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| Title :       | Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies   |
| Date :        | 2003.06.02   |
| Legislative : | 1. Full 31 articles issued 2 June 2003 per Order No. Taiwan-Finance-Securities-VI-0920002396 of the Securities and Futures Commission, Ministry of Finance; for enforcement from 1 January 2004  |
| Content :     | <p>Chapter I General Principles</p> <p>Article 1<br/>These Regulations are prescribed in accordance with paragraph 2 of Article 14 of the Securities and Exchange Act.</p> <p>Article 2<br/>The financial reports of a publicly held bills finance company (hereinafter, "Bills Finance Company") shall be prepared in accordance with these Regulations. Matters not provided for herein shall be handled in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and generally accepted accounting principles promulgated by the Financial Accounting Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A Bills Finance Company shall handle its accounting affairs, upon which the preparation of its financial reports is based, in accordance with the Business Accounting Act and other applicable acts and regulations.</p> <p>Article 3<br/>A Bills Finance Company shall establish its accounting system based on the nature of its accounting affairs, the actual status and development of its business, and its management needs in preparation for possible audit. The content of the accounting system referred to in the preceding paragraph shall, according to the nature of the business operations, include a general description, account titles, accounting documents, account books, descriptions and uses of accounting statements, guidelines and procedures for handling accounting affairs, internal accounting controls, administration of accounting affairs, and handling of computerized accounting affairs, etc.</p> <p>Article 4<br/>"Financial report" shall mean financial statements, list of major account titles, and other disclosures or explanations under these Regulations, which help users to make decisions. A financial statement shall include a balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement, and the footnotes thereto.<br/>A Bills Finance Company, unless newly established, shall prepare the major statements and footnotes thereto referred to in the preceding paragraph by comparing two consecutive periods, and the responsible person, manager, and</p> |

handling accountant shall sign or seal each page of such statements.

#### Article 5

The content of a financial report shall fairly present the financial position, operating results, and cash flows of a Bills Finance Company without misleading any interested party in making judgments and decisions. If a financial report is in violation of these Regulations or any other relevant provisions, upon being notified by the competent authority after auditing to make adjustments, the Bills Finance Company shall make adjustments and corrections. If the adjusted amount reaches a level set by the competent authority, a corrected financial report shall be re-announced, and at the time of re-announcement shall specify the reasons, items, and amount of the adjustment as notified by the competent authority.

#### Article 6

In order to thoroughly disclose the information on the financial condition, operating results, and cash flows, the financial reports shall provide notes and explanations on the matters specified below:

1. Historical changes and development of the Bills Finance Company and its business scope;
2. A declaration that the financial statements were prepared in conformance with these Regulations and other applicable acts and regulations (the titles of the acts or regulations shall be expressly stated) and generally accepted accounting principles;
3. Summary of significant accounting policies and the basis on which they are judged;
4. Where for some special reason the accounting treatment changes, affecting the comparison of the financial information between the two successive periods, the reason for the change and its effect on the financial statements shall be explained;
5. If there is a need to note the estimation and valuation basis of any amount in the financial report, it shall be noted.
6. If any account title contained in the financial report is restricted by any act or regulation, contract, or otherwise, the circumstances, time limit and relevant matters shall be stated;
7. Standards for classifying assets and liabilities as either current or non-current;
8. Significant commitments and contingent liabilities (including off-balance sheet items);
9. Information relevant to financial products (including derivatives);
10. Management policies and practices in relation to various risks such as credit, market, liquidity, and operational and legal risks, and exposure to major risks. The following information shall be disclosed under its respective risk category:
  - (1) Asset quality (Form A), overview of main businesses (Form B), lending risk concentration (Form C), policies on reserves and provisions for losses, and changes in allowance for bad debts (credit risk);
  - (2) Information on significant concentration of risks in relation to assets, liabilities and off-balance sheet items (credit risk);
  - (3) Averages of interest assets and interest liabilities and average

interest rate during the current period (market risk);  
(4) Interest rate sensitivity information (market risk) (Form D);  
(5) List of capital sources and uses (liquidity risk) (Form E);  
(6) Special matters (operational risk and legal risk) (Form F);  
11. Capital adequacy (Form G);  
12. Change in capital structure;  
13. Addition, expansion, construction, lease, obsolescence, lying idle, sale, pledge, transfer or long-term rent of major assets;  
14. Major investments in other enterprises;  
15. Loss caused by major disasters;  
16. Progression or conclusion of material litigation;  
17. Signing, completion, cancellation, or avoidance of material contracts;  
18. Information related to employee pension funds;  
19. Major organizational adjustments and significant reformation of management system;  
20. Material effects of changes in government acts and regulations;  
21. Segment financial information;  
22. Material effect of suspension of business;  
23. Transfer of the major part of business and assets/liabilities from or to another financial institution;  
24. Long-term and short-term borrowings and lendings;  
25. Information in relation to income tax;  
26. Significant transactions with related parties;  
27. Loans to banks and other enterprises in the same industry and overdrafts and borrowings by banks;  
28. Where the Bills Finance Company is a subsidiary of a financial holding company, allocation of the revenue, cost, expense, and gain/loss incurred between it and the financial holding or any other subsidiary in their business interchanges or transactions, joint business promotion, information sharing, and common use of business facilities or premises.  
29. Other disclosures necessary to avoid misleading users or to facilitate fair presentation of the financial report.

#### Article 7

Notes shall be provided with respect to any of the following subsequent events occurring from the balance sheet date to the financial report submission date:

1. Change in capital structure;
2. Long-term and short-term borrowings in substantial amounts (exclusive of short-term borrowings from banks and other enterprises in the same industry);
3. Addition, expansion, construction, lease, obsolescence, lying idle, sale, pledge, or transfer of major assets;
4. Major investments in other enterprises;
5. Loss caused by major disasters;
6. Significant asset deterioration and loan write-offs;
7. Progression or conclusion of material litigation;
8. Signing, completion, cancellation, or avoidance of material contracts;
9. Major organizational adjustments and significant reformation of management system;

10. Material effects of changes in government acts and regulations;
11. Other significant events or measures capable of affecting the financial condition, operating results, or cash flows.

