

## Introduction

Corporate governance has been considered a comprehensive system to promote the integrity of the securities market. You will understand more about this system through Corporate Governance Best-Practice Principles for TSE/GTSM Listed Companies. It is divided into seven chapters and sixty-five articles in total. Not only directors and supervisors but also employees and shareholders must perform their functions to raise corporate governance. Everyone mentioned above has his or her duty. The ultimate goal of this system tends to protect shareholders' rights and interests. Enhancing the function of the board of directors is one of the most important ways to achieve this goal.

Independent directors with competence and integrity are installed to strengthen the powers of the board of directors. Shareholders recommend natural persons who fulfill the qualifications set forth by the TSE or GTSM. After an objective assessment of the board of directors, those recommended are elected independent directors in the shareholders meeting. In accordance with our provision, independent directors must attend courses to acquire knowledge of law, finance or accounting before the company applies for initial listing. If independent directors violate the relevant laws and regulations, they shall be liable for the damages and could face criminal charges. Therefore, it is reasonable for shareholders to trust independent directors. Besides, empowering the supervisors, respecting stakeholders' right, and improving information of transparency are also major principles.

At present, corporate governance is optional, not compulsory. However, in the aftermath of the "meltdown" of significant companies such as Enron, corporate governance can never be over emphasized. Corporate governance is certainly not a slogan. We will try our best to set up other relevant requirements to promote corporate governance system. We do expect issuing companies to follow Corporate Governance Best-Practice Principles for TSE/GTSM Listed Companies to achieve the goal of corporate governance.

**Corporate Governance Best-Practice Principles for TSE**  
**/GTSM Listed Companies**

**Chapter I      General Provisions**

**Article 1**      In order to assist companies listed on the Taiwan Stock Exchange ("TSE") and the GreTai Securities Market ("GTSM", collectively referred to as "TSE/GTSM listed companies") to establish a sound corporate governance system, and to promote the integrity of the securities market, the TSE and GTSM hereby jointly adopt the Principles to be followed by TSE/GTSM listed companies.

**Article 2**      When setting up the corporate governance system, in addition to complying with relevant laws and regulations, a TSE/GTSM listed company shall also follow the following principles:

1.      protect shareholders' rights and interests;
2.      strengthen the powers of the board of directors;
3.      fulfill the function of supervisors;
4.      respect stakeholders' rights and interests; and
5.      enhance information transparency.

**Article 3**      A TSE/GTSM listed company shall abide by laws, regulations, articles of incorporation, contracts signed with the TSE or GTSM and other relevant regulations.

**Article 4**      A TSE/GTSM listed company shall establish a comprehensive internal control system and implement it effectively. In addition to faithfully performing internal reviews, the board of directors and the management shall review the result of the voluntary reviews of each department and the report of the internal audit department at least annually. Supervisors shall

also pay attention to and exercise oversight on this matter.

The management of a TSE/GTSM listed company shall pay special attention to the internal audit department and its personnel, fully empower them and urge them to conduct audits effectively, evaluate problems of the internal audit system and evaluate the efficiency of operations to ensure that such a system can be carried out effectively on a continuous basis and can assist the board of directors and the management to perform their duties effectively so as to ensure a sound corporate governance system.

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

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

**Article 5** When implementing the corporate governance system, the ultimate goals of a TSE/GTSM listed company shall be to protect shareholders' rights and interests and treat all shareholders fairly.

A TSE/GTSM listed company shall establish a corporate governance system which ensures shareholders' right of being fully informed of, participating in and making decisions over important matters of the company.

**Article 6** A TSE/GTSM listed company shall convene shareholders' meetings in accordance with the Company Law and relevant laws and regulations and provide comprehensive rules for such meetings covering matters (including: 1. notices of meetings; 2. keeping attendance lists; 3. confirming that shareholders' meetings shall be convened at the proper place and time; 4. the

chairman and attending staff at shareholders' meetings; 5. preserving evidence, by audio-recording or video-taping, of shareholders' meetings; 6. convening shareholders' meetings, deliberation of proposals, statements by shareholders, the method of voting, supervision of vote counting, and vote tallying; 7. meeting minutes and documents to be executed; 8. public announcements; 9. disqualification of interested shareholders; 10. principles governing authorization by shareholders' meetings; and 11. ensuring the conduct of order of meetings.) TSE/GTSM listed companies shall faithfully implement resolutions adopted by shareholders' meetings in accordance with the rules for the meetings.

