

# **KD Holding Corporation**

## **Ethical Corporate Management Best Practice Principles**

Amended on Dec. 16, 2014

### Article 1 (Purpose and scope)

The Ethical Corporate Management Best Practice Principles ("Principles") is promulgated to foster a corporate culture of ethical management and sound development.

The Principles are applicable to subsidiaries of KD Holding Corporation ("the Company"), and other institutions or juridical persons which are substantially controlled by the Company ("Business Group").

### Article 2 (Prevention of unethical conduct)

When engaging in commercial activities, directors, supervisors, managers, employees of the Company, the mandataries, or persons having substantial control over it ("substantial controllers") shall not directly or indirectly offer, promise to offer, request or accept any improper benefits, nor commit unethical acts including breach of ethics, illegal acts, or breach of fiduciary duty ("unethical conduct") for purposes of acquiring or maintaining benefits.

Parties referred to in the preceding paragraph include civil servants, political candidates, political parties or members of political parties, state-run or private-owned businesses or institutions, and their directors, supervisors, managers, employees or substantial controllers or other interested parties.

### Article 3 (The forms of benefits)

"Benefits" in the Principles means any valuable things, including money, endowments, commissions, positions, services, preferential treatment or rebates of any type or in any name. Benefits received or given occasionally in accordance with accepted social customs and that do not adversely affect specific rights and obligations shall be excluded.

### Article 4 (Compliance with laws and regulations)

The Company shall comply with the Company Act, Securities and Exchange Act, Business Entity Accounting Act, Political Donations Act, Anti-Corruption Statute, Government Procurement Act, Act on Recusal of Public Servants Due to Conflicts of Interest,

TWSE/GTSM-listing rules, or other laws or regulations regarding commercial activities, as the underlying basic premise to facilitate ethical corporate management.

#### Article 5 (Policies)

The Company shall abide by the operational philosophies of honesty, transparency and responsibility, base policies on the principle of good faith and establish good corporate governance and risk control and management mechanism so as to create an operational environment for sustainable development.

#### Article 6 (Prevention program)

The Company is advised to, in accordance with the operational philosophies and policies prescribed in the preceding article, establishes in its own ethical corporate management best practice principle comprehensive programs to forestall unethical conduct ("prevention program"), including operational procedures, guidelines, and training.

The Company is advised to establish its own ethical corporate management best practice principle policies specifying clearly the detailed practice of ethical management as well as the unethical conduct prevention program ("prevention program"), including operational procedures, guidelines, and training.

When establishing the prevention program, the Company shall comply with relevant laws and regulations of the territory where the company and its Business Group are operating.

#### Article 7 (Scope of prevention program)

When establishing the prevention program, the Company shall analyze which business activities within their business scope which may be at a higher risk of being involved in an unethical conduct, and strengthen the preventive measures.

The prevention program established by the Company shall at least include preventive measures against the following:

1. Offering and acceptance of bribes.
2. Illegal political donations.
3. Improper charitable donations or sponsorship.
4. Offering or acceptance of unreasonable presents or hospitality, or other improper benefits.

5. Infringement of trade secrets, ownership of trademarks, patent rights, copyrights, and other types of intellectual property rights.
6. Engagement of unfair competitions
7. Direct or indirect infringement of the rights, health and safety of consumers or other interested parties during the process of research & development, procurement, fabrication, supply and selling for products or services.

Article 8 (Undertaking and enforcement)

The Company and its respective Business Group shall clearly specify ethical corporate management policies and the commitment of the management level for a rigorous and thorough enforcement of such policies in their rules and external documents for internal management and commercial activities.

Article 9 (Ethical engagement in commercial activities)

The Company shall engage in commercial activities in a fair and transparent manner based on the ethical corporate management policies.

Prior to any commercial transactions, the Company shall take into consideration the legality of its agents, suppliers, clients or other trading counterparties, and their records of unethical conduct, if any of such conduct is involved. Any dealings with persons who may be involved in any records of unethical conduct should be avoided.

When entering into contracts with the agents, suppliers, clients or other trade parties in business interactions, the Company should include in such contracts provisions demanding ethical corporate management policy compliance and that in the event the trading counterparties are suspected of involving in unethical conduct, the Company may at any time terminate or cancel the contracts.

Article 10 (Prevention of benefits offering and accepting)

When conducting business, the Company and its directors, supervisors, managers, employees, mandataries and substantial controllers shall not directly or indirectly offer, promise to offer, request or accept any improper benefits to or from clients, agents, contractors, suppliers, public servants, or other interested parties.