## Chapter II Balance Sheet

### Article 8

The asset account title/classification in the balance sheet, content thereof, and matters to be noted are as follows:

1. Assets shall be appropriately categorized. Current and non-current assets shall be separated. However, the same shall not apply to specific industries where the breakdown of assets by liquidity is inappropriate. The total amounts of assets expected to be recovered within 12 months after the balance sheet date and in excess of 12 months after the balance sheet date shall respectively be presented in financial statements or disclosed in footnotes.

2. "Current assets" means unrestricted cash or cash equivalents; an asset held for trading, or that will be held short-term and is expected to be converted to cash within 12 months after the balance sheet date; an asset that is expected to be converted to cash, held for sale, or consumed during the normal course of a business operation cycle, including but not limited to cash or cash equivalents, loans to banks and enterprises in the same industry, operating bills and bonds, investments in bills and bonds under reverse repurchase agreements, receivables, and prepayments.

(1) "cash and cash equivalents" means cash in treasury, bank deposits, and revolving fund used for small expenditures. Non-current bank deposits shall be separately listed. If the maturity date is longer than one year, a note shall be provided. A fund which has been earmarked for specific purposes or the use of which is restricted shall not be classified into this account. If time deposits are pledged as collateral for a debt, and if the secured debt is a long-term liability, such deposits shall be re-classified as other assets. If the secured debt is a current liability, the deposits shall be re-classified as other current assets. A note shall be provided to explain the fact of any such security. Where the time deposits are used as refundable deposits, they shall be classified as current assets or other assets depending on whether they are short-term or long term. Compensating balance, if incurred due to short-term loans, shall still be classified as current assets, and an explanation shall be provided in footnotes. Compensating balance incurred due to long-term liability shall be classified as other assets or long-term investments rather than current assets.

(2) "Loans to banks and enterprises in the same industry" mean loans extended to banks and other bills finance companies.

(3) "Operating bills and bonds" means purchased short-term bills, government bonds and financial bonds. Such shall be accounted for at acquisition cost and valued at period-end at the lower of cost or market value. Where total market value is lower than total cost, the resultant unrealized loss on market price decline shall be posted as loss on trading bills and bonds, with a valuation account being set up for that purpose, and shall be set off against the credit balance upon recovery in market value. When such bills and bonds are sold, the difference between net

selling price and cost shall be recorded as either gain or loss on trading bills and bonds. A footnote shall be provided where operating bills and bonds are subject to a repurchase agreement or otherwise subject to any restriction or limitation.

(4) "Investments in bills and bonds under reverse repurchase agreements" mean any dollar amount actually paid to the trading counterpart in a reverse repurchase transaction in bills and bonds.

(5) "Receivables" means all amounts receivable, such as accounts receivable, notes receivable and other receivables. Overdue loans with an overdue period of less than three months shall be classified under accounts receivable. Where during the period in which guaranteed commercial papers are issued the collateral is subject to provisional attachment yet the borrower still pays the interest regularly, in order to extend a grace period for the borrower to apply for removal of such attachment, if such commercial paper matures without being presented immediately, the balance of the commercial paper shall be accounted for as notes receivable." Other receivables" means amounts receivable other than notes receivable and accounts receivable. Other receivables shall be itemized if exceeding five percent of total current assets. When the account is being settled, the potential losses from receivables shall be estimated and sufficient amount of allowance for bad debts shall be set aside. Allowance for bad debts is a contra-receivable valuation account.

(6) "Other financial assets" means financial assets not listed separately on the balance sheet. Other financial assets, based on their liquidity, shall be identified as either current or non-current. The non-current shall be re-listed under "other financial assets-non-current."

(7) "prepayments" mean all the prepaid amounts and expenses. Prepayments for purchase of fixed assets in accordance with contract and construction costs for construction in progress shall be recorded under fixed assets instead of prepayments.

(8) "Other current assets" mean all the current assets not falling within the above categories. Current assets, except for cash and other financial assets, whose amount do not exceed five percent of total current assets, may be incorporated into other current assets.

3. "Long-term equity investments" means any investment in the stock of another enterprise where the stock of such invested company is not traded in an open market or does not have a definite market price, where the Bills Finance Company intends to control the invested company or to establish a close relationship with it, or where the Bills Finance Company has the positive intent and ability to hold the invested company's equity on a long-term basis. Long-term equity investments shall be valued and footnoted as follows:

(1) Except as otherwise provided in items 2 through 6 of this subparagraph, long-term equity investments shall be valued and presented, and consolidated financial statements shall be prepared in accordance with Statement of Financial Accounting Standards Nos. 5 and 7.

(2) Unless otherwise provided, the influence of a long-term equity investment on an invested company shall be assessed based on the ratio of voting rights in the invested company held by the Bills Finance Company.

(3) Where the total assets or operating revenue of any individual

subsidiary have not reached the standard for inclusion in the consolidated statements, if the total assets or operating revenue of each such subsidiary that have not reached the standard for inclusion in the consolidated statements reach in aggregate 30% or more of the total assets or operating revenue of the Bills Finance Company, the subsidiaries whose total assets or operating revenue reaches 3% or more of that of the Bills Finance Company shall be included in the consolidated statements. Unless the percentage subsequently decreases to 20% [or lower], such subsidiaries shall continue to be included in the consolidated statements. For the subsidiaries not included in the consolidated statements, their company names, percentage of shareholder's equity that is held by the parent, and the reason why they are not included in the consolidated statements shall be disclosed in the notes.

(4) The stock of a public company held by the Bills Finance Company that has been approved for trading on over-the-counter markets under Article 5 of the GreTai Securities Market Regulations Governing Review of Emerging Stocks Traded on Over-the-Counter Markets (that is, emerging stocks) in which the Bills Finance Company has no significant influence over such public company, shall be valued under the cost method at period-end.

