

2018 Law Enforcement Report

on Securities and
Futures Markets

Taiwan Stock Exchange Corporation (TWSE)

Taipei Exchange (TPEX)

Taiwan Futures Exchange Corporation (TAIFEX)

Securities and Futures Investors Protection Center (SFIPC)

Supervised by: Securities and Futures Bureau (SFB),
Financial Supervisory Commission (FSC)

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Law Enforcement Framework

- › Securities Market
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I. Securities Market

As the front-line supervisors for the listed companies, the Taiwan Stock Exchange hereinafter referred to as the "TWSE") and Taipei Exchange (hereinafter referred to as the "TPEX") impose relevant sanctions in accordance with regulations. If such companies are involved in violation of the Securities and Exchange Act and other relevant laws and regulations, the Securities and Futures Bureau (hereinafter referred to as the "SFB"), Financial Supervisory Commission (hereinafter referred to as the "FSC") will impose relevant administrative sanctions. In case of securities-related violations, the FSC will collaborate with the Ministry of Justice in the criminal investigation and prosecution. After the evidence of relevant cases is reviewed by the SFB in consultation with prosecutors stationed at the FSC, it will be transferred to the Investigation Bureau, Ministry of Justice or district prosecutor's offices for criminal investigation or prosecution. After, the Securities and Futures Investors Protection Center (hereinafter referred to as the "SFIPC") may institute a class action litigation on behalf of the investors, request damages from the persons in charge on behalf of the companies and/or investors, and institute actions for dismissal of persons in charge in accordance with the Securities Investor and Futures Trader Protection Act.

(I) Supervision on the Issuance Market

To improve the capital market and to maintain the rights and interests of shareholders, the TWSE and TPEX may supervise the financial operations of TWSE/TPEX listed companies, including scheduled audits of financial statements and internal controls in writing or on site, audits of management by exception for special cases, and scheduled and nonscheduled audits of information reporting and material information. For the audits of financial statements and internal controls, in particular, the TWSE and TPEX will spot check a certain percentage on matters of materiality every year.

If TWSE/TPEX listed companies are found to have violated relevant regulations, the TWSE and TPEX may, depending on the severity of the circumstances, issue a letter requesting improvement within a specific deadline, include such companies in the scheduled announcement of financial information and key financials section, impose penalties, adopt an altered-trading method, or suspend securities trading. In special cases, the TWSE and TPEX may issue a letter requesting TWSE/TPEX listed companies to resubmit the specific proposals to the audit committee, board of directors or shareholders' meeting for review or have their attorneys issue legal opinions. If such companies are found to have material deficiencies in internal controls, the TWSE and TPEX will request them to engage CPAs to review their internal controls and issue an audit report. If such companies are involved in violation of the Securities and Exchange Act and other relevant laws and regulations, the SFB will impose administrative sanctions. If the violations involve criminal liability, they will be transferred to the appropriate law enforcement agencies for prosecution and investigation for subsequent criminal investigation or prosecution.

(II) Supervision on the Trading Activities

Monitoring and announcement of information of attention securities and disposition measures: the TWSE and TPEX announce information of attention securities involving abnormal trading, and will impose disposition measures if abnormal trading persists. This allows investors to be closely alert to relevant stocks and thereby reduce investment risk and achieve the goal of making investors' investment more secure. For this reason, the TWSE and TPEX have formulated the "Directions for Announcement or Notice of Attention to Trading Information and Dispositions", respectively, to implement fairness and supervision impartiality.

Inspection of securities-related violations: TWSE and TPEX analyze abnormal stock trading of TWSE/TPEX listed companies in accordance with the "Rules Governing Implementation of the Stock Market Surveillance System". If securities-related violations, such as insider trading and manipulation of stock prices, are found, the TWSE and TPEX will immediately report to the SFB or the appropriate law enforcement agencies for prosecution and investigation to protect the rights and interests of investors and to maintain the sound development of the securities market.

(III) Institution of Class Action Litigation, Derivative Suit and Discharge Suit

According to Article 28 of the "Securities Investor and Futures Trader Protection Act" (hereinafter referred to as the "Act"), the SFIPC may submit a matter to arbitration or institute a class action litigation in its own name with respect to a securities or futures matter arising from a single cause that is injurious to multiple securities investors or futures traders after having been so empowered by not less than 20 securities investors or futures traders. Through arbitration or class action litigations, investors are able to assert their rights to secure damages, be more aware of protecting their rights, and improve their confidence in the securities and futures markets, further facilitating the sound development of the markets as a whole.

According to Article 10-1 of the Act, when conduct of a director or supervisor of a TWSE/TPEX listed company in the course of performing his or her duties that is materially injurious to the company or is in violation of laws, regulations, and/or provisions of the company's articles of incorporation, the SFIPC may request a representative to institute an action on behalf of the company or may institute an action for dismissal. This provision excludes the application of Articles 200 and 214 of the Company Act with respect to the threshold of the percentage (1% or 3%) and duration (six consecutive months or more) of shares held by the minority shareholders for instituting an action against the director or supervisor, and empowers the SFIPC to exercise the rights on behalf of the company or shareholders, so as to urge the director or supervisor to exercise due diligence of a good administrator in performing his or her duties and further strengthen corporate governance.

II. Futures Market

To enhance the soundness of futures market and prevent prices manipulation, the Taiwan Futures Exchange Corporation (hereinafter referred to as the "TAIFEX") conducts market surveillance in accordance with the "Regulations Governing Market Trading Surveillance". If futures trading is found to have reached certain defined protocols relating to abnormal trading, the TAIFEX may publish trading information and take relevant necessary measures, including adjusting the amount of margin, limiting the trading volumes or positions of futures traders, or suspending or terminating all or part of futures trading.

If illegal conducts, such as manipulation of futures prices and insider trading, are found, the TAIFEX will immediately report to the SFB or the appropriate law enforcement agencies for prosecution and investigation to protect the rights and interests of traders as well as to maintain the sound development of the futures market.

After the prosecutors bring a prosecution, the SFIPC may institute class actions for the traders and investors in accordance with the Act.

III. Intermediaries

(I) Securities Firms

Securities firms are mainly supervised and managed in accordance with the Securities and Exchange Act, based on which bylaws governing their business units, business operations, and personnel are formulated.

A securities firm shall not commence to operate its business unless it is a member of a securities dealers association, which shall formulate self-governing rules and request all members to abide by them. This includes the standards and policies to which all membership agree to abide by, and compliance shall be regularly checked to assure observance and conformity is upheld. According to the Securities and Exchange Act, the TWSE and TPEx shall formulate the business bylaws or operational rules specifying trading orders of securities dealers or brokers and sign a contract regarding the use of the securities market with securities firms. For securities firms and their employees that violate the market rules, the TWSE and TPEx may take relevant disciplinary actions against it. If securities firms and their employees are involved in violation of securities laws and regulations, the Securities and Exchange Act empowers the FSC to impose relevant administrative sanctions. For securities-related violations that involve with criminal offenses, since Ministry of Justice is the authority with the power to conduct criminal investigation and institute criminal proceedings, the FSC closely collaborates with the Ministry of Justice. The FSC proactively

collects relevant evidences, consults with the prosecutors stationed at the FSC and refers those cases to the Investigation Bureau of Ministry of Justice or district prosecutor's offices for further criminal investigation or prosecution.

The Financial Examination Bureau also conducts the scheduled and nonscheduled financial examinations of securities firms based on financial supervisory policies. Any deficiencies or violations found in the financial examinations will be transferred to the SFB for subsequent administrative sanctions.

(II) Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises

Enterprises in the category are mainly supervised and managed in accordance with the Securities Investment Trust and Consulting Act, based on which bylaws governing their business units, business operations, and personnel are formulated.

A securities investment trust enterprise or securities investment consulting enterprise shall not commence its business unless it is a member of a securities investment trust and consulting association, which shall formulate the self-regulatory rules and check the compliance of all members with the laws, regulations, and self-regulatory rules on a regular basis to strengthen the internal controls of these enterprise types and discipline of their employees.

The Financial Examination Bureau conducts scheduled and nonscheduled financial examinations of securities investment trust enterprises or securities investment consulting enterprises based on financial supervisory policies. The TWSE and TPEx have designed monitoring mechanisms to identify fund managers who may be involved in illegal and abnormal trading activities in a timely manner.

If securities investment trust enterprises or securities investment consulting enterprises or their employees are found to have violated the Securities Investment Trust and Consulting Act and other relevant regulations, the SFB will impose relevant administrative sanctions. If the violations involve criminal liability, they will be transferred to the Investigation Bureau, Ministry of Justice or district prosecutor's offices for criminal investigation or prosecution after being reviewed by the SFB in consultation with the prosecutors stationed at the FSC.

(III) Futures Commission Merchants

Futures Commission Merchants (FCM) are mainly supervised and managed in accordance with the Futures Trading Act and bylaws, stipulating the requirements for FCM's operations, finance, and personnel.

Futures commission merchants sign a contract regarding the use of the futures market with TAIEX. Based on the contractual relationship, the TAIEX is the front-line supervisor for futures commission merchants and hence imposes relevant sanctions against those violating the market regulations.

A futures commission merchants (FCM) shall not commence its business unless it is a member of the Chinese National Futures Association (CNFA), which shall stipulate the self-regulatory rules, coordinate all members to abide by the laws, regulations, and self-regulatory rules , as well as discipline the FCM's employees to follow the code of conduct.

The SFB has urged the TAIEX to formulate relevant regulations governing the finance, business, and internal controls of FCMs and to strengthen its audit and supervision of FCMs. If FCMs are found to have violated the Futures Trading Act and other relevant laws and regulations, the SFB would impose relevant administrative sanctions. If the violations involve criminal liability, such cases would be transferred to the Investigation Bureau, Ministry of Justice or district prosecutor's offices for criminal investigation or prosecution after being reviewed by the SFB in consultation with the prosecutors stationed at the FSC.