Article 11 (Prevention of unauthorized political donations)

When directly or indirectly offering a donation to political parties or organizations or individuals participating in political activities, the Company and its directors, supervisors, managers, employees, mandataries and substantial controllers, shall comply with the Political Donations Act and its own relevant internal operational procedures, and shall not make such donations in exchange for commercial gains or business advantages.

Article 12 (Prevention of improper donations and sponsorship)

When making or offering donations and sponsorship, the Company and its directors, supervisors, managers, employees, mandataries and substantial controllers shall comply with relevant laws and regulations and internal operational procedures, and shall not surreptitiously engage in bribery.

Article 13 (Prevention of unreasonable presents, hospitality or other improper benefits)

The Company and its directors, supervisors, managers, employees, mandataries and substantial controllers shall not directly or indirectly offer or accept any unreasonable presents, hospitality or other improper benefits to establish business relationship or influence commercial transactions.

Article 14 (Prevention for Infringement of Intellectual Property Right)

The Company and its directors, supervisors, managers, employees, mandataries and substantial controllers shall abide by the laws related to intellectual property rights, internal corporate operational procedures and contractual requirements. Without the prior consent of the owners, no using, disclosing, handling, damaging or other acts infringing the intellectual property is allowed.

Article 15 (Unfair Competition Prevention)

The Company shall conduct business activities based on related laws governing business competitions and shall not engage in unfair practices, including price fixing, bid rigging, production and quotas restricting or sharing customers, suppliers, operation regions and types of business for market sharing and dividing.

Article 16 (Prevention for Rights Violation Caused by Products or Services for

Interested Parties)

The Company and its directors, supervisors, managers, employees, mandataries and substantial controllers shall abide by related laws and international norms to ensure information transparency and safety of products and services provided during the whole process of research & development, procurement, fabrication, supply or sales, regulate and expose protection acts for consumers and other interested parties with such practices carried out in operation activities so as to prevent from directly or indirectly violating the rights, health and safety of consumers and other interested parties. Products or Services, which may endanger consumers or other interested parties or pose health risk according to the known facts, should in principle recalled or suspended.

#### Article 17 (Organization and responsibility)

The board of directors, supervisors, managers, employees, mandataries and substantial controllers of the Company shall exercise the due care of good administrators to urge the company to prevent unethical conduct, always review the results of the preventive measures and continually make adjustments so as to ensure thorough implementation of its ethical corporate management policies.

To achieve sound ethical corporate management, the Company may form a dedicated unit under the board of directors to be in charge of establishing and enforcing the ethical corporate management policies and prevention program and its detailed responsibilities are as follows:

1. To assist in incorporating the ethical and moral values into corporate management strategies, and stipulating preventive measures against corruption based on the related laws and regulations to ensure ethical management.
2. To regulate prevention programs for unethical conducts, within which related standard operating procedures and behavioral guidelines are specified.
3. To plan internal organization, structures, and duties; to establish a supervisory mechanism for check and balance for operating activities which may at a higher risk of being involved in an unethical conduct within the scope of business.
4. To implement and coordinate related training for ethical policies advocacy.

5. To plan reporting mechanism of unethical conducts and to ensure the effective execution.
6. To assist the board of directors and the management level in checking and assessing if the preventive measures established for ethical corporate management work effectively. To regularly appraise the regulatory compliance according to related business process and to make reports.

Article 18 (Compliance with laws and regulations for business conducting)

The Company and its directors, supervisors, managers, employees, mandataries and substantial controllers shall comply with laws and regulations and the prevention program when conducting business.

Article 19 (Prevention of interests conflicts)

The Company shall promulgate policies for preventing conflicts of interests to thereby distinguish, supervise and manage risks of unethical conducts which may be caused by interests conflicts and offer appropriate means for directors, supervisors, managers, and other interested parties who are either required or optional attendees of the board of directors to voluntarily explain whether their interests would potentially conflict with those of the Company.

The Company's directors, supervisors, managers, and other interested parties who are either required or optional attendees of the board of directors shall detail the immediate or vital interests in the board meeting where he/she or the juristic person that he/she represents is an interested party, and such participation is likely to prejudice the interests of the company. He/she is prohibited from participating in discussion of or voting on any proposal; neither shall he/she vote on such proposal as a proxy of another director in such circumstances. The directors shall practice self-discipline and must not support one another in improper dealings.

The Company's directors, supervisors, managers, mandataries and substantial controller shall not take advantage of their positions in the Company or their power to obtain improper benefits for themselves, their spouses, parents, children or any other person.

