

**LOTUS PHARMACEUTICAL CO., LTD**  
**Corporate Governance Best Practice Principles**  
**[English translation for reference only]**

Approved on 2018/02/12

Chapter I General Principles

Article 1           The Taiwan Stock Exchange Corporation (TWSE) and the Taipei Exchange (TPEX) hereby jointly adopt these Principles, to be followed by TWSE and TPEX listed companies, to assist them in establishing sound corporate governance systems and promote sound development of the securities market, and establish an effective corporate governance framework with reference to these Principles.

Article 2           When setting up the corporate governance system, in addition to complying with relevant laws, regulations, articles of incorporation, the company shall follow the following principles:

1. Protect the rights and interests of shareholders
2. Strengthen the authority of the board of directors
3. Fulfill the function of independent directors
4. Respect the rights and interests of stakeholders
5. Enhance information transparency

Article 3           The company shall follow the Criteria Governing Establishment of Internal Control Systems by Public Reporting Companies and take into consideration the overall operational activities of itself and its subsidiaries to design and fully implement an internal control system, and shall conduct continuous reviews of the system, in order to ensure the sustainable effectiveness of its design and implementation in light of changes in the company's internal and external environment.

The establishment and amendment of the Internal Control Systems shall be submitted to the audit committee and obtain the consent of one-half or more of all audit committee members, and be submitted to the board of directors for a resolution thereafter. When an independent director has a dissenting opinion or qualified opinion, it shall be noted in the minutes of

the board meeting.

The company shall perform full self-assessments of its internal control system. Its board of directors and management shall review the results of the self-assessments by each department at least annually and the reports of the internal audit department on a quarterly basis. The internal control system shall be subject to the consent of one-half or more of all audit committee members and submitted to the board of directors for approval.

The management of the company shall pay special attention to the internal audit department and its personnel. Fully empower them and urge them to conduct audits effectively, and to evaluate problems of the internal control system and assess the efficiency of its operations to ensure that the system can operate effectively on an on-going basis. The internal audit department and its personnel should assist the board of directors and the management to perform their duties effectively so as to ensure a sound corporate governance system.

To put the internal control system into effect, strengthen professional competencies of deputies of the internal auditor, and to further improve and maintain the quality and implementation of the audits, the company shall have a deputy in place for the internal auditing personnel.

The qualification requirements of the internal auditor set out in Article 11, paragraph 6 of the Criteria Governing Establishment of Internal Control System by Public Reporting Companies and Articles 16, 17, and 18 of the same Criteria shall apply mutatis mutandis to the deputy as referred to in the preceding paragraph.

Article 3-1

The company may set up a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs and designate a senior officer to be in charge of supervision. The said officer shall be a qualified lawyer or accountant, or have at least three years' management experience with a public company in handling legal affairs, financial affairs, stock affairs, etc.

It is advisable that the corporate governance affairs mentioned in the preceding paragraph include at least the following items:

1. Handling corporate registration and registration amendment
2. Handling matters regarding board meetings and shareholders meetings according to laws, and assisting the company with compliance with laws and regulations governing such meetings
3. Producing minutes of board meetings and shareholders meetings
4. Furnishing information required for business execution by directors and independent directors, and updating them on developments of laws and regulations relevant to the operation of the company in order to assist them with legal compliance
5. Affairs relating to investor relations
6. Other matters set out in the articles or corporation or contracts

## **Chapter II Protection of Shareholders' Rights and Interests**

### **Section 1 Encouraging Shareholders to Participate in Corporate Governance**

Article 4           The corporate governance system of the company shall be designed to protect shareholders' rights and interests and treat all shareholders equally.

The company shall establish a corporate governance system which ensures shareholders' rights of being fully informed of, participating in, and making decisions over important matters of the company.

Article 5           The company shall convene shareholders meetings in accordance with the Company Act and relevant laws and regulations, and provide comprehensive rules for such meetings. The companies shall faithfully implement resolutions adopted by shareholders meetings in accordance with the rules for the meetings.

Resolutions adopted by shareholders meetings of the company shall be compliant with laws, regulations and articles of incorporation.

Article 6           The board of directors of the company shall properly arrange the agenda items and procedures for shareholders meetings, and formulate the principles and procedures for shareholder nominations of directors and submissions of shareholder proposals. The board shall also properly handle the proposals duly submitted by shareholders. Arrangements shall be made to hold shareholders meetings at a convenient location, with sufficient time allowed and sufficient numbers of suitable personnel

assigned to handle attendance registrations. No arbitrary requirements shall be imposed on shareholders to provide additional evidentiary documents beyond those showing eligibility to attend. Shareholders shall be granted reasonable time to deliberate each proposal and an appropriate opportunity to make statements.