Results of Law Enforcement

- › Measures Imposed by the TWSE, TPEX, and TAIFEX
- › Administrative Sanctions Imposed by the SFB
- › Investigation of Criminal Liability
- › Investigation of Civil Liability

I. Measures Imposed by the TWSE, TPEX, and TAIEX

(I) Measures of TWSE/TPEX Listed Companies

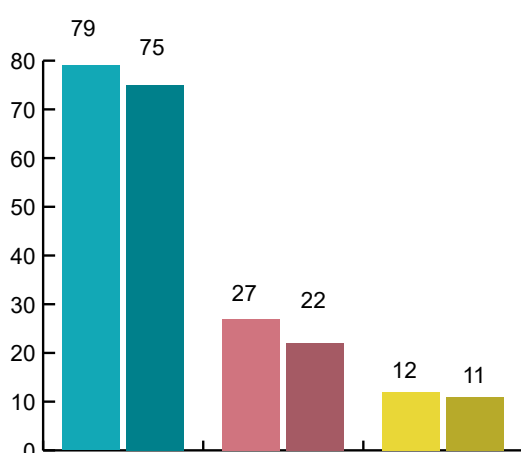
If TWSE/TPEX listed companies are found to have violated relevant regulations, the TWSE and TPEX may, depending on the severity of the circumstances, issue a letter requesting improvement within the given time limit, include such companies in the periodic financial disclosures, impose penalties, adopt altered trading, or suspend securities trading to improve the soundness of the capital market and to protect the rights and interests of shareholders. Sanctions imposed by the TWSE and TPEX in 2018 are described as follows:

1. The TWSE and TPEX found deficiencies in financial reports and internal control systems audits of TWSE/TPEX listed companies and issued a letter requesting improvement:

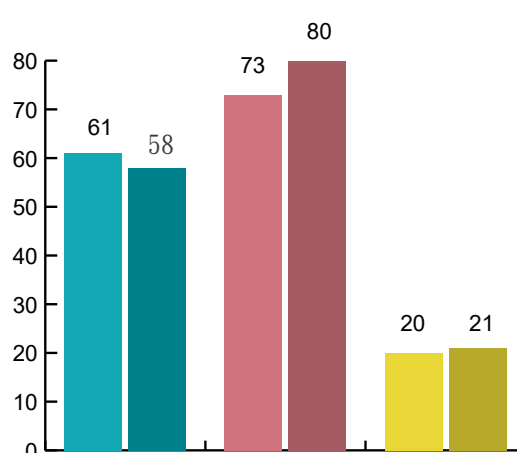
2018	TWSE Listed	TPEX Listed	TPEX Registered (Emerging Stock Board)
Deficiencies in the audits of financial reports	79	27	12
Deficiencies in the audits of internal control systems	61	73	20

2017	TWSE Listed	TPEX Listed	TPEX Registered (Emerging Stock Board)
Deficiencies in the audits of financial reports	75	22	11
Deficiencies in the audits of internal control systems	58	80	21

Deficiencies in the audits of financial reports



Deficiencies in the audits of internal control systems



2018 TWSE Listed TPEX Listed TPEX Registered (Emerging Stock Board)
 2017 TWSE Listed TPEX Listed TPEX Registered (Emerging Stock Board)

Brief analysis: For the issuance of letters requesting improvement in the deficiencies found in financial reports and internal control systems audits of listed companies, the TWSE reported 140 and 133 cases of TWSE listed companies and TPEX reported 100 and 102 cases on listed companies and 32 and 32 cases on emerging stock board registered companies in 2018 and 2017, respectively.

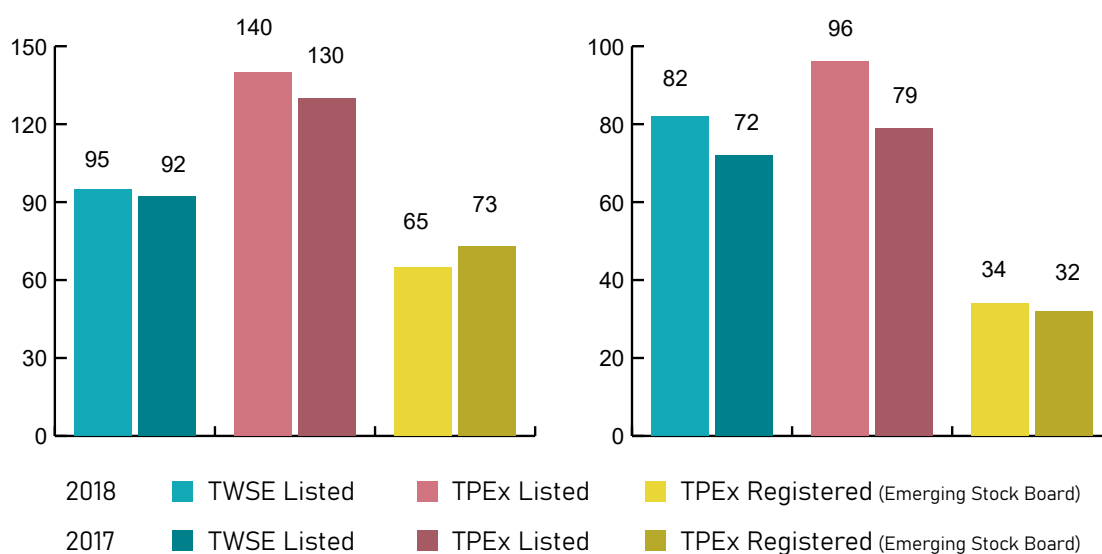
2. Companies required to be included in periodic disclosure of financial ratios and the key financial section:

2018	TWSE Listed	TPEX Listed	TPEX Registered (Emerging Stock Board)
Number of companies included in the key financials section	95	140	65
Number of companies included in the periodic financial disclosure of financial ratios	82	96	34

2017	TWSE Listed	TPEX Listed	TPEX Registered (Emerging Stock Board)
Number of companies included in the key financials section	92	130	73
Number of companies included in the periodic financial disclosure of financial ratios	72	79	32

Number of companies included in the key financials section

Number of companies included in the periodic financial disclosure of financial ratios



Brief analysis: Information on the high ratio of loans to others or endorsements/guarantees to net value, poor financial ratios (debt ratio, current ratio, and net cash flow from operating activities) presented in quarterly financial statements or losses for three consecutive years, the insufficient share ownership ratio of directors or supervisors for three consecutive months, or the high ratio of pledged shares of major shareholders announced and registered by TWSE/TPEX listed companies on a monthly basis will be included in the section titled "key financials section" and marked in red. The TWSE and TPEX may also issue a letter requesting such companies to report relevant financial information on a monthly basis to draw investors' attention.

As of 2018 and 2017, the number of TWSE listed companies included in the periodic disclosure of financial ratios was 95 and 92, respectively; the number of TPEX listed companies included in the periodic disclosure of financial ratios was 140 and 130; the number of emerging stock board registered companies included in the key financials section was 65 and 73. As of 2018 and 2017, the number of TWSE listed companies included in the scheduled announcement of financial ratios was 82 and 72; the number of TPEX listed companies was 96 and 79; the number of emerging stock board registered companies was 34 and 32.

Cases:

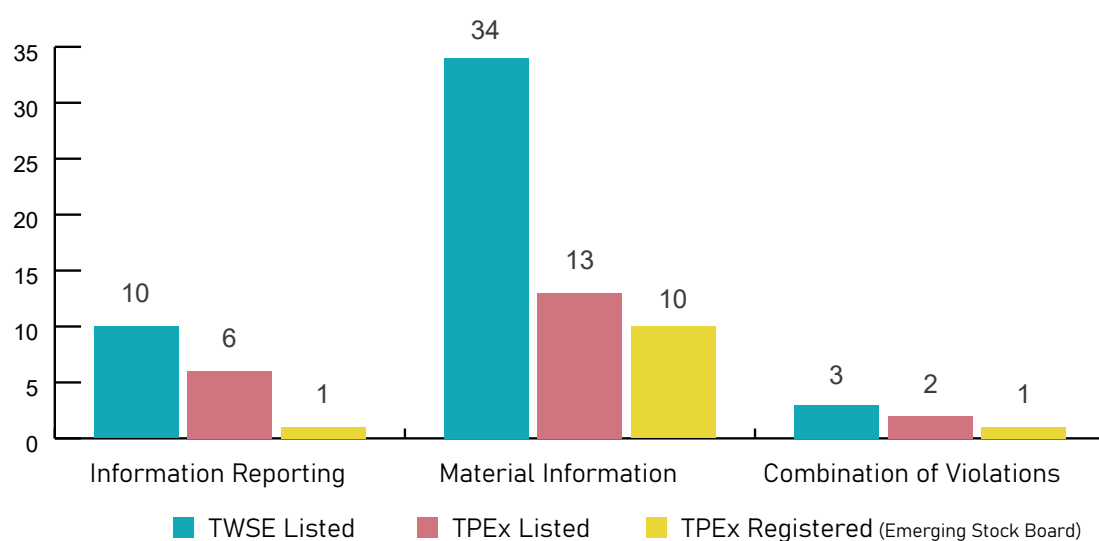
- (1) Sheng X Company had a huge amount of other receivables and was concentrated on a single customer, who had had overdue collections; there were material deficiencies in the design and implementation of its internal controls, and relevant information showed that there were significant doubts about the protection of assets and debt repayment or concerns for the significant adverse effects on shareholders' equity. Therefore, Sheng X Company was included in the periodic financial disclosures and required to report its financial information on a regular basis keep investors updated.
- (2) A company reinvested by Ai X Company appealed to the US court for reorganization. As Ai X Company's investment and creditor's right in the company accounted for a significant amount of its share capital, Ai X Company was included in the periodic financial disclosures.
- (3) Kai X Company's receivables accounted for a relatively high ratio of assets, and the customer's ability of debt repayment depended on the timing of receiving the government's subsidy. Given that the outstanding receivables could have an

impact on Kai X Company's financial operations, Kai X Company was included in the key financials section; in addition, given its low cash reserves, Kai X Company was required to regularly announce the estimated cash receipts and expenditures in the following three months and its available credit line.