Resolutions adopted by shareholders' meetings of TSE/GTSM listed companies shall comply with laws, regulations and articles of incorporation.

**Article 7** The board of directors of a TSE/GTSM listed company shall properly arrange the proposals and agenda of shareholders' meetings. Shareholders shall be granted reasonable time to deliberate each proposal and afforded an appropriate opportunity to make statements.

It would be advisable for a majority of the directors to attend shareholders' meetings that are convened by the board of directors.

**Article 8** A TSE/GTSM listed Company shall encourage its shareholders to actively participate in its corporate governance and hold shareholders' meetings on the premise of legal, effective and safe proceedings. A TSE/GTSM Company shall seek all ways and means, including fully exploiting technologies for information disclosure, so as to enhance the attendance rate of shareholders at the shareholders' meeting and ensure the

exercise of voting rights by shareholders at the shareholders' meeting in accordance with laws.

**Article 9** A TSE/GTSM listed Company shall record the minutes of the shareholders' meeting in accordance with the Company Law and other applicable laws and regulations. With respect to unanimous by adopted proposal, the meeting minutes shall state: "The resolution is unanimously adopted by all shareholders attending the shareholders' meeting after the chairman inquires all attending shareholders' opinion. Any possible remaining dispute between the parties shall be settled through court proceedings." As to any proposal that has received any dissent in the shareholders' meeting, the meeting minutes shall record method of voting for the adoption of this proposal, the total number and percentage of votes for adopting the resolution. With respect to the election of directors and supervisors, the meeting minutes shall record the method of voting adopted therefor and the total number of votes for the directors or supervisors who were elected. The minutes of the shareholders' meeting shall be properly and perpetually kept by the company during its legal existence. It would be advisable for TSE/GTSM Company to disclose such meeting minutes on its website.

**Article 10** The chairman of the shareholders' meetings shall be fully familiarized and comply with the rules governing the proceedings of the shareholders' meetings established by the company. The chairman shall ensure the proper progress of the proceedings of the meetings and may not adjourn the meetings at will.

In order to protect the interests of shareholders owning a significant portion of shares, if the chairman declares the adjournment of the meeting in a manner in violation of rules

governing the proceedings of the shareholders' meetings, it would be advisable for the members of the board of directors other than the chairman of the shareholders' meeting to promptly assist the attending shareholders at the shareholders' meeting in electing a new chairman of the shareholders' meeting to continue the proceedings of the meeting, by a resolution to be adopted by a majority of the votes represented by the shareholders attending the said meeting in accordance with the legal procedures.

**Article 11** A TSE/GTSM listed Company shall respect the shareholders' right to know and faithfully comply with the applicable regulations regarding the information disclosure to provide, regularly and timely, the shareholders with information relating to the financial condition and operations of the company and the insiders' shareholdings in the company by utilizing the information system of the Market Observatory Post System.

**Article 12** The shareholders shall be entitled to profit distributions by the company. In order to ensure the shareholders' investment interests, the shareholders' meeting may appoint an inspector to examine the statements and books prepared and submitted by the board of directors and the audit reports submitted by the supervisors, and may decide, by resolution, profit distributions and deficit off-setting plans. The board of directors, supervisors and managers of the TSE/GTSM Company shall fully cooperate in the examination conducted by the inspectors without any obstruction.

**Article 13** In entering into material financial and business transactions such as acquisition or disposal of assets, engaging in derivatives products transactions, lending funds of the company to any other person, making endorsements or providing guarantees to any other person, a TSE/GTSE listed

company shall proceed in accordance with the applicable laws and/or regulations. TSE/GTSM Company shall further establish the operating procedures in relation to these material financial and business transactions and report the same to the shareholders' meeting so as to protect the interests of the shareholders.

**Article 14** In order to protect the interests of the shareholders, it would be advisable for TSE/GTSM Company to designate responsible personnel dedicated to handling shareholders' proposals, inquiries or disputes.