For a shareholders meeting called by the board of directors, it is advisable that the board chairperson chair the meeting, and that majority of the directors (including at least one independent director) attend.

#### Article 7

The company shall encourage its shareholders to actively participate in corporate governance. It is advisable that the company engage a professional shareholder services agent to handle shareholders meeting matters, so that shareholders meetings can proceed on a legal, effective and secure basis. The company shall seek all ways and means, including fully utilizing technologies for information disclosure and casting votes, and is advised to upload notices, agendas and supplementary information of shareholders meetings concurrently in order to enhance shareholders' attendance rates at shareholders meetings and ensure their exercise of rights at such meetings in accordance with laws.

To convene shareholder meetings, the shareholders may exercise their rights to vote in written or electronic form.

It is advised to avoid raising extraordinary motions and amendments to original proposals in shareholders meeting. The company is advised to arrange shareholders to vote on each separate proposal in the shareholders meeting agenda. It is also advised that voting results, namely the numbers of votes casted for and against and the number of abstentions, to be entered into the Market Observation Post System on the same day following the conclusion of the meeting.

#### Article 8

The company, in accordance with the Company Act and other applicable laws and regulations, shall record in the shareholders meeting minutes the date and place of the meeting, the name of the chairperson, the method of adopting resolutions, and a summary of the essential points of the proceedings and the results of the meeting. With respect to the election of

directors, the meeting minutes shall record the method of voting adopted therefore and the total number of votes for the elected directors.

The shareholders meeting minutes shall be properly and perpetually kept by the company during its legal existence, and should be sufficiently disclosed on the company's website.

Article 9

The chairperson of the shareholders meetings shall be fully noted of and to comply with the rules governing the proceedings of the shareholders meetings established by the company. The chairperson shall ensure proper flow of the meetings and the chairperson may not adjourn the meetings at will.

In order to protect the interests of most shareholders, if the chairperson declares the adjournment of the meeting in a manner in violation of rules governing the proceedings of the shareholders meetings, it is advisable for the members of the board of directors other than the chairperson of the shareholders meeting to promptly assist the attending shareholders in electing a new chairperson of the shareholders meeting to continue the proceedings of the meeting, through a resolution to be adopted by majority of the attending votes in accordance with the legal procedures.

Article 10

The company shall place high importance on the right to know of the shareholders. The Company shall also faithfully comply with applicable regulations regarding information disclosure in order to provide shareholders with regular and timely information on company financial conditions and operations, insider shareholdings, and corporate governance status through the MOPS or the website established by the company.

To protect its shareholders' rights and interests and ensure their equal treatment, the company shall adopt internal rules prohibiting company insiders from trading securities using undisclosed information.

Article 11

The shareholders shall be entitled to profit distributions by the company. In order to ensure investment interests of shareholders, the shareholders meeting may, pursuant to Article 184 of the Company Act, examine the

statements and books prepared and submitted by the board of directors, and may decide profit distributions and deficit off-setting plans by resolution. In order to proceed with the above examination, the shareholders meeting may appoint an inspector.

The shareholders may, pursuant to Article 245 of the Company Act, apply with the court to select an inspector in examining the accounting records and assets of the company.

The board of directors, and managers of the company shall fully cooperate in the examination conducted by the inspectors in the aforesaid two paragraphs without any obstruction, rejection or circumvention.

#### Article 12

In entering into material financial and business transactions such as acquisition or disposal of assets, lending funds, and making endorsements or providing guarantees, the company shall proceed in accordance with the applicable laws and/or regulations and establish operating procedures in relation to these material financial and business transactions which shall be reported to and approved by the shareholders meeting so as to protect the interests of the shareholders.

When the company is involved in a merger, acquisition or public tender offer, in addition to proceed in accordance with the applicable laws and/or regulations, it shall pay attention to information disclosure and the soundness of the company's financial structure thereafter on top of the fairness, rationality, etc. of the plan and transaction of the merger, acquisition or public tender offer. but

The relevant personnel of the company handling the matters in the preceding paragraph shall pay attention to potential conflicts of interest and the need for recusal.

### **Section 2 Establishing a Mechanism for Interaction with Shareholders**

#### Article 13

In order to protect the interests of the shareholders, it is advisable that the company designate personnel exclusively dedicated to handling shareholder proposals, inquiries and disputes.

