

Code for Investment Operation of the National Development Fund, Executive Yuan

Amended by the 2nd Management Committee on April 17, 2007
Amended by the 31st Management Committee on September 24, 2012
Amended by the 36th Management Committee on November 5, 2013
Amended by the 62nd Management Committee on December 27, 2017

I. Investment Basis

1. Article 30 of the “Statute for Industrial Innovation” and the Regulations Governing Receipts, Expenditures, Custody and Utilization of the Executive Yuan National Development Fund (hereinafter referred to as the “NDF”).
2. Other relevant laws and regulations.

II. Investment Scope and Applicable Subject

1. The use of fund in accordance with Article 30 of the “Statute for Industrial Innovation”.
2. This code shall apply to those that apply directly to the NDF for investment and approved by the NDF, or have been approved by the Executive Yuan, and have participated in the investment in the name of the NDF and obtained the equity of the investment enterprise.

III. Investment Principles

1. The NDF participates in the investment of important enterprises or projects, mainly for new or additional capital expansion.
2. The total equity ratio of the NDF plus other government agencies and government-owned enterprises in the investment shall be less than 50%.

IV. Review of Investment Plan

The NDF shall participate in the investment in accordance with the following procedures, however, which may be adjusted as necessary.

1. First application

(I) Review stage

A. Phase I - Preliminary engagement

(a) Interview:

The applicant is interviewed for the NDF to understand the outline of the plan, and to review whether the plan is in line with the purpose of the NDF, the scope of investment and investment principles. An interview record shall be made. The applicant shall be informed of the review results after the application is signed and approved.

(b) Formal application:

Upon examination, the applicant shall submit an investment application letter and investment plan that is in line with the NDF’s application purpose or investment scope and investment principles.

B. Phase II - Assessment and analysis

(a) Policy evaluation

The NDF will conduct an overall policy evaluation on the feasibility of the plan and related important issues, the applicant shall be informed of the evaluation result.

(b) Comprehensive evaluation:

For the investment plan that is suitable for investment after policy evaluation, relevant evaluation procedures, written review and field visit shall be carried out for the plan content. If necessary, scholars and experts in relevant fields shall be invited to provide professional opinions. The investment plan shall be submitted to the management authorities for comments, and then a comprehensive investment evaluation report shall be prepared.

C. Phase III - Submission for review

(a) Review by the Investment Review Committee:

General investment application shall be submitted to the Investment Review Committee for review. Field visits may be made as required. If the application is not approved, the result of the review shall be notified to the applicant.

(b) The required information was not supplied on time:

If the applicant who are requested by the Investment Review Committee the submission of additional information with a deadline does not reply within two months, and the NDF has not received a response after related request within the time limit, the NDF shall decline the investment application after the decision has been signed and approved.

(c) Review of the Management Committee:

Cases approved by the Investment Review Committee shall be submitted to the Management Committee for review, and the results of the review shall be notified to the applicant.

2. Cases of issuance of common stock for cash

When issuing common stock for cash of the NDF's investment, the NDF shall submit the analysis and evaluation opinions to the convener or the Investment Review Committee for approval before the disbursement operation and report the case to the Management Committee. If the application of issuance of common stock for cash is rejected, the result shall be notified to the investment enterprise.

3. Cases approved by the Executive Yuan shall be handled in accordance with the following principles:

(1) Proposer: Submitted by the central competent authorities or the NDF.

- (2) Required documents: The complete planning analysis, evaluation data, and professional evaluation opinions of scholars or experts in relevant fields shall be attached when the letter is submitted to the Executive Yuan.
- (3) Review procedures: The Executive Yuan shall refer the relevant Minister of State for review.
- (4) Follow-up control: If there are conditions attached or a joint venture agreement to be signed, the disbursement operation shall not be processed until they are completed.
- (5) Operations support: The NDF's disbursement operations shall be conducted in accordance with the contents approved by the Executive Yuan, and being submitted to as well as signed by the convener. The implementation shall be reported to the Management Committee.

V. Formation and Signature of the Joint Venture Agreement

1. Operation basis

- (1) Resolution of the Management Committee
- (2) The Company Act and other relevant laws and regulations

2. Other investors shall be invited to sign the joint venture agreement when the enterprise invested by the NDF is established.

3. Operation explanation

- (1) The undertaker shall prepare the first draft of Joint Venture Agreement in accordance with the resolution of the Management Committee, and may request legal personnel or counsel to provide professional advice if necessary.
- (2) The draft of joint venture agreement shall be drawn up after consultation with other joint venture partners on the basis of the first draft.
- (3) Sign and approve the Draft Joint Venture Agreement.
- (4) Invite other joint venture partners to sign the Joint Venture Agreement.