3. TWSE/TPEX listed companies that paid penalties for violating the regulations governing

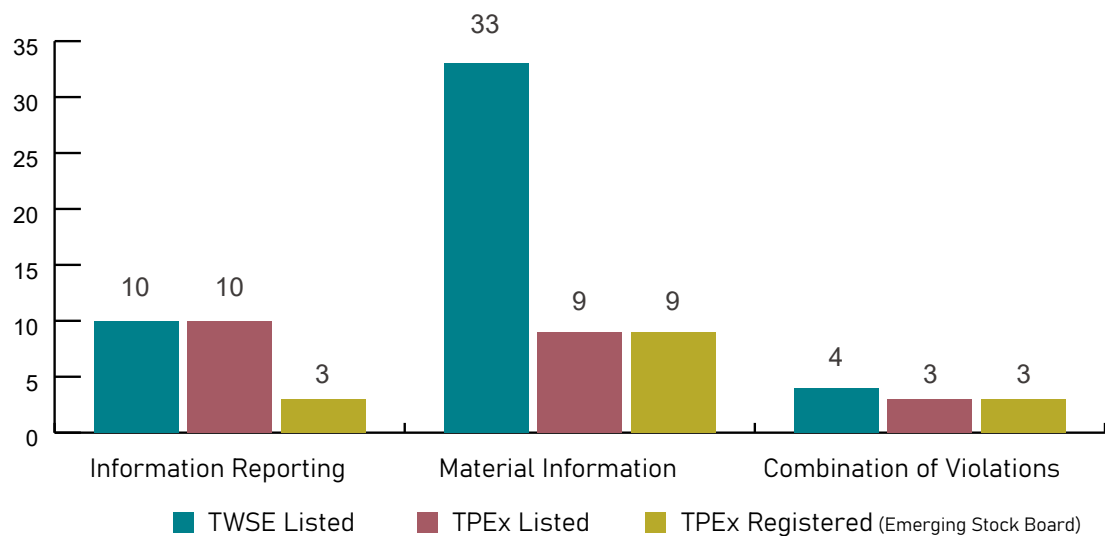
Violating the regulations governing information reporting and material information

2018



information reporting and material information:

2018	TWSE Listed	TPEX Listed	TPEX Registered (Emerging Stock Board)
Information Reporting	10	6	1
Material Information	34	13	10
Combination of Violations	3	2	1
Total	44	19	11
Number of companies paying penalties	41	17	10
Amount in penalties (in NT\$10,000)	191	115	22



2017

2017	TWSE Listed	TPEX Listed	TPEX Registered (Emerging Stock Board)
Information Reporting	10	10	3
Material Information	33	9	9
Combination of Violations	4	3	3
Total	43	19	12
Number of companies paying penalties	39	16	9
Amount in penalties (in NT\$10,000)	219	103	30

Brief analysis: 2018 and 2017 penalties for violating the regulations governing information reporting and material information were reported as follows: 41 and 39 cases of TWSE listed companies; 17 and 16 cases of TPEX listed companies; and 10 and 9 cases of emerging stock board registered companies. Penalties paid by TWSE listed companies amounted to NT\$1.91 million and NT\$2.19 million and averaged NT\$46,600 and NT\$56,200 per case; TPEX listed companies amounted to NT\$1.15 million and NT\$1.03 million and averaged NT\$67,600 and NT\$64,400 per case; emerging stock board registered companies paid to NT\$0.22 million and NT\$0.30 million and averaged NT\$22,000 and NT\$33,300 per case.

Cases:

- (1) On May 18, 2018, Yu X Company announced the revision of consolidated operating revenue from January to March 2018, which violated the provisions of Paragraph 2, Article 6 of the "Taiwan Stock Exchange Corporation Rules Governing Information Filing by Companies with TWSE Listed Securities and Offshore Fund Institutions with TWSE Listed Offshore Exchange-Traded Funds." Therefore, the TWSE imposed a penalty of NT\$200,000.
- (2) The former chairman of Da X Securities Company had a check bounce due to insufficient deposits during his tenure as chairman in 2018. Da X Securities Company did not announce and register the bounced check two hours before the trading time in the business day following the occurrence, so the TPEX imposed a penalty of NT\$500,000 and requested it to disclose relevant information.
- (3) A subsidiary of Fei X Company terminated important contracts, which had a significant impact on its financial operations; however, Fei X Company failed to make an announcement before the deadline, which violated the provisions of "the review of emerging stock for trading on the TPEX" about material information; in addition, there was a material error in unaudited revenue from July to November 2017 announced by Fei X Company, and it was not corrected until December 2017, which violated the provisions of "the review of emerging stock for trading on the TPEX" about information reporting. All together, the TPEX imposed a penalty of NT\$50,000 in January 2018.

4. Information on altered trading, periodic trading, and suspended trading:

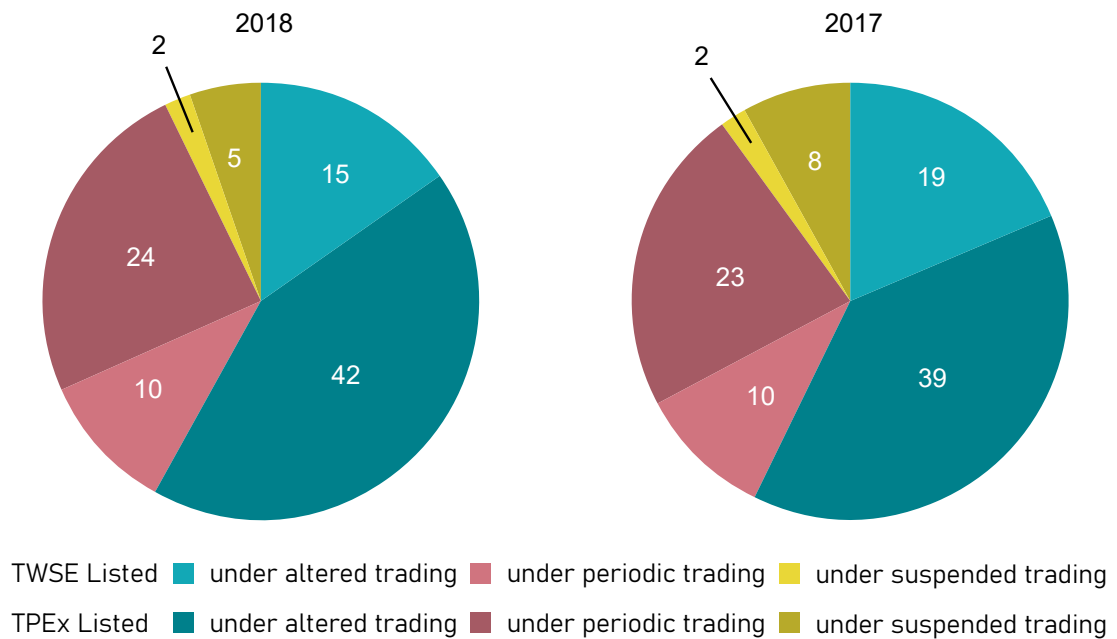
Trading Disposition	2018		2017	
	TWSE Listed	TPEX Listed	TWSE Listed	TPEX Listed
Number of companies under altered trading	15	42	19	39
Number of companies under periodic trading	10	24	10	23
Number of companies under suspended trading	2	5	2	8

Note:

**Altered trading: Securities firms shall collect sufficient securities or funds prior to conducting brokerage trading.*

**Periodic trading: For securities in periodic trading, orders will be matched once every 30 minutes. Odd-lot orders, however, do not apply.*

Information on altered trading, periodic trading, and suspended trading



Brief analysis: If TWSE/TPEX listed companies have financial or business operations specified in TWSE/TPEX regulations, then the TWSE and TPEX have the right to adopt altered trading or periodic call auction for listed securities, and may further suspend the trading of listed securities. The TPEX also imposes the same sanctions for convertible (exchangeable) bonds issued by TWSE/TPEX listed companies.

Cases:

- (1) On December 14, 2018, Hua X Company filed a petition for reorganization to the court due to financial difficulties, which empowered the TWSE to adopt altered trading or periodic call auction in accordance with the provisions of Subparagraph 6, Paragraph 1, Article 49 of the "Operating Rules of the Taiwan Stock Exchange Corporation."
- (2) The competent authority requested Jian X Company to rewrite its financial statements for the second quarter of 2018, but the rewrites were not made within the specified time period, which violated the provisions of Subparagraph 5, Paragraph 1, Article 50 of the "Operating Rules of the Taiwan Stock Exchange Corporation." The TWSE issued a letter to suspend the trading of its securities starting from September 12, 2018.

- (3) As the number of mainboard listed common shares of Fei X Company neither reached 25% of the total number of the issued common shares nor reached five million, which was considered a lack of liquidity, the TPEX announced altered trading for them on May 7, 2015. Corrections were not made by Fei X Company for more than three years, so the TPEX announced the suspension of trading of its securities starting from May 15, 2018.
- (4) As Hua X Company did not announce and register its financial statements for the third quarter of 2017 according to the regulations, the TPEX announced the suspension of trading of its securities and convertible bonds starting from November 17, 2017.
- (5) Sheng X Company announced and registered its financial statements for the first quarter of 2018; however, its CPA issued a review report with a qualified conclusion. Therefore, the TPEX announced altered trading for its stocks and convertible bonds starting from May 18, 2018.

