

RELATED PARTY TRANSACTION GUIDE

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I. Introduction

Good corporate governance is fundamental to business operation. Related party transactions may create opportunities for insiders to abuse their authority or hollow out the company's assets. Many high profile embezzlement cases resulted from poor corporate governance, in particular the practice of offering special interest in related party transactions or irregular transactions. This is a long-standing issue that attracts lots of attention.

In Taiwan, prevention of conflict of interest is mainly governed by the Company Act and the Securities and Exchange Act. Major regulations for related party transaction and disclosure of relevant information include: Regulations Governing the Acquisition and Disposal of Assets by Public Company, Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies, Regulations Governing Establishment of Internal Control Systems by Public Companies, Regulations Governing Information to be Published in Annual Reports of Public Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers, Regulations Governing Procedure for Board of Directors Meetings of Public Companies, Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange, Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities, Taiwan Stock Exchange Corporation Rules Governing Information Filing by Companies with TWSE Listed Securities and Offshore Fund Institutions with TWSE Listed Offshore Exchange-Traded Funds, Taipei Exchange Procedures for

Verification and Disclosure of Material Information of Companies with TPEX Listed Securities, Taipei Exchange Rules Governing Information Reporting by Companies with TPEX Listed Securities, and Taipei Exchange Rules Governing the Review of Emerging Stocks for Trading on the TPEX. In addition, when establishing policies on management of relation party transactions or engaging in transactions with affiliated enterprises, you may refer to the "Sample Template for XXX Co., Ltd. Rules Governing Financial and Business Matters Between this Corporation and its Affiliated Enterprises". Other than the above regulations, you shall also comply with such other requirements on financial and business matters between you and your affiliates otherwise provided in applicable laws or articles of incorporation.

This Related Party Transaction Guide mainly covers discussions of regular business activities between related parties, acquisition or disposal of assets, loaning of funds and making of endorsements/guarantees, and remuneration of directors, supervisors and managerial officer. Transactions of financial institution's stakeholders shall be subject to the applicable laws and regulations and are not covered by this guide.

II. Definition of Related Party

As indicated in the report of the Organization for Economic Cooperation and Development (OECD), definition of related party transactions as used in international financial reports is mostly consistent with the definition under International Accounting Standards No. 24 (IAS 24) "Related Party Disclosures". In Taiwan's capital market, the scope of related parties as used in financial reports is also based on the definition adopted in IAS 24. Also, the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Preparation Regulations") additionally provides for the scope of substantive related parties. In addition, to prevent irregular transactions and avoid offering special interest, the competent authority for securities transactions has established the Regulations Governing the Acquisition and Disposal of Assets by Public Companies, under which the scope of management of material asset transactions between related parties is also consistent with the definition of related parties for purpose of financial reports. Below is the detailed definition of related party.

1. IAS 24 "Related Party Disclosure"¹

- (1) **A related party refers to an individual or entity associated with the entity that prepares financial statements.**
- a. **An individual or a close member of the family of the individual is related to the reporting entity if the individual either:**
- i) controls or has joint controls over the reporting entity; or

¹ IAS 24, paragraphs 9 to 12.

- ii) has significant influence over the reporting entity; or
- iii) is a member of the key management personnel of the reporting entity or its parent.

b. An entity is related to the reporting entity if either of the following exists:

- i) The entity is a member of the same group of the reporting entity (parent, subsidiary, or brother).
- ii) An entity is an affiliated enterprise of the other entity or a joint venture in which the other entity is a venturer (or is an affiliated enterprise of a member of a group or a joint venture in with a member of a group is a venturer, and the other entity is also a member of the group).
- iii) Both entities are joint ventures in which the same third party is a venturer.
- iv) A entity is a joint venture in which a third party is a venturer, and the other entity is an affiliated enterprise of the third party.
- v) The entity a post-retirement welfare program established by the employees of the reporting entity or of an entity associated with the reporting entity.
- vi) The entity is controlled by or is under common control with an individual listed in a.
- vii) An individual listed in a.(i) has significant influence over the entity, or is a member of the key management personnel of the entity (or its parent).
- viii) The entity (or any member of the group it belongs to) provides services of the key management personnel to the reporting entity or its parent.

(2) Close members of the family of an individual are those family

members who may be expected to influence, or be influenced by, that individual in their dealings with the reporting entity. They may include:

- a. the individual's children and spouse or domestic partner;
- b. children of the individual's spouse or domestic partner; and
- c. dependent of the individual or the individual's spouse or domestic partner.

(3) Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

(4) An affiliated enterprise includes the affiliated enterprise's subsidiary. A joint venture includes the joint venture's subsidiary.

(5) In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

(6) The following are not necessarily related parties:

- a. two entities simply because they have a director or other member of key management personnel in common, or simply because a member of the key management personnel of one entity has significant influence over the other.
- b. two venturers simply because they share joint control over a joint venture.
- c. (i) providers of finance; (ii) trade unions; (iii) public utilities; and (iv) government departments or agencies without control, joint control or significant influence over the reporting entity, simply by virtue of their normal dealings with the entity (even though they may affect the freedom of action of the entity or participate in its decision-making process).
- d. a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

(7) Explanatory Examples

Refer to Appendix 2 for cases of determining substantive related party.

2. Regulations Governing the Preparation of Financial Reports by Securities Issuers²

- (1) An issuer is required to fully disclose information about related party transactions in accordance with IAS 24 "Related Party Disclosure". In considering whether a counterparty is a related party, attention shall be directed to the substance of the relationship in addition to the legal form. Unless it can be established that no control, joint control, or significant influence exists, a party falling within any of the following shall be deemed to have a substantive related party relationship, and relevant information shall be disclosed in the notes to the financial reports in accordance with IAS 24:**
- a. An affiliated enterprise within the meaning given in Chapter VI-I of the Company Act, and any of its directors, supervisors, and managerial officers.
 - b. A company or institution governed by the same general management office as the issuer, and any of its directors, supervisors, and managerial officers.
 - c. A person holding the position of manager or higher in the general management office.
 - d. A company or institution shown as an affiliated enterprise in the issuer's publications or public announcements.
 - e. Where the board chairperson or president of another company or institution is the same person as the board chairperson or president of the issuer, or is the spouse or a relative within the second degree or closer of the board chairperson or president of the issuer.

² Preparation Regulations, Article 18.

(2) Affiliated enterprise under Chapter VI-I of the Company Act as referred to above is defined as:

- a. The term "affiliated enterprises" shall refer to enterprises which are independent in existence but are interrelated in either of the following relations:³
- i) Companies having controlling and subordinate relation between them; or
 - ii) Companies having made investment in each other.
- b. A company which holds a majority of the total number of the outstanding voting shares or the total amount of the capital stock of another company is considered the controlling company, while the said another company is considered the subordinate company. If a company has a direct or indirect control over the management of the personnel, financial or business operation of another company, it is also considered the controlling company, and the said another company is considered the subordinate company.⁴
- c. Under any of the following circumstances, it shall be concluded as the existence of the controlling and subordinate relation:⁵
- i) Where a majority of executive shareholders or directors in a company are contemporarily acting as executive shareholders or directors in another company; or
 - ii) Where a majority of the total number of outstanding voting shares or the total amount of the capital stock of a company and another company are held by the same shareholders.
- d. Where a company and another company have made investment in each

³ Company Act, Article 369-1.

⁴ Company Act, Article 369-2 (Controlling Company and Subordinate Company).

⁵ Company Act, Article 369-3 (Conclusion of Controlling and Subordinate Relation).

other's company to the extent that one third or more of the total number of the voting shares or the total amount of the capital stock of both companies are held or contributed by each other, these two companies are defined as mutual investment companies. Where both mutual companies are holding one half or more of the total number of the voting shares or of the total amount of the equity capital of each other's company, or having direct or indirect control over the management of the personnel, financial or business operations of each other's company, they shall have the status of the controlling company as well as the subordinate company to each other's company.⁶

- (3) Definitions of related party and subsidiary in the Regulations Governing the Acquisition and Disposal of Assets by Public Companies (the "Acquisition/Disposal Regulations")⁷ are based on the requirements under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.⁸**

⁶ Company Act, Article 369-9 (Mutual Investment Companies).

⁷ Acquisition/Disposal Regulations, Article 4(3).

⁸ Preparation Regulations, Article 18.

III. Structure of Laws Governing Related Party Transactions

To ensure a healthy financial and business relationship of public companies and their related parties, and to prevent controlling shareholders from offering special interest through related party transaction adverse to minority equity holders, the key measures in place in Taiwan's capital market include designating approval authorities, independent directors participating in decision-making process, conflict of interest avoidance, requirement on establishment of internal control system, evaluation of fairness and necessity of transaction prices, and information disclosure with the purpose of protecting minority equity holders.

The information below covers a general description of regulations governing related party transactions, and scope of transactions including regular business activities between related parties, acquisition or disposal of assets, loaning of funds and making of endorsements/guarantees, and remuneration of directors, supervisors and managerial officers.