4. The contents of the Joint Venture Agreement shall be determined in accordance with the actual needs and taking into account the following items:

- (1) The name of the joint venture.
- (2) The purpose and main business of the joint venture.
- (3) Capital of the joint venture.
- (4) The operation and management of the joint venture.
- (5) Financial and accounting policies of the joint venture.
- (6) Confidentiality obligations.
- (7) Statement and warranty.
- (8) Transfer of shares.
- (9) Put option.
- (10) Duration and termination of the agreement.
- (11) Notice.
- (12) Breach clauses.

(13) Applicable law and litigation court.

(14) Other terms.

5. Notes of the Joint Venture Agreement

(1) Principle of share payment

The NDF 's participation in the investment of unlisted companies shall be subject to the resolution of the Management Committee and shall be paid after the funds of other shareholders are in place.

(2) Operation and management of the joint venture:

- A. Each shareholder shall negotiate and share the number of directors and supervisors in accordance with the equity ratio.
- B. Important matters subject to special resolution of the board of directors shall be specified.
- C. The right of recommendation and appointment of the chairman, general manager and financial supervisor.
- D. The provision of financial statements and other information.

(3) Technology shares

- A. Including the scope of authorization, technology transfer project, product development schedule and implementation method of technology transfer.
- B. To ensure that the know-how is indeed proprietary and that no third party shall allege patent infringement.
- C. Agreement on distribution of surplus and residual property.

(4) Options for share repurchase and agreement on fair price

Within a certain period after the establishment of the joint venture company, if the operation is not carried out according to the original plan, the NDF shall, in accordance with the Joint Venture Agreement, require the other party or technology provider that signs the Joint Venture Agreement to purchase the shares of the NDF at a fair price. The option of share repurchase and the fair price shall be jointly negotiated by the signatory of the Joint Venture Agreement.

(5) Restrictions on equity transfer of the signatory of the Joint Venture Agreement

- A. During the negotiation period, the signatory of the Joint Venture Agreement shall not transfer or set up pledge guarantee for the shares (including technology shares) without the consent of the other signatory, except for listed companies.
- B. When the NDF transfers shares, the technology providers have the priority to purchase the shares.

VI. Appointment, Dismissal and Responsibilities of Equity Representatives

1. Appointment and dismissal of equity representatives

The appointment and dismissal of equity representatives of the NDF's investment shall be handled in accordance with the guidelines for the selection, management and assessment of equity representatives of the NDF's investment.

2. Responsibilities of equity representatives

- (1) The equity representatives of the NDF's investment shall exercise their functions and powers in accordance with relevant laws, regulations and contracts, strictly abide by the instructions of the NDF and the competent authorities, and submit claims to the NDF's investment in a timely way. After outgoing, the matters handled during the term of office shall remain confidential.
- (2) The equity representatives of the NDF's investment shall attend the meetings held by the investee on time. If they fail to attend the meeting, they shall inform the NDF in advance and find an agent. Prior to the meeting, advices shall be provided and signed for approval on the following major matters.
 - A. Amendment or revision of the articles of association.
 - B. Entry, amendment, or termination of any contract for lease of the Company's business in whole, or for the delegation of management of the Company's business, or for regular joint operation with others.
 - C. Transfer of business or assets, in whole or in any essential part.
 - D. Significant financial changes.
 - E. The formulation and amendment of the relevant general principles of external guarantee business of non-financial and financial institutions.
 - F. Significant reinvestment by non-financial institutions.
 - G. Major personnel motion (such as the appointment and dismissal of the general manager and deputy general manager).
 - H. Dissolution or merger
- (3) The equity representatives of the NDF's investment shall make appropriate proposals from the position of safeguarding the rights and interests of the NDF and the government in respect of the temporary motions put forward by the investee at the conference or meeting. The results of the meeting shall be transmitted to the NDF for approval and recordation by the competent authorities.
- (4) The equity representatives of the NDF's investment shall receive remuneration from the investee to the extent of the number of part-time jobs and the remuneration standard approved by the Executive Yuan, and the excess shall be fully paid to the NDF for income processing.

VII. Disbursement Operation

1. Operation basis

- (1) The resolutions of the Management Committee, the Investment Review Committee, the convener's approval or the contents approved by the Executive Yuan.
- (2) The Joint Venture Agreement
- (3) Notice of payment for shares

2. Operation description

- (1) Signature and Approval: After the notice of payment of shares by the NDF's investment arrives at the NDF, the Business Section shall review the compliance with the contents approved by the Executive Yuan, the resolutions of the Management Committee, the Investment Review Committee, the convener's approval or relevant agreements, sign and get the approval from the Accounting and General Affairs Section, and input the amount of the disbursement into the relevant information management system of the NDF.
- (2) Filing and Disbursement: After the disbursement is signed and approved, the Business Section shall input the disbursement amount into the relevant information management system of the NDF, transfer it to the Accounting Section to prepare a voucher, the General Affairs Section to issue a check and affix seal and handle the disbursement.