(II) Measures on the Trading Activities

1. Announcement of attention securities:

After the daily close of the centralized securities exchange market, the TWSE and TPEX analyze the trading activities of TWSE/TPEX listed companies. If abnormal trading is found to have reached a certain standard, the TWSE and TPEX will announce the name of the securities firm and its trading information (such as price increase/decrease, trade volume, turnover, and concentration risk) in the market to allow for sufficient information for investors to make informed decisions in matters of risk.

2. Information of disposition securities:

If there has been significant abnormality in the trading price and volume of TWSE/TPEX listed companies repeatedly reaching the criterion for information of attention securities for a certain period of time, the TWSE and TPEX will impose advance collection of buy-side payment or sell-side securities on such securities to avoid its serious impact on the market while maintaining order and safety of securities trading.

In 2018, the TWSE announced information of 431 attention securities 2,335 times and information of 83 disposition securities 189 times. In 2017, the TWSE announced information of 354 attention securities 1,747 times and information of 51 disposition securities 126 times.

In 2018, the TPEX announced information of 392 attention securities 1,872 times and information of 112 disposition securities 188 times. In 2017, the TPEX announced information of 356 attention securities 1,810 times and information of 102 disposition securities 176 times.

(III) Measures of Intermediaries

1. Measures of securities firms:

When securities firms violate relevant regulations, the TWSE and the TPEX may, depending on the severity of the circumstances, issue a letter requesting securities firms to improve, impose penalties/delinquency fines, or suspend their securities dealing or brokerage business or part or whole of trading in their business places for not more than three months. Furthermore, a warning may be issued to persons who violated the regulation or have their business halted to maintain order in the securities market and to protect the rights and interests of investors. Securities firms sanctions in 2018 and 2017 are described as follows:

(1) Measures of securities firms in terms of deficiencies in trading:

2018

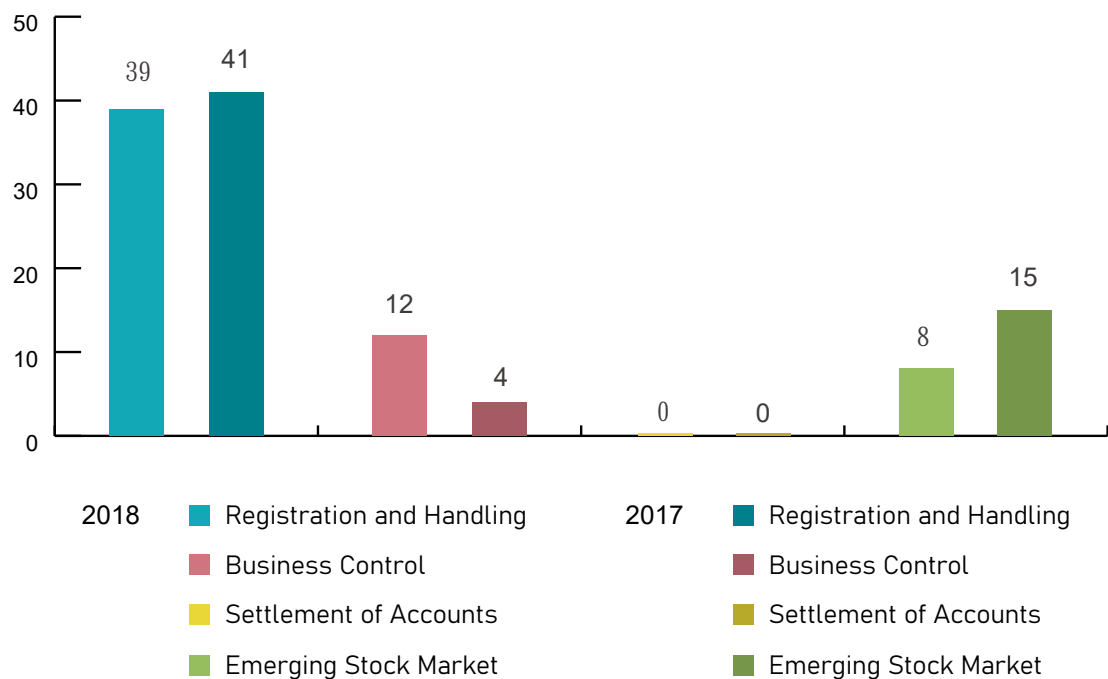
Violation Type	Measure	TWSE	TPEX	Total
Regulations governing reporting and handling	Issuance of a letter requesting improvement	13 cases	23 cases	39 cases
	Imposition of delinquent fines	2 cases (totaling NT\$60,000)	1 case (totaling NT\$30,000)	
Regulations governing business control	Issuance of a letter requesting improvement	11 cases	1 case	12 cases
Regulations governing clearing and settlement	Imposition of delinquency fines	NT\$0	NT\$0	0 case
	Suspension of trading	0 case	0 case	
Regulations governing the emerging stocks market	Issuance of a letter requesting corrections	-	7 cases	8 cases
	Imposition of penalties	-	1 case (NT\$100,000)	

2017

Violation Type	Measure	TWSE	TPEX	Total
Regulations governing reporting and handling	Issuance of a letter requesting improvement	3 cases	35 cases	41 cases
	Imposition of delinquent fines	3 cases (totaling NT\$90,000)	NT\$0	
Regulations governing business control	Issuance of a letter requesting improvement	3 cases	1 case	4 cases
Regulations governing clearing and settlement	Imposition of delinquency fines	NT\$0	NT\$0	0 case
	Suspension of trading	0 case	0 case	
Regulations governing the emerging stocks market	Issuance of a letter requesting corrections	-	15 cases	15 cases
	Imposition of penalties	-	NT\$0	

Brief analysis: In 2018, the violations of the regulations governing reporting and handling accounted for the highest percentage of the sanctions imposed by the TWSE and TPEX on securities firms in terms of trading, totaling 39. The main reason was that the securities firms neither reported default by customers nor handled changes to a trading category within the time limit. The violations of the regulations governing business control accounted for the second highest percentage of sanctions imposed by the TWSE and TPEX on securities firms in terms of trading, totaling 12. Most of the violations are loaned securities in excess.

Number of Sanctions of Securities Firms in Terms of Deficiencies in Trading



Cases:

- (1) On July 18, 2018, Taipei Branch of De XX Securities Company (Hong Kong) did not handle changes to a trading category for the customers within the deadline, which violated Article 2 of the "Taiwan Stock Exchange Corporation Directions for Securities Firms Handling Changes to Trading Category." Therefore, the TWSE issued a warning letter and requested improvement.
- (2) On January 18, 2018, Shimao Branch of Fu X Securities Company did not report default by customers within the time limit, which violated Article 2 of the "Taipei Exchange Directions for Securities Brokers Reporting Delayed Settlement and Default by Customers". Therefore, the TPEx issued a warning letter and requested corrections.

- (2) Measures of securities firms in terms of deficiencies in financial and business operations:

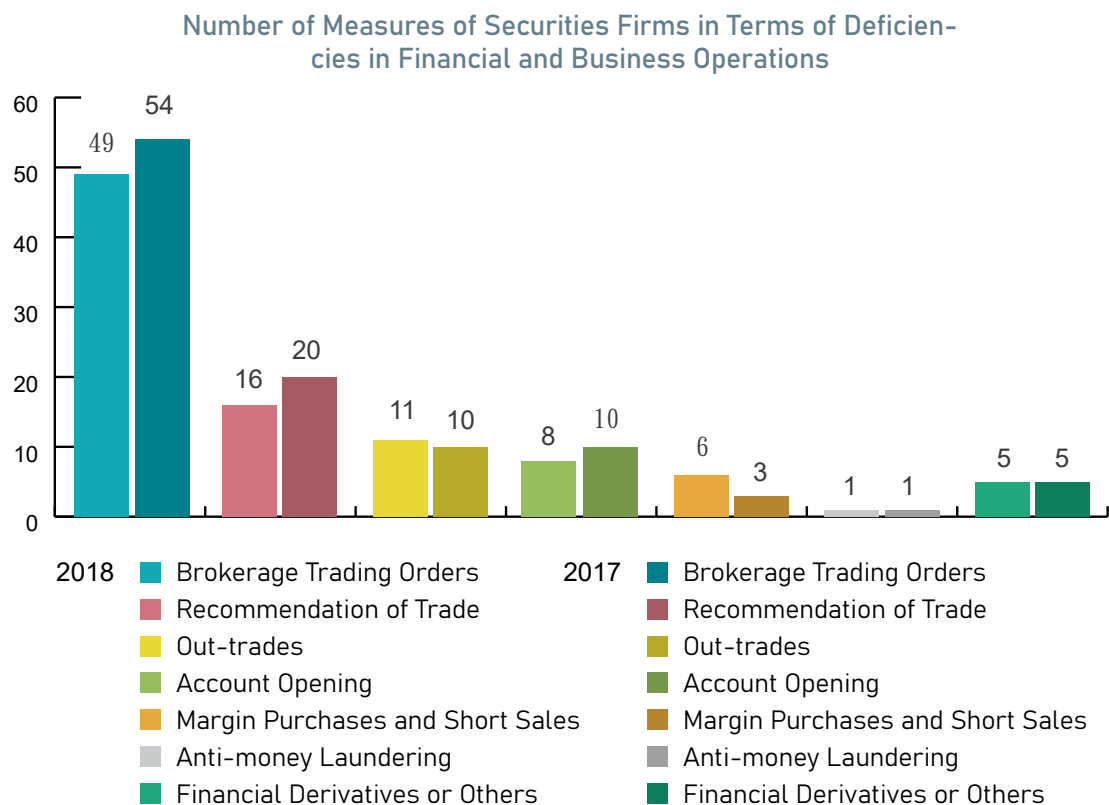
2018

Violation Type	TWSE	TPEX	Total
Regulations governing brokerage trading orders	29 cases	20 cases	49 cases
Regulations governing recommendation of trade in securities and securities borrowing and lending	16 cases	0 case	16 cases
Regulations governing out-trades	8 cases	3 cases	11 cases
Regulations governing account opening	7 cases	1 case	8 cases
Regulations governing margin purchases and short sales	4 cases	2 cases	6 cases
Regulations governing anti-money laundering and combating the financing of terrorism	1 case	0 case	1 case
Regulations governing financial derivatives or other business operations	0 case	5 cases	5 cases

