

Content

| | |
|---------------|--|
| Title : | Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises Ch |
| Date : | 2000.10.17 |
| Legislative : | Nineteen Articles Promulgated in Full on 31 March 1999 per Order No. (88)-Taiwan-Finance-Securities-(VI)-01395 of the Securities & Futures Commission, Ministry of Finance Article 18-1 was added and Articles 3, 6, and 12 were amended and promulgated on 17 October 2000 per Order No. (89)-Taiwan-Finance-(VI)-04527 of the Securities & Futures Commission, Ministry of Finance |
| Content : | <p>Chapter I General Provisions</p> <p>Article 1 These Criteria are adopted pursuant to paragraph 3 of Article 369-12 of the Company Law ("the Law").</p> <p>Article 2 A public company that conforms to the definition of a controlling company in the Affiliated Enterprises Chapter of the Law shall, at the close of each business year, prepare a consolidated business report and consolidated financial statements of the affiliated enterprises ("affiliates"). A public company that conforms to the definition of a subordinate company in the Affiliated Enterprises Chapter of the Law shall, at the close of each business year, prepare and submit a report on the relationship between itself and its controlling company (the "affiliation report").</p> <p>Article 3 In any of the following circumstances, a public company shall prepare all three documents specified in the preceding paragraph: 1. The company meets the elements provided in the Law for presumption of a relationship of control or subordination; 2. The company meets the elements provided in the Law of having a relationship of mutual control and subordination with another company; 3. The company is simultaneously a controlling company of another company and a subordinate company of a different other company. Where the presumption of a relationship of subordination and control under Article 369-3 of the Law is based on the reason that one company and another are both controlled by the government, and where there is no other relationship of subordination or control with the other company under Article 369-2, the company may refrain from including such other company in the consolidated business report and consolidated financial statements of the affiliates.</p> <p>Article 5 The following basic principles shall apply to the documents referred to in the various paragraphs of the preceding articles: 1. The content shall be clear, accurate, and detailed. The written explanations shall be concise and readily comprehensible. There shall be no falsehoods or omissions.</p> |

2. All necessary information on affiliates shall be disclosed in keeping with the principle of good faith. The presentation shall not mislead interested persons in their judgment or decision-making.

Article 6

When determining whether a relationship of subordination or control with an affiliate exists, a public company shall consider substantive as well as legal relationships.

In any of the following circumstances, a public company shall prepare a consolidated business report and consolidated financial statements of the affiliates; however, this requirement shall not apply where there are relevant materials and evidence proving that no relationship of control or subordination exists.

1. The company obtains a majority of directorships of another company;
2. Its appointee is engaged as general manager of another company;
3. It wields operational power over another company pursuant to a joint venture contract;
4. Its financing of another company amounts to one-third or more of that company's total assets;
5. Its endorsements and guarantees on behalf of another company amount to one-third or more of that company's total assets.

A public company determined to have a relationship of subordination under any subparagraph of the preceding paragraph shall prepare an affiliation report; however, this requirement shall not apply where there are relevant materials and evidence proving that no relationship of control or subordination exists.

A public company determining, as proven by relevant materials or evidence pursuant to the preceding two paragraphs, that no relationship of control or subordination exists [with a certain company] shall disclose the name of such company and the reasons for such determination in its consolidated business report of affiliates or its affiliation report.

Chapter II Consolidated Business Report of Affiliates

Article 7

The content of the consolidated business report of the affiliates shall include an overview of the affiliates and an overview of their business operations.

Article 8

The overview of the affiliates shall specify the following particulars:

1. Organizational chart of the affiliates:
 - A. Specify the name of each affiliate and note the shareholding or capital contribution ratios between the following companies:
 - a. the controlling company and subordinate companies;
 - b. mutually invested companies;
 - c. subordinate companies and subordinate companies.
 - B. For companies presumed to have a relationship of control and subordination under Article 369-3 of the Law, list the relevant names and combined shareholding or capital contribution ratios.
2. The name, incorporation date, address, paid-in capital, and main business items of each affiliate (Table 1).
3. For companies presumed to have a relationship of control and subordination under Article 369-3 of the Law, the following particulars

shall be disclosed (Table 2):

A. Where the shareholders in common are juristic persons, the reason that affiliation is presumed, and the juristic persons' names, shareholding details, dates of incorporation, addresses, paid-in capital, and main business items.