(5) If the total common stock and voting preferred stock held by the Bills Finance Company in total represent more than 50% of the total votes of an invested company, or if the Bills Finance Company directly or indirectly controls the operation of an invested company's personnel, financial, or business affairs as set forth in Article 369-2, paragraph 2 of the Company Act, the gain or loss arising from such investment shall be recognized in the period when it occurs.

(6) Where the beginning book balance of long-term investments reaches 5% or more of the paid-in capital of the Bills Finance Company; where the Bills Finance Company holds 30% or more of the equity of the invested company, or the shareholding of the Bills Finance Company, together with the combined shareholding in the invested company by the directors, supervisors, and managers of, and enterprises directly or indirectly controlled by the Bills Finance Company exceeds 50%; and where the Bills Finance Company is among the three shareholders of the invested company with the highest shareholding or where the board chairperson or general manager of the invested company is appointed by the Bills Finance Company, the gain or loss arising from such investment shall be recognized in the period when it occurs.

(7) Long-term equity investments shall be valued under the equity method. If the financial report prepared by an invested company fails to conform to generally accepted accounting principles in the ROC, the report shall first be adjusted to conform to such principles and the profit/loss on such investment recognized accordingly. Where the paid-in capital of an invested company reaches NT\$30 million or more, or where its operating revenue reaches NT\$50 million or more or 10% or more of the operating revenue of the Bills Finance Company, the financial statements of such invested company shall be audited by a certified public accountant in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants as well as generally accepted auditing standards.

(8) The valuation basis for long-term equity investments shall be noted; if any such investment is pledged as collateral or otherwise subject to any restriction or limitation, such shall also be noted.

4. "Long-term bond investments" means long-term bonds that are held to maturity. The valuation of unamortized premium or discount thereon shall be adjusted based on par value. The premium or discount shall be amortized in a rational and systematic manner.

5. "Fixed assets" means tangible assets purchased for use in the operation of the business, having an economic life of one year or more, and not intended for sale. The fixed assets account group mainly includes land, buildings, equipment, prepayments for land and buildings, prepayments for equipment, construction in progress, leasehold improvements, and other fixed assets for use in the operation of the business.

(1) Within the fixed assets classification, land, depreciable assets, and depletable assets shall be presented separately.

(2) Fixed assets shall be accounted for at acquisition or construction cost. However, such interest that arises from purchase of a pre-construction house or purchase of a fixed asset by cash capital increase shall not be capitalized. Fixed assets that have no value in use shall be recorded under other assets at the lower of net realizable value or book value. When there is no net realizable value, the cost and accumulated depreciation shall be offset against each other, with the difference recorded as a loss. If a fixed asset is still in use after the expiration of the useful life, such asset shall continue to be depreciated based on the salvage value.

(3) The leased assets shall be recognized and presented in accordance with Statement of Financial Accounting Standards No. 2. If a leased asset falls under an operating lease, the improvement made to such leased property is called leasehold improvement and shall be recorded as a fixed asset.

(4) The valuation basis for a fixed asset shall be indicated. If the fixed asset has been revalued, the date of revaluation and increased or decreased amount shall be recorded, and the acquisition cost and the revaluation increment shall be separately presented in the balance sheet. The reserve for land value increment tax allocated due to land revaluation increment shall be classified under long-term liabilities. The accrual of depreciation on fixed assets which have been revalued shall be based on the revalued value beginning from the day following the date of record of the revaluation.

(5) Fixed assets with the exception of land shall be charged off as depreciation or depletion expense over their estimated useful life in a rational and systematic manner. The accumulated depreciation or accumulated depletion of a fixed asset shall be presented as a fixed asset contra account.

(6) Leasehold improvement shall be depreciated in a rational and systematic manner over the lower of the estimated useful life or the lease term, and re-classified as expenses of each period according to its nature without interruption or reduction.

(7) For depreciable assets, the depreciation calculation methods shall be noted. If a fixed asset is provided as collateral for security, mortgage, or creation of lien, such shall be indicated.

6. "Intangible assets" means assets that have no physical substance but have economic value, such as franchise and goodwill.

(1) Purchased intangible assets shall be recorded at actual cost. Goodwill arising from a business combination shall be treated in accordance with Statement of Financial Accounting Standards No. 25. Self-developed intangible assets, except for those subject to capitalization requirements, shall be treated as a current-period expense.

(2) The valuation basis for intangible assets shall be noted. Intangible assets shall be amortized in a rational and systematic manner. The maximum amortization period shall be no more than 20 years, except where clear evidence exists demonstrating the life of the intangible assets past 20 years. The amortization method for intangible assets shall be noted.

7. "Other assets" mean all the assets not falling within the above categories and with a collection period of one year or more, such as non-accrual loans, refundable deposits, and other miscellaneous assets. When the amount of other assets exceeds 5% of total assets, the titles of the accounts shall be separately recorded.

(1) "Non-accrual loans" means the outstanding balance of guaranteed/endorsed loans that are more than three months past due with no payments being made. When the account is being settled, the potential losses on non-accrual loans shall be assessed and a sufficient amount shall be set aside as allowance for bad debts. Allowance for bad debts is a valuation account for non-accrual loans.

(2) "Refundable deposits" means deposits used as security.

(3) Deferred income tax assets means all the deferred income tax effects of deductible temporary differences.

(4) "Other miscellaneous assets" means all the assets not falling within the above categories.

#### Article 9

The liability account categories on the balance sheet, content thereof, and matters to be noted are as follows:

1. Liabilities shall be appropriately categorized. Current and non-current liabilities shall be separated. However, the same shall not apply to specific industries where the breakdown of liabilities by liquidity is inappropriate. The total amount of liabilities anticipated for settlement within 12 months after the balance sheet date and in excess of 12 months after the balance sheet date shall respectively be presented in financial statements or disclosed in footnotes.

2. "Current liabilities" means liabilities that must be settled within 12 months after the balance sheet date, or if incurred through operations, are expected to be settled within one business cycle in the normal course of business, such as loans and overdrafts from banks and other enterprises in the same industry, liabilities from bills and bonds under repurchase agreements, accounts payable, advance receipts, and other miscellaneous payables.