1. General Regulations

Legal basis: Company Act, Securities and Exchange Act, Regulations Governing Procedure for Board of Directors Meetings of Public Companies, Regulations Governing the Exercise of Powers by Audit Committees of Public Companies, and Regulations Governing Establishment of Internal Control Systems by Public Companies.

(1) General regulations

- a. Business operations of a company shall be executed pursuant to the resolutions to be adopted by the board of directors, except for the matters the execution of which shall be effected pursuant the resolutions of the shareholders' meeting as required by the Company Act or the Articles of Incorporation of the company.⁹
- b. In case a director of a company transacts a sales with, or borrows/lends money from/to or conducts any legal act with the company on his own account or for any other person, the supervisor shall act as the representative of the company.¹⁰ For a company that has established an audit committee, the independent director shall act as the representative of the company.¹¹

(2) Avoidance of conflict of interest at shareholders' meetings and board meetings

- a. A shareholder who has a personal interest in the matter under discussion at a meeting, which may impair the interest of the company, shall not vote nor exercise the voting right on behalf of another shareholder.¹²
- b. In passing a resolution at a shareholders' meeting, shares for which voting right cannot be exercised as provided by law shall not be counted in the number of votes of shareholders present at the meeting.¹³
- c. If any director or a juristic person represented by a director is an interested party with respect to any agenda item, the director shall state the important

⁹ Company Act, Article 202.

¹⁰ Company Act, Article 223.

¹¹ Securities and Exchange Act, Article 14-4, paragraph 3.

¹² Company Act, Article 178.

¹³ Company Act, Article 180.

aspects of the interested party relationship at the respective meeting. When the relationship is likely to prejudice the interests of the company, the director may not participate in discussion or voting on that agenda item, and further, shall enter recusal during discussion and voting on that item and may not act as another director's proxy to exercise voting rights on that matter. Where the spouse or a blood relative within the second degree of kinship of a director, or a company which has a controlling or subordinate relation with a director, is an interested party with respect to an agenda item as described in the preceding paragraph, such director shall be deemed to be an interested party with respect to that agenda item.¹⁴

d. In passing a resolution at a board meeting, votes for which voting right cannot be exercised as provided by law shall not be counted in the number of votes of directors present at the meeting.¹⁵

(3) Systems of independent directors and audit committee

a. When a company has issued stock in accordance with the Securities and Exchange Act (the "SEA") and selected independent directors, then a matter bearing on the personal interest of a director or supervisor, a material asset or derivatives transaction, and a material monetary loan, endorsement, or provision of guarantee,¹⁶ unless approval has been obtained from the Competent Authority, shall be submitted to the board of directors for approval by resolution; when an independent director has a dissenting

¹⁴ Company Act, Article 206; and Regulations Governing Procedure for Board of Directors Meetings of Public Companies (the "BOD Meeting Regulations"), Article 16.

¹⁵ Company Act, Article 206, paragraph 4, under which Article 180, paragraph 2 shall apply mutatis mutandis.

¹⁶ According to the interpretation of Financial-Supervisory-Securities-III-0950005718 Letter of 19 December 2006, it refers to a matter required to be approved by the board of directors according to the disposal procedure established by the company or otherwise required by law.

opinion or qualified opinion, it shall be noted in the minutes of the directors meeting.¹⁷

- b. When a company has issued stock in accordance with the SEA and established an audit committee, then a matter bearing on the personal interest of a director or supervisor, a material asset or derivatives transaction, and a material monetary loan, endorsement, or provision of guarantee shall be subject to the consent of one-half or more of all audit committee members and be submitted to the board of directors for a resolution.¹⁸
- c. If an independent director member of the audit committee has a personal interest in any agenda item, the director shall explain the essential content of the interest. If the director's personal interest is likely to prejudice the interest of the company, the director member may not participate in discussion and voting, and shall recuse himself or herself from the discussion and voting, and also may not exercise voting rights as a proxy for any other independent director member. Where the spouse or a blood relative within the second degree of kinship of an independent director is an interested party with respect to an agenda item as described in the preceding paragraph, such director shall be deemed to be an interested party with respect to that agenda item.¹⁹

(4) Establishment of internal control system for related party transactions

- a. According to the Regulations Governing Establishment of Internal Control Systems by Public Companies (the "Internal Control Regulations"),²⁰ in

¹⁷ SEA, Article 14-3.

¹⁸ SEA, Article 14-5.

¹⁹ Regulations Governing the Exercise of Powers by Audit Committees of Public Companies, Article 9, paragraphs 1 and 2.

²⁰ Internal Control Regulations, Article 8, paragraph 1, subparagraph 10.

addition to control activities for different types of operating cycles, a public company shall include controls for management of related party transaction the activities listed below in its internal control systems and make them audit items in its annual audit plan for each year. For details of "management of related party transaction" above, the following items and the company's overall business activities may be considered in the design of the company's internal control system:²¹

- i) Procedure of identifying and maintaining related parties.
 - ii) Management of related party transactions (at least covering sales, purchases, investments and financing).
 - iii) Account checking, reconciliation and settlement of related party transactions.
 - iv) Management of related party transaction contracts.
 - v) Presentation and disclosure of related party transactions.
- b. A company shall consider the overall operational activities of the company and its related parties, build effective internal control systems, and review such systems from time to time, to adapt to changes in its internal and external environment and to ensure sustained design and operating effectiveness of the systems.²²
- c. The company shall ensure that any subsidiary develops an effective internal control system, taking into account the laws and regulations of the jurisdiction

²¹ Q&A of Regulations Governing Establishment of Internal Control Systems by Public Companies, Question 12.

²² Internal Control Regulations, Article 5, paragraph 2; and Sample Template for "XXX Co., Ltd. Rules Governing Financial and Business Matters Between this Corporation and its Affiliated Enterprises ("Affiliated Enterprise Transaction Sample"), Article 4, paragraph 1.

in which the subsidiary is located and the nature of its operations. For any affiliated enterprise that is not a public company, the company shall still, in consideration of the degree of influence it has on the company's business and finances, require that it develop effective systems for internal control and for managing financial, business, and accounting matters.²³

²³ Internal Control Regulations, Article 38; and Affiliated Enterprise Transaction Sample, Article 4, paragraph 2.

2. Regulations of Various Types of Transactions

(1) Transactions involving regular business activities

For transaction involving regular business activities between the company and any affiliated enterprise, it is advisable relevant systems have specific rules as follows:²⁴

- a. Price terms and payment methods shall be expressly stipulated. The purpose, pricing, and terms of a transaction, and its formal and substantive nature and the related handling procedures, shall not differ markedly from those of a normal transaction with a non-related party, nor may they be apparently not comparable or obviously unreasonable.
- b. When business needs require the purchase of finished products, semi-finished products, or materials from a related party, purchasing personnel shall thoroughly evaluate the reasonableness of the price quoted by the related person based on market prices and other transaction terms and conditions. Except in special circumstances, or given advantageous conditions that differ from those of ordinary suppliers, under which the granting of preferential pricing or terms of payment can be reasonably stipulated, any other prices and payment terms shall be commensurate with those offered to ordinary suppliers.
- c. Price quotes for the sale of any finished products, semi-finished products, or materials to a related party shall be made with reference to current market prices. Except in cases of long-term cooperation or other special

²⁴ Affiliated Enterprise Transaction Sample, Article 9.

factors that are different from ordinary clients, under which reasonable stipulations may be made to grant preferential pricing or terms of payment, any other prices and payment terms shall be commensurate with those offered to ordinary clients.

- d. For professional or technical services provided between the company and a related party, both parties shall enter into a contract stipulating the scope of the services, fees charged, time period, payment terms, and after-sales service. The contract shall be implemented after approval as required by law or by following the internal authorization procedure, and all contract terms and conditions shall comply with normal business practice.
- e. By the end of each month, the accounting personnel of both the company and its related party shall perform cross checks of the purchases and sales of goods between them for the preceding month and the related balances of accounts payable and receivable. If any discrepancies are found, accounting personnel shall identify the cause and prepare a reconciliation statement.

(2) Acquisition or disposal of assets

Legal basis: Regulations Governing the Acquisition and Disposal of Assets by Public Companies

a. Establishment of procedures for the acquisition or disposal of assets

A public company shall establish the procedures for the acquisition or disposal of assets, which should include appraisal procedures and operating procedures for related party transaction, such as means of price determination and supporting reference materials, degree of authority delegated, the levels to which authority is delegated, the units responsible for implementation, and transaction process.²⁵

Transactions under which a public company and its related party acquire or dispose of assets shall follow the handling procedure so established, except where the transaction amount reaches a certain criterion, when Articles 14 to 18 of the Acquisition/Disposal Regulations shall govern.

b. Resolution procedures²⁶

i) Submit to the board of directors for resolution:

A. When a public company intends to acquire or dispose of real property or right-of-use assets thereof from or to a related party, or when it intends to acquire or dispose of assets other than real property or right-of-use assets thereof from or to a related party and the transaction amount reaches 20% 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 bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued

²⁵ Acquisition/Disposal Regulations, Article 7.