VIII. Management of the NDF's investment

1. Management classification of the NDF's investment

To strengthen the supervision and management of investee, the NDF shall, in accordance with the operating performance and operation situation of each investee, divide all the NDF's investment into the following five categories for classified key management:

- (1) Normal account: If the operation and profit of the most recent year are stable and in good condition, the financial statements shall be reviewed monthly.
- (2) Observing account: If the company has not been established for more than five years and its operation performance is yet to be decided, its financial statements shall be reviewed monthly.
- (3) Tracking account: If the company has been established for more than five years and with poor operation performance, it shall review the report on a quarterly basis.
- (4) Managing account: In case of major difficulties in the operation or management of the company, the report shall be reviewed on a monthly basis.
- (5) Offset account: If the company has long-term operational difficulties and most of its investment losses have been reported, the case shall be closed after all the losses have been reported.

For the management classification of the above NDF's investment, the NDF shall review and adjust the latest operation and financial situation of each NDF's investment quarterly, and conduct management according to the latest classification after endorsement and approval.

If an NDF's investment is unable to improve its continuous loss in the past three years after the NDF's participation in investment, it shall make a detailed assessment and review, and submit a relevant report to the Management Committee every year.

2. Examination and discussion of the meeting proposal

- (1) The Business Section shall study and propose the solutions for the main contents of the agenda of the board of directors and the shareholders' meeting of the NDF's investment. After the application is signed and approved, it shall be submitted to the equity representatives of the NDF for appropriate expression at the meeting.
- (2) The minutes of the board of directors and the shareholders' meeting of the NDF's investment shall be signed and reviewed by the Business Section and filed for tracking its implementation on a regular basis.

3. Analysis of financial statements

- (1) The Business Section shall urge each NDF's investment to provide financial statements on time so as to keep track of its business status.
- (2) The Business Section shall compile and manage the following statements:
 - A. Basic situation of the NDF's investment.
 - B. Financial analysis of the NDF's investment.
 - C. Summary of agenda and minutes of the NDF's investment meeting.
 - D. Overview report form of the NDF's investment.

4. Visits to the NDF's investment

- (1) The Audit Section shall visit the NDF's investment on a regular or irregular basis according to its business status to understand its situation on the spot. if necessary, it shall invite equity representatives and Business and Accounting sections to go together.
- (2) Depending on actual needs, technical, production, export, financial, personnel and other aspects shall be the focus of the visit.
- (3) At the end of the visit, a report shall be prepared, and the relevant improvement suggestions shall be signed for approval. The equity representative shall be invited to supervise the improvement.

IX. Equity Treatment

The treatment of the NDF's equity shall be conducted in accordance with the Guidelines of the Exit Mechanism of the NDF's Directly Invested Enterprises

X. Depository and Settlement of Shares

1. Operation basis

- (1) National Treasury Act
- (2) Operating Rules of the Taiwan Stock Exchange Corporation (TWSE)

2. Operation description

(1) Stock depository:

When a new investment or a newly added stock is notified by the NDF's investment to collect or remit directly to the NDF's account, the Business Section shall first check the number of shares, confirm that there is no error, and sign in to the authorized supervisor in accordance with the regulations. If the new investment or the newly added stock is a physical stock, the General Affairs Section shall collect the stock and send it to the Department of the Treasury of the Central Bank for depository. After the General Affairs Section has obtained the certificate of deposit, the Business Section will be requested to check the number of shares deposited and return the deposited certificate to the safe of the NDF.

(2) Settlement:

A. Stocks of listed companies:

After the Business Section has signed the approval to sell the equity of the NDF's investment, the General Affairs Section shall fill in the relevant documents for stock collection according to the number of stocks that the Business Section has been approved to collect. It shall approve and apply the seal to collect the stocks and transfer them to this NDF's special account for centralized securities trading opened in a securities firm for the settlement.

B. Stock of unlisted on the TWSE or OTC companies:

The Business Section signs the approval to sell the equity of the NDF's investment, and informs the transferee to pay the share price. After the share price is deposited into the account of the Department of the Treasury of the Central Bank, the General Affairs Section will fill in the relevant documents for collection and receipt before signing and concluding the case.