(1) "Loans and overdrafts from banks and enterprises in the same industry" means the amount of short-term loans from banks and other enterprises in the same industry bearing interest on a daily basis and the amount of overdrafts therefrom within the line of credit under contract.

(2) "Liabilities from bills and bonds under repurchase agreements" means any dollar amount actually received from the trading counterpart in a repurchase transaction in bills and bonds.

(3) Accounts payable shall be valued at present value. However, those which result from operating activities and which become mature within one year may be valued at book value. Accounts payable resulting from operating activities shall be separately recorded from other accounts payable resulting from non-operating activities. Accounts of large value payable to related parties shall be separately disclosed.

(4) "Advance receipts" means all the amounts received in advance. Advance receipts shall be separately recorded based on principal classification, and relevant agreement, if any, shall be noted.

(5) "Other payables" means amounts payable other than accounts payable, such as taxes payable, salaries payable, and dividends. For the dividends payable passed by the resolution of the shareholders meeting, the distribution method shall be noted. When loss and profit are calculated at the end of each period, the estimated income tax payable calculated based on taxable income shall be recorded under other payables. If any item under other payables exceeds 5% of total payables, it shall be separately recorded based on the nature or party concerned.

(6) "Other current liabilities" means all the current liabilities not falling within the above categories, such as bonds payable and long-term loans which become mature within one year. Any current liability whose amount does not exceed 5% of total current liabilities may be incorporated into other current liabilities.

3. "Long-term liabilities" means liabilities due at least 12 months after the balance sheet date, such as bonds payable and long-term payables.

(1) "Bonds payable" means bonds issued by the Bills Finance Company. For bonds issued, the approved total amount, interest rate, maturity date, name of collateral, book value, issuing area, and other relevant terms and restrictions shall be indicated in the footnotes. If the bonds issued are convertible bonds, the method of conversion and the amount converted shall also be noted. The premium and discount on bonds payable are valuation accounts for bonds payable and shall be classified as an addition or deduction on bonds payable and amortized over the circulation period of the bonds in a rational and systematic manner as an adjustment to interest expenses.

(2) Other long-term payables shall be valued at present value.

(3) For long-term liabilities due within 12 months after the balance sheet date, where the original loan contract period was in excess of 12 months and the enterprise intends to continue long-term refinancing, and where refinancing or loan extension had been accomplished before the financial statement submission date, the loan shall continue to be listed as a long-term liability, and footnote disclosure shall be made in the financial statement specifying the amount of the loan and the relevant facts.

(4) Long-term liabilities shall be listed as current liabilities when, under a given loan contract, breach of a specific clause of the loan contract requires immediate repayment. However, when consent has been obtained from the creditor prior to the financial statement submission date that the creditor will not enforce such a clause, and when there is little

possibility that such a breach will be committed within 12 months after the balance sheet date, then the loan may continue to be listed as a long-term liability.

4. "Other liabilities" means liabilities not falling within the above categories, such as operating and liability reserve, other miscellaneous liabilities, etc. When the amount of other liabilities exceeds 5% of total liabilities, the title of the accounts shall be separately recorded.

(1) "Reserve for guarantee obligations" means a sufficient amount of reserve that the Bills Finance Company duly sets aside to cover the potential losses on credit assets it assesses when calculating account balance.

(2) "Securities trading loss reserve" means the required amount that the Bills Finance Company engaged in proprietary bonds trading allocates on a monthly basis as trading loss reserve from 10% of the net profits arising from its trading in securities, except that such allocation is not required for the part of the aggregate amount reaching NT\$200 billion and more. The reserve may not be employed except for writing off the actual net loss arising from proprietary trading in bonds.

(3) "Pension reserve" means accrued pension liabilities.

(4) "Deposits received" means all other deposits placed [with the Bills Finance Company].

(5) "Deferred income tax liabilities" means deferred income tax effects of taxable temporary differences.

(6) "Other miscellaneous liabilities" means the liabilities not falling within the above categories.

#### Article 10

The shareholders' equity account categories on the balance sheet, content thereof, and matters to be noted are as follows:

1. "Capital stock" means the capital invested in the Bills Finance Company by shareholders and applied for registration with the competent authority for company registrations. The type of capital stock, par value per share, number of authorized shares, number of issued shares, and special terms shall be indicated. If convertible preferred stock and overseas depositary receipts are issued, the place of issue, issuance and conversion methods, converted amount and special terms shall be disclosed.

2. "Capital reserves" means the premiums generated through capital stock transactions between the Bills Finance Company and shareholders, usually including premium over shares issued above par value, donations from shareholders, and such others as generated under generally accepted accounting principles. Where the Bills Finance Company capitalizes its capital reserves in a given year, its shall make footnote disclosure of such in the current-period financial statements. Capital reserves shall be listed separately according to their nature, and circumstances relating to any limits on the utilization thereof shall be disclosed in footnotes.

3. "Retained earnings" (or "accumulated deficit") means the equity resulting from operating activities, including legal reserve, special reserve, and unappropriated earnings (or deficit to be offset), etc.

(1) "Legal reserve" means the fixed-percentage reserve required to be allocated by Article 34 of the Bills Financing Act.

- (2) "Special reserve" means the reserve allocated from earnings in accordance with relevant laws and regulations, contracts, articles of incorporation, or resolutions of shareholders meetings.
- (3) "Unappropriated earnings" (or "deficit to be offset") means the undistributed and unappropriated earnings (a deficit to be offset is the loss not yet recouped).
- (4) Distribution of earnings or offsetting of deficit shall not be accounted for until approved by the shareholders meeting. However, when an earnings distribution or offsetting of deficit has been proposed, such shall be disclosed in footnotes to the current financial statements.
4. "Other shareholders' equity items" means other items resulting in increases or decreases to shareholders' equity, usually including unrealized losses on market value decline of long-term equity investments, net losses not recognized as pension costs, translation adjustments, treasury stock, etc.