²⁶ Acquisition/Disposal Regulations, Article 15.

by domestic securities investment trust enterprises, the company may not proceed to enter into a transaction contract or make a payment until the matters listed in section c. below have been approved by the board of directors and recognized by the supervisors.

- B. With respect to acquisition or disposal of equipment or right-of-use assets thereof held for business use, or real property right-of-use assets held for business use, when to be conducted between a public company and its parent or subsidiaries, or between its subsidiaries in which it directly or indirectly holds 100 percent of the issued shares or authorized capital, the company's board of directors may delegate the board chairman to decide such matters when the transaction is within a certain amount and have the decisions subsequently submitted to and ratified by the next board of directors meeting.²⁷
- C. Where the position of independent director has been created in accordance with the regulations, when a matter is submitted for discussion by the board of directors as required, 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.
- D. Where an audit committee has been established in accordance with the regulations, the matters for which the regulations require recognition by the supervisors shall first be approved by one-half or more of all audit committee members and then submitted to the board of directors for a

²⁷ With regard to how to calculate a direct or indirect percentage for "subsidiaries in which it directly or indirectly holds 100% of the issued shares or authorized capital" under Article 15, paragraph 3 of the Acquisition/Disposal Regulations, refer to the Q&A of Regulations Governing the Acquisition and Disposal of Assets by Public Companies (as amended in March 2020), Explanatory Examples in Question 29, as detailed in Appendix 3.

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

ii) **Submit to a shareholders' meeting for resolution:**

To strengthen management of related party transactions, after referring to regulations adopted in major international capital markets, the competent authority has established an additional requirement that a material related party transaction shall be approved by resolution at a shareholders' meeting. When a public company or its subsidiary that is not a domestic public company engages in a transaction under section i) above and the transaction amount exceeds 10% of the total assets of the public company, the public company may not proceed to enter into a transaction contract or make a payment until the matters listed in section c. below have been submitted to and approved by the shareholders' meeting. Further, the requirement on transactions being submitted to a shareholders' meeting for approval is waived for those between a public company and its parent, subsidiary, or between its subsidiaries.²⁸

iii) Calculation of transaction amounts: The calculation of the transaction amounts referred to in i) A and ii) shall be made in accordance with Article 31, paragraph 2 of the Acquisition/Disposal Regulations, and "within the preceding year" as used therein refers to the year preceding the date of occurrence of the current transaction. Items that have been approved by the shareholders' meeting or the board of directors and recognized by the supervisors need not be counted toward the transaction amount.

²⁸ Acquisition/Disposal Regulations, Article 15, paragraph 5.

c. Required information

In the discussion of a proposal for a related party's acquisition or disposal of assets in section a. i) A. or ii) above, the company may not proceed to enter into a transaction contract or make a payment until the following matters have been submitted to and approved by the board of directors and recognized by the supervisors (or approved by the shareholders' meeting):²⁹

- i) The purpose, necessity and anticipated benefit of the acquisition or disposal of assets.
- ii) The reason for choosing the related party as a transaction counterparty.
- iii) With respect to the acquisition of real property or right-of-use assets thereof from a related party, information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with the regulations.
- iv) The date and price at which the related party originally acquired the assets, the original transaction counterparty, and that transaction counterparty's relationship to the company and the related party.
- v) Monthly cash flow forecasts for the year commencing from the anticipated month of signing of the contract, and evaluation of the necessity of the transaction, and reasonableness of the funds utilization.
- vi) An appraisal report from a professional appraiser or a CPA's opinion obtained in compliance with the requirements.
- vii) Restrictive covenants and other important stipulations associated with the transaction,

²⁹ Acquisition/Disposal Regulations, Article 15, paragraphs 1 and 5.

d. Appraisal of reasonableness of transaction price

- i) Acquiring or disposing of **securities** with a related party: A company shall, prior to the date of occurrence of the event, obtain financial statements of the issuing company for the most recent period, certified or reviewed by a certified public accountant, for reference in appraising the transaction price, and if the dollar amount of the transaction is 20 percent of the company's paid-in capital, 10% of its total assets, or NT\$300 million or more, the company shall additionally engage a certified public accountant prior to the date of occurrence of the event to provide an opinion regarding the reasonableness of the transaction price. This requirement does not apply, however, to publicly quoted prices of securities that have an active market, or where otherwise provided by regulations of the Financial Supervisory Commission.³⁰
- ii) Acquiring or disposing of **intangible assets or right-of-use assets thereof or memberships** with a related party: If the transaction amount reaches 20% or more of paid-in capital, 10% of total assets, or NT\$300 million or more, the company shall engage a certified public accountant prior to the date of occurrence of the event to render an opinion on the reasonableness of the transaction price.³¹
- iii) Acquiring or disposing of **equipment or right-of-use assets thereof** with a related party: If the transaction amount reaches 20% of the company's paid-in capital, 10% of total assets, or NT\$300 million or more, the

³⁰ "Where otherwise provided by regulations of the Financial Supervisory Commission", as referred to in Article 14 of the Acquisition/Disposal Regulations, to which Article 10 applies mutatis mutandis, and the proviso of Article 10, means the Financial-Supervisory-Securities-Corporate 1070331908 Order of 29 August 2018. Also refer to the Q&A of Regulations Governing the Acquisition and Disposal of Assets by Public Companies (as amended in March 2020), Explanatory Examples for Question 19.

³¹ Acquisition/Disposal Regulations, Article 14, to which Article 11 applies mutatis mutandis.

company, unless transacting with a domestic government agency, or acquiring or disposing of equipment or right-of-use assets thereof held for business use, shall obtain an appraisal report prior to the date of occurrence of the event from a professional appraiser.³²

iv) Acquiring or disposing of **real property or right-of-use assets thereof** from a related party:

A. Unless transacting with a domestic government agency, engaging others to build on its own land, engaging others to build on rented land, if the transaction amount reaches 20% of the company's paid-in capital, 10% of total assets, or NT\$300 million or more, the company shall obtain an appraisal report prior to the date of occurrence of the event from a professional appraiser.³³

B. Where a public company acquires real property or right-of-use assets thereof from a related party (regardless of value of the transaction amount), unless in one of the circumstances in (A) below,³⁴ where evaluation in the manner described under (B) may be waived, the company shall always evaluate the reasonableness of the transaction costs in the manner described in (B) below and shall also engage a CPA to check the appraisal and render a specific opinion:³⁵

(A) Types of transactions for which evaluation in the manner described under (B) may be waived:

a. The related party acquired the real property or right-of-use assets thereof through inheritance or as a gift.

³² Acquisition/Disposal Regulations, Article 14, to which Article 9 applies mutatis mutandis.

³³ Acquisition/Disposal Regulations, Article 14, to which Article 9 applies mutatis mutandis.

³⁴ Acquisition/Disposal Regulations, Article 16, paragraph 4.

³⁵ Acquisition/Disposal Regulations, Article 16, paragraphs 1, 2 and 3.

- b. More than 5 years will have elapsed from the time the related party signed the contract to obtain the real property or right-of-use assets thereof to the signing date for the current transaction.
 - c. The real property is acquired through signing of a joint development contract with the related party, or through engaging a related party to build real property, either on the company's own land or on rented land.
 - d. The real property right-of-use assets for business use are acquired by the public company with its parent or subsidiaries, or by its subsidiaries in which it directly or indirectly holds 100 percent of the issued shares or authorized capital.
- (B) Method to evaluate the reasonableness of the transaction costs of a transaction where a company acquires real property or right-of-use assets thereof from a related party:
- a. Based upon the related party's transaction price plus necessary interest on funding and the costs to be duly borne by the buyer. "Necessary interest on funding" is imputed as the weighted average interest rate on borrowing in the year the company purchases the property; provided, it may not be higher than the maximum non-financial industry lending rate announced by the Ministry of Finance.
 - b. Total loan value appraisal from a financial institution where the related party has previously created a mortgage on the property as security for a loan; provided, the actual cumulative amount loaned by the financial institution shall have been 70 percent or more of the

financial institution's appraised loan value of the property and the period of the loan shall have been one year or more. However, this shall not apply where the financial institution is a related party of one of the transaction counterparties.

- c. 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 a. or b. above.
- C. Where the results of the appraisal conducted in accordance with B. above are lower than the transaction price,
- (A) Where the related party acquired undeveloped land or leased land for development, it may submit proof of compliance with one of the following conditions, and obtain specific opinions on reasonableness from a professional real property appraiser and a CPA:³⁶
 - a. Where undeveloped land is appraised in accordance with the means in B. (B) a. or B. (B) b. above, 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.
 - b. Completed transactions by unrelated parties within the preceding

³⁶ Acquisition/Disposal Regulations Article 11, paragraph 1, subparagraph 1.

year involving other floors of the same property or neighboring or closely valued parcels of land, where the land area and transaction terms are similar after calculation of reasonable price discrepancies in floor or area land prices in accordance with standard property market sale or leasing practices.