The company shall properly deal with any legal action duly instituted by shareholders in which it is claimed that shareholder rights and interests were damaged by a resolution adopted at a shareholders meeting or a board of directors meeting in violation of applicable laws, regulations, or the company's articles of incorporation, or that such damage was caused by a breach of applicable laws, regulations or the company's articles of incorporation by any directors, or managers in performing their duties.

Article 13-1 The board of directors of the company is responsible for establishing a mechanism for interaction with shareholders to enhance mutual understanding of the development of company's objectives.

Article 13-2 In addition to communicating with shareholders through shareholders meetings and encouraging shareholders to participate in such meetings, the board of directors of the company together with management team and independent directors shall engage with shareholders in an efficient manner to ascertain shareholders' views and concerns, and expound company policies explicitly, in order to gain shareholders' support.

### **Section 3 Corporate Governance Relationships Between the Company and Its Affiliated Enterprises**

Article 14 The company shall clearly identify the objectives and the division of authority and responsibility between it and its affiliated enterprises with respect to management of personnel, assets, and financial matters, and shall properly carry out risk assessments and establish appropriate firewalls.

Article 15 Unless otherwise provided by the laws and regulations, a manager of the company may not serve as a manager of its affiliated enterprises.

A director who engages in any transaction for himself or on behalf of another person that is within the scope of the company's operations shall explain the major content of such actions to the shareholders meeting and obtain its consent.

Article 16 The company shall establish sound objectives and systems for

management of finance, operations, and accounting in accordance with applicable laws and regulations. It shall further, together with its affiliated enterprises, properly conduct an overall risk assessment of major banks they deal with and customers and suppliers, and implement the necessary control mechanisms to reduce credit risk.

Article 17 When the company and its affiliated enterprises enter into inter-company business transactions, they shall be made in accordance with the principle of fair dealing and reasonableness. Price and payment terms shall be definitively stipulated when contracts are signed, and non-arm's length transactions shall be prohibited.

Improper channeling of profits is strictly prohibited in any transactions or contracts made by and between the company and its affiliated persons and shareholders.

Article 18 A corporate shareholder with controlling power over the company shall comply with the following provisions:

1. It shall bear a duty of good faith to other shareholders and shall not directly or indirectly cause the company to conduct any business which is contrary to normal business practice, or not profitable.
2. Its representative shall follow the rules implemented by its company with respect to the exercise of rights and participation of resolution, so that at a shareholders meeting, the representative shall exercise his/her voting right in good faith and for the best interest of all shareholders and shall exercise the fiduciary duty and duty of care of a director.
3. It shall comply with relevant laws, regulations and the articles of incorporation of the company in nominating directors and shall not act beyond the authority granted by the shareholders meeting or board meeting.
4. It shall not improperly intervene in corporate policy making or obstruct corporate management activities.
5. It shall not restrict or impede the management or production of the company by methods of unfair competition such as monopolizing corporate procurement or foreclosing sales channels.
6. The representative that is designated when a corporate shareholder

has been elected as a director shall meet the company's requirements for professional qualifications. Arbitrary replacement of the corporate shareholder's representative is inappropriate.

- Article 19 The company shall retain at all times a register of major shareholders who own a relatively high percentage of shares and have controlling power, and of the persons with ultimate control over those major shareholders. The company shall disclose periodically material information about its shareholders holding more than 10 percent of the outstanding shares of the company relating to the pledge, increase or decrease of share ownership, or other matters that may possibly trigger a change in the ownership of their shares. The major shareholder indicated in the first paragraph refers to those who owns 5 percent or more of the outstanding shares of the company or the shareholding stake thereof is on the top 10 list, provided however that the company may set up a lower shareholding threshold according to the actual shareholding stake that may control the company.

### **Chapter III Enhancing the Functions of the Board of Directors**

#### **Section 1 Structure of the Board of Directors**

- Article 20 The board of directors of the company shall direct company strategies, supervise management, and be responsible to the company and shareholders. The various procedures and arrangements of its corporate governance system shall ensure that, in exercising its authority, the board of directors complies with laws, regulations, its articles of incorporation, and the resolutions of its shareholders meetings. The structure of the company's board of directors shall be determined by choosing an appropriate number of board members, not less than five, in consideration of its business scale, the shareholdings of its major shareholders, and practical operational needs. The composition of the board of directors shall be determined taking into consideration of diversity. It is advisable that directors concurrently serving as company officers not exceed one-third of the total number of the board members, and that an appropriate policy on diversity based on

the company's business operations, operating dynamics, and development needs be formulated and include, without being limited to, the following two general standards:

1. Basic requirements and values: gender, age, nationality, and culture.
2. Professional knowledge and skills: professional background (e.g., law, accounting, industry, finance, marketing, technology), professional skills, and industry experience.