### Chapter III Income Statement

#### Article 11

The account structure of the income statement and the contents thereof are as follows:

1. Revenues and expenses shall be classified by nature, with separate disclosure being made of the primary sources of operating revenues and primary operating expenses.
2. Except with respect to the following, revenues and expenses shall not be offset against each other:
  - (1) Where assets and liabilities are allowed to be mutually offset under Statement of Financial Accounting Standards No. 27, the relevant revenues and expenses.
  - (2) Revenues and expenses related to hedging transactions.
3. Gains and losses arising from the following shall be presented in net amount:
  - (1) Transactions in bills and bonds and relevant period-end valuations.
  - (2) Gain/loss on long-term equity investments.
4. Revenues and gains:
  - (1) "Gains from trading bills and bonds" means gains arising from trading in various bills and bonds.
  - (2) "Service charge revenue" means service charge revenue arising from provision of guarantee, certification, undertaking, and brokerage services.
  - (3) "Interest revenue" means interest revenue arising from holding bonds, investing in bills and bonds under reverse repurchase agreements, and various deposits.
  - (4) "Gains on long-term equity investments" shall be calculated and presented in accordance with Statement of Financial Accounting Standards No. 5.
  - (5) "Other revenues and gains" means other operating revenues not falling within the above categories and non-operating revenues and gains not arising from operating activities.
5. Expenses and losses:
  - (1) "Losses on trading bills and bonds" means losses arising from trading various short-term bills and bonds and unrealized losses as a result of

valuation.

(2) "Various provisions" means various provisions set aside for allowance for bad debts, reserve for losses on guarantee obligations, and securities trading loss reserve.

(3) "Interest expenses" means various interest expenses incurred as a result of liabilities from bills and bonds under repurchase agreements, financing from banks, and borrowing of corporate bonds.

(4) Losses on long-term equity investments shall be calculated and presented in accordance with Statement of Financial Accounting Standards No. 5

(5) "Operating expenses" means all expenses necessary for the operation of the Bills Finance Company. Such expenses shall be separately recorded in detail according to actual needs. They are mainly classified as business expenses and administrative expenses.

(6) "Other expenses and losses" means other operating expenses not falling within the above categories and non-operating expenses and losses not arising from operating activities.

6. "Income before tax" means the net result of the preceding two subparagraphs.

7. "Income tax expenses (benefits)" means the sum of current and deferred income tax expenses.

8. "Net income" means income before tax adjusted for income tax expenses (benefits).

9. "Extraordinary gains and losses" means income items that are distinguished by their unusual nature and by the infrequency of their occurrence. Such items shall be presented separately and shall not be amortized on a yearly basis.

10. "Cumulative effect of a change in accounting principle" shall be presented separately after extraordinary gains and losses.

11. "Current net income" (or "current net loss"): earnings (or losses) for the current accounting period, which are the aggregate amount of the preceding three subparagraphs.

12. "Earnings per share" shall be calculated and presented in accordance with Statement of Financial Accounting Standards No. 24.

13. "Income tax" shall be amortized and presented in a manner consistent with the provisions of Statement of Financial Accounting Standards No. 22.

#### Chapter IV Statement of Changes in Shareholders' Equity

##### Article 12

A statement of changes in shareholders' equity is a report to indicate the changes in the elements of shareholders' equity. The statement shall specify the beginning balance for capital stock, capital reserves, retained earnings (or accumulated deficit), and any other shareholders' equity items; increased or decreased items and amounts in the current period; ending balance, etc.

The contents of retained earnings are as follows:

1. Beginning balance.

2. Prior period adjustments to profits and losses: correction of errors in the calculation, recording, and recognition of loss and profit items and in the use of accounting principles and methods for the prior period.

3. Current net income or net loss.
4. Allocation of legal reserve, special reserve, and distribution of dividends, etc.
5. Ending balance. Income tax expense (benefit) arising from items such as prior period adjustments to profits and losses, unrealized profit and loss items not included in current profit and loss but directly recorded under shareholders' equity (e.g. translation adjustments), and change in capital reserves shall be directly included in each such item that will then be shown in net amount.

#### Chapter V Cash Flow Statement

##### Article 13

A cash flow statement records inflows and outflows of cash and cash equivalents to summarize the operating, investing, and financing activities of the Bills Finance Company during a given period. It shall be prepared in accordance with Statement of Financial Accounting Standards No. 17.

#### Chapter VI Significant Transactions

##### Article 14

Notes to a financial statement, in addition to being prepared in accordance with Articles 6 and 7 herein, shall further disclose information relating to the following matters having occurred in the current period:

1. Information on significant transactions:

- (1) Purchases or sales of the stock of the same invested enterprise in aggregate amount of NT\$100 million or 20% of paid-in capital or more.
- (2) Acquisition of real estate equaling NT\$100 million or 20% of paid-in capital or more..
- (3) Disposal of real estate equaling NT\$100 million or 20% of paid-in capital or more.
- (4) Receivables from related parties amounting to NT\$100 million or 20% of paid-in capital or more.
- (5) Sales of non-performing loans amounting to NT\$3 billion or more.
- (6) Such other significant transactions that may affect decision-making by the financial statement user.

2. Information on invested enterprises:

- (1) Where the Bills Finance Company directly or indirectly has significant influence or control over an invested company, the name, location, principal line of business, original investment amount, shareholding position at period-end, current period gain or loss and recognized investment gain or loss.
- (2) Where the Bills Finance Company directly or indirectly has control over an invested company, further disclosure shall be made of information relating to transactions by the invested company set out in items 2 through 6 of the preceding subparagraph as well as information on such invested company with respect to loans to others, endorsements and guarantees for others, holdings of securities at period-end, purchases or sales of the same securities in aggregate amount of NT\$100 million or 20% of paid-in capital or more, and derivatives transactions. However, where the invested company is a financial, insurance, or securities enterprise with principal line of business registered to include loans to others, endorsements and

guarantees, and securities trading, such operating transactions are not required to be disclosed as significant transactions.