A TSE/GTSM listed Company shall objectively and properly deal with matters arising from any action instituted by shareholders pursuant to the applicable laws claiming damage to such shareholders' interests caused by the resolution adopted in its shareholders' meetings or the board of directors meetings in violation of the applicable laws, regulations or the company's articles of incorporation, or claiming breach by the company's directors, supervisors or managers of applicable laws, regulations or the company's articles of incorporation in performing their duty.

## **Subchapter 2 Corporate Governance Relationships Between the Company and Its Affiliated Enterprises**

**Article 15** A TSE/GTSM listed Company shall clearly identify the allocation of its management authorities and responsibilities over personnel, assets and financial matters of its affiliated enterprises, and shall conduct risk evaluation and establish appropriate firewalls.

**Article 16** Unless otherwise provided by the laws and regulations, a manager of a TSE/GTSM listed 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 business, shall disclose to the shareholders' meeting the material terms of such transaction and obtain its consent.

**Article 17** A TSE/GTSM listed Company shall establish a sound management system for finance, operations and accounting in accordance with the applicable laws and regulations. It shall further, together with its affiliated enterprises, properly conduct an overall risk evaluation of the major banks they are dealing with, their customers and their suppliers, and carry out the necessary control mechanism to reduce credit risks.

**Article 18** Where a TSE/GTSM listed Company and its affiliated enterprises enter into inter-company business transactions, a written agreement governing respect of the relevant financial and business operations between each other shall be made in accordance with the principle of fair dealing and reasonableness. Both parties shall definitively stipulate the terms and conditions of the price and payment terms mechanism, and desist from any transactions that are other than at arms' length.

All transactions or contracts made by and between a TSE/GTSM Company and its affiliated persons and shareholders shall follow the principles set forth in the proceeding sub-paragraph and tunneling of profits is strictly prohibited.



**Article 19** A corporate shareholder having controlling power over a TSE/GTSM listed 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 engage in transactions at other than arms' length or involve in management conduct for illegal profit.
2. It shall provide guidelines for performing duties and voting policies for its representative to follow, so that at a shareholders' meeting, the representative shall exercise his/her voting right for the best interest of all shareholders and in good faith and, which acting as a director or supervisor, he/she will exercise the fiduciary duty of a director or supervisor.
3. It shall comply with relevant laws, regulations and the articles of incorporation of the company in nominating directors or supervisors 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 channel.

**Article 20** A TSE/GTSM listed company shall ensure the command at any time of information of the identity of major shareholders or its ultimate control persons who own a higher percentage of shares and have actual control over the company.

A TSE/GTSM listed company shall disclose from time to time

important information about its major shareholders relating to the pledge, increase or decrease of shares, or other matters that may possibly trigger a change in the ownership of their shares.

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

#### **Subchapter 1 Structure of Board of Directors**

**Article 21** The board of directors of a TSE/GTSM listed company shall be responsible to the shareholders' meetings. Procedures and arrangement relating to corporate governance shall ensure that, in exercising its authority, the board of directors will comply with laws, regulations, articles of incorporation, and the resolutions of shareholders' meetings of the company.

Regarding the structure of the board of directors of a TSE/GTSM listed company, the number of the board members shall be properly determined by reviewing to the scale of corporate management and operation and the shareholding of the major shareholders and taking into consideration of the practical needs for operation. While installing independent directors, it shall take into account the reasonable professional composition of the directors and the objective requirements for them to perform the duty independently.

The board members shall have the necessary knowledge, skill, and experience for performing their duties. To achieve the ideal goal of corporate governance, the board of directors shall have the following abilities:

1. ability to make operational judgment;
2. ability to perform accounting and financial analysis;
3. ability to conduct management administration;

4. ability to conduct crisis management;
5. possession industrial knowledge;
6. possession perspective of international market;
7. ability to lead; and
8. ability to make decisions.

**Article 22** The articles of incorporation of a TSE/GTSM listed company shall incorporate a fair, just, and open procedure for the election of directors. It is also advisable to have an implementation rule which adopts the cumulative voting system in accordance with the Company Law or other voting mechanism capable of fully reflecting shareholders' views.