(B) A public company acquiring real property, or obtaining real property right-of-use assets through leasing, from a related party may provide evidence that the terms of the transaction are similar to the terms of completed transactions involving neighboring or closely valued parcels of land of a similar size by unrelated parties within the preceding year, and obtain specific opinions on reasonableness from a professional real property appraiser and a CPA.³⁷

D. Where the results of the appraisal conducted in accordance with B. above are lower than the transaction price, and no objective evidence described in C. (A) or C. (B) above is submitted, or where a public company acquires real property or right-of-use assets thereof from a related party, or there is other evidence indicating that the acquisition was not an arms-length transaction, the following steps shall be taken:

(A) A special reserve shall be set aside in accordance with Article 41, paragraph 1 of the SEA against the difference between the real property transaction price and the appraised cost, and may not be distributed or used for capital increase or issuance of bonus shares. Where a public company uses the equity method to account for its investment in another company, then the special reserve called for under Article 41, paragraph of the SEA shall be set aside pro rata in a proportion consistent with the share of public company's equity stake in

³⁷ Acquisition/Disposal Regulations, Article 17, paragraph 1, subparagraph 2.

the other company.

(B) Supervisors shall comply with Article 218 of the Company Act. Where an audit committee has been established in accordance with the provisions of the SEA, the preceding part of this subparagraph shall apply *mutatis mutandis* to the independent director members of the audit committee

(C) Actions taken pursuant to (A) and (B) above shall be reported to a shareholders' meeting, and the details of the transaction shall be disclosed in the annual report and any investment prospectus.

E. A public company that has set aside a special reserve under paragraph D. may not utilize the special reserve until it has recognized a loss on decline in market value of the assets it purchased or leased at a premium, or they have been disposed of, or the leasing contract has been terminated, or adequate compensation has been made, or the status quo ante has been restored, or there is other evidence confirming that there was nothing unreasonable about the transaction, and the Financial Supervisory Commission has given its consent.³⁸

e. Derivative trading, mergers and consolidations, splits, acquisitions, and assignment of shares between a company and its related party shall comply, as applicable, with Articles 19 to 22, and 23 to 30 of the Acquisition/Disposal Regulations.

³⁸ Acquisition/Disposal Regulations, Article 18, paragraph 2.

(3) Loaning of funds

Legal basis: Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies

a. Article 15 of the Company provides: Unless otherwise under any of the following circumstances, the capital of a company shall not be lent to any shareholder of the company or any other person:

- i) Where an inter-company or inter-firm business transaction calls for such lending arrangement.
- ii) Where an inter-company or inter-firm short-term financing facility is necessary provided that the amount of such financing facility shall not exceed 40% of the amount of the net value of the lending enterprise.

b. Before making a loan of funds to others, a public company shall carefully evaluate whether the loan is in compliance with Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies (the "Endorsements/Guarantees Regulations") and the company's Operational Procedures for Loaning Funds to Others, and conduct the following detailed review procedures before such proposal is submitted to and resolved upon by the board of directors. The company shall not empower any other person to make such decision.³⁹

- i) The necessity of and reasonableness of extending loans to others.
- ii) Borrower credit status and risk assessment.
- iii) Impact on the company's business operations, financial condition, and

³⁹ Endorsements/Guarantees Regulations, Article 14, paragraph 1; and Article 9, paragraph 1, subparagraph 6.

shareholders' equity.

- iv) Whether collateral must be obtained and appraisal of the value thereof.
- c. Loans of funds between the public company and its parent or subsidiaries, or between its subsidiaries, shall be submitted for a resolution by the board of directors, and the chairperson may be authorized, for a specific borrowing counterparty, within a certain monetary limit resolved by the board of directors, and within a period not to exceed one year, to give loans in installments or to make a revolving credit line available for the counterparty to draw down.⁴⁰

⁴⁰ Endorsements/Guarantees Regulations, Article 14, paragraph 2.

(4) Endorsements and Guarantees

Legal basis: Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies

a. A public company may make endorsements/guarantees for the following companies:

i) A company with which it does business.

ii) A company in which the public company directly and indirectly holds more than 50% of the voting shares.

iii) A company that directly and indirectly holds more than 50% of the voting shares in the public company.⁴¹

b. Before making an endorsement/guarantee for others, a public company shall carefully evaluate whether the endorsement/guarantee is in compliance with the Endorsements/Guarantees Regulations and the company's Operational Procedures for Endorsements/Guarantees for Others, and conduct the following detailed review procedures before such proposal is submitted to and resolved upon by the board of directors. Or the board of directors authorizes, pursuant to the decision-making and authorization level under the company's Operational Procedures for Endorsements/Guarantees, the chairperson of the board to grant endorsements/guarantees within a specific limit, for subsequent submission to and ratification by the next board of directors' meeting.⁴²

⁴¹ Endorsements/Guarantees Regulations, Article 5.

⁴² Endorsements/Guarantees Guidelines, Article 17, paragraph 1; and Article 12, paragraph 1, subparagraph 5.

- i) The necessity of and reasonableness of endorsements/guarantees.
- ii) Credit status and risk assessment of the entity for which the endorsement/guarantee is made.
- iii) The impact on the company's business operations, financial condition, and shareholders' equity.
- iv) Whether collateral must be obtained and appraisal of the value thereof.

(5) Remuneration of Directors, Supervisors and Managerial Officers

Legal basis: Securities and Exchange Act, Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange

- a. A company whose stock is listed on the stock exchange or traded over-the-counter shall establish a remuneration committee. Remuneration shall include salary, stock options, and any other substantive incentive measures for directors, supervisors, and managerial officers.⁴³
- b. The remuneration committee shall exercise the care of a good administrator in faithfully prescribing and periodically reviewing the performance review and remuneration policy, system, standards, and structure for directors, supervisors and managerial officers; and periodically evaluating and prescribing the remuneration of directors, supervisors, and managerial officers, and shall submit its recommendations for deliberation by the board of directors.⁴⁴
- c. When performing the official powers of paragraph b., the remuneration committee shall follow the principles listed below:⁴⁵
 - i) With respect to the performance assessment and remuneration of directors, supervisors and managerial officers of the company, it shall refer to the typical pay levels adopted by peer companies, and take into consideration the reasonableness of the correlation between remuneration

⁴³ SEA, Article 14-6.

⁴⁴ Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange (the "Remuneration Committee Regulations"), Article 7, paragraph 1.

⁴⁵ Remuneration Committee Regulations, Article 7, paragraph 2.

and individual performance, the company's business performance, and future risk exposure. The remuneration committee should evaluate and determine the remuneration of managerial officers based on individual performance, and is advised against using salary grade table in its review of the remuneration of an individual managerial officer.⁴⁶

- ii) It shall not produce an incentive for the directors or managerial officers to engage in activity to pursue remuneration exceeding the risks that the company may tolerate.
- iii) It shall take into consideration the characteristics of the industry and the nature of the company's business when determining the ratio of bonus payout based on the short-term performance of its directors and senior management and the time for payment of the variable part of remuneration.

⁴⁶ Q&A of Corporate Governance - Remuneration Committee Chapter, Question 17.

- d. "Remuneration" as used in the paragraphs b. and c. above includes cash compensation, stock options, profit sharing and stock ownership, retirement benefits or severance pay, allowances or stipends of any kind, and other substantive incentive measures. Its scope shall be consistent with that of remuneration for directors, supervisors, and managerial officers as set out in the Regulations Governing Information to be Published in Annual Reports of Public Companies.⁴⁷
- e. When deliberating the recommendations of the remuneration committee, the board of directors shall give comprehensive consideration to matters including amounts of remuneration, payment methods, and the company's future risk.⁴⁸
- f. If the board of directors will decline to adopt, or will modify, a recommendation of the remuneration committee, it shall require the consent of a majority of the directors in attendance at a meeting attended by two-thirds or more of the entire board, which in its resolution shall give the comprehensive consideration to matters including amounts of remuneration, payment methods, and the company's future risk and shall specifically explain whether the remuneration passed by it exceeds in any way the recommendation of the remuneration committee.⁴⁹
- g. If decision-making and handling of any matter relating to the remuneration of directors and managerial officers of a subsidiary is delegated to the subsidiary but requires ratification by the board of directors of the parent company, the parent company's remuneration committee shall be asked to

⁴⁷ Remuneration Committee Regulations, Article 7, paragraph 3.

⁴⁸ Remuneration Committee Regulations, Article 7, paragraph 4.