2017

Violation Type	TWSE	TPEX	Total
Regulations governing brokerage trading orders	43 cases	11 cases	54 cases
Regulations governing recommendation of trade in securities and securities borrowing and lending	20 cases	0 case	20 cases
Regulations governing out-trades	9 cases	1 case	10 cases
Regulations governing account opening	6 cases	4 cases	10 cases
Regulations governing margin purchases and short sales	2 cases	1 case	3 cases
Regulations governing anti-money laundering and combating the financing of terrorism	1 case	0 case	1 case
Regulations governing financial derivatives or other business operations	0 case	5 cases	5 cases

Brief analysis: As the brokerage business remains the main source of income for securities firms in Taiwan today, deficiencies in brokerage business of securities are the majority. In 2018, 49 cases with respect to the violations of the regulations governing brokerage trading orders were reported, followed by 16 cases with respect to the violations of the regulations governing recommendation of trade in securities and securities borrowing and lending. Compared with the violations reported in 2017, however, the deficiencies in financial and business operations found in the audits of securities firms by the TWSE and TPEX were reduced in 2018.



Cases:

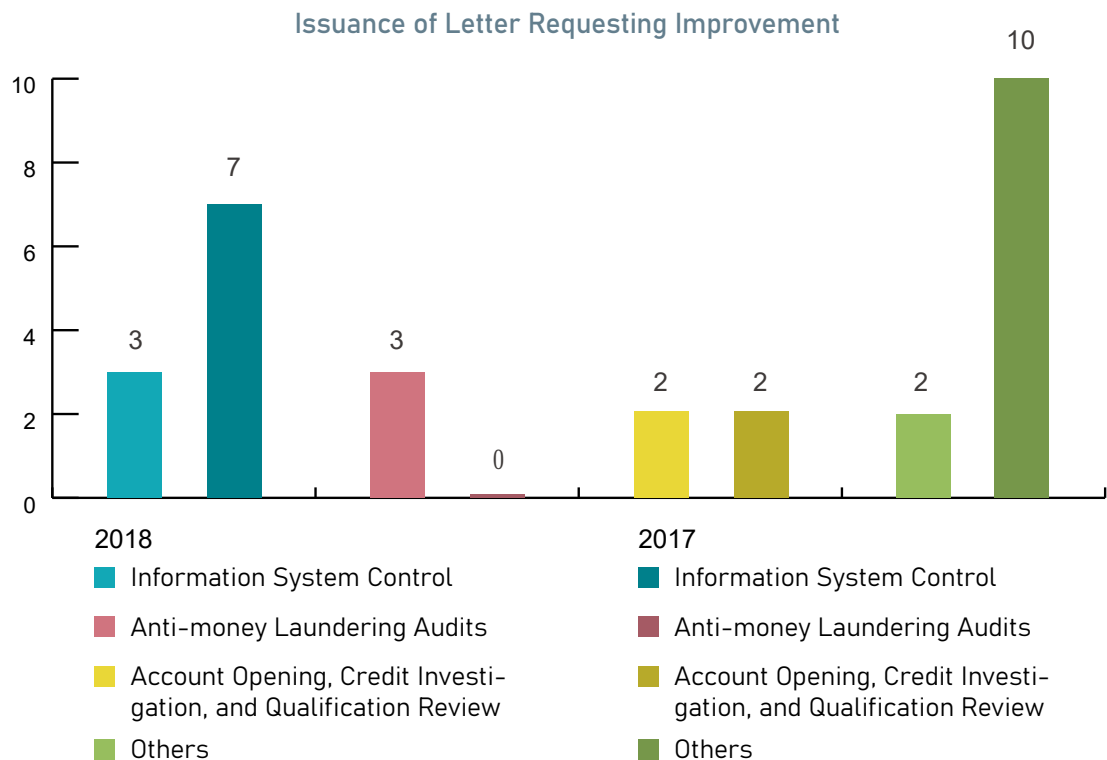
- (1) The associated person of Chao X Securities Company, Liu XX, took brokerage trading orders for customers as an authorized discretionary trader with respect to the type, quantity, price, and buy or sell of securities, which violated the "Operating Rules of the Taiwan Stock Exchange Corporation." The TWSE issued a warning letter and requested improvement, plus imposed a default fine of NT\$40,000; in addition, the TWSE requested it to have the associated person suspended for four months.

- (2) The associated person of Di X Securities Company, Chen XX, concealed information, deceived, and violated the principle of good faith when accepting brokerage trading orders, and other associated persons of Di X Securities Company also helped Chen make fake telephone recordings; in addition, internal auditors did not handle customer complaints or appeals in accordance with the internal controls of Di X Securities Company. All of the above violated several articles of the "Taipei Exchange Rules Governing Securities Trading on the TPEX". In 2018, the TPEX issued a warning letter and requested improvement, imposed a penalty of NT\$80,000, and requested it to strengthen its internal controls, compliance, and supervision and training of its employees.

2. Measures of futures commission merchants:

(1) Issuance of a letter requesting improvement:

Violation Type	2018	2017
Information system control	3 cases	7 cases
Anti-money laundering audits	3 cases	0 case
Account opening, credit investigation, and qualification review	2 cases	2 cases
Others	2 cases	10 cases



Brief analysis: In 2017 and 2018, due to violations of Article 125 or 126 of the “Operating Rules of the Taiwan Futures Exchange Corporation” by futures commission merchants, TAIFEX issued 19 and 10 letters requesting for improvement, respectively.

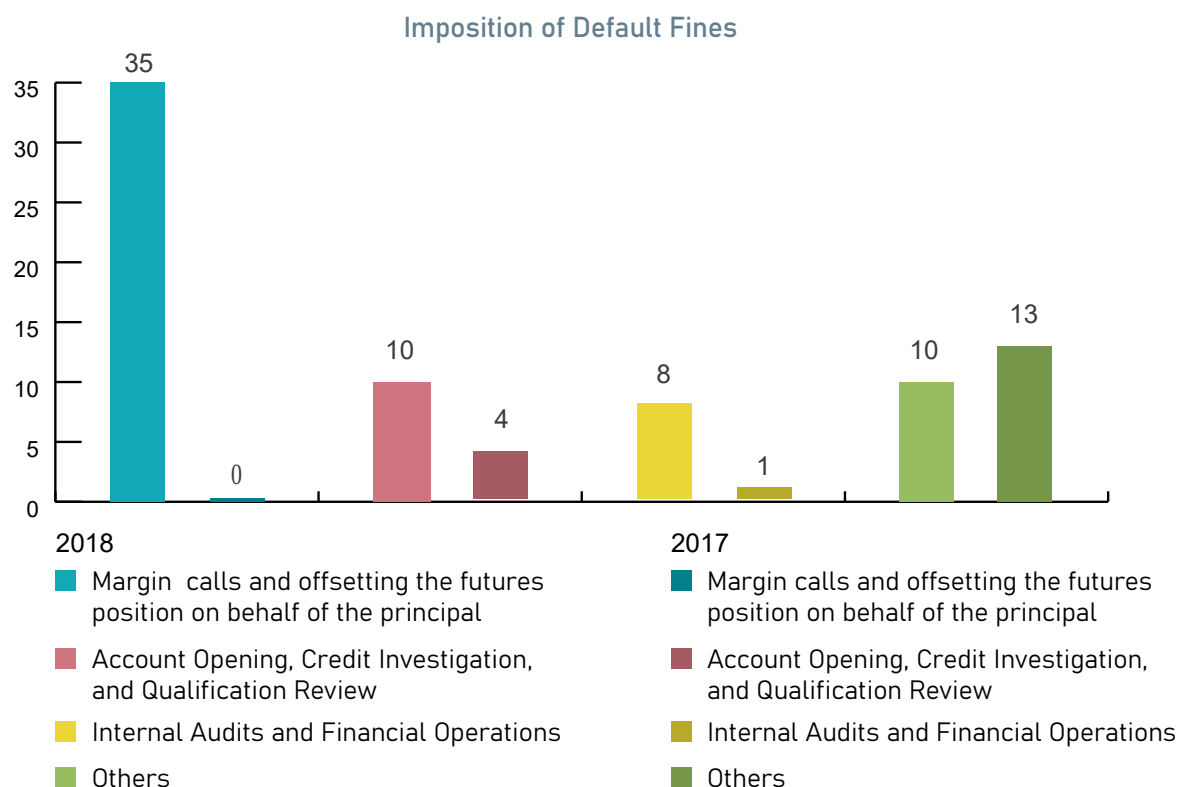
Cases:

- (1) The associated persons of Fu X Futures Company solicited account opening from traders before completing their qualification registration, which violated the “Operating Rules of the Taiwan Futures Exchange Corporation.” In 2017, the TAIFEX issued a warning letter and requested improvement.
- (2) Ri X Futures Company did not handle the orders placed through the Internet by means of encryption, which violated the “Operating Rules of the Taiwan Futures Exchange Corporation.” In 2018, the TAIFEX issued a warning letter and requested improvement.