All members of the board shall have the knowledge, skills, and experience necessary to perform their duties. To achieve the ideal goal of corporate governance, the board of directors shall possess the following capabilities:

1. Capable of make operational judgments.
2. Capable of performing accounting and financial analysis.
3. Capable of conducting management administration.
4. Capable of conducting crisis management.
5. Knowledge of the industry.
6. An international market perspective.
7. The ability to lead.
8. Capable of making strategic decisions.

Article 21      The company shall, according to the principles of shareholder rights and interests protection and the guideline of treating all shareholders equally, establish a fair, just, and open procedure for the election of directors. Such procedure should encourage shareholder participation. The Company should adopt cumulative voting mechanism pursuant to the Company Act in order to fully reflect shareholders' views.

A spousal relationship or a familial relationship within the second degree of kinship may not exist among more than half of the directors of the company.

When the number of directors falls below seven due to the discharge of directors for any reason, the company shall hold a by-election for director at the following shareholders meeting. When the number of directors falls

short by one-third of the total number prescribed by the articles of incorporation, the company shall convene a special shareholders meeting within 60 days of the occurrence of that fact for a by-election for director(s).

The aggregate shareholding percentage of all of the directors of the company shall be compliant with the laws and regulations. Restrictions to share transfer of each director and the creation, release or changes of any pledges over the shares held by each director shall be subject to relevant laws and regulations, and such relevant information shall be fully disclosed.

Article 22 The company shall convene a shareholders meeting before the re-election of directors. It is advised that the Company review in advance the qualifications, education, working experience, background, and the existence of any other matters set forth in Article 30 of the Company Act with respect to the director candidates recommended by shareholders or directors. It is advised to provide the results of the review to shareholders for their reference so that qualified directors will be elected.

Article 23 Clear distinctions shall be drawn between the responsibilities and duties of the chairperson of the board of the company and those of its general manager.

It is inappropriate for the chairperson to also act as the general manager. If the chairperson also acts as the general manager or the chairperson and general manager are spouses or relatives within one degree of consanguinity, it is advisable that the number of independent directors be increased.

The company with a functional committee shall clearly define the responsibilities and duties of the committee.

## **Section 2 Independent Director System**

Article 24 The company shall appoint independent directors in accordance with its articles of incorporation. They shall be not less than three in number and

not less than one-fifth of the total number of directors.

The company shall, in accordance with Article 192-1 of the Company Act, adopt candidate nomination system for election of the independent directors and expressly stipulate such system in the articles of incorporation; and the shareholders shall elect the directors from among the nominees listed in the roster of director candidates. Independent and non-independent directors shall be elected at the same time but on separate ballots pursuant to Article 198 of the Company Act.

If the company and its group enterprises and organizations, and another company and its group enterprises and organizations nominate for each other any director, supervisor or managerial officer as a candidate for an independent director of the other, the company shall, at the time it receives the nominations for independent directors, disclose the fact and explain the suitability of the candidate for independent director. If the candidate is elected as an independent director, the company shall disclose the number of votes cast in favor of the elected independent director.

The "group enterprises and organizations" in the preceding paragraph comprise the subsidiaries of the company, any foundation to which the company's cumulative direct or indirect contribution of funds exceeds 50 percent of its endowment, and other institutions or juristic persons that are effectively controlled by the company.

Change of status between independent directors and non-independent directors during their term of office is prohibited.

If an independent director is discharged for any reason, resulting in a number of directors lower than that required under paragraph 1 or the articles of incorporation, a by-election for independent director shall be held at the next shareholders meeting. In the event that all the independent directors have been discharged, the company shall convene a special shareholders meeting to hold a by-election within 60 days from the date on which the vacancies arose.

Independent directors shall possess professional knowledge and there shall be restrictions on their shareholdings. Applicable laws and regulations shall be observed and, in addition, it is not advisable for an independent director to hold office concurrently as a director (including independent director) or supervisor of more than five other TWSE/TPEX listed companies. Independent directors shall also maintain independence within the scope of their directorial duties, and may not have any direct or indirect interest in the company. The professional qualifications, restrictions on both shareholding and concurrent positions held, determination of independence, method of nomination and other requirements with regard to the independent directors shall be set forth in accordance with the Securities and Exchange Act, the Regulations Governing Appointment of Independent Directors and Compliance Matter for Public Companies, and the rules and regulations of the Taiwan Stock Exchange or Taipei Exchange.