⁴⁹ Remuneration Committee Regulations, Article 7, paragraph 5.

make recommendations before the matter is submitted to the board of directors for deliberation.⁵⁰

- h. When a meeting of the remuneration committee will discuss the remuneration of any member of the remuneration committee, it will be clearly stated at the meeting. If there is likely to be any prejudice to the interests of the company, that member may not participate in the discussion or voting and shall enter recusal during the discussion and voting. The member also may not act as another remuneration committee member's proxy to exercise voting rights on that matter.⁵¹

⁵⁰ Remuneration Committee Regulations, Article 7, paragraph 7.

⁵¹ Remuneration Committee Regulations, Article 9-1.

IV. Disclosure of Information about Related Party

Transactions

Full disclosure of information is one of the key components of healthy corporate governance. It not only helps reduce imbalance of information access, but subjects a public company to effective market supervision. When it comes to related party transactions, information disclosure is also an important starting point for external supervision. The information below describes the regulations on random and regular information disclosure a public company is required to comply with when engaging in related party transactions.

1. Random information disclosure

(1) Matters resolved a meeting of the board of directors by the board of directors, audit committee and remuneration committee

- a. Any of the following matters in relation to a resolution passed at a meeting of the board of directors shall be stated in the meeting minutes and within two days of the meeting be published on an information reporting website designated by the competent authority.⁵²
- i) Any matter resolved at a meeting of the board of directors about which an independent director of a public company expresses an objection or reservation that has been included in records or stated in writing.

⁵² BOD Meeting Regulations, Article 17, paragraph 2.

- ii) If a public company has an audit committee, any matter resolved at a meeting of the board of directors that has not been passed by the audit committee, but has been adopted with the approval of two-thirds or more of all board directors.
- b. In one of the following circumstances, a TWSE/TPEX listed company or emerging stock company shall publish material information two hours before the hour when trading starts on the business day following the date of occurrence of the event.⁵³
- i) Objection or expression of reservation by a member of the audit committee or remuneration committee, or by an independent director, about a resolution by, respectively, said committee or the board of directors, that has been included in a record or stated in written.
 - ii) For a listed company that has established an audit committee, any matter adopted with the approval of two-thirds or more of all directors without having been passed by the audit committee.
 - iii) Any remuneration passed by the board of directors that is more favorable than the suggestion by the remuneration committee.

⁵³ "Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities" and "Taipei Exchange Procedures for Verification and Disclosure of Material Information of Companies with TPEX Listed Securities" (collectively the "TWSE/TPEX Listed Company Material Information Regulations"), Article 4, paragraph 1, subparagraph 44; "Taipei Exchange Rules Governing the Review of Emerging Stocks for Trading on the TPEX" (Emerging Stock Review Rules), Article 34, paragraph 1, subparagraph 36; and Article 51, paragraph 1, subparagraph 23.

(2) Acquisition or disposal of assets

a. Upon acquisition or disposal of real property or right-of-use assets thereof by a public company and its subsidiary that is not itself a public company in Taiwan from or to a related party, or acquisition or disposal of assets other than real property or right-of-use assets thereof from or to a related party where the transaction amount reaches 20% or more of paid-in capital, 10% or more of the company's total assets, or NT\$300 million or more, a public report of relevant information, in a required format applicable to nature of the information, shall be made on the designated information reporting website within two days counting inclusively from the date of occurrence of the event,⁵⁴ except in trading of domestic government bonds or bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises. The amount of transactions above shall be calculated as follows:

- i) The amount of transactions above shall be calculated as follows.
- ii) The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same transaction counterparty within the preceding year.
- iii) The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of real property or right-of-use assets thereof within the same development project within the preceding year.

⁵⁴ Acquisition/Disposal Regulations, Article 31, paragraph 1, subparagraph 1, and Article 34.

- iv) The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.
- b. When a public 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.⁵⁵
- c. Where any of the following circumstances occurs with respect to a transaction that a public company has already publicly announced and reported in accordance with paragraph a. above, a public report of relevant information shall be made on the information reporting website designated by the Financial Supervisory Commission within 2 days counting inclusively from the date of occurrence of the event:⁵⁶
 - i) Change, termination, or rescission of a contract signed in regard to the original transaction.
 - ii) The merger, demerger, acquisition, or transfer of shares is not completed by the scheduled date set forth in the contract.
 - iii) Change to the originally publicly announced and reported information.
- d. With respect to an acquisition or disposal, by the TWSE/TPEX listed company or emerging stock board company or by a subsidiary whose shares have not been publicly issued domestically, of assets within the

⁵⁵ Acquisition/Disposal Regulations, Article 31, paragraph 5.

⁵⁶ Acquisition/Disposal Regulations, Article 32.

scope of Article 3 of the Acquisition/Disposal Regulations and where the circumstances of Article 31 or 32 of the Acquisition/Disposal Regulations require public disclosure and filing, material information should be published two hours prior to market opening on the following business day,⁵⁷ with the exception of the following circumstances:

- i) The information pertains to derivatives trades that must be reported by the 10th of each month;
 - ii) An acquisition or disposal of any type of publicly placed open-end fund or financial product issued by a commercial bank that matures within three months with principal and interest guaranteed.
- e. For acquisition or disposal by the TWSE/TPEX listed company of assets or right-of-use assets of related parties, where the monetary amount of the individual transaction, or of cumulative transactions with the same trading counterparty within one year, reaches 20% of the company's share capital, 10% of its total assets, or NT\$300 million, a press conference to disclose the material information should be held on the business day following the date of occurrence of the event.⁵⁸ In the case of a foreign issuer with shares having no par value or a par value other than NT\$10, 10% of the net worth shall be substituted for the above-mentioned calculation of 20% of share capital. However, this requirement shall not apply to transactions between the above-mentioned listed company and related parties in any of the following circumstances:

⁵⁷ TWSE/TPEX Listed Company Material Information Regulations, Article 4, paragraph 1, subparagraph 20; and Emerging Stock Review Rules, Article 34, paragraph 1, subparagraph 17.

⁵⁸ TWSE/TPEX Listed Company Material Information Regulations, Article 11, paragraph 8; and Article 12, paragraph 1.

- i) Trading of domestic government bonds, repo/reverse repo trades of bonds; acquisition or disposal of any type of publicly placed open-end fund or financial product issued by a commercial bank that matures within three months with principal and interest guaranteed; information on derivatives trading that is to be filed before the 10th day of each month.
- ii) A financial holding company, banking enterprise, insurance enterprise, securities enterprise, or any subsidiary thereof, acquiring or disposing of bills or bonds.
- iii) Transactions with a parent or a subsidiary of the listed company, or between subsidiaries of the listed company.
- iv) Acquisition in the operation of construction business of real property under an arrangement of 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.
- v) Transactions between the listed company and another subsidiary of the same parent company concerning the right-of-use assets of real property or right-of-use assets of equipment for business use.

(3) Loaning of Funds and Making of Endorsements/Guarantees

- a. A public company whose loans of funds reach one of the following levels shall announce and report such event within two days commencing immediately from the date of occurrence:⁵⁹

⁵⁹ Endorsements/Guarantees Regulations, Article 22.

- i) The aggregate balance of loans to others by the public company and its subsidiaries reaches 20% or more of the public company's net worth as stated in its latest financial statement.
 - ii) The balance of loans by the public company and its subsidiaries to a single enterprise reaches 10% or more of the public company's net worth as stated in its latest financial statement.
 - iii) The amount of new loans of funds by the public company or its subsidiaries reaches NT\$10 million or more, and reaches 2% or more of the public company's net worth as stated in its latest financial statement.
- b. A public company whose balance of endorsements/guarantees reaches one of the following levels shall announce and report such event within two days commencing immediately from the date of occurrence:⁶⁰
- i) The aggregate balance of endorsements/guarantees by the public company and its subsidiaries reaches 50% or more of the public company's net worth as stated in its latest financial statement.
 - ii) The balance of endorsements/guarantees by the public company and its subsidiaries for a single enterprise reaches 20% or more of the public company's net worth as stated in its latest financial statement.
 - iii) The balance of endorsements/guarantees by the public company and its subsidiaries for a single enterprise reaches NT\$10 million or more and the aggregate amount of all endorsements/guarantees for, carrying value of equity method investment in, and balance of loans to, such enterprise reaches 30% or more of public company's net worth as

⁶⁰ Endorsements/Guarantees Regulations, Article 25.

stated in its latest financial statement.

- iv) The amount of new endorsements/guarantees made by the public company or its subsidiaries reaches NT\$30 million or more, and reaches 5% or more of the public company's net worth as stated in its latest financial statement.
- c. Where public disclosure and filing of endorsements and guarantees by the TWSE/TPEX listed company or emerging stock board company are required under Article 25 of the Endorsements/Guarantees Regulations, material information should be published two hours prior to market opening on the following business day.⁶¹

⁶¹ TWSE/TPEX Listed Company Material Information Regulation, Article 4, paragraph 1, subparagraphs 22 and 23; and Emerging Stock Review Rules, Article 34, paragraph 1, subparagraphs 19 and 20.

