipulates that "Mainland China area investment" refers to the acts of creation of a new company or business in Mainland China, recapitalization of an existing local company or enterprise, acquisition of shareholding of an existing local company or enterprise, or establishment/expansion of a branch office or business by a Taiwanese individual, corporation, association or other organization.

(2) If any Taiwanese public company makes such Mainland China investment through a third country and the offshore company applies for bank loans secured by the guaranty provided by the Taiwanese public company, the investment shall be deemed as Mainland China Investment under Article 4(1)(vi) of the Regulations and become subject to the requirements of filing with MOEAIC pursuant to that Article 4, even though the Taiwanese company does not acquire any assets directly but only provides the guaranty.

(3) When a public company receives common stock distributed by an investee company or subsidiary in mainland China through capital increase from

earnings or capital reserve, the acquisition shall be deemed as Mainland China Investment under Article 4(1)(vi) of the Regulations and become subject to the requirements of filing with MOEAIC pursuant to that Article 4, even though no actual fund has been contributed. If the investment amount meets the criteria of materiality, the requirements of disclosure and filings of Mainland China investment under Article 30(1)(vii) of the Regulations shall apply.

52. Is it required to issue a public disclosure for an investment in Mainland China by a public company under Articles 4 and 30 of the Regulations, regardless of the amount of the investment? What shall be done if the Investment Commission denies the application for investment in Mainland China after public disclosure and filing are done within 2 days from the date of occurrence of the event? (Wording revised)

Answer:

(1) In accordance with Article 30(1)(vii) of the Regulations, no disclosure and filing are required unless the amount of transaction of investment in Mainland China exceeds 20% of the paid-in capital of the investing company or NT$300 million.

(2) According to the rules set forth in Securities and Futures Commission, Ministry of Finance (I) Document No. 0920001151 dated March 21, 2003, after the public company makes public disclosure and filing for the Mainland China investment pursuant to the Regulations, if the competent authority subsequently denies the application for investment in Mainland China, then in accordance with Article 31(iii) of the Regulations, relevant information such as the date of the original public disclosure and filing, the name of the invested company in Mainland China, the planned amount of investment, the counterparty of the transaction and the date of denial by the competent authority shall be disclosed on the Market Observation Post System within 2 days from the date of occurrence of the event.

VIII. Supervision of Subsidiary

53. What shall be covered by the "Control Procedures for the Acquisition or Disposal of Assets of Subsidiary" under Article 7(1)(vi) of the Regulations? (The original Question 7; wording revised)

Answer: According to the rules set forth in Securities and Futures Commission, Ministry of Finance (I) Document No. 0920001151 dated March 21, 2003,

the Control Procedures for the Acquisition or Disposal of Assets of Subsidiary shall at least include the follows:

(1) Encourage the subsidiary to set up and implement the procedures for the acquisition or disposal of assets in accordance with the Regulations.

(2) Encourage the subsidiary to perform self-assessment about whether its procedures for the acquisition or disposal of assets conform to the Regulations, and the conduct compliance with the procedures for the acquisition or disposal of assets.

(3) Review the self-assessment report of the subsidiary through internal audit.

(4) Make disclosure and filing on behalf of the subsidiary that is not a domestic public company.

54. If the parent company has specified that its procedures shall apply to the acquisition or disposal of assets by the subsidiary, is the subsidiary exempt from establishing a separate procedure for the acquisition or disposal of assets? Is it required for the subsidiary to submit its own procedures for the acquisition or disposal of assets, if any, to the board of directors and shareholders' meeting of the parent company? (New)

Answer:

(1) According to Article 7(iii) of the Regulations, regardless of the operating type or main business of the subsidiary, the public company shall encourage its subsidiary to set up and implement the procedures for the acquisition or disposal of assets. However, if the parent company has specified that its procedure will apply to the acquisition or disposal of assets by the subsidiary (or all subsidiaries), the subsidiary (or all subsidiaries) shall be exempt from establishing a separate procedure for the acquisition or disposal of assets.

(2) Article 6 of the Regulations, which require the consent of the subsidiary's shareholders' meeting after the board of directors has passed and submitted the proposal for the supervisors' review, shall be applied when the subsidiary establishes the procedures for the acquisition or disposal of assets. Whether the procedures shall be reviewed by the board meeting and the shareholders' meeting of the parent company is a matter of corporate governance.

55. For subsidiaries that are not public companies, is an expert's opinion required for acquisition or disposal of assets in accordance with the provisions of the Regulations and is an assessment of the reasonableness of the transaction price

and establishment of a special reserve fund required in accordance with Chapter 2 of the Regulations? For subsidiaries that are not public companies, is the parent company required to make public disclosure and filing on behalf of the subsidiary for the acquisition or disposal of real property from or to a related party, regardless of the amount?