Article 25

The company shall submit the following matters to the board of directors for approval by resolution as provided in the Securities and Exchange Act. When an independent director has a dissenting opinion or qualified opinion, it shall be noted in the minutes of the directors meeting:

1. Adoption or amendment of the internal control system pursuant to Article 14-1 of the Securities and Exchange Act
2. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, or endorsements or guarantees for others
3. A personal-interest bearing matter of a director
4. A material asset or derivatives transaction
5. A material monetary loan, endorsement or provision of guarantee.
6. The offering, issuance, or private placement of any equity-type securities
7. The hiring, discharge, or compensation of an attesting CPA
8. The appointment or discharge of a financial, accounting, or internal auditing officer

9. Any other material matter so required by the competent authority

Article 26

The company shall stipulate the scope of duties of the independent directors and empower them with manpower and physical support related to the exercise of their power. The company or other board members shall not restrict or obstruct the performance of duties by the independent directors.

The company shall stipulate the remuneration of the directors according to applicable laws and regulations. The remuneration of the directors shall fully reflect the personal performance and the long-term management performance of the company, and shall also take the overall operational risks of the company into consideration. Different but reasonable remuneration from that of other directors may be set forth for the independent directors.

When the company, under its articles of incorporation, or by resolution of its shareholders meeting, or by order of the competent authority, sets aside a certain proportion of earnings as special reserve, such allocation shall be made after the allocation of legal reserve and before the distribution of director, independent directors, and employee compensations. The company shall also provide in the articles of incorporation the method to be adopted for distributing earnings when reversal of the special reserve is added into the undistributed earnings.

### **Section 3 Functional Committees**

Article 27

For the purpose of developing supervisory functions and strengthening management mechanisms, the board of directors of the company, in consideration of the company's scale and type of operations and the number of its board members, may set up functional committees for auditing, remuneration, nomination, risk management or any other functions; and based on concepts of corporate social responsibility and sustainable operation, may set up environmental protection, corporate social responsibility, or other committees, and expressly provide for them

in the articles of incorporation.

Functional committees shall be responsible to the board of directors and submit their proposals to the board of directors for approval.

Functional committees shall adopt an organizational charter to be approved by the board of directors. The organizational charter shall contain the numbers, terms of office, and powers of committee members, as well as the meeting rules and resources to be provided by the company for exercise of power by the committee.

#### Article 28

The audit committee shall be composed of the entire number of independent directors. It shall not be fewer than three persons in number, and one of whom shall be the convener. At least one of whom shall have accounting or financial expertise.

For a company that has established an audit committee, the provisions regarding supervisors in the Securities and Exchange Act, the Company Act, other laws and regulations, and these Principles shall apply mutatis mutandis to the audit committee.

Article 25 herein does not apply to the following matters, which shall be subject to the consent of at least one half of all audit committee members and be submitted to the board of directors for a resolution:

1. Adoption or amendment of internal control system pursuant to Article 14-1 of the Securities and Exchange Act
2. Assessment of the effectiveness of the internal control system
3. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, or endorsements or guarantees for others
4. A personal-interest bearing matter of a director
5. A material asset or derivatives transaction
6. A material monetary loan, endorsement, or provision of guarantee
7. The offering, issuance, or private placement of any equity-type securities
8. The hiring, discharge, or compensation of an attesting CPA
9. The appointment or discharge of a financial, accounting, or internal auditing officer
10. Annual financial report

11. Any other material matter so required by the company or the competent authority

The exercise of power by audit committee and independent directors and related matters shall be set forth in accordance with the Securities and Exchange Act, the Regulations Governing the Exercise of Powers by Audit Committees of Public Companies, and the rules and regulations of the TWSE or TPEX.

Article 28-1 The professional qualifications for the remuneration committee members, the exercise of their authority, the adoption of the organizational charter, and other related matters shall be handled pursuant to the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.

The remuneration committee shall exercise the care of a good administrator in faithfully performing the authorities listed below, and shall submit its recommendations for deliberation by the board of directors:

1. Prescribing and periodically reviewing the policies, systems, standards, and structures for performance evaluation and remuneration for directors and managerial officers
2. Periodically evaluating and prescribing the remuneration of directors and managerial officers

When performing the authorities of the preceding paragraph, the remuneration committee shall follow the principles listed below:

1. With respect to the performance assessments and remuneration of directors, and managerial personnel 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 and individual performance, the company's business performance, and future risk exposure
2. 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
3. It shall take into consideration the characteristics of the industry

and the nature of the company's business when determining the ratio of compensation for the short-term performance of its directors and senior management and the time at which the variable part of remuneration is paid

Article 28-2 The company is advised to establish and announce channels for internal and external whistleblowers and have whistleblower protection mechanisms in place. The unit that handles whistleblowers' reporting shall be independent. It shall provide encrypted protection for the files furnished by whistleblowers, and appropriately restrict access to such files.