2. Regular information disclosure

(1) Information to be filed monthly

- a. A TWSE/TPEX listed company should file by the end of following calendar month the information on the acquiring or disposing of assets, purchasing, sales, receivables, and payables with the related parties, after offsetting the transactions between the parent and the subsidiaries, as of the preceding month.⁶²
- b. A TWSE/TPEX listed company or emerging stock company should file information of statements of loaning of funds and endorsements and guarantees made by the listed company and its subsidiaries for the preceding month by the 10th day of each calendar month.⁶³

(2) Information to be filed quarterly or biannually

- a. With respect to significant transactions with related parties, after the transactions between the parent and the subsidiaries are offset, if the discrepancy between the accumulated amount filed for each quarter and the figure audited (or reviewed) by the CPA reaches 10% and exceeds NT\$50 million, the reason for the discrepancy shall be filed within 15 days after the deadline for the public disclosure of the financial report for the current quarter.⁶⁴

⁶² Taiwan Stock Exchange Corporation Rules Governing Information Filing by Companies with TWSE Listed Securities and Offshore Fund Institutions with TWSE Listed Offshore Exchange-Traded Funds ("TWSE Listed Company Information Filing Rules"), and Taipei Exchange Rules Governing Information Reporting by Companies with TPEX Listed Securities ("TPEX Listed Company Information Filing Rules"), Article 3, paragraph 1, first half of subparagraph 27.

⁶³ TWSE Listed Company Information Filing Rules, Article 3, paragraph 1, subparagraph 7; TPEX Listed Company Information Filing Rules, Article 3, paragraph 1, subparagraph 5; and Emerging Stock Review Rules, Article 33, paragraph 1, subparagraph 4, and Article 50, paragraph 1, subparagraph 3.

⁶⁴ TWSE Listed Company Information Filing Rules, Article 3, paragraph 1, second half of subparagraph 27;

- b. Significant transactions with related parties included in the notes to financial reports of a public company.⁶⁵
- c. A public company shall separately disclose in the notes to the financial reports information on significant transactions, investees, investments in the Mainland Area, and major shareholders between the issuer and each of its subsidiaries during the current period, and on parent-subsidary transactions.⁶⁶

(3) Information to be filed annually

- a. A public company that is a subsidiary company under the Company Act shall, at the end of each fiscal year, prepare and submit a report regarding the relationship between itself and its controlling company indicating therein the legal acts, funds flow and loss and profit status between the two companies.⁶⁷
- b. Special items included in a public company's annual report of the shareholders' meeting should disclose the consolidated business report, consolidated financial statement, and affiliation report for the most recent fiscal year, compiled in accordance with the Regulations Governing Preparation of Consolidated Business Reports Covering Affiliated Enterprises, Consolidated Financial Statements Covering Affiliated Enterprises, and Reports on Affiliations.⁶⁸
- c. A public company's annual report of the shareholders' meeting should disclose remuneration paid during the most recent fiscal year to directors,

TPEX Listed Company Information Filing Rules, Article 3, paragraph 1, second half of subparagraph 27

⁶⁵ Preparation Regulations, Article 15, paragraph 1, subparagraph 17.

⁶⁶ Preparation Regulations, Article 17.

⁶⁷ Company Act, Article 369-12, paragraph 1.

⁶⁸ Regulations Governing Information to be Published in Annual Reports of Public Companies (the "Annual Report Information Regulations"), Article 21.

supervisors, the general manager, and assistant general managers.⁶⁹

d. A public company's annual report of the shareholders' meeting should disclose state of operations of the board of directors, audit committee and remuneration committee, including the following information:⁷⁰

- i) For matter resolved at a meeting of the board of directors about which an independent director expresses an objection or reservation that has been included in records or stated in writing, information about date of the board meeting, specific term of the board, details of the proposal, opinions of all independent directors and how the company handles independent directors' opinions should be specified.
- ii) For status of a proposal which a director recuses him/herself from due to personal interest therein, information about director's name, details of the proposal, reason of recusal, and status of voting should be specified.
- iii) For matter adopted with the approval of two-thirds or more of all directors without having been passed by the audit committee, information about date of the board meeting, specific term of the board, details of the proposal, resolution of the audit committee, and how the company handles the audit committee's opinion should be specified.
- iv) For status of a proposal which independent director member of the audit committee recuses him/herself from due to personal interest therein, information about independent director's name, details of the

⁶⁹ Annual Report Information Regulations, Article 10, paragraph 3.

⁷⁰ Annual Report Information Regulations, Article 10, paragraph 4, Items 1, 2 and 4 - Table 2, Table 2-1, Table 2-2-1.

proposal, reason of recusal, and status of voting should be specified.

- v) If the board of directors will decline to adopt, or will modify, a recommendation of the remuneration committee, information about date of the board meeting, specific term of the board, details of the proposal, resolution of the board, and how the company handles the audit committee's opinion should be specified. (If remuneration passed by the board of directors is more favorable than the suggestion by the remuneration committee, the difference and reason should be specified.)

- vi) For matter resolved at a meeting of the remuneration committee about which a committee member expresses an objection or reservation that has been included in records or stated in writing, information about date of the meeting of remuneration committee, specific term of the committee, details of the proposal, opinions of all members and how the members' opinions are handled should be specified.

Schedule 1: Resolution Procedure for Related Party Transaction and Required Information

Type of Related Party Transaction	Remuneration Committee	Audit Committee	Board of Directors	Shareholders' Meeting	Information Required at the Board Meeting/Shareholders' Meeting
Acquisition or disposal of material assets		✓	✓	✓ (Note 1)	<ul style="list-style-type: none"> (1) The purpose, necessity and anticipated benefit of the acquisition or disposal of assets. (2) The reason for choosing the related party as a transaction counterparty. (3) With respect to the acquisition of real property or right-of-use assets thereof from a related party, information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with the regulations. (4) The date and price at which the related party originally acquired the real property, the original transaction counterparty, and that transaction counterparty's relationship to the company and the related party. (5) Monthly cash flow forecasts for the year commencing from the anticipated month of signing of the contract, and evaluation of the necessity of the transaction, and reasonableness of the funds utilization. (6) An appraisal report from a professional appraiser or a CPA's opinion obtained in compliance with the requirements. (7) Restrictive covenants and other important stipulations associated with the transaction.
Loaning of funds		✓	✓		<p>Detailed review procedure</p> <ul style="list-style-type: none"> 1. The necessity of and reasonableness of extending loans to others. 2. Borrower credit status and risk assessment. 3. Impact on the company's business operations, financial condition, and shareholders' equity.

Type of Related Party Transaction	Remuneration Committee	Audit Committee	Board of Directors	Shareholders' Meeting	Information Required at the Board Meeting/Shareholders' Meeting
					4. Whether collateral must be obtained and appraisal of the value thereof.
Material endorsements and guarantees (Note 2)		√	√		Detailed review procedure 1. The necessity of and reasonableness of endorsements/guarantees. 2. Credit status and risk assessment of the entity for which the endorsement/guarantee is made. 3. The impact on the company's business operations, financial condition, and shareholders' equity. 4. Whether collateral must be obtained and appraisal of the value thereof.
Remuneration of directors, supervisors and managerial officers	√		√		

Note 1: According to Article 15, paragraph 5 of the Acquisition/Disposal Regulations, a related party transaction with a transaction amount of 10% of total assets or more shall be submitted to the shareholders' meeting for discussion.

Note 2: According to Article 14-5 of the Securities and Exchange Act, material endorsements or guarantees shall be subject to the consent of one-half or more of all audit committee members and be submitted to the board of directors for a resolution. Therefore, approval by the chairman of the board, as empowered by the board of directors for subsequent submission to and ratification by the next board of directors' meeting under Article 17, paragraph 1 of the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies shall not apply.