(2) Imposition of default fines:

Violation Type	2018	2017
Margin calls and offsetting the futures position on behalf of the principal	35 cases	0 case
Account opening, credit investigation, and qualification review	10 cases	4 cases
Internal audits and financial operations	8 cases	1 case
Others	10 cases	13 cases

Brief analysis: In 2017 and 2018, 18 and 63 cases with respect to the default fines imposed by the TAIFEX on futures commission merchants for violating Article 126 or 127 of the “Operating Rules of the Taiwan Futures Exchange Corporation” were reported.



Cases:

- (1) Kai X Futures Company performed substituted off-set operations without confirming full disclosure with high-risk customers, which violated the "Operating Rules of the Taiwan Futures Exchange Corporation." In 2018, the TAIEX imposed a default fine of NT\$10,000 on Kai X Futures Company.
- (2) The president of Yuan X Futures Company did not register with the futures association as an associated person engaging in proprietary trading and instructed the associated person engaging in proprietary trading to place orders by phone, which violated the "Operating Rules of the Taiwan Futures Exchange Corporation." In accordance with Article 126 of the "Operating Rules of the Taiwan Futures Exchange Corporation", the TAIEX imposed a default fine of NT\$50,000 on Yuan X Futures Company in 2017.

II. Administrative Sanctions Imposed by the SFB

The violations of Article 22-2 or 25 of the "Securities and Exchange Act" with respect to the registration of insiders' shareholding accounted for the highest percentage of the administrative

sanctions imposed by the SFB. In 2018 and 2017, 107 and 71 cases were reported. The violations of Subparagraphs 1 and 2, Paragraph 1 and Paragraph 2, Article 36 of the “Securities and Exchange Act” with respect to financial statements accounted for the second highest percentage of the administrative sanctions imposed by the SFB. In 2018 and 2017, 34 and 44 cases were reported. In 2018, the violations of Article 65 and Subparagraph 1, Article 66 of the “Securities and Exchange Act” with respect to internal controls accounted for the third highest percentage of the administrative sanctions imposed by the SFB, with 29 cases reported. In 2017, the violations of Articles 56, 178, and 179 of the “Securities and Exchange Act” with respect to the employees of securities firms accounted for the third highest percentage of the administrative sanctions imposed by the SFB, with 32 cases reported.

Table 1: Number of Administrative Sanctions Imposed by the SFB

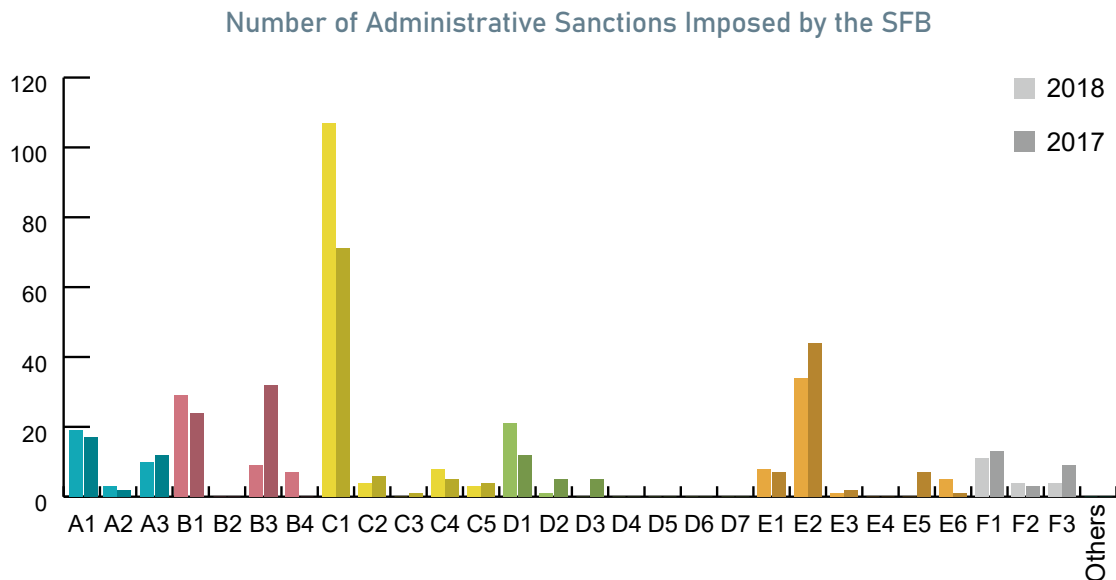
Violation Type		Legal Basis	2018 (Number of Violations)	2017 (Number of Violations)
A1	Acquisition or disposition of assets	Article 36-1 of the “Securities and Exchange Act”	19	17
A2	Material information	Subparagraph 2, Paragraph 3, Article 36 of the “Securities and Exchange Act”	3	2
A3	Regulations governing appointment of independent directors and regulations governing procedure for board of directors' meetings	Paragraphs 1 and 5, Article 14-2, Article 14-3, and Paragraphs 7 and 8, Article 26-3 of the “Securities and Exchange Act”	10	12
B1	Internal controls of securities firms	Article 65 or Subparagraph 1, Article 66 of the “Securities and Exchange Act”	29	24
B2	Securities brokerage	Article 23 of the “Computer-processed Personal Data Protection Act”	0	0
B3	Employees of securities firms	Articles 56, 178, and 179 of the “Securities and Exchange Act”	9	32
B4	Money Laundering Control Act	Paragraph 5, Article 7 of the “Money Laundering Control Act”	7	0
C1	Registration of insiders' shareholding	Article 22-2 or 25 of the “Securities and Exchange Act”	107	71
C2	Acquisition of large shareholding	Paragraph 1, Article 43-1 of the “Securities and Exchange Act”	4	6

Violation Type		Legal Basis	2018 (Number of Violations)	2017 (Number of Violations)
C3	Tender offer	Paragraph 4, Article 43-1 and Article 43-3 of the "Securities and Exchange Act"	0	1
C4	Share repurchase	Article 28-2 of the "Securities and Exchange Act"	8	5
C5	Proxy for the attendance of a shareholders' meeting	Article 25-1 of the "Securities and Exchange Act"	3	4
D1	Internal controls of securities investment trust enterprises and securities investment consulting enterprises	Articles 7 and 93 of the "Securities Investment Trust and Consulting Act"	21	12
D2	Securities investment trust business	Article 17 of the "Securities Investment Trust and Consulting Act"	1	5
D3	Securities investment consulting business	Articles 4 and 70 of the "Securities Investment Trust and Consulting Act"	0	5
D4	Employees of securities investment trust enterprises and securities investment consulting enterprises	Article 69 of the "Securities Investment Trust and Consulting Act"	0	0
D5	Offshore funds	Article 16 of the "Securities Investment Trust and Consulting Act"	0	0
D6	Disclosure of financial information of securities investment trust enterprises and securities investment consulting enterprises	Article 99 of the "Securities Investment Trust and Consulting Act"	0	0
D7	Financial and business inspections of securities investment trust enterprises and securities investment consulting enterprises	Article 101 of the "Securities Investment Trust and Consulting Act"	0	0

Violation Type		Legal Basis	2018 (Number of Violations)	2017 (Number of Violations)
E1	Extension of loans or endorsements/ guarantees	Article 36-1 of the "Securities and Exchange Act"	8	7
E2	Financial statements	Subparagraphs 1 and 2, Paragraph 1 and Paragraph 2, Article 36 of the "Securities and Exchange Act"	34	44
E3	Accounting officers	Paragraph 3, Article 14 of the "Securities and Exchange Act"	1	2
E4	Certified public accountants	Articles 11, 41, 61, 62, 68, 70, and 71 of the "Certified Public Accountant Act"	0	0
E5	Registration of the operating status	Subparagraph 3, Paragraph 1, Article 36 of the "Securities and Exchange Act"	0	7
E6	Internal controls	Paragraphs 2 and 3, Article 14-1 of the "Securities and Exchange Act"	5	1
F1	Futures commission merchants and leverage transaction merchants	Articles 56 and 80 of the "Futures Trading Act"	11	13
F2	Futures services	Articles 82 and 85 of the "Futures Trading Act"	4	3
F3	Employees of futures commission merchants	Articles 61, 80 and 82 of the "Futures Trading Act"	4	9
-	Others		0	0
Total			288	282

Note:

Type A, C, and E are administrative sanctions of TWSE/TPEX listed companies; Type B is administrative sanctions of securities firms; Type D is administrative sanctions of securities investment trust enterprises and securities investment consulting enterprises; Type F is administrative sanctions of futures commission merchants.



(I) Administrative Sanctions of TWSE/TPEX Listed Companies

1. A1: Article 36-1 of the “Securities and Exchange Act”

Brief Analysis:

In 2018, the FSC imposed sanctions on the persons in charge of public companies who violated the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies” adopted in accordance with Article 36-1 of the “Securities and Exchange Act.” A total of 19 cases of such violation were reported, including: (1) delay of announcements or failure to make announcements according to the regulations (11 cases); (2) failure to seek opinions from external experts (four cases); (3) failure to comply with resolution procedures (three cases); and (4) others (one case).

Case of violation:

In 2016, Zhong X Company acquired real estate from related parties; however, Zhong X Company neither submitted the reason for the selection of the related parties and other relevant information to the board of directors for approval and supervisors for adoption according to the regulations before signing contracts and making payments nor made an announcement of the acquisition of real estate from related parties in a given format within two days from the board of directors' resolution. Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of Zhong X Company.