Article 29 To improve the quality of its financial reports, the company shall establish a deputy to its principal accounting officer.

To enhance the professional capabilities of the deputy accounting officer of the preceding paragraph, the deputy's continuing education shall following the schedule of the principal accounting officer.

Accounting personnel handling the preparation of financial reports shall also participate in relevant professional development courses for 6 hours or more each year. Those courses may be company internal training activities or professional courses offered by professional development institutions for principal accounting officers.

The company shall select as its external auditor a professional, responsible, and independent attesting CPA, who shall perform regular reviews of the financial conditions and internal control measures of the company. With regard to any irregularity or deficiency discovered and disclosed in a timely manner by the auditor during the review, and concrete measures for improvement or prevention suggested by the auditor, the company shall faithfully implement improvement actions.

The company shall evaluate the independence and suitability of the CPA engaged by the company regularly, and no less frequently than once annually. In the event that the company engages the same CPA without replacement for 7 years consecutively, or if the CPA is subject to

disciplinary action or other circumstances prejudicial to the CPA's independence, the company shall evaluate the necessity of replacing the CPA and submit its conclusion to the board of directors.

Article 30

It is advisable that the company engage a professional and competent legal counsel to provide adequate legal consultation services to the company, or to assist the directors, and the management to improve their knowledge of the law, for the purposes of preventing any infraction of laws or regulations by the company or its staff and ensuring that corporate governance matters proceed pursuant to the relevant legal framework and the prescribed procedures.

When, as a result of performing their lawful duties, directors or management are involved in litigation or a dispute with shareholders, the company shall retain a legal counsel to provide assistance as circumstances require.

The audit committee or an independent director may retain the service of legal counsel, CPA, or other professionals on behalf of the company to conduct a necessary audit or provide consultation on matters in relation to the exercise of their power, at the expense of the company.

**Section 4 Rules for the Proceedings and Decision-Making Procedures of Board Meetings**

Article 31

The board of directors of the company shall meet at least once every quarter, or convene at any time in case of emergency. To convene a board meeting, a meeting notice which specifies the purposes of the meeting shall be sent to each director no later than 7 days before the scheduled date. Sufficient meeting materials shall also be prepared and enclosed in the meeting notice. If the meeting materials are deemed inadequate, a director may ask the unit in charge to provide more information or request a postponement of the meeting with the consent of the board of directors.

The company shall adopt rules of procedure for board meetings, which shall follow the Regulations Governing Procedure for Board of Directors

Meetings of Public Companies with regard to the content of deliberations, procedures, matters to be recorded in the meeting minutes, public announcements, and other matters for compliance.

Article 32

Company directors shall exercise a high degree of self-discipline. If a director or a juristic person represented by the director is an interested party with respect to any proposal for a board meeting, the director shall state the important aspects of the interested party relationship at the meeting. When the relationship is likely to prejudice the interests of the company, the director may not participate in discussion or voting of that proposal and shall enter recusal during the discussion and voting. Additionally, the director may not act as another director's proxy to exercise voting rights on that matter.

Matters requiring the voluntary recusal of a director shall be clearly set forth in the rules of procedure for board meetings.

Article 33

When a board meeting is convened to consider any matter submitted to it pursuant to Article 14-3 of the Securities and Exchange Act, an independent director of the company shall attend the board meeting in person, and may not be represented by a non-independent director via proxy. When an independent director has a dissenting or qualified opinion, it shall be noted in the minutes of the board of directors meeting; if the independent director cannot attend the board meeting in person to voice his or her dissenting or qualified opinion, he or she should provide a written opinion before the board meeting unless there are justifiable reasons for failure to do so, and the opinion shall be noted in the minutes of the board of directors meeting.

In any of the following circumstances, decisions made by the board of directors shall be noted in the meeting minutes, and in addition, publicly announced and filed on the MOPS before the beginning of trading hours on the first business day after the date of the board meeting:

1. An independent director has a dissenting or qualified opinion which is on record or stated in a written statement
2. The matter was not approved by the audit committee, but had the consent of more than two-thirds of all directors

During a board meeting, managers from relevant departments who are not

directors may, in view of the meeting agenda, sit in at the meetings, report on current business conditions of the company, and respond to inquiries raised by the directors. Where necessary, a CPA, legal counsel, or other professionals may be invited to sit in at the meetings to assist the directors in understanding the conditions of the company for the purpose of adopting an appropriate resolution, provided that they shall leave the meeting when deliberation or voting takes place.

