

Content

Title :	Regulations Governing Preparation of Financial and Operational Reports by Enterprises Engaging in Insurance of the Person <b>Ch</b>
Date :	2003.07.08
Legislative :	1. Full text of 34 Articles adopted and promulgated 20 December 2001 per Ministry of Finance Order (90) Taiwan-Finance-Insurance No. 0900751404; in force from 1 January 2002 2. Articles 6, 10 to 16, 20, 23, 24, and 34 amended and promulgated 8 July 2003 per Ministry of Finance Order Taiwan-Finance-Insurance No. 0920751029; amendments in force from date of promulgation
Content :	<p>Chapter I General Principles</p> <p>Article 1 These Regulations are adopted pursuant to Article 148-1, paragraph 3 of the Insurance Act ("the Act"). These Regulations apply to all enterprises engaging in insurance of the person that were established under other laws, except where otherwise provided by any such other law or with exceptional approval from the competent authority.</p> <p>Article 2 An enterprise engaging in insurance of the person (below, "Enterprise") shall adopt an accounting system based on the type of accounting pertinent to it, the actual status and development of its operations, and needs related to management. The principal aspects of the accounting system referred to in the preceding paragraph shall include a general description of the system; a system diagram of account book organization; financial statements; accounting titles; account books; accounting documents; and criteria and procedures governing accounting matters.</p> <p>Article 3 Preparation of financial and operational reports by an Enterprise shall be undertaken in accordance with these Regulations and other applicable laws and regulations; any matters not provided for therein shall be governed by the Generally Accepted Accounting Principles promulgated by the Accounting Research and Development Foundation of the ROC.</p> <p>Article 4 "Financial and operational reports" means financial statements, detailed statements of important accounting titles, and other disclosures and explanations relevant to informed judgment by a user. Financial statements shall include balance sheets, income statements, tables of shareholder equity changes, cash-flow statements, and any appended notes or schedules. Except for newly established Enterprises, two-period comparative reporting shall be used for the main statements and appended notes referred to in the</p>

preceding paragraph. The responsible person, manager, and chief accountant of the Enterprise shall place their signatures or seals on each page of the principal statements.

#### Article 5

The content of financial and operational reports shall be capable of adequately reflecting the financial and operational conditions, operational results, and cash flows of the Enterprise without misleading interested parties in their judgment or decisions.

When a financial or operational report violates these Regulations or other applicable regulations, adjustment and correction shall be made in cases where the competent authority inspects the report and issues a notice for adjustment. When the amount of the adjustment reaches the standard set in Article 6 of the Securities and Exchange Act Enforcement Rules, the Enterprise shall correct its financial and operational reports and convene a shareholders meeting to ratify the corrections, after which it shall again announce the reports publicly; when the corrected reports are announced, a note shall be appended clearly stating the reasons for the notice for adjustment, the items adjusted, and the amounts of the adjustments.

The requirement to convene a shareholders meeting as referred to in the preceding paragraph to ratify corrections in a financial or operational report does not apply to an ROC branches of a foreign insurance enterprise, which, however, shall notify its board of directors in writing of the reasons for the adjustments, the items adjusted, and the amounts of the adjustment.

#### Article 6

In order to present full information on financial status, operational results, and cash flows, financial and operational reports shall provide explanatory notes on the following:

1. Company history and the scope of operations.
2. A declaration that the financial or operational report was prepared in accordance with these Regulations or other applicable laws or regulations (name of law or regulation) and the generally accepted accounting principles.
3. A general description of important accounting policies and the base units of measure employed.
4. When special factors lead to a change in accounting methods that will affect comparisons of financial information from earlier and later accounting periods, a note shall be provided on the reasons for the change and its effects on financial statements.
5. amounts presented in financial or operational reports.
6. When accounting titles listed in financial or operational reports are subject to restriction by law or regulation, contract, or other binding factors, a note shall be provided on the circumstances, the effective period of the restriction, and related matters.
7. Standards for classification of current and non-current assets and liabilities.
8. Material commitments and contingent liabilities.

9. Changes in capital structure.
10. Working capital borrowing necessary to meet large-scale claims payments.
11. Any additions, construction, idling, or sale of principal operating assets or real-estate investment.
12. Major transactions with related persons.
13. Losses on catastrophic disasters.
14. Conclusion or continuation of proceedings in any major litigation.
15. The signing, completion, revocation, or termination of any major contract.
16. Information on employee retirement pensions.
17. The investment categories and amounts invested for funds entrusted to the discretionary management of a securities investment trust company or securities investment advisory company.
18. Information on mainland China investments.
19. Types, issuance dates, and amounts of privately placed securities.
20. Information on derivatives investments.
21. Important organizational changes and major reforms of management systems.
22. Material influences stemming from changes in government regulation.
23. Other information necessary to avoid misleading users of financial or operational reports or helpful to fair and impartial explanation of matters therein.

#### Article 7

The notes appended to financial statements shall also, in addition to conformance with Article 6, disclose information for the given period relating to the following matters:

1. Information on major transactions:
  - (1) Acquisition of real property equaling NT\$100 million or more or 20 percent or more of paid-in capital.
  - (2) Disposal of real property equaling NT\$100 million or more or 20 percent or more of paid-in capital.
  - (3) Mutual transactions with related persons in areas of principal core operations equaling NT\$100 million or more or 20 percent or more of paid-in capital.
  - (4) Receivables from related persons equaling NT\$100 million or more or 20 percent or more of paid-in capital.
  - (5) Derivatives transactions.
2. Information on reinvested companies.
  - (1) Where major influence or control is exerted directly or indirectly over an investee company, the name of the company, its location, chief areas of operation, amount originally invested, end-of-period shareholdings, net current-period gains or losses, and gains or losses recognized on investments.
  - (2) Where direct or indirect control is exerted over an investee company, disclosure must also include the investee company's operations in the areas under items 1-5 of the preceding subparagraph, as well as its loans to

other persons, endorsements and guarantees for others, end-of-period shareholdings, and cumulative purchases or sales of any single security reaching NT\$100 million or more or 20 percent of paid-in capital or more. When an Enterprise directly or indirectly controls an investee company that is a financial, insurance, or securities enterprise, disclosure is required only for the matters in the preceding subparagraph.

When the total assets or operating revenues of an investee company directly or indirectly controlled by an Enterprise are less than 10 percent of those of the given Enterprise, or where the given Enterprise directly or indirectly controls the investee company's personnel, finances, or business, disclosure is required only for loans to other persons, endorsements and guarantees for others, end-of-period shareholdings, and cumulative purchases or sales of any single security reaching NT\$100 million or more or 20 or more percent of paid-in capital.

"Twenty percent of paid-in capital" as used in this item is calculated based on the paid-in capital of the Enterprise that directly or indirectly controls the investee company.

### 3. Information on mainland China investments and operations:

(1) The name of the investee company in China, its principal areas of operation, its paid-in capital, the means of investment, inward and outward remittances of funds, the shareholding ratio, gains or losses on investments, end-of-period book value of investments, repatriated profits from investments, and the limit on [the Enterprise's] investment in the mainland area.

When the investee company is an insurance enterprise, disclosure shall also include its location, utilization of funds and gains and losses thereon, provision of reserves and reserve amounts, premium revenues and their ratio to those of the investor Enterprise, and insurance claims and payment and their ratio to those of the investor Enterprise.

(2) Any of the following major transactions with an investee company in mainland China that occur directly or indirectly through a third region, and their prices, payment terms, and unrealized gains or losses:

1. Mutual transactions in core business areas, such as acceptance of insurance as contracts for the investee company as the proposer, the amount of such transactions and their percentages, and the end-of-period balances of related payables and receivables and their percentages.
2. Property transaction amounts and gains or losses thereon.
3. Maximum financing balance, end-of-period balance, interest rate range, and total current-period interest.
4. Other transactions having a material impact on current gains or losses or financial status, such as provision or receipt of labor services.