2. A2: Subparagraph 2, Paragraph 3, Article 36 of the “Securities and Exchange Act”

Brief Analysis:

According to Subparagraph 2, Paragraph 3, Article 36 of the “Securities and Exchange Act”, public companies shall publicly announce any event which has a material impact on shareholders' rights and interests or securities prices within two days from the date of occurrence. In 2018, the FSC imposed the administrative sanctions on three cases of the aforesaid violation. The main type of such violations was failure to announce litigation or non-litigious matters or precautionary proceedings and the signing of major business cooperation programs/contracts within a specific deadline (two days from the date of occurrence).

Case of violation:

He X Company and X Group entered into an agreement on the use of the brand and core production technology and payments; however, He X Company failed to make an announcement within two days from the date of occurrence. Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of He X Company.

3. A3: Paragraphs 1 and 5, Article 14-2, Article 14-3, and Paragraphs 7 and 8, Article 26-3 of the “Securities and Exchange Act”

Brief Analysis:

According to Paragraph 7, Article 26-3 of the “Securities and Exchange Act”, when the number of directors falls short by one-third of the total number prescribed by the articles of incorporation, public companies shall convene a special shareholders' meeting within 60 days to hold a by-election for directors. In 2018, the FSC imposed sanctions on one case with respect to failure to hold a by-election for directors according to the regulations. In addition, the FSC imposed sanctions on the persons in charge of public companies who violated the “Regulations Governing Procedure for Board of Directors Meetings of Public Companies” adopted in accordance with Paragraph 8, Article 26-3 of the “Securities and Exchange Act.” A total of eight cases of such violation were reported, including: (1) directors' failure to enter recusal (three cases); (2) failure to send a notice of the board of directors' meeting seven days in advance (two cases); (3) failure to submit proposals of materiality to the board of directors' meeting for discussion (one case); (4) independent directors' failure to attend the board of directors' meeting (one case); and (5) failure to announce objections expressed by independent directors (one case).

Case of violation:

- (1) In 2017, the board of directors of Kang X Company resolved to dismiss the incumbent president and appoint a new president and a deputy executive vice president; however, three independent directors failed to attend the board of directors' meeting, which violated the provision that "all independent directors shall attend the board of directors' meeting. If an independent director is unable to attend in person, he or she shall appoint another independent director to attend as his or her proxy." Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of the violation.
- (2) As of March 30, 2018, Hua X Company only had one independent director, which fell short of the number prescribed by the articles of incorporation. Although Hua X Company already announced the nomination of candidates for independent directors, the board of directors failed to propose the list of candidates for independent directors according to the regulations, causing the unsuccessful election of independent directors in the shareholders' meeting held on June 29, 2018. Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of organizing such matters.

4. C1: Article 22-2 or 25 of the "Securities and Exchange Act"

Brief Analysis:

In 2018, the FSC imposed sanctions on insiders (including their spouses and minor children and those holding shares under the names of other parties) of public companies who violated Article 22-2 or 25 of the "Securities and Exchange Act." A total of 107 cases of such violation were reported, including: (1) transfer of stocks in a centralized securities exchange market or an over-the-counter market within six months from the assumption of office; (2) failure to register the transfer of shares in advance; (3) failure to register the forced sale or auction of stocks by financial institutions or courts in advance; (4) failure to register the actual number of shares held due to error or omission; and (5) failure to register the changes in the number of shares held by their spouses and minor children and those holding shares under the names of other parties.

Case of violation:

- (1) On XX, 2018, the managerial officer of Wei X Company transferred 20,000 shares of Wei X Company in the centralized securities exchange market but failed to register the transfer of shares in advance in accordance with Article 22-2 of the "Securities and Exchange Act." Therefore, the FSC imposed a fine of NT\$240,000.

- (2) From 2015 to 2018, the director who held more than 10% of Jian X Company's total shares held those Company's shares under the names of Hsieh and He but failed to register the ownership and trading of Jian X Company's shares under their names, which violated Article 25 of the "Securities and Exchange Act." Therefore, the FSC imposed a fine of NT\$420,000.

5. C2: Paragraph 1, Article 43-1 of the "Securities and Exchange Act"

Brief Analysis:

According to Paragraph 1, Article 43-1 of the "Securities and Exchange Act", any person who acquires, either individually or jointly with other persons, more than 10% of the total issued shares of a public company shall register the purpose and the sources of funds for the acquisition of the shares and any other matters requiring compliance with the competent authority, changes in the registrations, if any, shall be submitted any time. In 2018, the FSC imposed administrative sanctions on four cases of the aforesaid violation. The main type of such violations was investors' failure to register the ownership of more than 10% of the total issued shares of public companies or the changes by 1% within a specific deadline.

Case of violation:

Bao X Company and Rong X Investment Company jointly acquired more than 10% of the total issued shares of Rong X Company. In 2018, both the number of shares and the percentage of shares held by Bao X Company and Rong X Investment Company changed by 1%, but Bao X Company and Rong X Investment Company failed to register the changes within two days from the date of occurrence. Therefore, the FSC imposed a fine of NT\$240,000 on the persons in charge.

6. C4: Article 28-2 of the "Securities and Exchange Act"

Brief Analysis:

In 2018, the FSC imposed sanctions on TWSE/TPEX listed companies which violated Article 28-2 of the "Securities and Exchange Act" and the "Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies" adopted in accordance with Article 28-2 of the "Securities and Exchange Act." A total of eight cases of such violation were reported, including: (1) the total number of shares repurchased per day exceeded one third of the total number planned for the repurchase and also exceeded 200,000; (2) failure to report the board of directors' resolution to repurchase shares and the implementation thereof in

the most recent shareholders' meeting; (3) providing price quotations for the shares to be repurchased prior to the beginning of trading hours at a centralized securities exchange market or an over-the-counter market; (4) directors, supervisors, and managerial officers selling their shares during the repurchase; and (5) the price of shares repurchased exceeded the ceiling on the planned price range.

Case of violation:

- (1) Based on the board of directors' resolution, Sheng X Company planned to repurchase its shares in 2017; however, the price of shares repurchased by the securities firm commissioned by Sheng X Company during the repurchase exceeded the ceiling on the registered price range, which violated Article 2-1 of the "Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies." Therefore, the FSC imposed a fine of NT\$300,000 on the person in charge of Sheng X Company in 2018.
- (2) Based on the board of directors' resolution, Tian X Company planned to repurchase its shares in 2018; however, the total number of shares repurchased per day exceeded one third of the total number planned for the repurchase during the repurchase and also exceeded 200,000, which violated Article 7 of the "Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies." Therefore, the FSC imposed a fine of NT\$300,000 on the person in charge of Tian X Company in 2018.

7. C5: Article 25-1 of the "Securities and Exchange Act"

Brief Analysis:

The "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies" adopted in accordance with Article 25-1 of the "Securities and Exchange Act" specify the qualifications of solicitors, proxy agents, and companies mandated to handle solicitation matters, the solicitation and acquisition of proxies, and matters with which companies holding a shareholders' meeting shall comply. In 2018, the FSC imposed the administrative sanctions on three cases of the aforesaid violation. The main type of such violation was failure to handle the delivery of the shareholders' meeting souvenirs to the solicitors and the determination of the amount and collection method for the guarantee deposit based on the principle of fairness.

Case of violation:

For the shareholders' meeting held by Yong X Company in 2018, the proxy solicitors included Yuan X Securities Company, Hsu XX, He X Company, and He X Company. Yong X Company failed to handle the time, quantity, and procedures for delivering the shareholders' meeting souvenirs to the solicitors based on the principle of fairness, which violated Paragraph 4, Article 11 of the "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies." Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of Yong X Company.

8. E1: Article 36-1 of the "Securities and Exchange Act"

Brief Analysis:

In 2018, the FSC imposed sanctions on the persons in charge of public companies who violated the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" adopted in accordance with Article 36-1 of the "Securities and Exchange Act." A total of eight cases of such violation were reported, including: (1) borrower-related violations (one case); (2) failure to collect short-term loans overdue for more than one year (four cases); and (3) failure to make announcements according to the regulations (three cases).

Case of violation:

Jing X Company entered into an appointment agreement with Chong XX and prepaid NT\$15 million to Chong XX; however, Chong XX failed to provide relevant services during the performance of the agreement, causing Jing X Company to provide funds for Chong XX free of charge in the period from prepayment to collection. This violated the provisions that public companies shall not loan funds to individuals. Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of Jing X Company.

9. E2: Subparagraphs 1 and 2, Paragraph 1 and Paragraph 2, Article 36 of the "Securities and Exchange Act"

Brief Analysis:

In 2018, the FSC imposed sanctions on the persons in charge of public companies who violated Subparagraphs 1 and 2, Paragraph 1 and Paragraph 2, Article 36 of the "Securities and Exchange Act." A total of 34 cases of such violation were

reported for failure to register (rewrite) financial statements according to the regulations.

Case of violation:

Fei X Company had control over Dongguan X Company and Hong Kong X Company but failed to include Dongguan X Company and Hong Kong X Company in the consolidated financial statements. The FSC issued a letter requesting Fei X Company to rewrite the financial statements for the second quarter of 2017 and relevant periods, but it failed to do so according to the regulations. Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of Fei X Company.

10. E3: Paragraph 3, Article 14 of the "Securities and Exchange Act"

Brief Analysis:

In 2018, the FSC imposed sanctions on the person in charge of a public company who violated Paragraph 3, Article 14 of the "Securities and Exchange Act" and the "Regulations Governing the Qualification Requirements and Professional Development of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges." A total of one case of such violation was reported for the principal accounting officer's non-compliance with qualification requirements.