3. Notes to consolidated financial statements shall also disclose information on the matters listed in the preceding two subparagraphs; provided that where the total assets or operating revenues of the invested company are less than 10% of the respective figures for the Bills Finance Company, or where the Bills Finance Company directly or indirectly controls the personnel, finances, or operations of the invested company, it may be exempt from the provisions of subparagraph 2. Notwithstanding the foregoing, if the competent authority prescribes otherwise, such other provision shall govern. The Bills finance company disclosing information on transactions under the preceding paragraph shall add appropriate notes of explanation for those already offset in the consolidated financial statement.

#### Article 15

A Bills Finance Company shall make full disclosure of related party transactions in accordance with Statement of Financial Accounting Standards No. 6. To determine whether a transaction counterparty is a related party, the substance of the relationship as well as the legal form shall be taken into consideration. Except that proof of no control or significant influence is produced, those to which any of the following circumstances applies shall be considered as a related party, and footnote disclosure shall be made of relevant information in financial statements in accordance with Statement of Financial Accounting Standards No. 6:

1. An affiliated enterprise within the meaning given by Chapter VI-I of the Company Act, and its directors, supervisors, and managers.
2. A company or institution under the control of the same general management division, and its directors, supervisors, and managers.
3. Personnel in the general management division with the level of manager or above.
4. A company or institution listed as an affiliated enterprise in its external publications or printed materials.

### Chapter VII Names and Formats of Financial Statements

#### Article 16

Names of financial statements and lists of major account titles are as follows (formats as attached):

1. Balance sheet (Form 1).
2. List of assets, liabilities, and shareholders' equity accounts.
  - (1) List of cash and cash equivalents (Form 2-1).
  - (2) List of loans to banks and enterprises in the same industry (Form 2-2).
  - (3) List of operating bills and bonds (Form 2-3).
  - (4) List of investments in bills and bonds under reverse repurchase agreements (Form 2-4).
  - (5) List of receivables (Form 2-5).
  - (6) List of other current assets (Form 2-6).
  - (7) List of changes in long-term equity investments (Form 2-7).
  - (8) List of changes in long-term bond investments (Form 2-8).
  - (9) List of changes in fixed assets (Form 2-9).
  - (10) List of changes in accumulated depreciation of fixed assets (Form 2-

- 10).
- (11) List of other assets (Form 2-11).
- (12) List of loans and overdrafts from banks and other enterprises in the same industry (Form 2-12).
- (13) List of liabilities from bills and bonds under repurchase agreements (Form 2-13).
- (14) List of payables (Form 2-14).
- (15) List of other current liabilities (Form 2-15).
- (16) List of bonds payable (Form 2-16).
- (17) List of other liabilities (Form 2-17).
3. Income statement (Form 3).
4. List of profit and loss accounts:
  - (1) List of profits and losses from transactions in bills and bonds (Form 4-1).
  - (2) List of service charge revenue (Form 4-2).
  - (3) List of interest revenue (Form 4-3).
  - (4) List of other revenues and gains (Form 4-4).
  - (5) List of various provisions (Form 4-5).
  - (6) List of interest expenses (Form 4-6).
  - (7) List of operating expenses (Form 4-7).
  - (8) List of other expenses and losses (Form 4-8).
5. Statement of changes in shareholders' equity (Form 5).
6. Cash flow statement (Form 6).

#### Chapter VIII Financial Forecasts

##### Article 17

Financial forecasts shall be prepared and presented in accordance with relevant acts and regulations and Statement of Financial Accounting Standards No. 16.

##### Article 18

Financial forecasts shall be prepared in good faith for the anticipated results of the business plan based on proper basic assumptions and accounting principles.

##### Article 19

If financial forecasts are likely to be misleading due to errors, or if changes in basic assumptions cause significant impact on financial forecasts, the Bills Finance Company shall make correction or renewal within a prescribed time limit and make a public announcement and file a report with the competent authority accordingly.

#### Chapter IX Other Disclosures

##### Article 20

A Bills Finance Company shall explain its business conditions as follows:

1. Significant business matters: The Bills Finance Company shall provide explanations on matters which have significant effect on business in the last five years, such as merger with, acquisition of, or otherwise combination with another company, splits, investing in affiliated enterprises, reorganization, procurement or disposal of major assets,

significant change in operation method or business activity, etc.

2. Remuneration and related information on directors, supervisors, general manager and vice general manager (Form 7):

(1) Transportation allowance and remuneration to each director and supervisor in the most recent accounting year. If a director concurrently acts as manager, the remuneration shall be respectively disclosed based on his/her position.

(2) Total salaries, cash awards, special allowance, and bonuses paid to the general manager and vice general manager in the most recent accounting year.

(3) If remuneration other than those described in the preceding two items, such as automobile, house, or other personal expenditures, is provided to directors, supervisors, general manager, or vice general manager, the name, position, the nature and cost of the assets provided, actual rental or rental imputed based on fair market price, and other payment shall be disclosed.

(4) Where any of the chairman, general manager, or manager in charge of finance or accounting has during the past twelve months held a position at the accounting firm of a certified public accountant or an affiliated enterprise of such accounting firm, the name, position held, and period during which the position was held shall be disclosed. The term "affiliated enterprise of a certified public accountant's accounting firm" as used in these Regulations means enterprises in which accountants at the accounting firm of the certified public accountant hold more than 50% of the shares or hold more than half of the directors' positions, or those companies or institutions listed as affiliated enterprises in the external publications or printed materials of the accounting firm of the certified public accountant.

3. Labor-management relations (Form 8):

(1) Significant employee welfare programs, the retirement system and status of implementation thereof, and arrangements between labor and management of the Bills Finance Company shall be disclosed.

(2) Loss caused to the Bills Finance Company by labor disputes during the last three years shall be explained. Any amount already incurred or estimated likely to be incurred in the future and counter measures shall be also disclosed. If the amount cannot be reasonably estimated, such fact shall be explained.

#### Article 21

A Bills Finance Company shall disclose the market value, dividends, and shareholding dispersion of securities issued by it:

1. Market value information: If the securities of the Bills Finance Company have been listed on a stock exchange or over-the-counter market, it shall disclose the highest and lowest trade price in each quarter of the last two years (Form 9).