Schedule 2: Random Information Disclosure of Related Party Transactions

Form of information disclosure Reported items	Announced in 2 days	Material information to be published two hours prior to market opening on the following business					Hold a press conference				
		TWSE Listed (including TIB)	TPEX listed	Emerging stock regular board	Emerging stock strategic new board	Public company	TWSE Listed (including Innovation Board)	TPEX listed	Emerging stock regular board	Emerging stock strategic new board	Public company
<p>1. An independent director expresses an objection or reservation that has been included in records or stated in writing.</p> <p>2. A company has established an audit committee, any matter that has not been passed by the audit committee, but has been adopted with the approval of two-thirds</p>	Public companies plus (Note)	√	√	√	√	X	X	X	X	X	X

Form of information disclosure Reported items	Announced in 2 days	Material information to be published two hours prior to market opening on the following business					Hold a press conference				
		TWSE Listed (including TIB)	TPEX listed	Emerging stock regular board	Emerging stock strategic new board	Public company	TWSE Listed (including Innovation Board)	TPEX listed	Emerging stock regular board	Emerging stock strategic new board	Public company
or more of all board directors.											
3. Objection or expression of reservation by a member of the remuneration committee about a resolution that has been included in a record or stated in written. 4. Any remuneration passed by the board of directors that is more favorable than the suggestion by the remuneration	TWSE- and TPEX-listed and emerging stock companies	V	V	V	V	X	X	X	X	X	X

Form of information disclosure Reported items	Announced in 2 days	Material information to be published two hours prior to market opening on the following business					Hold a press conference				
		TWSE Listed (including TIB)	TPEX listed	Emerging stock regular board	Emerging stock strategic new board	Public company	TWSE Listed (including Innovation Board)	TPEX listed	Emerging stock regular board	Emerging stock strategic new board	Public company
committee.											
5. Upon acquisition or disposal of real property or right-of-use assets thereof by a public company and its subsidiary that is not itself a public company in Taiwan from or to a related party, or acquisition or disposal of assets other than real property or right-of-use assets	Public companies plus	√	√	√	X	X	√	√	X	X	X

Form of information disclosure Reported items	Announced in 2 days	Material information to be published two hours prior to market opening on the following business					Hold a press conference				
		TWSE Listed (including TIB)	TPEX listed	Emerging stock regular board	Emerging stock strategic new board	Public company	TWSE Listed (including Innovation Board)	TPEX listed	Emerging stock regular board	Emerging stock strategic new board	Public company
thereof from or to a related party where 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.											
6. In the event of errors, omissions or changes in the published information a public company is required to published.	Public companies plus	√	√	√	X	X	X	X	X	X	X
7. Loaning of funds or endorsements/	Public companies	√	√	√	X	X	X	X	X	X	X

Form of information disclosure Reported items	Announced in 2 days	Material information to be published two hours prior to market opening on the following business					Hold a press conference				
		TWSE Listed (including TIB)	TPEX listed	Emerging stock regular board	Emerging stock strategic new board	Public company	TWSE Listed (including Innovation Board)	TPEX listed	Emerging stock regular board	Emerging stock strategic new board	Public company
guarantees has met the standards under Articles 22 and 24 of the Endorsements/ Guarantees Regulations.	plus										

Noted: Public companies plus includes TWSE-listed companies (including Taiwan Innovation Board), TPEX-listed companies, Emerging Stock Regular Board companies, Emerging Stock Strategic New Board companies, and public companies.

Schedule 3: Regular Information Disclosure of Related Party Transactions

Reporting Subject Reported Items	TWSE listed (including)	TPEX listed	Emerging Stock Regular Board	Emerging Stock Strategic New Board	Public Companies
Information to be filed monthly					
1. Information about significant transactions with related party	√	√	X	X	X
2. Statement of loaning of funds and endorsements and guarantees	√	√	√	√	X
Information to be filed quarterly or biannually					
1. With respect to significant transactions with related parties, if the discrepancy between the accumulated amount filed for each quarter and the figure audited (or reviewed) by the CPA reaches 10% and exceeds NT\$50 million, the reason for the discrepancy shall be filed within 15 days after the deadline for the public disclosure of the financial report for the current quarter.	√	√	X	X	X

Reporting Subject Reported Items	TWSE listed (including)	TPEX listed	Emerging Stock Regular Board	Emerging Stock Strategic New Board	Public Companies
2. Significant transactions with related parties included in the notes to financial reports	√	√	√ (filed biannually)	√ (filed biannually)	√ (filed biannually)
3. Notes to financial reports should separately disclose information about related matters of the issuer and any of its subsidiaries, as well as transactions between a parent and its subsidiary.	√	√	√ (filed biannually)	√ (filed biannually)	√ (filed biannually)
Information to be filed annually					
1. A public company that is a subsidiary company under the Company Act shall, at the end of each fiscal year, prepare and submit a report regarding the relationship between itself and its controlling company indicating therein the legal acts, funds flow and loss and profit status between the two companies.	√	√	√	√	√

Reporting Subject Reported Items	TWSE listed (including)	TPEX listed	Emerging Stock Regular Board	Emerging Stock Strategic New Board	Public Companies
2. Special items included in the annual report of the shareholders' meeting should disclose the consolidated business report, consolidated financial statement, and affiliation report for the most recent fiscal year, compiled in accordance with the Regulations Governing Preparation of Consolidated Business Reports Covering Affiliated Enterprises, Consolidated Financial Statements Covering Affiliated Enterprises, and Reports on Affiliations.	√	√	√	√	√
3. The annual report of the shareholders' meeting should disclose remuneration paid during the most recent fiscal year to directors, supervisors, the general manager, and assistant general managers.	√	√	√	√	√
4. The annual report of the shareholders' meeting should disclose state of	√	√	√	√	√

Reporting Subject Reported Items	TWSE listed (including)	TPEX listed	Emerging Stock Regular Board	Emerging Stock Strategic New Board	Public Companies
operations of the board of directors, audit committee and remuneration committee.					

Appendix 1: Links to Regulations

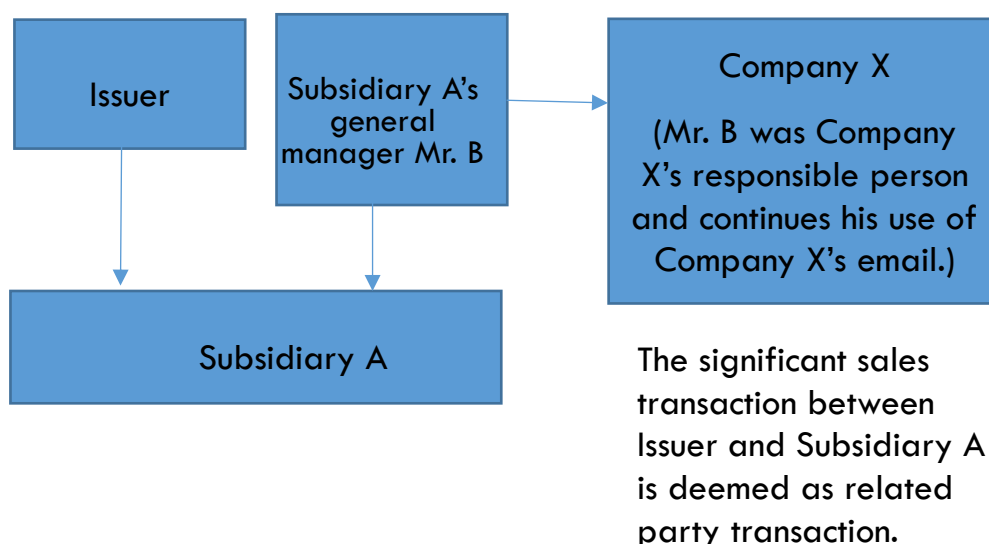
- ◆ [Company Act](#)
- ◆ [Securities and Exchange Act](#)
- ◆ [Regulations Governing the Acquisition and Disposal of Assets by Public Companies](#)
- ◆ [Q&A of Regulations Governing the Acquisition and Disposal of Assets by Public Companies](#)
- ◆ [Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies](#)
- ◆ [Q&A of Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies](#)
- ◆ [Regulations Governing Establishment of Internal Control Systems by Public Companies](#)
- ◆ [Q&A of Regulations Governing Establishment of Internal Control Systems by Public Companies](#)
- ◆ [Regulations Governing Procedure for Board of Directors Meetings of Public Companies](#)
- ◆ [Regulations Governing Information to be Published in Annual Reports of Public Companies](#)
- ◆ [Regulations Governing the Preparation of Financial Reports by Securities Issuers](#)
- ◆ [Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange](#)
- ◆ [Q&A of Corporate Governance - Remuneration Committee Chapter](#)
- ◆ [Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities](#)
- ◆ [Taiwan Stock Exchange Corporation Rules Governing Information Filing by Companies with TWSE Listed Securities and Offshore Fund Institutions with](#)

TWSE Listed Offshore Exchange-Traded Funds

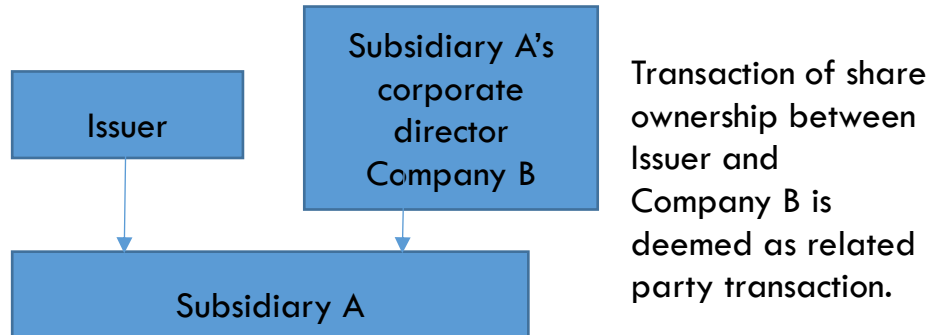
- ◆ Taipei Exchange Procedures for Verification and Disclosure of Material Information of Companies with TPEX Listed Securities
- ◆ Taipei Exchange Rules Governing Information Reporting by Companies with TPEX Listed Securities
- ◆ Taipei Exchange Rules Governing the Review of Emerging Stocks for Trading on the TPEX
- ◆ XXX Co., Ltd. Rules Governing Financial and Business Matters Between this Corporation and its Affiliated Enterprises