The minimum number of board members and the ratio, requirements, and standards for independent directors of a TSE/GTSM listed company shall comply with the rules of the TSE or GTSM.

**Article 23** Before a TSE/GTSM listed company convenes the shareholders' meeting to re-elect the directors, it would be advisable that the qualifications, education and work, background and the existence of any other matters set forth in Article 30 of the Company Law with respect to the recommended candidates be reviewed faithfully and the review result thereof be disclosed, so that qualified directors will be elected.

**Article 24** Clear distinctions shall be drawn between the responsibilities and duties of the chairman of the board of a TSE/GTSM listed company and those of its general manager.

It would be inappropriate for the chairman to also act as the general manager. If the chairman also acts as the general manager or they are spouses or relatives within one degree of

consanguinity, it would be advisable that the number of independent directors be increased.

## **Subchapter 2 Independent Directors**

**Article 25** It is advisable that a TSE/GTSM listed company stipulate an appropriate number of independent directors to be elected from those natural persons recommended by shareholders who fulfill the qualifications set forth by the TSE or GTSM after an objective assessment of the board of directors and election in the shareholders meeting.

If a TSE/GTSM listed company has managing directors, there shall be no less than one independent director among them.

The board of directors shall ensure that during the term of the directors, the number and percentage of the independent directors comply with regulations. In case of any shortfall, matters in connection with by-elections shall be handled timely in accordance with the TSE or GTSM regulations.

**Article 26** A TSE/GTSM listed company shall stipulate expressly the scope of duties of the independent directors and empower them with manpower and material 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.

A TSE/GTSM listed company shall stipulate expressly the compensation of the directors in its articles of incorporation or

pursuant to a resolution of the shareholders' meeting. Different but reasonable compensation from that of other directors may be set forth for the independent directors.

### **Subchapter 3 Audit Committee and Other Special Committees**

**Article 27** In order to achieve the goal of corporate governance, the major duties of the board of directors of a TSE/GTSM listed company are as follows:

1. stipulation of an effective and appropriate internal control system;
2. selection and supervision of managers;
3. review of the management policy and business plan of the company;
4. review of the financial goals of the company;
5. supervision of the result of operations of the company;
6. supervision and handling of the risks encountered by the company;
7. ensuring the compliance with relevant laws and regulations by the company;
8. planning the future development of the company;
9. creation and maintenance of the company image and fulfillment of social obligations;
10. appointment of CPA or attorneys.

**Article 28** For the purpose of developing monitoring functions and strengthening management mechanisms, the board of directors of a TSE/GTSM listed company may, taking into account the basis of the size of the board and the number of the independent directors, set up special committees of various

functions to be stipulated in the articles of incorporation.

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

Special committees shall adopt regulations governing the exercise of their power and duty to be approved by the board of directors. The regulations governing the exercise of their power shall at least comprise of the functions, responsibilities, the process for exercising the power (the status of the organization, the qualifications of the members, the resources for exercising the power and duty and the procedure for such exercise) and annual review and assessment of the necessity of renewing the policy of regulation for exercising the power and duty.

**Article 29** It is advisable that a TSE/GTSM listed company make it the first priority to set up the audit committee, whose functions and duties are as follows:

1. examination of the accounting system, financial conditions, and the procedure for financial reports of the company;
2. reviewing the procedures for major financial and business transactions such as acquisition or disposition of assets, engaging in derivatives transaction, making loans to others, and endorsement or provision of guaranty for others;
3. communications with the CPAs of the company;
4. examination of the internal auditors and their performance;
5. examination of the internal control of the company;
6. assessment, inspection, and monitoring the existence and threat of risks of all kinds;

7. inspection of law compliance by the company;
8. reviewing the transactions set forth in Article 34 of the Principles where voting shall be disqualified due to conflicts of the interest of directors, especially material related-party transactions, acquisition or disposition of assets, engaging in derivatives transactions, making loans to others, endorsement or provision of guaranty for others, and establishment of an investment company for the purpose of making investment.
9. assessing the qualifications of CPAs and nomination of qualified candidates.

The audit committee shall consist of one or more independent directors and be convened by the independent director. It would be advisable that independent supervisors be invited to sit in at the meeting.