2. Dividend information: Information on the details of the dividend policy, the cash dividend per share distributed in the last two years, and the amount of dividends from earnings and capital reserves shall be provided. If there is any accumulated unpaid dividend, the amount thereof shall be disclosed. In case of any material change or expected material change in

the dividend policy of the Bills Finance Company, an explanation shall be given (Form 10).

3. Shareholding dispersion: An explanation on the condition of dispersion of the common shares and preferred shares of the Bills Finance Company on the balance sheet date shall be provided (Form 11).

4. If the Bills Finance Company distributes shares as a result of capital increase out of earnings or capital reserves, it shall disclose the information of cash dividend and market value retroactively adjusted based on the number of shares after distribution.

5. The Bills Finance Company shall disclose the current period condition of transfer of shares and/or pledge of or change in equity interests of its directors, supervisors, managers, and shareholders holding 10% or more of its total shares (Form 12).

6. If the Bills Finance Company is approved to offer and issue securities by shelf registration system, it shall disclose the approved amount and relevant information of the securities to be issued or already issued (Form 13).

7. Where the Bills Finance Company has issued or privately placed employee stock option certificates which are still in circulation and have not been exercised, it shall compile a disclosure statement based on the issuance dates, giving information on the total number of units issued, the total number of units still in circulation, the number of shares which may be purchased through options, the initial date on which the options may be exercised, the option purchase price, the exercise method, and the market value of common stocks (Form 14).

#### Article 22

A Bills Finance Company shall disclose the following financial information for the last five years:

1. Condensed balance sheet and income statement (Form 15);
2. Material financial ratio analysis (Form 16); and
3. Significant information which may increase the understanding of financial condition, operating results, cash flows, or changing trends relating thereto (e.g., impact of change in commodity price and exchange rate).

#### Article 23

A Bills Finance Company shall review its financial condition, operating results, and cash flows and analyze the cause of change. The content shall at least cover the following matters, and review may be conducted on departmental basis depending on actual need:

1. Financial condition: the principal reasons for material changes in assets, liabilities, and shareholders' equity in the last two years and their effects. Shall include an explanation of planned future responsive measures when the effect is material (Form 17).
2. Significant capital expenditure and the source of funds: Give an explanation on material capital expenditure invested or committed in the last two years, and the nature, expected benefit, and the actual or expected sources of fund of the capital expenditure to be invested in the coming five years. If material change is expected in the corresponding cost

of capital of future borrowings and capital increase or in the policy of borrowing and capital increase, an explanation shall be provided (Form 18).

3. Liquidity: Analyze liquidity in the last two years and the reason for any increase or decrease therein, and explain the circumstances of any changes in future working capital demand, the working capital amount to be generated from operations, and working capital requirements, or amounts obtainable from other parties, based on operational trends, capital demand, and other material commitments, transactions, or non-transaction matters. If it is discovered that liquidity has been or will be materially insufficient, the remedial measures that have been or will be taken shall be indicated (Form 19).

4. Operating results: Analyze the constituent items of income or loss from continuing operations in the last two years, and significant transactions, non-transactions, or changes in the economic environment that affect the increase/decrease of such items. When there is significant increase/decrease in the revenues or expenses, the cause of such change shall be explained. If material change has occurred or is expected to occur in the operating policy, market situation, or any other internal or external elements, thus resulting in material increase or decrease in the revenue or expense of the continuing operations, an explanation of such fact and the impact shall be given (Form 20).

#### Article 24

A Bills Finance Company shall in its financial reports disclose information on the professional fees of its certified public accountant and any change in its certified public accountant in accordance with these Regulations. The Bills Finance Company shall in its financial reports disclose the following information on the professional fees of its certified public accountant:

1. "Professional fees for auditing services" referred to herein means the professional fees paid by the Bills Finance Company to a certified public accountant for auditing, review, and secondary reviews of financial reports, financial forecast reviews, and tax certification. "Professional fees for non-auditing services" means professional fees paid for other than the above services.

2. When professional fees paid to a certified public accountant or the accounting firm of a certified public accountant or its affiliate enterprises for non-auditing services account for a proportion equal to one-quarter or more of the fees paid for auditing, or when fees paid for non-auditing services reach NT\$500,000 or more, the amount of fees paid for both auditing and non-auditing service as well as the nature of the non-auditing services performed shall be disclosed (Form 21).

3. When the Bills Finance Company changes its accounting firm and the amount of fees paid for auditing services during the year in which the change is made are lower than for the previous year, the amount by which the fees decreased, the proportional decrease, and the reasons therefor shall be disclosed.

4. When the amount of fees paid for auditing services is lower than for the previous year by fifteen percent or more, the amount by which the fees decreased, the proportional decrease, and the reasons therefor shall be

disclosed. If the Bills Finance Company has replaced its certified public accountant in the last two years or in the subsequent period, it shall disclose the following information on the change in certified public accountant (Form 22):

1. Regarding the former certified public accountant:

(1) Date of and cause for replacing the certified public accountant.

Explain whether the certified public accountant voluntarily terminated or ceased accepting the engagement, or whether the Bills Finance Company terminated or discontinued the appointment.

(2) If such former certified public accountant issued any audit report with other than an unqualified opinion during the preceding two years, the opinion and the reason shall be provided.

(3) Whether there is any different opinion between the Bills Finance Company and the former certified public accountant with regard to accounting principles or practices, disclosure of financial reports, or auditing scope or steps.

(4) If there is any different opinion, a detailed explanation on the nature of each different opinion, the handling by the Bills Finance Company (including whether or not the former certified public accountant has been authorized to give full reply to the successor accountant's inquiries on the difference of opinion) and the final result of the handling shall be provided.

(5) Where the former certified public accountant has notified the Bills Finance Company that it lacks a sound internal control system so that the financial report is not reliable, or where the former certified public accountant has notified the Bills Finance Company that he/she could not rely on the Bills Finance Company's statement, or that he/she did not want to be associated with its financial report, such shall be disclosed.