Appendix 2: Cases of Substantial Related Party

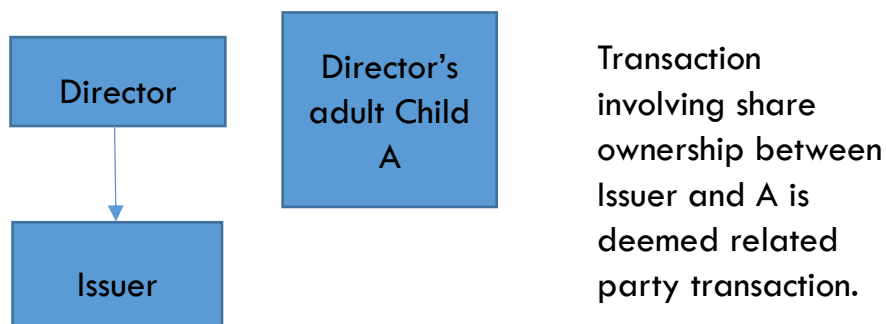
- (1) Case 1: The issuer and its Subsidiary A have a significant sales transaction with Company X. Subsidiary A's general manager Mr. B was the responsible person of Company X. During the period of sales, although Mr. B was not the responsible person of Company X, he has been using the corporate email at Company X. While it appears Mr. B is not a key managerial officer of Company X, the possibility that in fact Mr. B is a key managerial officer of Company X cannot be ruled out. So Company X is determined a substantive related party.



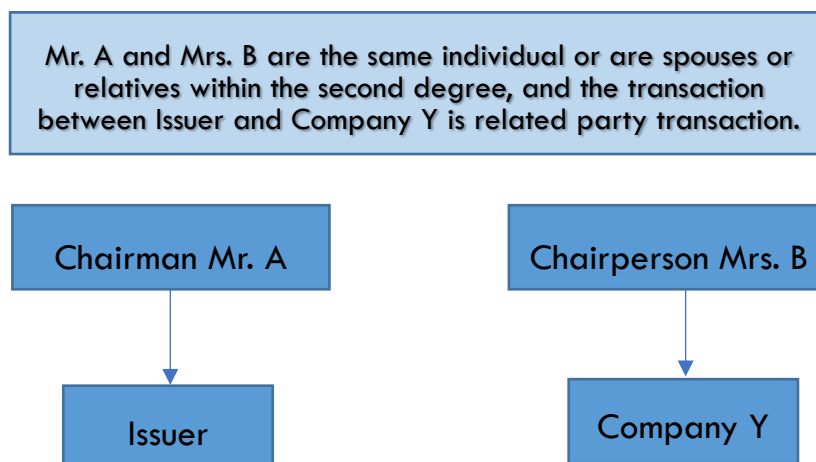
(2) Case 2: The significant transaction involving share ownership between Issuer and the corporate director of its subsidiary is in general considered a substantive related party transaction under Article 18, paragraph 2, subparagraph 1 of the Preparation Regulations.



- (3) Case 3: Issuer and a director's adult Child A have a significant transaction. Unless there is evidence to the contrary, it is usually presumed the director has an influence on his adult child. So Individual A is determined as a substantive related party.



- (4) Case 4: Issuer's chairman Mr. A and the transaction counterparty Company Y's chairperson Mrs. B are the same individual or are spouses or relatives within the second degree. Unless there is evidence to the contrary, it is usually presumed Mr. A or Mrs. B have influence over Issuer or Company Y, and they are substantive related parties under Article 18, paragraph 2, subparagraph 5 of the Preparation Regulations.

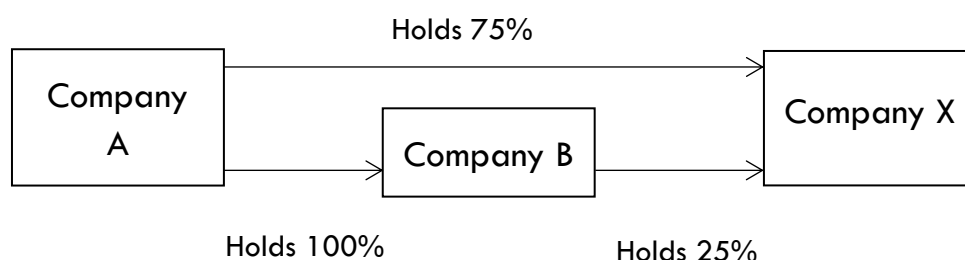


Appendix 3: Calculation method for subsidiaries in which a company directly or indirectly holds 100% of the issued shares or authorized capital

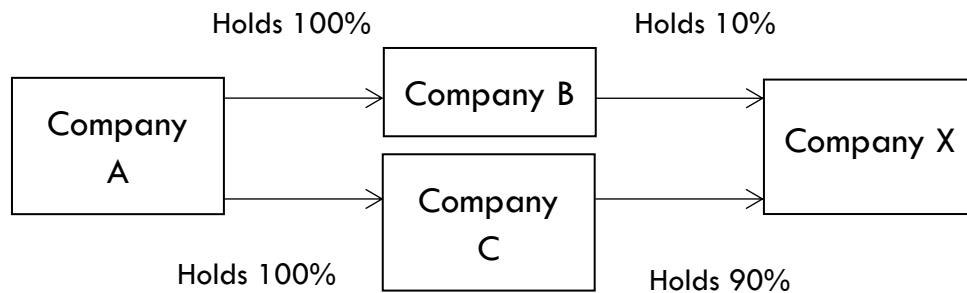
Q&A of Regulations Governing the Acquisition and Disposal of Assets by Public Companies (as amended in March 2020), explanatory example in Question 29: With regard to “subsidiaries in which it directly or indirectly holds 100% of the issued shares or authorized capital” under Article 15, paragraph 3 of the Acquisition/Disposal Regulations, below is the calculation method for direct or indirect percentage:

1. To hold 100% of the issued shares or authorized capital with shares directly held by a public company, combined with shares indirectly held by other company in which the public company holds 50% or more of the issued shares or authorized capital; the above other company includes the company itself and a different other company in which it directly or indirectly hold 50% or more of the issues shares or authorized capital as calculated in the above method.
2. Below are types of subsidiaries in which it directly or indirectly holds 100% of the issued shares or authorized capital:

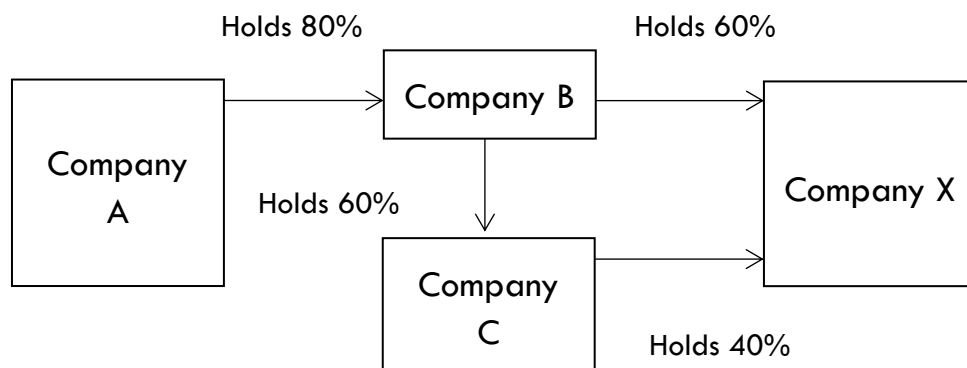
Explanatory Example 1: Company X is a subsidiary in which Company A directly or indirectly holds 100% of the issued shares or authorized capital [(Percentage of A’s holding in X is 75%) + (Percentage of B’s holding in X is 25%) = 100%]



Explanatory Example 2: Company X is a subsidiary in which Company A directly or indirectly holds 100% of the issued shares or authorized capital [(Percentage of B's holding in X is 10%) + (Percentage of C's holding in X is 90%) = 100%]



Explanatory Example 3: Company X is a subsidiary in which Company A directly or indirectly holds 100% of the issued shares or authorized capital [(Percentage of B's holding in X is 60%) + (Percentage of C's holding in X is 40%) = 100% (B is a subsidiary in which A directly or indirectly holds 50% or more; C is a company in which B directly or indirectly holds 50% or more. So B's and C's holding in X should be combined.)]



Appendix 4: Links to inquiries of information about related party transactions

- ◆ [Chinese: Regular monthly report](#)

<https://mops.twse.com.tw/mops/web/t141sb02>

- ◆ [English: Regular monthly report](#)

<https://emops.twse.com.tw/server-java/t58query> > [Operating Statements](#)