When the amount or balance of a transaction under sub-items 1-4 above reaches 10 percent or more of the total amount or balance for the same transactions of the given Enterprise, it shall be presented separately; other transactions may be presented as aggregate amounts.

(3) When an Enterprise recognizes gains or losses on investments or prepares consolidated financial statements for an investee company in China using the equity method, it shall do so based on a financial report of the investee company audited and certified by an international auditing firm with a cooperative relationship with the ROC accounting firm.

(4) For a China branch of an Enterprise, its location, outward remittances of operating funds, capital allocation and related profits and losses, method of provision of reserve funds and reserve fund amounts, its premium revenues and their ratio to those of the parent company, its insurance claims and settlements and their ratio to those of the parent company, and profits and losses.

(5) For a foreign branch of an Enterprise transacting reinsurance business with a branch of a foreign insurance enterprise in the mainland area or a foreign branch of a mainland-area insurance enterprise, the name of the company and reinsurance premium revenues or outward payments.

(6) For a foreign branch of an Enterprise insuring mainland-China-area citizens, juristic persons, groups, or other institutions in a foreign country, the insured's name and the premium revenue shall be disclosed for any major transactions.

4. Notes to consolidated financial statements must also disclose the information required under subparagraphs 1-3, provided that exemption from the requirements of subparagraph 2 may apply when neither total assets nor operating revenues of the investee company reach 10 percent of those of the investor Enterprise, or when the investor Enterprise directly or indirectly controls the personnel, finances, or operations of the investee company. When transactions disclosed by an Enterprise in accordance with the above provisions have been offset in the consolidated financial statement, an appropriate explanatory note shall be added.

#### Article 8

An Enterprise shall fully disclose transactions with related persons in accordance with the Statement of Financial Accounting Standards No. 6. A determination of whether the counterparty to a transaction is a related person must be based on the substantive nature of the relationship as well as the legal status of the counterparty. Except when absence of controlling ability or major influence can be proven, a counterparty meeting any of the following definitions shall be deemed a substantive related person, and pursuant to the Statement of Financial Accounting Standards No. 6, related information shall be provided in notes to the financial statement:

1. An affiliated enterprise as referred to in Chapter VI-I of the Company Act and its directors, supervisors, and managers.
2. A company or organization subordinate to the same central administrative unit as the Enterprise, and its directors, supervisors, and managers.
3. An employee holding the position of manager or higher within the central administrative unit.
4. A company or organization listed as an affiliated enterprise in materials printed or disseminated by the Enterprise.

#### Article 9

A financial or operational report shall provide notes on any of the following subsequent events occurring in the period between the balance sheet date and the financial or operational report's date of issuance:

1. Changes in the capital structure.
2. Working capital borrowing necessary to meet large-scale claims payments.
3. Additions, construction, idling, or sale of principal operating assets

or real-estate investment.

4. Material changes in policy rating structures for direct insurance underwriting business.
5. Material changes in marketing channel policies for direct insurance underwriting business.
6. Material changes in the means of reserve fund provision.
7. Losses on catastrophic disasters.
8. Conclusion or continuation of proceedings in any major litigation.
9. Signing, completion, revocation, or termination of any major contract.
10. Important adjustments to company structure or major reforms in the management system.
11. Material influences stemming from changes in government regulation.
12. Other important events or measures sufficient to influence future financial status, operational results, or cash flows.

## Chapter II Financial Statements 10-16

### Section 1: Balance sheets 10-12

#### Article 10

Assets: Assets shall be appropriately categorized. Current and non-current assets shall be distinguished.

The anticipated total amount of return on assets within 12 months after the balance sheet date and more than 12 months after the balance sheet date shall be respectively expressed in the financial statement or disclosed in a footnote.

The categorization of assets, items entered in accounts, and matters to be noted in balance sheets are as follows:

1. Current assets: Cash or cash equivalents not restricted in use; assets held for the purpose of trade, or held short-term with cash conversion expected within 12 months of the balance sheet date, or for which conversion to cash, sale, or consumption are expected during the normal course of an operating cycle by an Enterprise.

(1) Cash and cash equivalents, cash in treasury, bank deposits, negotiable certificates of deposit, foreign currency in vault, foreign currency deposits, cash in remittance, petty cash, and short-term investments with maturities or settlement dates within three months of the date of investment and readily convertible into fixed cash amounts, due in the near future, whose value will not be significantly affected by their interest rate fluctuations.

Non-demand deposits shall be declared according to type, with a note for those with maturities of over one year. Those specifically earmarked or restricted in use may not be stated as cash.

Non-demand deposits serving as refundable guarantees shall be classified respectively as "current assets" or "other assets" depending on whether they mature in the short or long term.

(2) Short-term investments: Purchases of securities traded on the open market and readily convertible into cash, other than those issued by the Enterprise, and not aimed at controlling or maintaining a close business relationship with the investee company. Included are investments in securities such as stocks, beneficiary certificates, short-term notes,

government bonds, corporate bonds, bonds with repurchase agreements, and short-term foreign investments made pursuant to Article 146-4 of the Insurance Act. Not included are highly liquid short-term investments in cash equivalents readily convertible into fixed cash amounts and due in the near future, whose values will not be significantly affected by their interest rate fluctuations. Short-term investments shall be valued at the lower of cost or market value, with a note describing calculation of costs. "Market value" means the average closing price over the last month of the given accounting period; for open-ended funds it means the net asset value of the fund on the balance sheet date.

For stock dividends acquired through short-term investment holdings, the increased number of shares shall be recorded according to the type of short-term investment and the average unit cost of each share calculated by the weighted average method.

(3) Negotiable instruments receivable: All negotiable instruments receivable.

The fair value of negotiable instruments receivable shall be calculated based on imputed interest rates. Valuation at fair value is not required when negotiable instruments receivable mature within one year or less, are frequently traded, and the discrepancy between their fair value and value at maturity is small.

Large negotiable instruments receivable from related persons shall be listed separately.

Negotiable instruments serving as security shall be so indicated in a notation.

Negotiable instruments receivable shall be written off when determined to be uncollectible.

At settlement, the amount of uncollectible negotiable instruments receivable shall be assessed and an appropriate bad debt reserve allocated.

(4) Tax refunds receivable

(5) Earned revenues receivable

(6) Premiums receivable: Includes all insurance premiums of any type receivable but uncollected for direct insurance business during the grace period for performance (only applicable in insurance business assigned from the government).

(7) Compensation and payments recoverable from reinsurer: Includes all compensation or payments recoverable from the assuming reinsurer on reinsurance business ceded.

(8) Intercompany reinsurance receivables: Includes any balances due on intercompany accounts with other insurers. Transaction amounts to be listed under this heading are limited to debit notes already received for reinsurance assumed or credit notes already issued for reinsurance ceded by the year-end (period-end) settlement date.

At year-end (period-end) settlement, the amount of uncollectible intercompany receivables shall be estimated and an appropriate bad debt reserve allocated.

(9) Other receivables: Includes other amounts receivable not falling under negotiable instruments receivable, tax refunds receivable, earned revenues receivable, or premiums receivable.

At year-end settlement, the amount of other receivables uncollectible shall

be estimated and an appropriate bad debt reserve allocated. Any item under other receivables exceeding five percent of total current assets shall be listed separately according to type or counterparty.

Respective bad debt reserves shall be stated as contra accounts to negotiable instruments receivable, premiums receivable, compensation and payments recoverable from reinsurers, intercompany reinsurance receivables, and other receivables. Where any of those receivables accounts are further subdivided, respective valuation reserves shall be set up accordingly.