B. Where the shareholders in common are natural persons, the reason that affiliation is presumed, and the natural persons' names and shareholding status.

4. The industries covered by the business operated by the affiliates overall. Where connections exist among the businesses operated by individual affiliates, a description of the mutual dealings and division of work among such affiliates should be provided.

5. The names of the directors, supervisors, and general manager of each affiliate and the details of their shareholding or capital contribution in such affiliate (Table 3).

Article 9

The overview of the operations of the affiliates shall clearly describe the financial condition and operational results of each affiliate (Table 4).

Chapter III Consolidated Financial Statements of the Affiliates

Article 10

The consolidated financial statements of the affiliates shall be prepared in accordance with these Criteria and applicable laws and regulations. Matters on which the Criteria and applicable laws and regulations are silent shall be governed by the Generally Accepted Accounting Principles published by the Accounting Research and Development Foundation of the Republic of China.

Article 11

The consolidated financial statements of the affiliates shall include consolidated balance sheets for the affiliates and consolidated profit-loss statements of the affiliates, and the notes or tables appended thereto. These may be prepared as single-period statements.

Article 12

Provisions governing the preparation of consolidated financial statements of affiliates by a controlling company that holds more than half of the total issued voting shares or total capital of a subordinate enterprise shall apply mutatis mutandis to the preparation of the same by a controlling company that holds no more than half of the total issued voting shares or total capital of a subordinate enterprise, or that holds no issued voting shares or capital contribution in the subordinate enterprise.

Article 13

The notes appended to the consolidated financial statements of the affiliates shall disclose for the affiliates as a whole the below-listed particulars as well as other particulars provided by laws and regulations and Generally Accepted Accounting Principles:

1. The names of subordinate companies, a description of their relationship with the controlling company, the nature of their business, and the controlling company's shareholding or capital contribution ratio in each.
2. Increases, decreases, or changes in the subordinate companies included in the current consolidated financial statements of the affiliates.
3. The names and shareholding or capital contribution ratios of subordinate

companies not listed in the current consolidated financial statements for affiliates and the reasons they are not included in the consolidated statements.

4. The adjustment method and treatment adopted if the opening and closing dates of the subordinate company's accounting year are different from those of the controlling company.
5. An explanation of any differences in accounting policies between the subordinate companies and the controlling company. The method and substance of adjustments adopted in the event of any non-conformity with the Generally Accepted Accounting Principles of the Republic of China.
6. Special operational risks of overseas subordinate companies, such as exchange rate fluctuations.
7. Statutory or contractual restrictions on distribution of earnings by the various affiliates.
8. Amortization methods and period for consolidated borrowings (loans).
9. Other matters of significance or explanations that would contribute to the fair presentation of the consolidated financial statements of the affiliates.

Article 14

The notes to the consolidated financial statements for affiliates shall disclose the below-listed particulars for the controlling company and subordinate company respectively. Disclosure shall not be required, however, in instances where a subordinate company's total assets and operating revenue are each less than 10 percent those of the controlling company.

1. Transactions that have been eliminated between the controlling company and subordinate companies or between subordinate companies.
2. Information regarding financing, endorsements, and guarantees.
3. Information regarding trading in derivative products.
4. Significant contingent matters.
5. Significant subsequent events.
6. Names of bills and securities held, and their quantities, cost, market value (or net par value if a bill or security does not have a market value), shareholding or capital contribution ratio, description of any pledges, and the highest amount of shareholding or capital contribution during the period.
7. Other matters of significance or explanations that would contribute to a fair presentation of the consolidated financial statements of the affiliates.

Chapter IV Affiliation Report

Article 15

The content of the Affiliation Report shall include a description of the relationship between the subordinate company and the controlling company, and their business transactions, endorsements and guarantees, and other matters with a significant effect on their finances and business.