(6) Where the former certified public accountant has notified the Bills Finance Company that the auditing scope had to be expanded, or that there was data showing that if the auditing scope was expanded, the credibility of the financial report already issued or soon to be issued might be damaged, or where the former certified public accountant has notified the Bills Finance Company that based on the collected data, the credibility of the financial report already issued or soon to be issued might be damaged, but where due to replacement of the certified public accountant or for other reason, the auditing scope was never expanded by the former certified public accountant, such shall be disclosed.

2. Regarding the successor certified public accountant:

(1) Name of the successor accounting firm and certified public accountant and date of engagement.

(2) Before the Bills Finance Company officially engages the successor certified public accountant, if it inquired with such accountant about the accounting treatment method of a specific transaction or the applicable accounting principle and his/her possible opinion on the financial report, it shall disclose the matters it inquired about and the result thereof.

(3) The Bills Finance Company shall consult with and obtain the written opinion of the successor certified public accountant in connection with any discrepancy of opinion between it and the former certified public and disclose the same.

3. The Bills Finance Company shall send a letter to the former certified public accountant regarding the matters provided in paragraph 3, subparagraph 1, and subparagraph 2, item 3, and notify such accountant to reply within 10 days if he/she has a different opinion. The Bills Finance Company shall disclose the reply letter of the former certified public accountant.

#### Article 25

A Bills Finance Company preparing financial reports and making disclosures in accordance with the provisions of this chapter shall seek a certified public accountant to issue a review opinion, in accordance with other regulations governing key points for examination of disclosure items for financial reports.

### Chapter X Interim Financial Reports

#### Article 26

A Bills Finance Company shall prepare interim financial reports in accordance with Chapter I through Chapter VII and Statement of Financial Accounting Standards No. 23 and, except where otherwise provided by the competent authority, is not required to prepare a consolidated financial statement. When the Bills Finance Company prepares a quarterly report, it is not required to prepare a statement of changes in shareholders' equity and a list of major account titles. With regard to an invested company in which the Bills Finance Company holds 50% of the shares or less, it is further exempted from recognizing investment losses/gains by the equity method.

### Chapter XI Consolidated Financial Reports Covering Affiliates

#### Article 27

Unless otherwise approved by the competent authority, a Bills Finance Company shall prepare consolidated financial statements covering its affiliates.

#### Article 28

A Bills Finance Company shall prepare and present consolidated financial statements covering affiliates in accordance with the Regulations Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises.

#### Article 29

Changes in accounting procedures at a Bills Finance Company shall be undertaken in accordance with the following rules:

1. Changes in accounting principles:

(1) Where legitimate reasons require a change in accounting principles, at the end of the year prior to the projected change, the Bills Finance Company shall set out the original accounting principles, the reason for changing to the proposed new accounting principles and their theoretical basis, concrete evidence that the new accounting principles will be superior to the old, and the cumulative projected effects of the changes in accounting principles and adoption of the new principles; the Bills Finance

Company shall seek a certified public accountant to provide an analysis of the reasonableness of each item and a review opinion, which shall be presented in a proposal to the board of directors for passage and thereafter submitted to the competent authority for approval and recordation.

(2) Where there are conditions as set forth in Statement of Financial Accounting Standards No. 8, paragraph 12, in which substantive difficulty prevents determination of the cumulative effects of change in accounting principles, the Bills Finance Company shall set out the original accounting principles, the reason for changing to the proposed new accounting principles and their theoretical basis, concrete evidence that the new accounting principles will be superior to the old, and the reasons why the cumulative effect cannot be determined, and shall seek a certified public accountant to provide an analysis of the reasonableness of each item and a review opinion and to present opinion on the effects on the audit opinion for the year of the change to the new accounting principles, and thereafter proceed in accordance with the procedures set forth above.

(3) Except where cumulative effect of change in accounting principle cannot be determined as set forth above, the Bills Finance Company shall, within two months after the beginning of the year during which it changes to the new accounting principles, calculate the actual cumulative effect of change in accounting principle and submit the figure to the SFC for recordation following ratification by the board of directors. If the difference between the figures showing the actual cumulative effect and the projected cumulative effect differs by NT\$10 million or more, the Bills Finance Company shall present an analysis of the reason for the difference between the two, request a certified public accountant's opinion on its reasonableness, and submit both to the competent authority.

(4) Where the circumstances in item 2 apply to the Bills Finance Company, it shall disclose the effects of adopting the new accounting principles on profits and losses for each relevant period in notes to the first quarter, semi-annual, third quarter, and annual financial reports in the year during which the new accounting principles are adopted.

(5) With the exception of purchases of new assets to which newly adopted accounting principles are applied, which may be exempted from application of the provisions of each of the preceding items, where any other changes in accounting principles have not been duly reported for approval and recordation prior to their adoption, the financial report for the year in which the new principles were adopted shall be rewritten, and the new principles may not be adopted until the year following approval and recordation of a supplementary report.

2. Accounting estimates relating to changes in the estimated useful life of depreciable, depletable assets, and the utility period of intangible assets shall be handled in accordance with items 1, 4, and 5 of the preceding subparagraph.

#### Article 30

A Bills Finance Company shall bind in separate volumes the financial reports and related appendices to be submitted under Article 36 of the Securities and Exchange Act, with the common stock code printed on the

upper right corner of the front cover of the financial reports and a registration form completed and attached thereto. The Bills Finance Company shall submit the relevant documents to the competent authority, and simultaneously forward a copy to the Securities and Futures Institute for perusal by the public, and additionally to the Taiwan Stock Exchange Corporation if its stock is listed on the stock exchange, or the GreTai Securities Market if its stock is traded on the over-the-counter market. The Bills Finance Company shall also forward to the agencies in the preceding paragraph copies of the documents submitted under the preceding article.

#### Chapter XII Supplementary Provisions

##### Article 31

These Regulations shall enter into force on 1 January 2004.

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Data Source : Financial Supervisory Commission Laws and Regulations Retrieving System