(10) Other financial assets-current: Financial assets not separately listed on the balance sheet shall be presented as "other financial assets," with current and non-current assets distinguished on the basis of liquidity. Non-current assets shall be reclassified as "other financial assets-non-current."

(11) Forward exchange sale contracts receivable: Includes all New Taiwan Dollar amounts receivable on forward exchange sale contracts for hedging purposes, calculated as the amount of foreign currency sold in advance at the stipulated forward exchange rate on the contract date.

(12) Forward exchange contracts receivable-foreign currencies: Includes all New Taiwan Dollar amounts receivable on forward exchange purchase contracts for hedging purposes, calculated as the amount of foreign currency purchased in advance at the spot exchange rate on the contract date.

Forward exchange contracts receivable shall be adjusted at the year-end (period-end) settlement date based on the spot exchange rate on that date, with a corresponding recognition of gains or losses on foreign exchange.

(13) Discount on forward exchange sales (or purchases): All forward exchange purchases or sales as hedging transactions. Includes debit spreads between the spot rate and the forward rate on the contract date.

Discounts on forward exchange shall be amortized over the stipulated forward exchange transaction period.

(14) Prepayments: Includes fee prepayments, prepayments for supplies, and other prepayments.

Prepayments according to contract on fixed assets purchased or on construction in progress for operational uses shall be classified under property, plant and equipment and not under prepayments.

(15) Deferred income tax assets-current: Includes any income tax benefits realizable in future periods, generated from income tax credits for abatement of temporary differences and loss carrybacks and carryovers. The enterprise shall produce a reasonable calculation of future tax amounts payable, estimate the amount of realizable deferred income tax assets, and allocate a corresponding allowance to be deducted from current deferred income tax assets. Current deferred income tax assets shall be distinguished in accordance with the Statement of Financial Accounting Standards No. 22 and stated under this category.

(16) Other current assets: Any assets not falling under the above categories.

Any of the above current assets, with the exception of cash and other current financial assets, may be stated in the aggregate with other current assets when the given asset does not exceed five percent of total current



assets.

2. Loans: includes life insurance policy loans and all secured loans.

(1) Life insurance loans: Loans made pursuant to the insurance contract through application by the proposer, with the policy as collateral.

(2) Advance premium payments: Any advance payment of premiums by the Enterprise in accordance with the insurance contract.

(3) Short-term secured loans:

All loans with a term of credit of one year or less offered in accordance with Article 146-3 of the Insurance Act or approved by the competent authority on an ad hoc basis. This category includes loans guaranteed by banks, loans backed by pledges or collateral of real property, movable property, or securities, and loans approved by the competent authority on an ad hoc basis.

Short-term secured loans to related persons shall be listed separately from other loans.

The total amount of short-term secured loans deemed uncollectible shall be assessed at year-end (period-end) settlement of accounts and an appropriate bad debt reserve allocated.

(4) Medium-term secured

loans:

All loans with a term of credit of not less than one year and not more than seven years that are offered in accordance with Article 146-3 of the Insurance Act or approved by the competent authority on an ad-hoc basis. This category includes loans guaranteed by banks, loans backed by pledges or collateral of real property, movable property, or securities, and loans approved by the competent authority on an ad-hoc basis.

Medium-term secured loans to related persons shall be listed separately from other loans.

The total amount of medium-term secured loans deemed uncollectible shall be assessed at year-end (period-end) settlement of accounts and an appropriate bad debt reserve allocated.

(5) Long-term secured loans:

All loans with a term of credit of seven years or more offered in accordance with Article 146-3 of the Insurance Act or approved by the competent authority on an ad hoc basis. This category includes loans guaranteed by banks, loans backed by pledges or collateral of real property, movable property, or securities as pledge or collateral, and loans approved by the competent authority on an ad hoc basis.

Long-term secured loans to related persons shall be listed separately from other loans.

The total amount of long-term secured loans deemed uncollectible shall be assessed at year-end (period-end) settlement of accounts and an appropriate bad debt reserve allocated.

3. Funds and long-term investments: All types of special funds and long-

term investments for general business purposes.

(1) Funds: Assets allocated for special uses.

A note shall be added on the resolution and implementation that form the basis for provision of a fund.

(2) Long-term investments: Long-term investments made to gain a controlling interest or other interests in property in order to achieve operational goals. Includes investment in the stock of other enterprises, purchases of long-term bonds, and real property investments.

Notes shall be added on the basis of valuation of long-term investments, which shall be listed separately according to type.

Given any of the following circumstances, investment in the stock of another enterprise shall be stated as long-term equity investment:

1. The stocks held are not traded on open markets or their market price is indeterminate.
2. The intent of investment is control of the investee company or one with which it has a close business relationship.
3. There is both an active intent and the capability of holding equity in the investee company on a long-term basis.

The valuation and presentation of long-term equity investment and the preparation of combined financial statements, with the exception of the following items, shall be carried out in accordance with the Statement of Financial Accounting Standards Nos. 5 and 7:

1. Except where regulations provide otherwise for long-term equity investments, the degree of influence over the investee company shall be assessed based on the ratio of voting shares held.
2. Where stock is held in a public company approved for trading on OTC markets (e.g. emerging stock companies) pursuant to Article 5 of the GreTai Securities Market Criteria Governing Review of Securities Traded on Over-the-Counter Markets, and no controlling influence exerted thereby, the cost method shall be used for period-end valuation.
3. When the stock held in a public company is common stock and preferred stock with voting rights, and the total number of voting shares held exceeds 50 percent of the total number of voting shares of the investee company, or when direct or indirect influence is exerted over the investee company's personnel, finances, or operations as defined in Article 369-2, paragraph 2 of the Company Act, or when all of the following conditions are met, gains or losses on the investment shall be recognized under the current period:

(1) The period-opening book value of long-term investments is NT\$50 million or above, while reaching 5 percent or more of the company's paid-in capital.

(2) Holdings equal 30 percent or more of investee company equity, or total shareholdings in the investee company by the Enterprise and its directors, supervisors, managers, and companies directly or indirectly controlled by the Enterprise exceed 50 percent of the investee company's equity.

(3) The Enterprise is one of the investee company's top three shareholders, or the president or general manager of the investee company is appointed by the Enterprise.

When long-term equity investments are valued by the equity method, if the investee company's financial statements are not produced in accordance with the generally accepted accounting principles of the ROC, they shall be first adjusted to conform with those principles, and gains and losses on the investments presented accordingly. When any of the following circumstances apply to the investee company of a public company Enterprise, its financial statements shall be audited by a CPA in accordance with generally accepted accounting principles and the Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants:

1. The company's paid-in capital is NT\$30 million or more.

2. Operating revenues are NT\$50 million or more, or 10 percent or more of the operating revenues of the Enterprise.

Long-term bond investments shall be valued at their face value, adjusted for the unamortized premium or discount; amortization of the premium or discount shall be reasonable and systematic.

Investments in real estate in accordance with the Insurance Act include land for lease (including land for lease and land for sale), historical costs of physical plant and surpluses on revaluation, accumulated depreciation (physical plant), construction in progress, and prepayments on land and buildings. Regulations governing fixed assets shall apply mutatis mutandis in the production of related financial statements.

Long-term equity and bond investments transferred out as guarantees shall be deducted from this category and stated as "guarantee deposits paid."

An explanatory note shall be provided when long-term investments provided as lien or are subject to any restrictions or encumbrances.

4. Fixed assets: Tangible assets provided for operational use, with a period of use of one year or more, which are not for the purpose of sale. Includes historical cost and revaluation surpluses on land, historical cost on physical plant as well as revaluation surpluses and accumulated depreciation, transportation equipment, other facilities, historical cost and accumulated depreciation on leasehold improvements, construction in progress, prepayments on equipment, prepayments on land and buildings. Land, depreciable assets, and depletable assets listed under fixed assets shall be listed separately.