Article 34

Staff personnel of the company attending board meetings shall collect and correctly record the meeting minutes in detail, as well as a summary, the method of resolution, and voting results of all the proposals submitted to the board meeting in accordance with relevant regulations.

The minutes of the board of directors meetings shall be signed by the chairperson and secretary of the meeting and sent to each director within 20 days after the meeting. The director attendance records shall be made part of the meeting minutes, treated as important corporate records, and kept safe permanently during the existence of the company.

Meeting minutes may be produced, distributed, and preserved by electronic means.

A company shall record on audio or video tape the entire proceedings of a board of directors meeting and preserve the recordings for at least 5 years, in electronic form or otherwise.

If before the end of the preservation period referred to in the preceding paragraph a lawsuit arises with respect to a resolution of a board of directors meeting, the relevant audio or video recordings shall be preserved for a further period, in which case the preceding paragraph does not apply.

Where a board of directors meeting is held via teleconference or video conference, the audio or video recordings of the meeting form a part of the meeting minutes and shall be preserved permanently.

When a resolution of the board of directors violates laws, regulations, the articles of incorporation, or resolutions adopted in the shareholders

meeting, and thus causes an injury to the company, dissenting directors whose dissent can be proven by minutes or written statements will not be liable for damages.

Article 35

The company shall submit the following matters to its board of directors for discussion:

1. Corporate business plans
2. Annual and semi-annual financial reports, with the exception of semi-annual financial reports which, under relevant laws and regulations, need not be CPA audited and attested
3. Adoption or amendment to an internal control system pursuant to Article 14-1 of the Securities and Exchange Act
4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, to the handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, and endorsements or guarantees for others
5. The offering, issuance, or private placement of any equity-type securities
6. The performance assessment and the standard of remuneration of the managerial officers
7. The structure and system of director's remuneration
8. The appointment or discharge of a financial, accounting, or internal audit officer
9. Any matter required by Article 14-3 of the Securities and Exchange Act or any other law, regulation, or bylaw to be approved by resolution at a shareholders meeting or to be submitted to a meeting of the board of directors, or any such significant matter as may be prescribed by the competent authority
10. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation of disaster relief for a major natural disaster may be submitted to the next board meeting for retroactive recognition

Except for matters that must be submitted to the board of directors for discussion under the preceding paragraph, when the board of directors is in recess, it may delegate the exercise of its power to others in accordance

with law, regulations or its articles of incorporation. However, the level of delegation or the content or matters to be delegated shall be clearly specified, and general authorization is not permitted.

Article 36 The company shall ask the appropriate corporate department or personnel to execute matters pursuant to board of directors' resolutions in a manner consistent with the planned schedule and objectives. It shall also follow up on those matters and faithfully review their implementation.

The board of directors shall remain informed of the progress of implementation and receive reports in subsequent meetings to ensure the actual implementation of the board's management decisions.

### **Section 5 Fiduciary Duty, Duty of Care and Responsibility of Directors**

Article 37 Members of the board of directors shall faithfully conduct corporate affairs and perform the duty of care of a good administrator. In conducting the affairs of the company, they shall exercise authority with a high level of self-discipline and prudence. Unless matters are otherwise reserved by law for approval in shareholders meetings or in the articles of incorporation, they shall ensure that all matters are handled according to the resolutions of board of directors.

Any resolution of the board of directors that involves the company's business development or a major policy direction shall be carefully considered and may not affect the implementation or effectiveness of corporate governance.

Article 38 If a resolution of the board of directors violates law, regulations or the company's articles of incorporation, then at the notice of shareholders holding shares continuously for a year or an independent director to discontinue the implementation of the resolution, members of the board shall take appropriate measures or discontinue the implementation of such resolution as soon as possible.

Upon discovering a likelihood that the company would suffer materially, members of the board of directors shall immediately report to the audit

committee or an independent director member of the audit committee, in accordance with the foregoing paragraph.

Article 39 The company is advised to take out directors liability insurance with respect to liabilities resulting from exercising their duties during their terms of occupancy so as to reduce and spread the risk of material harm to the company and shareholders arising from the wrongdoings or negligence of a director.

The company is advised to report the insured amount, coverage, premium rate, and other major contents of the liability insurance it has taken out or renewed for directors, at the next board meeting.

Article 40 Members of the board of directors are advised to participate in finance, risk management, business, commerce, accounting, law or corporate social responsibility training courses offered by institutions designated in the Rules Governing Implementation of Continuing Education for Directors and Supervisors of TWSE/TPEX Listed Companies, which cover corporate governance subjects upon becoming directors and throughout their terms of occupancy. They shall also ensure that company employees at all levels will enhance their professionalism and knowledge of the law.

