

# CSBC Corporation, Taiwan

## Directions Governing Transactions with Related Parties

### I. Objective

The Directions are established as a guiding basis for management of transactions between the Company and related parties in concert with the implementation of the International Accounting Standards (IAS), to facilitate undertaking of relevant tasks.

### II. Legal Basis

- (1) Regulations Governing Establishment of Internal Control Systems by Public Companies
- (2) Related Party Disclosure Requirements in IAS 24
- (3) Rules Governing Financial and Business Matters Between this Corporation and its Related Parties

### III. Definition

- (1) Related parties: refer to individuals or entities related to the company.
- (2) Related party transactions: refer to transfers of resources, labor service or obligations between the company and the related parties.
- (3) Personal close relatives: refer to family members of a person; those who are expected to affect the person or be affected by the person when he/she has transactions with the entity include:
  - (a) the person's children and spouse or cohabitant;
  - (b) the children of the person's spouse or cohabitant;
  - (c) the dependents of the person or his/her spouse or cohabitant.
- (4) Remunerations: include all employee benefits (as defined as "employee benefits" in IAS19), also including the benefit of "share-based payment" provided in IAS2. Employee benefits refer to all forms of considerations paid, payable or provided by the entity or on behalf of the entity in exchange for the labor service provided to the entity. Employee benefits also include the considerations paid by the entity on behalf of its parent company. Remunerations include:

- (a) short-term employee benefits, e.g., wages, salaries and social security provisions, paid annual leaves and paid sick leaves, bonuses and incentives payable within 12 months at the end of the period, and non-monetary benefits (e.g., medical care, accommodation, automobile, and free or subsidized commodities or services);
  - (b) post-retirement benefits, e.g., pension fund, other retirement benefits, post-retirement life insurance and post-retirement medical care;
  - (c) other long-term employee benefits, including long-service leaves or long-term rotational annual leave, annual leave or other long-term service benefits after serving for a number of years, long-term disability benefits, and bonuses, incentives and deferred remunerations not payable in full within 12 months from the end of the period;
  - (d) Resignation benefits; and
  - (e) share-based payments.
- (5) Control: refers to the power to dominate the financial and operating policies of a certain entity, and to gain interest from its activities.
  - (6) Joint control: refers to the agreement to share the control over a certain economic activity by contract.
  - (7) Principal management: refers to the power- and duty-holders who, directly or indirectly, plan, command and control the entity's activities, including any one director of that entity (regardless of his/her involvement in the execution of businesses).
  - (8) Significant influence: refers to the power to participate in, but not control, the financial and operating policies of a certain entity. Significant influence may be generated by means of shareholding, laws and regulations or agreement.
  - (9) Government: refers to the government, governmental agencies, as well as similar local, national or international organizations.
  - (10) Government-related entities: refer to the entities subject to the control, joint control or significant influence of the government.

IV. Related parties are divided into personally related parties and entity-related

parties. Care should be taken about the essentiality, rather than legal formality of the relationship when judging every possible relationship with the related parties

V. A person or his/her close relatives are considered related to the company in any one of the following conditions:

- (1) have control or joint control over the company;
- (2) have significant influence on the company; or
- (3) being a member of the company's or its parent company's principal management.

VI. An entity is considered related to the company in any one of the following conditions:

- (1) The entity is a member of the same group as the company (referring to relationship between the parent company, subsidiaries and sister companies).
- (2) An entity is an affiliated enterprise or joint venture of another entity (or the affiliated enterprise or joint venture of a group's member, while the other entity is also the group's member). Affiliated enterprises include the subsidiaries of that affiliated enterprise; joint venture includes the subsidiaries of that joint venture.
- (3) Both entities are the joint venture of the same third party.
- (4) An entity is the joint venture a third party, while the other entity is the affiliated enterprise of that third party.
- (5) The entity is the post-retirement benefit scheme instituted for the employee benefits of the company or its related entities. If the company itself is the aforesaid scheme, the hosting employer is also related to the company.
- (6) The entity is subject to the control or joint control of the person(s) listed in 5.
- (7) The person(s) listed in 5 (1) above has significant influence on the entity or is a member of the entity's (or its parent company's) principal management.

VII. Entities in the following conditions are non-related parties:

- (1) Two entities with one same director or other member of the principal

management, or a member of one entity's principal management has significant influence on the other entity.

- (2) Both parties are the controllers of a joint venture, and they only share the joint control over the joint venture.
- (3) Fund providers, chambers of commerce, utilities, and government departments and agencies with no control, joint control or significant influence on the company, but only have ordinary correspondences with the entity (even though they might influence the entity's freedom of activity or participate in the entity's decision-making process).
- (4) Customers, suppliers, franchised partners, wholesalers or general agents with considerable business trades with the entity, just because they create economic dependence.