Fixed assets shall be entered in accounts according to cost at the time of acquisition or construction, but interest on purchase of pre-sold structures or acquisition of fixed assets through cash capital increases need not be capitalized. Fixed assets with no value in use shall be stated under "other assets" at the lower of the net realizable value or book value; those with no net realizable value shall be written off based on cost and accumulated depreciation, with the difference recognized as a current-period loss. A fixed asset still in use after its service life shall be depreciated at its salvage value.

Recognition and presentation of leased assets shall conform with the Statement of Financial Accounting Standards No. 2.

For assets leased under an operating lease, an improvement to the subject of the lease shall be deemed a "leasehold improvement" and listed under

fixed assets.

Notes shall be provided on the basis of valuation of fixed assets; for revalued assets, the date of revaluation and the amount of increase or decrease shall be given, with historical cost and revaluation surpluses listed separately on the balance sheet. Reserves allocated for land appreciation taxes in relation to land revaluation surpluses shall be stated as long-term liabilities. From the day after the revaluation date, provision of depreciation for revalued fixed assets shall be based on the revalued amount. The depreciation of fixed assets other than land shall be presented reasonably and systematically on a per-period basis during the estimated service life or period of exploitation of the assets and restated as expenses in each period according to asset type, without reduction or interruption. Accumulated depreciation on fixed assets shall be stated as a deduction from fixed assets.

The depreciation of leasehold improvements shall be presented reasonably and systematically on a per-period basis, based on the shorter of the service life or term of lease, and restated as expenses in each period without reduction or interruption. Notes shall be provided on the method of calculation of depreciation for depreciable assets.

A note shall be provided when fixed assets are provided as guarantee, collateral, or the subject of a lien in accordance with Article 143, paragraph 3 of the Insurance Act and the approval of the competent authority.

5. Intangible assets: Non-physical assets with economic value, including patent rights, concession rights, trademark rights, software costs, good will, deferred pension costs, technical know-how, leaseholdings, and other intangibles.

Intangible assets purchased externally shall be entered in the books according to actual cost.

Intangible assets such as goodwill that are internally developed and not readily identifiable shall not be entered in accounts; for those such as patents that are clearly identifiable, only application and registration expenses may be presented as patent costs.

Valuation of assets and recognition and presentation of gains and losses during the startup period shall be handled according to the Statement of Financial Accounting Standards No. 19.

A note shall be provided on the basis of valuation for intangible assets, which shall be amortized in a reasonable and systematic manner over a period not to exceed 20 years, provided that this restriction shall not apply given clear evidence of an effective period of more than 20 years for the assets.

Depreciation of revalued fixed assets shall be based on the revalued amount from the day after the revaluation date.

A note shall be provided on the method of amortization of intangible assets.

6. Other assets: Assets not belonging to any of the above categories and for which the period of recovery or realization will be one year or more, including non-operating assets, miscellaneous assets, guarantees paid,

receivables on demand, temporary and suspense accounts, funds held by ceding companies, deferred expenses, deferred income tax assets, investment-linked insurance product assets, and other assets (including long-term negotiable instruments receivable and other long-term receivables).

Receivables on demand include overdue loans and debt receivable for other reasons. These items shall be listed separately based on the reason for the debt, with a note on collection status and the estimated uncollectible amount, for which an appropriate bad debt allowance shall be allocated. Receivables on demand shall be written off when determined to be uncollectible.

Funds held by ceding companies are those performance bonds paid to various insurance enterprises pursuant to contracts for reinsurance business ceded and assumed by the Enterprise.

Deferred income tax assets-non-current: Any income tax benefits realizable in future periods, generated from income tax credits for abatement of temporary differences and loss carrybacks and carryovers.

The enterprise shall produce a reasonable estimate of future tax amounts payable, estimate the amount of realizable deferred income tax assets, and allocate a corresponding reserve, to be deducted from current deferred income tax assets. Non-current deferred income tax assets shall be distinguished in accordance with the Statement of Financial Accounting Standards No. 22 and listed under this account.

Investment-linked insurance product assets: The aggregate of assets of all types for investment-linked insurance products.

An asset that exceeds five percent of total assets or is listed under non-current financial assets shall be listed separately according to type.

#### Article 11

Liabilities: liabilities shall be appropriately categorized; current and non-current liabilities shall be distinguished.

The total amount of liabilities with settlement anticipated within 12 months of the balance sheet date and with settlement anticipated more than 12 months after that date shall be presented separately in financial statements or disclosed in a note.

The categorization of liabilities, account items entered, and matters to be presented in notes in balance sheets are as follows:

1. Current liabilities: Liabilities which must be settled within 12 months of the balance sheet date, or which are incurred through operations with settlement expected during the normal course of operation in the business cycle of the Enterprise.

(1) Short-term debt: All types of short-term debt conforming with the repayment period prescribed in the Insurance Act, including short-term bank borrowing, bonds with repurchase agreements, and other short-term borrowing.

Notes shall be provided for each type of short-term borrowing on whether the purpose of the borrowing conforms with the provisions of the Insurance Act, how the loans are secured, and interest rate ranges. If collateral is provided, a note shall name the collateral, its book value, and the reference number of the approval document issued by the competent

authority.

Separate notes shall be provided listing borrowing from financial institutions, shareholders, employees, related persons, and other persons or institutions.

(2) Negotiable instruments payable: All types of negotiable instruments payable.

(2) Negotiable instruments payable shall be valued at present value, provided that those issued for operational purposes and due within one year may be valued at face value.

Large-value negotiable instruments payable to banks or related persons shall be listed separately.

Where collateral has been provided for a negotiable instrument, a note shall be provided naming the collateral and its book value.

Negotiable instruments for guarantee deposits that may be recalled and cancelled when the guarantee obligation terminates need not be listed as current liabilities, provided that the financial statement provides notes on the types and amounts of such guarantees.

(3) Commissions payable: Includes all commissions in relation to direct underwriting payable on an accrual basis.

(4) Insurance compensation and payments payable: Insurance payments payable but not yet paid.

(5) Reinsurance compensation and payments payable: Includes reinsurance payments payable but not yet paid. An appropriate estimate of these amounts shall be performed reasonably and systematically on the basis of reinsurance contracts assumed and the length of the contract period remaining.

(6) Funds payable on reinsurance transactions: Includes all funds due on transactions with other insurance enterprises.

(7) Other payables: Includes other accounts payable not included under negotiable instruments payable and commissions payable, such as taxes, payroll, and dividends.

An explanatory note shall be disclosed if the method of distribution and the scheduled date of payment have been determined for dividends and bonuses payable pursuant to passage of a resolution by a shareholders meeting.

Income taxes payable, based on calculation of taxable income at settlement of gains and losses each period, shall be stated as current liabilities. Any other accounts payable that exceed five percent of total current liabilities shall be presented separately according to type and recipient.

(8) Forward exchange contracts payable: Includes all New Taiwan Dollar amounts payable on forward exchange purchase contracts for hedging purposes, based on the spot exchange rate on the contract date and the amount of advance purchase of foreign currency.

(9) Forward exchange contracts payable-foreign currencies: Includes all New Taiwan Dollar amounts receivable on forward exchange sale contracts for hedging purposes, based on the spot exchange rate on the contract date and the amount of advance sale of foreign currency.

Forward exchange contracts payable shall be adjusted on the year-end (period-end) settlement date based on the spot exchange rate on that date,

with corresponding recognition of gains or losses on foreign exchange.

(10) Premiums on advance sale (or purchase) foreign exchange contracts: Includes all foreign exchange forward purchase or sale transactions for hedging purposes, including credit spreads between the spot exchange rate and the forward rate of the contract date.

Amortization of premiums on forward exchange shall take place during the stipulated forward exchange transaction period.