At least one of the independent directors as referred to in the preceding subparagraph shall have professional expertise in accounting or finance.

**Article 30** A TSE/GTSM listed company shall select a professional, responsible and independent CPA to be its external auditor, who shall perform regular reviews of the financial conditions and internal control measures of the company. With regard to the irregularity or deficiency timely discovered and disclosed by the auditor during the review, and the concrete measures for improvement or prevention suggested by the auditor, the company shall faithfully implement improvement actions.

A TSE/GTSM listed company shall evaluate the independence of the auditor engaged by the company regularly and no less frequently than once annually. In the event that the company engages the same auditor without replacement for several years

consecutively, or if the auditor is subject to disciplinary actions or other circumstances prejudicial to the independence of the auditor, the company shall review the necessity of replacing the auditor, and shall submit to the board the conclusion of such review.

**Article 31** A TSE/GTSM listed company shall engage professional and competent legal counsel to provide adequate legal consultation services to the company, or to assist in the endeavor by the directors, the supervisors and the management to improve their knowledge of the law, for the purposes of preventing any infraction by the company or its staff of laws or regulations, and ensuring the corporate governance matters will proceed pursuant to the relevant legal framework and the prescribed procedures.

In the event that the directors, supervisors or the management are involved in litigation as result of performing his or her duties as provided by the law or arising from shareholders disputes, depending on the circumstances the company shall retain legal counsel to provide assistance.

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

**Article 32** It is advisable for a TSE/GTSM listed company to hold a board meeting no less frequently than once every two (2) months so as to meet business needs. The board meeting may be convened at any time in the event of an emergency.

A TSE/GTSM listed company shall adopt the rules for proceedings of board meetings and report the same to the shareholders so as to enhance the operational efficiency and decision-making capability of the board. The rules shall



include:

1. the meeting notice;
2. preparation of attendance sheet and other documents;
3. the principle for deciding the location and time of a board meeting;
4. the chairman of the meeting of the board and observers;
5. the sound recording and videotaping of the proceedings of the board meeting;
6. the convening of the board meeting, discussions of the proposals, directors' statements, directors' vote, supervision of the voting and calculation of the votes;
7. any voting right calculation formula inconsistent with these Principles;
8. meeting minutes, the signature thereupon and other matters;
9. disqualification by directors due to conflicts of interest; and
10. delegation of powers by the board of the directors.

**Article 33** With regard to regular board meetings, a TSE/GTSM listed company shall make plans in advance, devise the agenda of the meeting, and shall notify all of the directors and supervisors under the legal deadlines, providing sufficient meeting materials.

In the event that two or more directors consider meeting materials to be insufficient and with the concurrence of one or more independent director, a request may be made to the board of directors that the review of proposal be postponed. The board shall comply accordingly.

**Article 34** A director shall exercise a high degree of self-discipline and shall voluntarily abstain from voting, for himself or herself or

as proxy for another director, on a proposal submitted to the board of directors that risks the involvement of the director's own interest to the detriment of the interest of the company. The directors shall practice self discipline as to their internal relationship and must not support each other in an inappropriate manner.

The matters with regard to which a director shall voluntarily abstain from voting shall be clearly set forth in the rules for the proceedings of board meetings.

**Article 35** When a TSE/GTSM listed company convenes a board meeting, relevant materials shall be duly prepared for reference and review by the directors participating in the meeting at any time.

When the board deliberates on the proposals of acquisition or the disposal of assets, conducting derivatives transactions, provision of loans to another, provision of endorsement or guarantee to another and other material financial or operational transactions, sufficient consideration shall be given to the opinion of the audit committee or that of the independent directors. Any vote for or against the proposal and the reasons therefor shall be recorded in the minutes.

During the proceeding of the board meetings, managers from the relevant departments who are not directors shall sit in at the meetings, make report on the current business conditions of the company and respond to inquiries raised by the directors, so as to assist the directors in understanding the conditions of the company for the purpose of adopting an appropriate resolution.

**Article 36** Staff personnel of a TSE/GTSM listed company attending board meetings shall faithfully collect and record meeting minutes.

The summary, method of resolution and voting results of all proposals submitted to the board meeting shall be comprehensively stated in details in accordance with relevant regulations. The meeting minutes shall be signed by the attending directors as well as secretary of the meeting.