VIII. According to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 24, the definition and scope of related parties include any one of the following:

- (1) An investee accounted for by the equity method;
- (2) The Company's directors, president, executive vice presidents, senior vice presidents;
- (3) The children and spouse or cohabitant of the Company's directors, president, executive vice presidents, senior vice presidents;
- (4) Children of the spouse or cohabitant of the Company's directors, president, executive vice presidents, senior vice presidents;
- (5) Dependents of the Company's directors, president, executive vice presidents, senior vice presidents or their spouse or cohabitant.
- (6) Managers specified in the Order 0920001301 of Financial Supervisory Commission, and their children and spouse or cohabitant, or the children of their spouse or cohabitant, or the dependents of their spouse or cohabitant.
- (7) Affiliated enterprises prescribed in Chapter 6-1 of the Company Act, and their directors, supervisors and managers.
- (8) Businesses or organizations listed as affiliated enterprises in the publicly published or printed information of the Company.

IX. Operating Procedures

- (1) The Planning Office (Operation Management Section) is responsible for compiling, maintaining and updating the roster of related parties (attachment 1) and it is a confidential document. Relevant cooperation and maintenance units are the Management Office, Financial Accounting Office , Secretary Office of the Board of Directors, and Planning Office (New Business Development Section). The change of related parties should be notified within three days to ensure the compliance of the list of related parties. After the roster of related parties is changed, it should be sent to the first-level supervisors of the accounting department, legal department and auditing department for reference and use.
- (2) The transactions between the Company and its related parties include:
- (i) Purchase or sales of commodities (finished or unfinished);
  - (ii) Purchase or sales of real property and other assets;
  - (iii) Provision or acceptance of labor service;
  - (iv) Rental;
  - (v) Research and development transfers;
  - (vi) Transfers under authorization agreement;
  - (vii) Transfers under fund-raising agreement (including loan and cash or input of rights in kind);
  - (viii) Provision of guarantee or pledge;
  - (ix) Commitment to be fulfilled for occurrence or non-occurrence of a specified event in the future, including a contract (recognized or not recognized) to be fulfilled; and
  - (x) Settlement of liabilities on behalf of the entity or by the entity on behalf of the related parties.
- (3) Processing of sales and purchase orders placed with or by related parties, as well as management of receivables and payables incurred by the sales and purchases, shall follow the regulations governing the internal control process.
- (4) For transactions between the Company and its related parties, the price and payment terms shall be explicitly indicated in the agreements. The purpose, price, terms, nature and form of the transactions and relevant

processing procedures shall not significantly differ from those of non-related party transactions or appear obviously unreasonable.

- (5) In the event of sales and purchases with related parties due to business needs, a favorable price or payment term may be provided in the agreement on a reasonable basis for particular reasons or exceptional offers compared to the offers by general manufacturers; otherwise, the price and payment terms shall conform to the terms for general manufacturers.
- (6) An agreement shall be signed between the Company and its related parties for labor or technical service. The description, charge and duration of the services agreed upon and the associated terms of payment and after-sale services shall be approved by the competent supervisor before fulfillment. All of the terms of the agreement shall conform to general business norms and applicable regulations governing the internal control process.
- (7) The accounting personnel of the Company shall regularly verify with the related parties the sales, purchases and balance of receivables and payables. If any discrepancy is found, the cause needs to be identified, and a reconciliation statement shall be produced.
- (8) Asset transactions between the company and related parties, derivative commodity transactions, business mergers, divisions, acquisitions, or share transfers should be conducted in accordance with the "Directions and Questions and Answers for the Acquisition or Disposal of Assets by Publicly Issued Companies" and the "Acquisition or Disposal of Assets" of the company. Key Points of Management" and "Code of Practice for Governance of Listed OTC Companies" Article 12 of the Independence of Audit Committee and Lawyers.
- (9) When there is an endorsement guarantee between the company and related parties, it should follow the "Guidelines and Questions and Answers for Handling Fund Loans and Endorsement Guarantees of Public Offering Companies", "Key Points for the Management of Endorsing or Providing Guarantees for Others" and "Working on Endorsing or Providing Guarantees for Others" Benchmark".