(11) Advance receipts: Various funds received in advance, including advance premiums or deposits received in advance of services provided. Major categories of advance receipts shall be listed separately, with added notes where any special stipulations are involved.

(12) Other current liabilities: Those current liabilities not included under any of the above categories. Any of the above types of current liabilities may be listed under "other current liabilities" when they do not exceed five percent of total current liabilities.

2. Long-term liabilities: Those coming due 12 months or more past the balance sheet date, including reserves for land value increment taxes and accrued pension liabilities.

(1) Reserves for land value increment taxes: A reserve allocated for land value increment taxes on revaluation surpluses based on the government-assessed current value of the land.

(2) Accrued pension liabilities: The amount of the net yearly pension cost not projected for payment or allocation within one year and the amount supplemented to maintain period-end pension liability at the minimum level.

3. Operations and liability reserves: Includes provision of all operations and liabilities reserves.

(1) Unearned premium reserve: the unearned premiums allocated as a liability reserve at year-end (period-end) settlement in accordance with the Insurance Act, the regulations governing allocation of various types of reserves by insurance enterprises, and letters and orders of interpretation issued pursuant to the insurance Act and the regulations.

(2) Life insurance liability reserve: the life insurance liability reserve allocated at year-end (period-end) settlement in accordance with the Insurance Act, the regulations governing allocation of various types of reserves by insurance enterprises, and letters of interpretation issued pursuant to those regulations.

(3) Special reserve: the special reserve allocated at year-end (period-end) settlement in accordance with the Insurance Act, the regulations governing allocation of various types of reserves by insurance enterprises, and letters and orders of interpretation issued pursuant to those regulations.

(4) Loss reserve: the loss reserve allocated at year-end (period-end) settlement in accordance with the Insurance Act, the regulations governing allocation of various types of reserves by insurance enterprises, and letters and orders of interpretation issued pursuant to those regulations.

(5) Operating loss reserve: the reserve allocated in accordance with letters and orders of interpretation against the balance remaining after reduction of the insurance enterprise's business tax through deduction of

bad debt written off in the given period and the bad debt allowance allocated.

4. Other liabilities: other liabilities not included in the above categories, such as guarantee deposits received, reinsurance liability reserves received, investment-linked insurance product liabilities, and other miscellaneous liabilities.

Investment-linked insurance product liabilities: the total of all liabilities included under investment-linked insurance products.

Any other liability that exceeds five percent of total liabilities shall be listed separately according to type.

## Article 12

Shareholder equity: The shareholder equity categories, account listings, and notes required on the balance sheet are as follows:

1. Share capital: The amount of capital invested by a shareholder in an Enterprise, where application has been made for registration of the same with the competent authority for company registration.

Notes shall be provided on the types of shares, face value per share, number of shares authorized, number of shares issued and special conditions.

Treasury stocks shall be handled according to the cost method and stated as a deduction from shareholder equity, with a note on the number of treasury shares.

2. Capital reserves: Capital reserves refers to the premiums generated on transactions between shareholder and company, typically including premiums on issuance of shares in excess of par value, gains from donations, and other gains recognized under generally accepted accounting principles.

Capital reserves shall be listed separately according to type. A note shall be provided disclosing restrictions on use where such exist.

3. Retained earnings (accumulated deficit): All equities arising from operations, including legal reserves, appropriated retained reserves, and unappropriated retained earnings (or non-compensated losses).

(1) Legal reserves: The reserve amount to be allocated pursuant to the Company Act.

(2) Appropriated retained reserves: Reserves allocated from earnings in accordance with applicable law, contracts, articles of incorporation, or shareholder meeting resolutions.

(3) Unappropriated retained earnings (accumulated deficit): unappropriated or unallocated earnings (deficit not offset is accumulated deficit).

Account entry of earnings allocations or deficit offsetting shall take place only after a resolution of a shareholders meeting, provided that a note shall be provided in the financial statement for the given period when a proposal for earnings allocation or deficit offsetting is made prior to the release date of the financial statement.

4. Other shareholder equity: Refers to other items resulting in credits or deductions to shareholder equity accounts, typically including unrealized loss on market value decline of long-term equity investments, net loss on unrecognized pension cost, translation adjustments, and treasury stock.



### Article 13

The structure of accounts, items to be listed, and notations required in profits statements are as follows:

1. Operating revenues: Revenues earned through normal operations of sales of goods, provision of labor, or through financial or insurance services provided during the current period, including insurance business revenues and other operating revenues.

(1) Insurance business revenues: All types of income from interest, premiums, and commissions in financial and insurance businesses, and from recovery of reserves.

1. Interest revenue: Interest gained from utilization of funds through deposits in banks, bond purchases, and loans, and interest on reinsurance guarantee deposits paid out.

2. Premium revenues: All types of premium revenues from business in insurance of the person and reinsurance.

3. Reinsurance commission revenues: All types of commissions from ceding of reinsurance.

4. Insurance compensation and payments recovered from reinsurers: The various types of claims, claims handling expenses, and payments recovered from reinsurance ceded.

5. Premium reserve release: Unearned premium reserves and liability reserves for all types of insurance released in accordance with regulations.

6. Special reserve release: Special reserves for all types of insurance released in accordance with regulations.

7. Loss reserve release: Loss reserves for all types of insurance released in accordance with regulations.

8. Gains on securities trading: Includes gains on all types of securities trades.

9. Gains on long-term equity investments: Includes all dividends or bonuses received on long-term equity investments (valued at the lower of cost or market method), or net profits of an investee company for the period (valued by the equity method) recognized by shareholding ratio.

10. Gains on real property investments: Gains from rental or sale of invested properties.

11. Amortization of premium on forward exchange sales or purchases: Includes credit spreads between the spot exchange rate and the forward rate of the contract date on all forward foreign exchange purchase or sale transactions for hedging purposes, amortized at the straight-line method over the stipulated exchange transaction period.

12. Gains on investment-linked insurance products: The aggregate of all gains on investment-linked insurance products.

(2) Other operating revenue: Includes revenues from rental of operating assets and other operating assets not included under insurance business revenues.

2. Operating costs: Costs incurred through normal operations of sales of goods, provision of labor, or through insurance services provided during the current period; includes insurance business costs and other operating costs.

(1) Insurance business costs: Includes all interest, premium, and

commission expenses incurred through financial and insurance business operations, and the provision of various reserves.

1. Interest expenses: All interest expenses on borrowings or reinsurance guarantees received.
2. Reinsurance expenditures: Insurance premiums paid on reinsurance business ceded.
3. Underwriting expenses: Includes expenses connected with investigations, medical examinations, and other direct expenses.
4. Commission expenses: Commissions paid for all types of insurance underwritten and reinsurance assumed.
5. Insurance compensation and payments: Compensation and payments for all types of insurance underwritten.
6. Provision of premium reserves: Unearned premium reserves and liability reserves provided in accordance with regulations.
7. Provision of special reserves: Special reserves provided in accordance with regulations.
8. Payments to stabilization fund: Reserves provided for stabilization fund in accordance with regulations.
9. Provision of loss reserves: Reserves provided against claims in the course of settlement and incurred but not reported claims on retained business.
10. Losses on securities trading: Includes all losses arising out of trading of any kind of securities.
11. Losses on long-term equity investment: The aggregate amount of losses on disposal of long-term equity investment or reinvested enterprises where definite data indicates a reduction in the value of the investment with little hope of recovery in value.
12. Losses on investment in real property: All expenses incurred on investments in real property or losses from its sale.
13. Amortization of discount on forward exchange sales or purchases: Includes debit spreads between the spot exchange rate and the forward rate of the contract date on all forward foreign exchange purchase or sale transactions for hedging purposes, amortized at the straight-line method over the stipulated exchange transaction period.
14. Expenses on investment-linked insurance products: The aggregate of all expenses on investment-linked insurance products.