#### **Chapter IV Respecting Stakeholders' Rights**

Article 41 The company shall maintain channels of communication with its banks, other creditors, employees, consumers, suppliers, community, or other stakeholders of the company, respect and safeguard their legal rights and interests, and designate a stakeholders' section on its website.

When any of a stakeholder's legal rights or interests are harmed, the company shall handle the matter in a proper manner and in good faith.

Article 42 The company shall provide sufficient information to banks and its other creditors to facilitate their evaluation of the operational and financial conditions of the company and its decision-making process. When any of their legal rights or interest are harmed, the company shall respond with a

responsible attitude and assist creditors in obtaining compensation through proper means.

Article 43 The company shall establish channels of communication for employees and encourage employees to reflect employees' opinions about management, financial conditions, and material decisions of the company concerning employee welfare.

Article 44 In developing its normal business and maximizing shareholder value, the company shall pay attention to consumers' interests, environmental protection of the community, and public interest issues, and shall give serious regard to the company's social responsibility.

## **Chapter V Improving Information Transparency**

### **Section 1 Enhancing Information Disclosure**

Article 45 The company shall perform its obligations faithfully in accordance with the relevant laws and the related TPEX rules.

The company shall establish an internet-based reporting system for public information. It shall also appoint personnel responsible for gathering and disclosing the information, and establish a spokesperson system so as to ensure the proper and timely disclosure of information about policies that might affect the decisions of shareholders and stakeholders.

Article 46 In order to enhance the accuracy and timeliness of material information disclosure, the company shall appoint a spokesperson and acting spokesperson(s) who understand thoroughly the company's financial and business conditions and who are capable of coordinating among departments for gathering relevant information and representing the company in making statements independently.

The company shall appoint one or more acting spokespersons who shall represent the company, when the spokesperson cannot perform his/her duties, in making statements independently, provided that the order of authority is established to avoid any confusion.

In order to implement the spokesperson system, the company shall unify

the process of making external statements. It shall require the management and employees to maintain the confidentiality of financial and operational secrets and prohibit their disclosure of any such information at will.

The company shall disclose relevant information immediately whenever there is any change to the position of a spokesperson or acting spokesperson.

Article 47 In order to keep shareholders and stakeholders fully informed, the company shall utilize the convenience of the internet and set up a website containing the information regarding the company's finance, operations and corporate governance. It is also advisable for the company to furnish the financial, corporate governance, and other relevant information in English.

To avoid misleading information, the aforesaid website shall be maintained by a dedicated personnel, and the recorded information shall be accurate, detailed and updated on a timely basis.

Article 48 The company shall hold investor conferences in compliance with the regulations of the TPEX, and shall keep an audio or video record of the meeting. The financial and business information disclosed in the investor conference shall be disclosed on the Market Observation Post System and provided for inquiry through the website established by the company, or through other channels, in accordance with the TPEX rules.

## **Section 2 Disclosure of Information on Corporate Governance**

Article 49 The listed company shall disclose and update from time to time the following information regarding corporate governance in the fiscal year in accordance with laws and regulations and TPEX rules:

1. Corporate governance framework and rules
2. Ownership structure and the rights and interests of shareholders
3. Structure, professional background and independence of the board of directors
4. Responsibility of the board of directors and managerial officers

5. Composition, duties and independence of the audit committee
6. Composition, duties and operation of the remuneration committee and other functional committees
7. The remuneration paid to the directors, general manager and vice general manager in the last two fiscal years, the analysis of the percentage of total remuneration to net profit after tax in the parent company only financial reports or individual financial reports, the policy, standard and package of remuneration payment, the procedure for determination of remuneration and the connection with the operation performance and future risk. Under special individual circumstances, remuneration of individual directors shall be disclosed
8. The progress of director training
9. The rights, relationships, avenues for complaint and concerns, and appropriate response mechanism for stakeholders
10. Details of the events subject to information disclosure required by law and regulations
11. The enforcement of corporate governance, differences between the corporate governance principles implemented by the company and these Principles, and the reason for the differences
12. Other information regarding corporate governance

The company is advised, according to the actual performance of the corporate governance system, to disclose the plans and measures to improve its corporate governance system through appropriate mechanisms.

## **Chapter VI Supplementary Provisions**

Article 50        The company shall at all times monitor domestic and international developments in corporate governance as a basis for review and improvement of the company's own corporate governance mechanisms, so as to enhance their effectiveness.

Article 51        These rules, and any amendments hereto, shall be implemented after adoption by an audit committee and the board of directors.