Board meeting minutes shall be treated as important corporate records and, during the life of the company, shall be placed in safekeeping permanently.

Where a resolution of the board of directors violates laws or regulations and causing injury to the company, dissenting directors whose dissent can be proven by minutes or written statements will not be liable for damages.

**Article 37** A TSE/GTSM listed company shall consider the size and need of the board of directors in establishing a board of managing directors in accordance with relevant provision of the Company Law.

A TSE/GTSM listed company shall set forth in their articles of incorporation the scope of delegation to managing directors or the chairman when the board of directors is in recess. The delegation shall be specific, and general authorization is not permitted. When material interest of the company is involved, the matter shall be disposed of by a resolution of the board of directors.

Managing directors shall proactively perform their duty when the board of directors is in recess so as to ensure the sustainable and effective corporate governance of the company's affairs.

**Article 38** A TSE/GTSM listed company shall ask the appropriate corporate department or personnel to handle matters and implement actions pursuant to the board of directors' resolutions in a way consistent with the program schedule and objectives. It shall also follow up on these matters and faithfully review their implementation.

The board of directors shall ensure full control of the implementation and progress of these matters and make a report in subsequent meetings so as to ensure that the board's management decisions are faithfully implemented.

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

**Article 39** Members of the board shall faithfully conduct corporate affairs and discharge this duty of care as a good administrator. In conducting the affairs of the company, they shall exercise their power with a heightened level of self-discipline and prudential attitude. Unless matters are reserved for resolutions in shareholders' meetings by law or in the articles of incorporation of the company, they shall ensure that all matters will faithfully adhere to the board's resolutions.

Where resolutions of the board involve major policy directions of the corporate management, the board shall make careful consideration and may not affect the implementation and effectiveness of corporate governance.

Independent directors shall perform their duties in accordance with relevant laws, regulations and the company's articles of incorporation so as to protect the interest of the company and shareholders.

**Article 40** If a resolution of the board of directors violates law, regulations or the company's articles of incorporation, at the request of shareholders holding shares continuously for a year or an independent director, or at the notice of a supervisor 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 any threat of the company suffering material injury, members of the board shall immediately report to supervisors in accordance with the foregoing paragraph.

**Article 41** The percentage of collective ownership in the company by all director of the board of a TSE/GTSM listed company shall comply with laws and regulations, and restrictions on share transfer, creation and release of pledge or changes thereof involving the shares of each director shall be made in accordance with relevant rules, and all information relevant to such matters shall be fully disclosed.

**Article 42** With a consenting resolution of the shareholders' meeting, a TSE/GTSM listed company may take out liability insurance for directors so as to reduce and spread the risk of material harm to the company and shareholders arising from any illegal conduct.

**Article 43** Members of the board shall comply with rules of the TSE and GTSM to participate in training courses on the subject of law, finance or accounting-related expertise upon becoming directors and throughout their term of office. They shall also ensure that company employees at all levels will enhance their professionalism and knowledge of the law.

The training of directors shall be fully disclosed, and such information along with their performance during the current

term shall be provided to shareholders for their consideration to elect the next term of directors.

## **Chapter IV Empowering the Supervisors**

### **Subchapter 1 Duties of Supervisors**

**Article 44** The articles of incorporation of a TSE/GTSM listed company shall stipulate a fair, impartial, and open procedure for the election of supervisors and it would be advisable that implementation guidelines be expressly stipulated stating that in accordance with the Company Law, cumulative vote or other election method which can fully reflect the opinions of the shareholders shall be adopted.

The aggregate shareholding percentage of all of the supervisors of a TSE/GTSM listed company shall comply with the laws and regulations. Restrictions on the share transfer of each supervisor and the creation, release, or other changes of any pledges over the shares held by each supervisor shall comply with the relevant laws and regulations, and the relevant information shall be fully disclosed.

A TSE/GTSM listed company shall follow the requirements stipulated by the TSE or GTSM to handle matters in regard to the minimum number of its supervisors and the percentage, qualifications, reviewing standards of the independent supervisors among them.