(2) Other operating expenses: Includes expenses arising from rental of operating assets and other operating expenses not included under insurance business expenses.

3. Operating expenses: Including business expenses, management expenses, and employee training expenses.

(1) Business expenses: All expenses incurred through business operations.

(2) Management expenses: All expenses incurred through management operations.

(3) Employee training expenses: All expenditures connected with employee training.

4. Non-operating revenues and gains and expenses and losses: Revenues and losses occurring during the current period not connected with ordinary business activities, including exchange gains or losses and gains or losses

on disposition of fixed assets not related to the principal business.

Gains or losses on exchange may be offset.

5. Gains or losses on continuing operation departments: Pre-tax profits and losses, income tax expenses (benefits) and after-tax profits or losses shall be separately listed for the net amounts under the preceding four subparagraphs.

6. Gains or losses on discontinued operations departments: Gains or losses on disposals or decisions to dispose of major business operations during the current period, including gains or losses on operations during the current period prior to discontinuance and gains or losses on disposal. Gain or loss on disposal shall be calculated on the date of decision for disposal; any such loss shall be recognized immediately and any such gain shall be recognized only when realized.

7. Extraordinary gains and losses: infrequently occurring gains and losses of an unusual nature, such as prohibition of operations by a newly enacted law or regulation or losses due to confiscation by a foreign government. Extraordinary gains and losses shall be listed separately, and may not be amortized over a period of years.

8. Cumulative effect of changes in accounting principles: These shall be presented just after extraordinary gains and losses.

9. Net income (or net losses) of the current period: Surpluses (or deficits) for the current accounting period representing the net amounts of the preceding four subparagraphs.

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

11. Apportionment and presentation of income tax shall conform with the Statement of Financial Accounting Standards No. 24.

Except where otherwise provided in the Statements of Financial Accounting Standards, expenses and losses shall be presented by functional grouping, provided that employment, depreciation, depletion, and amortization expenses shall be disclosed.

### Section 3: Statement of changes in shareholder equity

#### Article 14

The statement of changes in shareholder equity is a report detailing changes in the holdings constituting shareholder equity, which shall state period-opening balances for capital stock, capital reserves, retained earnings (or accumulated deficits), and other items of shareholder equity; any increases or decreases in the same for the current period; and period-end balances.

The following items shall be stated under retained earnings:

1. The period-opening balance.

2. Gain and loss adjustments for items in the preceding paragraph:

Corrections to errors in the calculation, recording, or determination of net prior-period gains or losses or in the accounting principles or methods adopted.

3. Net income or losses for the current period.

4. The appropriation of legal reserves and special reserves and

distribution of dividends.

5. The period-end balance.

Gain and loss adjustments under the preceding paragraph, along with income tax expenses or benefits arising from unrealized gains or losses (such as translation adjustments) and changes in capital reserves that are directly stated under shareholder equity rather than current-period gains and losses shall be directly stated under those respective items and expressed as net amounts.

#### Section 4: Cash flow statements

##### Article 15

Cash flow statements are summaries of inflows and outflows of cash and cash equivalents that reflect the operational, investment, and financing activities of an Enterprise during a specified period. Cash flow statements shall be prepared in accordance with the Statement of Financial Accounting Standards No. 17.

#### Section 5: Financial statements and important accounting titles

##### Article 16

The names of financial statements and statements of important accounting titles (followed by form numbers) are as below:

1. Balance sheet (Form 1)
2. Statements of assets, liabilities, and shareholder equity accounts:
  - (1) Cash and cash equivalents (Form 2-1)
  - (2) Short-term investments (Form 2-2)
  - (3) Negotiable instruments receivable (Form 2-3)
  - (4) Premiums receivable (Form 2-4)
  - (5) Funds receivable on reinsurance transactions (Form 2-5)
  - (6) Other receivables (Form 2-6)
  - (7) Other financial assets-current (Form 2-7)
  - (8) Prepayments (Form 2-8)
  - (9) Other current assets (Form 2-9)
  - (10) Changes to funds (Form 2-10)
  - (11) Changes in long-term equity investments (Form 2-11)
  - (12) Changes in long-term bond investments (Form 2-12)
  - (13) Other changes in long-term investments (Form 2-13)
  - (14) Other financial assets-non-current (Form 2-14)
  - (15) Changes in fixed assets (form 2-15)
  - (16) Changes in cumulative depreciation of fixed assets (Form 2-15-1)
  - (17) Changes in real property investments (form 2-16)
  - (18) Changes in cumulative depreciation on real property investments (Form 2-16-1)
  - (19) Changes in intangible assets (Form 2-17)
  - (20) Other assets (Form 2-18)
- (21) Short-term debt (Form 3-1)
- (22) Negotiable instruments payable (Form 3-2)
- (23) Other payables (Form 3-3)
- (24) Advance receipts (Form 3-4)
- (25) Other current debts (Form 3-5)

- (26) Changes in unearned premium reserve (Form 3-6)
- (27) Changes in life insurance liability reserve (Form 3-7)
- (28) Changes in special reserves (Form 3-8)
- (29) Changes in loss reserve (Form 3-9)
- (30) Other debt (Form 3-10)
- 3. Income statement (Form 4)
- 4. Statement of income accounts:
  - (1) Interest income (Form 5-1)
  - (2) Premium income (Form 5-2)
  - (3) Insurance compensation and payments recovered from reinsurer (Form 5-3)
  - (4) Reinsurance expenditures (Form 5-4)
  - (5) Commission costs (Form 5-5)
  - (6) Insurance compensation and payments (form 5-6)
  - (7) Business costs (Form 5-7)
  - (8) Management costs (Form 5-8)
  - (9) Non-operating revenues, benefits, costs, and losses (Form 5-9)
  - (5) Changes in shareholder equity (Form 6)
  - (6) Cash flows (Form 7)

### Chapter III Financial Forecasts

#### Article 17

When the Enterprise is a public company, disclosure of financial forecasts shall be made as circumstances occur requiring such disclosure pursuant to the Guidelines for Disclosure of Financial Forecasts Information by Public Companies.

#### Article 18

Financial forecasts shall be based on the results anticipated under the operation plan and prepared in good faith by appropriate personnel, according to suitable basic assumptions and accounting principles .

#### Article 19

Financial forecasts shall be prepared and expressed in accordance with the Guidelines for Disclosure of Financial Forecasts by Public Companies adopted by the Ministry of Finance Securities and Futures Commission and the Statement of Financial Accounting Standards No. 16.

When a financial forecast contains errors that may be misleading or when changes in basic assumptions have a material effect on the financial forecast, the Enterprise shall correct or update the forecast within the period prescribed by the Guidelines for Disclosure of Financial Forecasts information by Public Companies, publicly announce the changes, and report them to the Ministry of Finance Securities and Futures Commission.

### Chapter IV Nature of Business and Other Disclosures

#### Section 1: Nature of business

#### Article 20

Description of the business: An Enterprise shall describe the nature of its business in accordance with the following regulations:

1. Major business matters: Any matters having had a material effect on

business within the preceding five years shall be set forth, including acquisition of or merger with other companies, splits, changes in managerial authority (equity) of 10 percent or more, transfer of business, reinvestment in affiliated enterprises, reorganization, purchase or disposition of major assets, methods of operation (including marketing systems), or major changes in the types of business in which the enterprise engages.

2. Information on environmental protection expenditures (Form 8):

(1) Total amounts of losses (including damages) and fines for environmental pollution for the two preceding years and an explanation of any measures (including corrective measures) and possible future expenditures (including an estimate of losses, fines, and damages resulting from any failure to adopt responsive measures, or an explanation of why a reasonable estimate cannot be provided).