Article 16

The following particulars shall be stated regarding the relationship between the subordinate company and the controlling company (Table 5):

1. The name of the controlling company, the reasons for the control, and details of shareholding and pledges.

2. Any directors or supervisors appointed to the subordinate company by the controlling company, or controlling company appointees engaged as managerial officers of the subordinate company.

Article 17

The following particulars shall be included in the description of business transactions:

1. Purchase (sale) of goods (Table 6):

- A. The total dollar amount of purchase (sale) transactions and the percentage it accounts for of total purchase (sale) transactions.
- B. Gross profit on sales.
- C. Transaction terms and conditions and a comparison with ordinary transaction terms and conditions.
- D. Period-end balances of accounts receivable (payable) and notes receivable (payable), and the percentage they account for of the total period-end balances of the same.
- E. If there were any instances of tardiness in accounts payable during the accounting year, the amounts and methods of treatment of such tardiness, and any allowances set aside for bad debt.
- F. Advance receipts (payments).

2. Property transactions (Table 7):

- A. Name of the property, transaction date or date of factual occurrence, dollar amount of the transaction, terms of delivery or payment, and details of the receipt/payment of the transaction price.
- B. Losses and gains on disposal of property. (Losses and gains on acquisitions of property need not be stated.)
- C. Reasons for selecting the controlling company as the transaction counterpart.
- D. Information on the last preceding transfer.
- E. Method by which the transaction was decided upon and reference basis upon which the price was determined.
- F. The specific purpose of the acquisition or disposal and the usage status of the object of the transaction.
- G. Other special stipulations.

3. Financing (Table 8):

- A. Highest balance, period-end balance, interest rate interval, and total interest for the current period.
- B. Financing period (starting and ending dates) and reason for the financing.
- C. Description of collateral obtained or produced.
- D. Method by which the transaction was decided upon.
- E. Allowances set aside for bad debt. (Those for payables for need not be stated.)

4. Asset leasing (Table 9):

- A. Name and location of the object leased.
- B. Lease period.
- C. Whether the nature of the leasing is capital leasing or operational leasing.
- D. The method by which the leasing price was determined and the collection (payment) method, and a comparison with ordinary leasing price levels.
- E. Total leasing price for the current period and collection/payment

status.

F. Other special stipulations.

5. Other significant business transactions such as contracts for production, sales, or processing, acquisition of corporate bonds issued by the controlling company, or subscription for new shares of the controlling company where original shareholders waived their subscription rights.

Article 18

The following particulars shall be stated with respect to endorsements and guarantees (Table 10):

1. Maximum balance endorsed or guaranteed by the [subordinate] company for the controlling company, period-end balance, and the percentage for which it accounts of the net worth reported in the financial statements.
2. Reason for the company's provision of the endorsement or guarantee to the controlling company.
3. Where collateral is provided for a guarantee, the name, quantity, and book value of such collateral.
4. Terms and conditions or dates for rescinding the endorsement or guarantee obligation or withdrawing the collateral.
5. Contingency loss amounts stated in the financial statements following the results of risk assessment.
6. Whether endorsement or guarantee operations breach applicable operational rules.

Article 18-1

When preparing consolidated financial statements of affiliates, a public company shall place its Declaration and the Review Report, prepared pursuant to the provisions of the Guidelines for the Review of Consolidated Financial Statements of Affiliated Enterprises by the CPA certifying the financial report, on the first two pages of the consolidated financial statements of the affiliates and bind them together as a volume.

If the companies required to be included in the consolidated financial statements of affiliates under these Criteria are all the same as companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in Financial Accounting Criteria Gazette No. 7, and if relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies, the [controlling] company may place a declaration to this effect on the first page of the consolidated financial statements of parent and subsidiary companies, shall not be required to prepare separate consolidated financial statements of affiliates or produce the Declaration referred to in the preceding paragraph.

A public company preparing an affiliation report shall place its Declaration and the opinion on the Declaration submitted by the CPA certifying the financial report on the first two pages of the affiliation report and bind them together as a volume.

Chapter V Supplementary Provisions

Article 19

These Criteria shall take force from the date of promulgation.