**Article 45** When a TSE/GTSM listed company sets forth the number of supervisors in its articles of incorporation, it shall evaluate the appropriate number on an overall basis. Those who act as supervisors shall have ample professional knowledge and skill, work experiences, possess an honest, practical, fair, and

impartial attitude, and shall truly evaluate whether or not they will have sufficient time and energy to devote themselves to acting as supervisors

**Article 46** A supervisor shall be familiar with the relevant laws and regulations, understand the rights, obligations, and duties of directors of the company and the functions and duties, and operation of each department, and attend regular meetings of the board of directors to supervise the operations and to state his/her opinions when appropriate so as to control or discover any abnormal situation early on.

In the event that a TSE/GTSM listed company has any standing auditors, their functions and duties shall be expressly stipulated so as to empower the standing auditors.

**Article 47** A supervisor shall supervise the implementation of the operations of the company and the performance of duties by directors and managers so as to reduce the financial and operational risks of the company.

Where a director, for himself/herself or on behalf of others, enters into a sales/purchase or loan transaction, or conducts any legal act with the company, a supervisor shall act as the representative of the company. In the event that there is any independent supervisor, to enhance supervision, it is advisable that the independent supervisor shall act as the representative of the company in the above situation.

**Article 48** A supervisor shall investigate the operational and financial conditions of the company from time to time and the relevant departments in the company shall provide the books or documents that will be needed for the supervisor's review.

When reviewing the finance or operations of the company, a supervisor may retain attorneys or accountants on behalf of the company to perform the review; however, the company shall inform the relevant persons of their confidentiality obligations.

The board of directors and managers shall submit reports in accordance with the request of the supervisors and shall not for any reason obstruct, circumvent, or refuse the inspection of the supervisor.

When a supervisor performs his/her duties, a TSE/GTSM listed company shall provide necessary assistance and the reasonable expenses that the supervisor needs shall be borne by the company.

When each of the supervisors exercises the supervising power respectively at different time, the company shall not request the supervisors to conduct inspection uniformly or refuse to provide information again.

**Article 49** For supervisors to timely discover any possible irregular conduct in the company, a TSE/GTSM listed company shall establish a channel for supervisors to communicate with the employees, shareholders, and stakeholders.

Upon discovering any irregular conduct, the supervisors shall take appropriate measures timely, such as filing a report to the relevant regulatory authorities or agencies to curb the expansion of the irregular conduct.

Where any of the independent directors, general managers, chief financial or accounting officers, or CPAs resigns his/her position, the supervisors shall further investigate the cause of the resignation.



In the event that a supervisor neglects his/her duties and therefore causes harm to the company, the supervisor shall be liable to the company.

**Article 50** When exercising his/her supervision power, each supervisor of a TSE/GTSM listed company may convene meetings on a regular or non-regular basis if he/she deems necessary to exchange opinions among all other supervisors after taking into consideration the overall interest of the company and shareholders.

A TSE/GTSM listed company shall adopt comprehensive complete rules for convening the aforesaid meetings and report the same to the shareholders' meeting so as to improve meeting efficiency. Meeting minutes of each meeting shall be kept in good care indefinitely.

**Article 51** A TSE/GTSM listed company may purchase liability insurance for its supervisor(s) upon the resolution of the shareholders' meetings so as to reduce and spread the risk of damages that may be sustained by the company or shareholders caused by any illegal act of its supervisor(s).

**Article 52** Supervisor(s) shall take legal, financial and accounting courses when he/she assumes the position and shall do the same or during his/her term of office pursuant to the TSE or GTSM related regulations.

The aforesaid training of supervisor(s) shall be fully disclosed and shall become a reference, along with his/her performance during his/her term of office, for shareholder(s) to elect supervisor(s) for the next term.

## **Subchapter 2 Independent Supervisor System**

**Article 53** A TSE/GTSM listed company shall appoint an appropriate number of independent supervisor(s). Shareholders may recommend natural person(s) qualified under the TSE or GTSM rules for the board of directors' objective evaluation and for the shareholders meeting's election.

The board of directors shall ensure that the number of independent supervisor during the term of the company's supervisor(s)' office reaches the minimum requirements and percentage as set forth in the related rules and regulations.