(2) An explanation of current pollution conditions and the effects of rectification on the profits, competitive position, and capital expenditures of the Enterprise, as well as major environment-related capital expenditures projected for the coming three years.

(3) Actual losses possible, possible expenditures, and future measures in response to pollution of the Enterprise's assets.

3. Remuneration and related information for the directors, supervisors, general manager, and deputy general manager (Form 9).

(1) Salaries and transportation allowances for each director and supervisor for the preceding fiscal year; Remuneration shall be disclosed for each respective position for directors concurrently serving in managerial positions.

(2) The total amount of compensation, awards, special allowances and bonuses paid to the general manager and assistant general manager for the preceding fiscal year.

(3) For any remuneration for the directors, supervisors, general manager, or deputy general manager in addition to that listed in the preceding two paragraphs, such as provision of a car, housing, or other exclusively personal expenditures, the following information shall be disclosed: name, position, nature and cost of the property/asset provided, the actual or imputed fair market rental value, and any other payments.

(4) When an Enterprise's director, general manager, or manager responsible for finance or accounting has held a position at a firm belonging to a certifying Chartered public Accountant (CPA) or any affiliated enterprise within the preceding year, their name, job title, and the period during which they held such a position shall be disclosed.

The term "a firm belonging to a certifying CPA or any affiliated enterprise" in these Regulations means one in which more than 50 percent of shares or half of the directors' positions are held by certified public accountants, or a company or organization listed in information published for or disseminated to the public by the given firm as an affiliated enterprise.

4. Labor relations: (Form 10)

(1) A listing of all employee benefits measures, the retirement system and its implementation status, and the status of labor-management agreements.

(2) An explanation of the losses suffered by the company in the preceding

three years due to labor disputes, which shall also disclose an estimate of related amounts that may be incurred during present and future periods and measures to be taken in response. An explanation shall be provided if no reasonable estimate of such figures can be made.

5. Any change in the general manager, internal auditing executive, or certifying actuary in the preceding two year period.

6. The provision of any reserves and any changes thereto.

7. Within the preceding one-year period, a resolution of the shareholders meeting for an increase or decrease in capital for the Enterprise, or a board of directors resolution for issuance of new shares, where the application (or filing for recordation) fails to gain approval (or recordation) from the Securities and Futures Commission of the Ministry of Finance, or where the application for change in amount of registered [paid-in] capital fails to obtain Ministry of Finance Approval.

8. Compensations payments, reinsurance recovery, and the effect on finances of any case within the past three years involving compensation of NT\$20 million or more.

9. When a credit rating institution has been employed, the name of the institution, the date of the credit rating, and the rating given; if a credit rating institution has not been employed, that fact shall be disclosed.

Section 2: Securities issued by Enterprises engaging in insurance of the person

Article 21

Market price, dividends, and share distribution: An Enterprise shall disclose information on the market price, dividends, and share distribution for the securities it has issued.

1. Market price information: When an Enterprise has market-listed or OTC-listed securities, a note shall be appended providing the highest and lowest transaction prices for the securities in each quarter of the previous two years (Form 11).

2. Dividend information: explaining dividend policy, and cash dividends per share issued, and amounts of stock dividends on retained earnings and on capital reserve during the previous two years. The amounts of any accumulated and unpaid dividends shall be disclosed. A note shall be appended to explain any current or anticipated material change in the Enterprise's dividend policy (Form 12).

3. Share distribution: explaining share distribution of common stock and preferred stock of the Enterprise as of the balance sheet date (Form 13). When an Enterprise carries out a capital increase out of earnings or capital reserves, it shall disclose information on market price and cash dividends per share adjusted retroactively for the post-increase number of shares.

An Enterprise shall disclose any transfers of shares or changes in pledging of shares during the current period by the directors, supervisors, managers, or any shareholder holding 10 per cent or more of the total number of shares of the company (Form 14).

An Enterprise approved to offer and issue securities through the blanket reporting system shall disclose the issuance amount approved and

information on any previous or planned securities issues (Form 15).

### Section 3: Financial information

#### Article 22

Disclosure of important financial information: An Enterprise shall disclose the following types of financial information for the preceding five years:

1. Condensed balance sheets and income statements (Form 16).
2. Analysis of important financial ratios (Form 17).
3. Any other important information aiding understanding of financial status, operational results, cash flows, or changing trends relating to those items (such as exchange rate fluctuations).

#### Article 23

Review and analysis of financial status and operational results: An Enterprise shall provide a review of its financial status, operational results, and cash flows, and an analysis of the reasons for changes thereto. The review and analysis shall include the following:

1. Financial status: the principal reasons for material changes in assets and liabilities and shareholder equity during the preceding two years and their influence. An explanation of planned future responsive measures shall be included when the influence is material (Form 18).
2. Major capital expenditures and sources of funding: the type, expected benefits, and anticipated or actual sources of funding for investments already made or for commitments for major capital expenditures in the preceding two years, or for planned capital expenditures in the coming five years. A note shall be appended when material changes are anticipated in the relative capital costs of anticipated future capital increases or related policies (Form 19).
3. Liquidity: an analysis of liquidity and the reasons for its increase or decrease over the preceding two years, and an explanation of funding requirements for future insurance payments. Remedial measures planned or currently adopted shall be disclosed for any current or future liquidity shortfall discovered (Form 20).
4. Operational results: an analysis of factors constituting gains and losses on continuing operations departments over the preceding two years, and important transaction or non-transaction items or changes in economic conditions that have influenced increases or decreases in those items. The principal reasons for any material changes in revenues or costs shall be explained. An explanation of the relevant facts and the influence of changes shall be provided when any material changes have occurred or are anticipated in operating policies, market conditions, or other internal or external factors that will lead to material increases or decreases in revenues or expenses in continuing operations departments (Form 21).

#### Article 24

An Enterprise shall disclose the following information on its CPA:

1. Information on professional fees: Given any one of the following circumstances, an Enterprise shall disclose the professional fees of its CPA:
  - (1) When professional fees paid to a certified public accountant, the



accounting firm of a certified public accountant, or its affiliated enterprises for non-auditing services account for a proportion equal to one-quarter or more of auditing fees, or when fees paid for non-auditing services reach 500,000 New Taiwan Dollars or more, amounts of fees for both auditing and non-auditing services shall be disclosed along with the type of non-auditing services performed (Form 22).

(2) When an Enterprise changes its accounting firm and the amount of professional fees paid for auditing services during the year of the change is reduced relative to the previous year, the amount of the reduction, the proportional reduction, and the cause shall be disclosed.

(3) When there is a reduction of fifteen percent or more in professional fees paid for auditing services relative to the previous year, the amount of the decrease, the proportional decrease and the cause shall be disclosed.

The professional fees for auditing services referred to in item 1 means the fees paid by an Enterprise to a certified public accountant for auditing, review, and secondary reviews of financial reports, financial forecast reviews, and tax certification.

2. Information on replacement of certified public accountant: If an Enterprise has replaced its CPA during the last two fiscal years or in the subsequent period, it shall disclose the following information (Form 23):

(1) Regarding the former CPA:

1. The date and cause of replacement of the CPA, with an explanation of whether the CPA voluntarily terminated the appointment or declined its continuation, or whether the appointment was terminated or discontinued by the Enterprise.

2. The audit opinion and the reason for it in any case where the former CPA issued an audit report with other than an unqualified opinion during the preceding two years.

3. Whether there was any difference of opinion between the Enterprise and the former CPA with regard to the following:

1) accounting principles or practices;

2) disclosure of financial or operational reports;

3) the scope of audits or their implementation.

Where there have been differences of opinion, a detailed explanation shall be provided in each case of the nature of the different opinions, the method of handling by the Enterprise (including whether or not the former certified public accountant has been authorized to give a full reply to the succeeding accountant's inquiries on the difference of opinion) and the final result.