Article 20 (Accounting and internal control systems)

The Company shall establish effective accounting systems and

internal control systems for business activities which may at a higher risk of being involved in an unethical conduct, not have under-the-table accounts or keep secret accounts, and conduct reviews regularly so as to ensure that the design and enforcement of the systems are showing results.

Internal auditory units of the Company shall periodically examine the company's compliance with the foregoing and prepare audit reports and submit the same to the board of directors; accountants may be commissioned to conduct auditing and if necessary, professionals may be consulted.

#### Article 21 (Operational procedures and guidelines)

The Company shall establish prevention program in accordance with Article 6 hereof to guide directors, supervisors, managers, employees, mandataries, and substantial controllers on how to conduct business. The procedures and guidelines should at least contain the following matters:

1. Standards for determining whether improper benefits have been offered or accepted.
2. Procedures for offering legitimate political donations.
3. Procedures and the standard rates for offering charitable donations or sponsorship.
4. Rules for avoiding work-related conflicts of interests and how they should be reported and handled.
5. Rules for keeping confidential trade secrets and sensitive business information obtained in the ordinary course of business.
6. Regulations and procedures for dealing with suppliers, clients and business transaction counterparties suspected of unethical conduct.
7. Handling procedures for violations of the Principles.
8. Disciplinary measures on offenders.

#### Article 22 (Training and performance appraisal system)

The Chairman, President, or top managements of the Company shall periodically convey the importance of ethical values to the directors, employees and mandataries.

The Company shall periodically organize training and awareness programs for directors, supervisors, managers, employees, mandataries, and substantial controllers and invite the companies'

commercial transaction counterparties so they understand the company's resolve to implement ethical corporate management, the related policies, prevention program and the consequences of committing unethical conduct.

The Company shall apply the policies of ethical corporate management when creating its employee performance appraisal system and human resource policies to establish a clear and effective reward and discipline system.

#### Article 23 (Unethical conducts reporting system)

The Company shall stipulate a formal reporting system for unethical conduct and enforce strictly; the scope of reporting shall at least covers the following:

1. To establish and expose independent internal reporting mailbox or dedicated hotline or to commission an independent external agency to provide such channels to internal and external personnel.
2. To assign persons or unit in charge of reporting unethical conducts; to submit such report to an independent director if the situations reported involve directors or top management, with the type of violations and standard operating procedures for investigation specified.
3. To record and keep files of the report acceptance, investigation process and results, and related documents.
4. To maintain secrecy regarding the informant's identity and the activity reported.
5. To protect the informant from subjecting to improper treatment for the act of report.
6. To draw up reward measures for the informant.

Upon investigation by the internal persons/unit in charge of reporting unethical conducts, if significant unlawful acts or situations that may cause material damages to the Company are detected, a report shall be made right away and a written notice shall be submitted to the independent director.

Article 24 The Company shall establish a well-defined disciplinary and complaint system to handle violation of the ethical corporate management rules, and immediately disclose on the company's internal website the offender's job title, name, date the violation was committed, violating act and how the matter was handled.

Article 25 (Information disclosure)

The Company shall establish quantifiable data for the promotion of ethical corporate management to continuously analyze the effectiveness of related policy implementation, and disclose the measures adopted, status of fulfillment, the aforementioned data and effectiveness of its own ethical corporate management best practice principles on its company website, annual report and prospectus and disclose the content of its Ethical Corporate Management Best Practice Principles on the Market Observation Post System.

Article 26 (Review and improvement in ethical corporate management policies and measures)

The Company shall at all times monitor the development of relevant local and international regulations concerning ethical corporate management, and encourage directors, supervisors, managers and employees to make suggestions so as to review and improve its ethical corporate management policies and implementation measures and achieve better results from fulfilling them.

Article 27 (Implementation)

The Principles shall be implemented after the board of directors grants the approval, and shall be reported at a shareholders' meeting. The same procedure shall be followed when the Principles have been amended.

The Company shall fully consider opinions of the independent directors when submitting the Ethical Corporate Management Best Practice Principles for the director of board's approval as per the aforementioned requirement; any opposition or reservation of the directors shall be recorded in the *Certificate of Board Resolution*. In case that the independent director cannot personally state opposition or reservation in the board meeting, except when there is a justifiable reason, he/she shall provide written comments beforehand and state in the Certificate of Board Resolution.

The regulation governing supervisors in the Principle shall apply *mutatis mutandis* to an audit committee.