- (10) When there is a financial intermediary between the company and related parties, it should be handled in accordance with the "Public Offering Company Fund Loan and Endorsement Guarantee Handling Guidelines and Questions and Answers" and "Fund Loan and Other Operation Procedures".
- (11) Transactions involving the purchase and sale of goods or technical services by the Company to related parties, where the estimated annual transaction amount reaches 5% of the Company's most recent consolidated total assets or most recent consolidated net operating income, and other significant transactions between the Company and related parties, must be submitted to the Audit Committee and the Board of Directors for approval before proceeding. Financial transactions requiring Board of Directors approval must fully consider the opinions of all independent directors, and their explicit approval or disapproval, along with the reasons for the disapproval, must be recorded in the Board of Directors' minutes.
- (11-1) Transactions with related parties referred to in the preceding paragraph shall include the following matters reported to the most recent shareholders' meeting after the end of the fiscal year:
- (a). Actual transaction amount and terms.
  - (b). Whether the transaction is calculated in accordance with the transaction price calculation principles approved by the board of directors.
  - (c). Whether the annual transaction amount limit approved by the board of directors has been exceeded. If the transaction amount limit has been exceeded, the reasons, necessity, and rationale for the increase should be explained.
- (11-2) Where this Corporation acquires or disposes of real estate or its right-to-use assets from a related party, or acquires or disposes of other assets other than real estate or its right-to-use assets with a related party, and the transaction amount reaches 20% of this Corporation's paid-in capital, 10% of its total assets, or NT\$300 million or more, excluding the purchase or sale of domestic

government bonds, bonds with call or put options, or the subscription or repurchase of money market funds issued by domestic securities investment trust enterprises, the following information shall be approved by more than half of all members of the Audit Committee and submitted to the Board of Directors for resolution before the transaction contract may be signed and funds may be paid:

- (a). A valuation report issued by a professional appraiser or a certified public accountant's opinion, as required by regulations.
  - (b). The purpose, necessity and expected benefits of acquiring or disposing of assets.
  - (c). Reasons for selecting related parties as transaction partners
  - (d). Information related to the assessment of the reasonableness of the proposed transaction terms for acquisition of real estate from related parties in accordance with Articles 16 and 17 of the " Regulations Governing the Acquisition and Disposal of Assets by Public Companies"
  - (e). The original acquisition date and price of the related party, the transaction counterparty, and its relationship with the Company and the related party.
  - (f) A forecast of cash receipts and payments for each month of the next year, commencing with the expected contract month, and an assessment of the necessity of the transaction and the rationality of the use of funds.
  - (g) The restrictive conditions and other significant covenants of the transaction.
  - (h) An opinion from the accountant on whether the related party transaction complies with normal commercial terms and does not harm the interests of the Company and its minority shareholders.
- (11-3) Where the transaction amount of the acquisition or disposal of real estate, equipment, or the right to use thereof referred to in the preceding paragraph exceeds 20% of the Corporation's paid-in capital, 10% of its total assets, or NT\$300 million, a valuation report issued



by a professional appraiser shall be obtained. If the valuation differs from the transaction amount by more than 20% of the transaction amount, a certified public accountant shall be consulted to provide a detailed opinion on the reasons for the discrepancy and the appropriateness of the transaction price. This shall be done by a board of directors meeting attended by more than two-thirds of the directors and approved by a majority of the directors present.

- (11-4) When acquiring real estate or its right-to-use assets from a related party, if the actual transaction price is higher than the estimated transaction costs, and objective evidence and detailed and reasonable opinions from professional real estate appraisers and certified public accountants are unavailable, the audit committee and the board of directors shall fully evaluate whether the transaction would harm the interests of the company and its shareholders and, if necessary, reject the transaction.
- (11-5) If the Audit Committee and the Board of Directors approve the transaction referred to in the preceding paragraph, the Company shall, in addition to recording the difference between the transaction price and the valuation cost as a special reserve and not making any distribution or converting it into capital or stock, submit a report on the handling of the transaction at a general meeting of shareholders and disclose the details of the transaction in its annual report and prospectus.
- (11-6) If a related-party transaction involves the following circumstances, after approval by the Audit Committee and the Board of Directors, the information in Item IX (11-2) shall still be submitted to the shareholders' meeting for approval, and shareholders with a personal interest shall not participate in the vote:
  - (a) The Company or its subsidiaries that are not publicly listed domestically engage in transactions under Item IX (11-2), and the transaction amount represents 10% or more of the Company's total assets.

(b) The transaction amount or terms have a material impact on the Company's operations or shareholders' equity, as provided for in the Company Act, the Company's Articles of Association, or its internal operating procedures.

(11-7) If the Company has transactions with related parties as described in Item IX (11-2), it shall submit a report on the actual transactions (including the actual transaction amounts, transaction terms, and the information provided in Item IX (11-2)) to the most recent shareholders' meeting after the end of the year.

(12) Directors with conflicts of interests on the meeting agenda to the extent that harm may be brought to the company shall avoid such conflicts and must not take a vote or represent any other directors to exercise their voting rights.

(13) Disclosure of related party transactions in the Company's financial reports shall comply with the provisions concerning Related Party Disclosures in IAS 24.

X. The Directions came into force after the audit committee and the Board of Directors gave its review and approval; the same shall apply to any amendment(s) thereof.

\*This English version is a translation of Directions Governing Transactions with Related Parties of CSBC Corporation in Chinese. In case of any discrepancy, the Chinese version shall prevail.