4. Any of the following circumstances shall be disclosed also:

(1) Any notification of the Enterprise by the former certified public accountant that it lacked a sound internal control system, making the financial or operational reports unreliable.

2) Any notification of the Enterprise by the former certified public accountant that he/she believed the Enterprise's declarations to be unreliable or that he/she did not want to be associated with issuance of its financial or operational reports.

3) Any notification of the Enterprise by the former certified public

accountant that the scope of audits needed to be expanded, or that there was data showing that the credibility of financial or operational reports already issued or soon to be issued would be damaged if the scope of audits was expanded, but where due to replacement of the CPA or for other reasons, the scope of audits was never expanded by the former CPA.

4) Any notification of the Enterprise by the former certified public accountant that based on data collected, the credibility of financial or operational reports already issued or soon to be issued might be damaged, but where due to replacement of the CPA or for other reasons, the matter was not handled by the former CPA.

(2) Regarding the succeeding CPA:

1. The name of the succeeding accounting firm, name of the CPA and the date of appointment.

2. If the Enterprise inquired of the CPA before the CPA's official appointment regarding the accounting treatment of specific transactions or the applicable accounting principles and his/her possible opinion on the financial or operational reports, the subject of its inquiries and the results shall be disclosed.

3. The Enterprise shall consult with and obtain the written opinion of the succeeding CPA in connection with the discrepancy of opinion between it and the former CPA and disclose the same.

(3) The Enterprise shall issue a letter to the former CPA regarding the matters in subparagraph 2, item 1 and subparagraph 2, item 2, sub-item 3 and notify the former CPA to issue a reply letter within 10 days if he/she has a different opinion. The reply letter of the former CPA shall be disclosed by the Enterprise.

## Article 25

An Enterprise that prepares financial reports and disclosures in accordance with the provisions of this chapter shall seek a certified public accountant to issue a review opinion in accordance with the Guidelines for Review of Other Matters Requiring Disclosure in Financial Reports.

## Chapter V Interim Financial Reports

### Article 26

When a public-company Enterprise is required to prepare an interim financial report pursuant to regulations of the Ministry of Finance Securities and Futures Commission, it shall do so in accordance with Chapter 1 and Chapter 2 and The Statements of Financial Accounting Standards No. 23, and may be exempt from producing a combined financial report.

When a public company Enterprise prepares a quarterly report, it may be exempt from producing a statement of changes in shareholder equity and a statement of important accounting titles. In the case of an investee company in which the Enterprise holds less than 50% shares, it may also be exempt from recognition of gains and losses on investment in accordance with the equity method.

## Chapter VI Consolidated Financial Statements of Affiliates

### Article 27

When an Enterprise is a holding company controlling another company as defined in the Guidelines for Preparation of Consolidated Business Reports consolidated Financial Statements of Affiliates and Relationship Reports, it shall produce a consolidated financial statement of affiliates and a consolidated business report of affiliates.

#### Article 28

When an Enterprise is controlled by another company as defined in the Guidelines for Preparation of Consolidated Business Reports of Affiliates and Related Reports, it shall produce a consolidated affiliation report.

#### Article 29

Preparation and presentation of consolidated business reports, consolidated financial reports, or consolidated affiliation reports by an Enterprise shall be undertaken in accordance with the Ministry of Finance Securities and Futures Commission Guidelines for Preparation of Consolidated Business Reports and Consolidated Financial Statements of Affiliates and Affiliation Reports.

### Chapter VII Other Provisions

#### Article 30

Changes in accounting procedures at a public-company Enterprise shall be undertaken in accordance with the following rules:

1. Changes in accounting principles:

(1) Where valid reasons require a change in accounting principles, then at the year end preceding the projected change, the Enterprise shall set out the reasons and the theoretical basis for the original accounting principles and the proposed adoption of new principles, concrete evidence that the new accounting principles will be superior to the old, and data on the projected cumulative effect of adopting the new principles. The Enterprise shall seek a certified public accountant to provide an item-by-item analysis of the reasonableness of the new principles and to issue a review opinion, which shall be presented as a proposal to the board of directors for passage and thereafter submitted to the SFB for approval and recordation.

(2) Where there are conditions as set forth in The Statement of Financial Accounting Standards No. 8, Section 12, in which substantive difficulty prevents determination of the cumulative effect of change in accounting principles, the Enterprise shall set out the reasons and the theoretical basis for the original accounting principles and the proposed adoption of new principles, concrete evidence that the new accounting principles will be superior to the old, and the reasons why the cumulative effect of adopting the new principles cannot be determined, and shall seek a certified public accountant to provide an item-by-item analysis of the reasonableness of the new principles and to issue a review opinion. After presenting its opinion on the effects of the review opinion for the year in which the new principles are adopted, the Enterprise shall proceed in accordance with the procedures set forth above.

(3) Except where the cumulative effect of the change to new accounting principles cannot be determined as set forth in the preceding item, the

Enterprise shall calculate the actual cumulative effect of adopting the new principles within two months after the beginning of the accounting year during which it adopts the new accounting principles, and after submission to the board of directors, submit the figures to the SFB for recordation. If the difference between the figures showing the actual cumulative effect and the projected cumulative effect differ by more than NT\$10 million, the Enterprise shall present an analysis of the reason for the differences between the two, request a CPA's opinion on its reasonableness, and report both to the Securities and Futures Commission.

(4) Where the circumstances in item 2 apply to an Enterprise, it shall set out the effects of adopting the new accounting principles with respect to profits and losses in notes to the first quarter, semi-annual, third quarter, and yearly financial reports and operational reports in the accounting year during which the new accounting principles are adopted.

(5) With the exception of asset purchases 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 reported for approval and recordation in accordance with regulations prior to their adoption, the financial report and operational report for the year in which the new principles were adopted shall be rewritten, and the new principles may be adopted only in the year following for approval and recordation of the supplementary report..

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

#### Article 31

Enterprises preparing financial and operational reports and forms for affiliates in accordance with these Regulations shall obtain certification (review) by a certified public accountant, which shall be submitted to the competent authority by 30 April of the following year. ROC Enterprises shall submit the reports and the forms to the competent authority for recordation within 15 days of ratification by the shareholders meeting.

#### Article 32

An Enterprise that prepares financial and operational reports and related appendices in accordance with these Regulations shall bind them in separate volumes to be delivered respectively to the Life Insurance Association of The Republic of China and the Insurance Institute of the Republic of China, for perusal by the general public.

Public company Enterprises shall bind in separate volumes the financial report and related documents that Article 36 of the Securities and Exchange Act requires public companies to report and produce a related registration form. The related documents shall be submitted to the Ministry of Finance Securities and Futures Board, and additionally copied and delivered to the ROC Securities and Futures Institute for perusal by the general public.

When stocks of the Enterprise are already listed on a stock exchange, copies shall also be delivered to the Taiwan Stock Exchange Corporation and the Chinese Securities Association; where the stocks are sold on an OTC

market, copies shall also be delivered to the Gre Tai Securities Market and the Chinese Securities Association.

The forms for affiliates that a public company Enterprise is required to produce in accordance with Articles 27 and 28 herein shall also be submitted and provided in copy to the relevant agencies as provided in the preceding paragraph.

#### Article 33

In addition to submitting financial and operational reports pursuant to these Regulations, an Enterprise shall separately compile a comprehensive report detailing its financial and operational status within the time period prescribed by the competent authority, in form and content conforming to regulations, and submit the same to the competent authority or agencies it designates.

Separate statements on investment-linked insurance products shall be produced as prescribed by the competent authority, the form for which will be separately prescribed by the competent authority.

### Chapter VIII Supplementary Provisions

#### Article 34

These Regulations shall be in force from 1 January 2002.

Amendments to these Regulations shall be in force from the date of promulgation.