It would be advisable for independent supervisors to reside in Taiwan so as to perform their supervisory function timely.

**Article 54** A TSE/GTSM listed company shall set forth the remuneration of supervisor(s) in its articles of incorporation or by a resolution of shareholders' meeting. Independent supervisor(s) may have reasonable remuneration than that is different from that other ordinary supervisors.

A TSE/GTSM listed company shall value the function of independent supervisor(s) so as to strengthen the risk management and financial and operational controls of the company.

## **Chapter V Respecting Stakeholders' Right**

**Article 55** A TSE/GTSM listed company shall maintain communications with its banks, other creditors, employees, consumers, suppliers, community or other stakeholders and shall respect and safeguard their legal rights.

When any of a stakeholder's legal rights is harmed upon, the company shall handle such matter in a proper manner and in good faith.

**Article 56** 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 decision making process. When any of their legal rights or interest is harmed upon, the company shall respond with a responsible attitude and assist creditors in obtaining compensation through proper means.

**Article 57** A TSE/GTSM listed company shall establish communication channels with employees and encourage employees to communicate directly with the management, directors and supervisors so as to reflect employees' opinions about the management, financial conditions and material decisions of the company concerning employee welfare.

**Article 58** In developing its normal business and maximizing the shareholders interest, a TSE/GTSM listed company shall pay attention to consumer interest, environmental protection of community and public interest issues, and shall have a high regard for the social responsibility of the company.

## **Chapter VI Improvement of Information of Transparency**

### **Subchapter 1 Disclosure of Enhancing Information Disclosure**

**Article 59** Publication of information is the major responsibility of a TSE/GTSM listed company. A TSE/GTSM listed company shall perform its obligations faithfully in accordance with the relevant laws, articles of incorporation of the company, and related TSE and GTSM related rules.

**Article 60** A TSE/GTSM listed company shall establish a public web-reporting system, 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 affecting shareholders and stockholder.

**Article 61** In order to enhance the accuracy and timeliness of the information disclosed, a TSE/GTSM listed company shall a appoint spokesperson and acting spokesperson who understand thoroughly the company's financial and business conditions and who are capable of coordinating among departments for gathering relevant information and representing company in making statements independently.

A TSE/GTSM listed company shall appoint one or more acting spokesperson 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, a TSE/GTSM listed company shall unify the process of making external statements and require management and employees to maintain the confidentialities of financial and operational secrets and prohibit disclosure thereof by them at will.

The company shall disclose the relevant information regarding any change to the position of a spokesperson or acting spokesperson upon such change.

**Article 62** In order to keep shareholders and stockholders fully informed, a TSE/GTSM listed company shall take advantage of the convenience of the Internet and set up a web site containing the information regarding the company's finance, operation and corporate governance.

To avoid misleading information, the web site shall be maintained by specified personnel, and shall be updated timely in the event of any change of or additional information.

**Article 63** A TSE/GTSM listed company is advised to meetings with institutional investors in compliance with the regulations of the TSE and GTSM, and it would be advisable to audio or video record the corporate presentations and place it on the web site for further inquiry.

## **Subchapter 2 Disclosure of Information of Corporate Governance**

**Article 64** A TSE/GTSM listed company shall disclose the following for relevant information regarding corporate governance the fiscal year in accordance with laws and regulations of the TSE and GTSM.

1. corporate governance framework structure and rules;
2. ownership structure and shareholders' equity;
3. structure and independence of board of directors;
4. responsibility of the board of directors and managerial personnel;
5. composition, duties and independence of supervisors;
6. shareholders' rights and relationship;
7. details of the events subject to information disclosure required by law and regulations;
8. deficiency between the performance of corporate governance and the requirement of these Principles, and the reason for the deficiency;
9. concrete plans and measures to improve corporate governance; and
10. other information regarding corporate governance

## **Chapter VII Ancillary Rules**

**Article 65** A TSE/GTSM listed company shall at all times monitor domestic and international development of corporate governance and thereby review and improve the company's corporate governance mechanism so as to enhance performance corporate governance.

*The English translation is provided by courtesy of Lee and Li Attorneys  
at the engagement by  
the Taiwan Stock Exchange and GreTai Securities Market jointly.*