Answer:

(1) Considering that a parent company has the power of control over its subsidiary and that any transaction for acquisition or disposal of assets also has certain impacts on the interest of the parent company's shareholders, Article 7(3) of the Regulations stipulates that the public company shall provide a control procedure for the acquisition or disposal of assets by its subsidiary in its procedure for acquisition or disposal of assets and shall procure that its subsidiary establishes and executes a procedure for the acquisition or disposal of assets in accordance with the provisions of the Regulations. An expert shall be asked to provide an opinion in accordance with the Regulations and the provisions under Chapter 2 of the Regulations shall be applicable. Also, if the value of the assets to be acquired or disposed by the subsidiary assessed in accordance with Articles 15 and 16 of the Regulations is lower than the transaction price, the parent company shall, in accordance with Article 17 of the Regulations, provide set up a special reserve fund for the difference between the transaction price of the real property and the assessed value in accordance with Article 41(1) of the Securities and Exchange Act and in proportion to the shareholding percentage.

(2) For subsidiaries that are not public companies, the parent company shall make public disclosure and filing on behalf of the subsidiary for the acquisition or disposal of real property from or to a related party, regardless of the amount.

56. If a subsidiary of an investment holding company or financial holding company listed on the Exchange or TPEx is a public company, is public disclosure and file required for acquisition or disposal of assets in accordance with the Regulations? Or shall the investment holding company or financial holding company make the public disclosure and filing on a consolidated basis, meaning that the subsidiary is exempt from such obligation? (Wording revised)

Answer:

(1) Article 36-1 of the Securities and Exchange Act authorizes the FSC to establish the Guidelines for Acquisition and Disposal of Assets by Public

Companies. Article 2 of the Regulations stipulates that acquisition or disposal of assets by any public company shall be conducted in accordance with the provisions of the Regulations. Therefore, if a subsidiary of an investment holding company or financial holding company listed on the Exchange or TPEx is a public company, its acquisition or disposal of assets is subjected to public disclosure and filing in accordance with the Regulations.

(2) In accordance with the "Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities by the Exchange or the TPEx", if a company controlled by or a subsidiary of an investment holding company or financial holding company listed on the Exchange or TPEx has any major transactions involving acquisition or disposal of assets, the investment holding company or financial holding company listed on the Exchange or TPEx shall carry out matters related to disclosure of important information.

57. If the subsidiary is not a domestic public company, the public disclosure and filing criteria of Article 30(1) of the Regulations such as 20% of the paid-in capital, 10% of the total asset, or the threshold of NT$100 million of paid-in capital shall be calculated based on the amount of the paid-in capital of the public company or the subsidiary? Also, when the acquisition or disposal of assets by a subsidiary reaches the threshold of 20% of the paid-in capital and is therefore being required to obtain the expert's opinion, is the threshold calculated based on the amount of paid-in capital of the public company or the subsidiary? (Amended)

Answer:

(1) In accordance with Article 33(2) of the Regulations, the criteria of determining whether a subsidiary is subject to the mandatory disclosure and filing under Article 30(1) are calculated based on the "public company's"20% of the paid-in capital or 10% of the total assets shown in the most recent individual financial statements. However, the threshold of NT$100 million of paid-in capital is not covered by the foregoing rules and therefore shall mean the paid-in capital of the "subsidiary."

(2) As for the threshold that determines whether an expert's opinion is required for a subsidiary of a domestic public company pursuant to Articles 9 to 11, 13 and 14 of the Regulations, the amount shall be the paid-in capital or total assets of the "subsidiary."

58. How does the rules of NT$100 million of paid-in capital under Article 30(1)(iv) apply if there is no par value or the par value of the company shares is not NT$10? When the subsidiary issues the shares with no par value and substitute 20% of the paid-in capital with 10% of the equity as the requirement for obtaining expert's opinion, how to calculate the amount if the subsidiary's share capital is small and the net worth is negative? (New)

Answer:

(1) If there is no par value or the par value of the company shares is not NT$10, the rules of NT$100 million of paid-in capital shall be changed to NT$200 million of the owner's equity of the parent company pursuant to the idea behind Article 33-2(2) of the Regulations

(2) When the subsidiary issues the shares with no par value and substitute 20% of the paid-in capital with 10% of the equity as the requirement for determining the materiality, the threshold of materiality shall be "zero" if the net worth is negative; expert's opinion shall be required before acquiring or disposing of any asset in Articles 9 to 11.

(The original Question 49 deleted; included in the chapter for foreign companies under the Securities and Exchange Act in 2012)

(The original Question 50 deleted; public companies have all adopted IFRSs as of 2015.)