Case of violation:

The principal accounting officer of Da X Company did not meet the qualification requirements set forth in Article 3 of the "Regulations Governing the Qualification Requirements and Professional Development of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges" but still sealed the financial statements for the year ended December 31, 2017. Therefore, the FSC imposed a fine of NT\$240,000 on this person in charge of Da X Company.

11. E6: Paragraphs 2 and 3, Article 14-1 of the "Securities and Exchange Act"

Brief Analysis:

In 2018, the FSC imposed sanctions on the persons in charge of public companies who violated the "Regulations Governing Establishment of Internal Control Systems by Public Companies" adopted in accordance with Article 14-1 of the "Securities and Exchange Act." A total of four cases of such violation were reported for failure to register the annual audit plan and the internal control system statement according to the regulations.

Case of violation:

As Xin X Company failed to register the 2018 audit plan by the end of 2017, the FSC imposed a fine of NT\$240,000 on the person in charge of Xin X Company.

(II) Administrative Sanctions of Intermediaries

1. B1: Article 65 or Subparagraph 1, Article 66 of the "Securities and Exchange Act"

Brief Analysis:

According to Article 65 or Subparagraph 1, Article 66 of the "Securities and Exchange Act", the FSC imposed administrative sanctions on the securities firms which violated the "Securities and Exchange Act" or orders issued in accordance with the "Securities and Exchange Act". A total of 29 cases of such violation were reported in 2018, including: (1) failure to implement internal controls (19 cases); (2) associated persons' violation of securities laws and regulations due to poor supervision (four cases); and (3) poor supervision of subsidiaries (two cases).

Case of violation:

The "Insider Trading Management Rules" formulated by Yong X Securities Company did not comply with TWSE regulations, and Yong X Securities Company failed to implement internal controls, including the "Regulations Governing Levels of Responsibility" and control over insider trading. There was also weak supervision of credit risk control of its Hong Kong subsidiary; in addition, the president of Yong X Securities Company, Yeh XX, engaged in trading of TWSE/TPEX listed securities with information known in connection with the performance of his/her duties. Therefore, the FSC issued a warning in accordance with Subparagraph 1, Article 66 of the "Securities and Exchange Act."

2. B3: Articles 56, 178, and 179 of the "Securities and Exchange Act"

Brief Analysis:

According to Article 56 of the "Securities and Exchange Act", if any director, supervisor, or employee of a securities firm is found to have committed any act which violates the "Securities and Exchange Act" or another related act or regulation, the competent authority may order the said securities firm to suspend business operation of such person for not more than one year or discharge such person. In 2018, the FSC imposed nine sanctions on the associated persons of securities firms due to the violations of the regulations, including: (1) fraud

or any other acts which are sufficient to mislead customers; (2) acceptance of customers' full authorization; (3) trading of securities with customers' accounts; and (4) trading of securities under the names of relatives.

Case of violation:

While trading securities as a broker, the associated person of Di X Jin Securities Company, Chen XX, concealed information or acted to mislead other persons, borrowed or lent securities with multiple customers, kept seals and passbooks on behalf of customers, made false telephone recordings and acted as an agent in the trading of securities, and falsely replied to the customers' inquiries about their statements. Therefore, the FSC ordered Chen to be discharged by Di X Jin Securities Company.

3. B4: Paragraph 5, Article 7 of the "Money Laundering Control Act"

Brief Analysis:

According to Article 7 of the "Money Laundering Control Act", financial institutions shall undertake customer due diligence measures to verify the identity of customers and retain their identification information, and shall conduct enhanced customer due diligence measures for customers who are politically exposed persons currently or previously entrusted with prominent public functions by domestic or foreign governments, as well as their family members and close associates. The competent authority may impose a fine of between NT\$500,000 and NT\$10 million on financial institutions failing to verify the identity of customers in accordance with the aforesaid regulations. In 2018, the FSC imposed seven sanctions on securities firms due to the violations of the aforesaid money laundering control regulations, including: (1) failure to conduct enhanced customer due diligence measures for customers with high risk (seven cases); (2) failure to take appropriate measures to identify and verify the beneficiary owners of customers (five cases); (3) failure to establish policies and procedures for checking the names of customers and counterparties or failure to implement name checks (four cases); and (4) failure to check some types of trading suspected to be money laundering or terrorism financing or failure to keep records of the checks (two cases).

Case of violation:

As Da X Securities Company had the following deficiencies in the operation of anti-money laundering and terrorism financing, the FSC imposed a fine of NT\$500,000 in accordance with the "Money Laundering Control Act" and issued

a warning in accordance with Subparagraph 1, Article 66 of the “Securities and Exchange Act”: (1) failure to establish procedures for checking the names of customers; (2) failure to take appropriate measures to investigate the wealth and source of funds of customers before establishing or adding business dealings with customers of high risk; (3) failure to review customers' transactions in detail to ensure compliance between the transactions and the customers' business and risk; (4) failure to verify the identity and adjust the level of risk in a timely manner when providing underwriting services for new customers and existing customers; and (5) some business units' failure to appoint an anti-money laundering officer.

4. D1: Articles 7 and 93 of the “Securities Investment Trust and Consulting Act”

Brief Analysis:

In 2018, the FSC imposed sanctions on the securities investment trust enterprises which violated the “Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets” adopted in accordance with Articles 7 and 93 of the “Securities Investment Trust and Consulting Act.” A total of 18 cases of such violation were reported, including: (1) deficiencies in the management of sales agency training and channel remunerations (five cases); (2) failure to implement the operating procedures for controlling money laundering and countering terrorism financing (12 cases); and (3) others (one case).

Case of violation:

- (1) When organizing sales agency training, Mo X Securities Investment Trust Company failed to establish the mechanisms for reviewing activities and expenses, causing its employees to claim channel remunerations with receipts issued by travel agencies. The hours of sales agency training did not comply with its internal policies; in addition, false invoices issued by travel agencies were used to claim reimbursement, or some invoices issued by marketing companies did not match the commissioned services. All of the above violated Paragraph 2, Article 6 of the “Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets.” Therefore, the FSC imposed a fine of NT\$1.2 million in accordance with Article 111 of the “Securities Investment Trust and Consulting Act.”
- (2) When assessing the customers' risk of money laundering and terrorism financing, Ri X Securities Investment Trust Company failed to assess the level of risk based on their customers' business; in addition, Ri X Securities Investment Trust Company established business relationships with customers before conducting

customer due diligence measures to verify the identities of customers and beneficiary owners, which violated Paragraph 2, Article 6 of the “Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets.” Therefore, the FSC issued an official reprimand in accordance with Article 102 of the “Securities Investment Trust and Consulting Act.”

5. D2: Article 17 of the “Securities Investment Trust and Consulting Act”

Brief Analysis:

According to Article 17 of the “Securities Investment Trust and Consulting Act”, in managing a securities investment trust fund to invest or trade, a securities investment trust enterprise shall base its decisions on its analysis; it shall keep records of its execution thereof, and shall also submit a review on a monthly basis. Its analysis and decisions shall be founded on reasonable grounds and bases. The provisions of Article 17 of the “Securities Investment Trust and Consulting Act” shall apply mutatis mutandis to investment decisions that a securities investment trust enterprise or a securities investment consulting enterprise makes for the utilization of fiduciary investment assets. In 2018, the FSC imposed three sanctions on securities investment trust enterprises and securities investment consulting enterprises due to the violations of the aforesaid regulations, including: (1) deficiencies in control over the investment procedures of securities investment trust funds (2 cases); and (2) deficiencies in control over the investment procedures of securities investment consulting enterprises for the utilization of fiduciary investment assets (1 case).

Case of violation:

There were material discrepancies between the investment analysis report issued by Hung X Securities Investment Consulting Company and actual information on the discretionary investment account. The investment analysis report lacked reasonable basis, which violated the provisions of Paragraph 1, Article 58 of the “Securities Investment Trust and Consulting Act”, to which Article 17 of the “Securities Investment Trust and Consulting Act” shall apply mutatis mutandis: In managing a securities investment trust fund to invest or trade, a securities investment trust enterprise shall base its decisions on its analysis; it shall keep records of its execution thereof, and shall also submit a review on a monthly basis. Its analysis and decisions shall be founded on reasonable grounds and bases. Therefore, the FSC imposed a fine of NT\$120,000 on Hung X Securities

Investment Consulting Company in accordance with Subparagraph 2, Article 113 of the “Securities Investment Trust and Consulting Act.”

6. F1: Paragraph 5, Article 56 of the “Futures Trading Act”

Brief Analysis:

In 2018, the FSC imposed sanctions on the FCMs who violated the “Regulations Governing Futures Commission Merchants” adopted in accordance with Paragraph 5, Article 56 of the “Futures Trading Act.” A total of 11 violation cases were reported, including: (1) making use of non-employees to carry out business relating to futures trading (one case); (2) failing to consider relevant transaction risk in determining the fees to be collected for the trading of Taiwan Stock Exchange Capitalization Weighted Stock Index (TAIEX) options (one case); (3) selling offshore funds without the FSC’s approval (one case); and (4) violating the internal controls (eight cases).

Case of violation:

While operating futures brokerage business with the FSC’s approval, Chun X Futures Company made use of non-employees to carry out business relating to futures trading, failed to consider relevant transaction risk in determining the fees to be collected for the trading of Taiwan index options, and failed to accept the orders placed through the Internet according to their internal control regulations. Therefore, the FSC imposed a fine of NT\$600,000 on Chun X Futures Company.

7. F2: Paragraph 3, Article 82 of the “Futures Trading Act”

Brief Analysis:

In 2018, the FSC imposed sanctions on the futures service enterprises or their employees who violated the “Regulations Governing Futures Advisory Enterprises” and the “Regulations Governing the Operation of Futures Introducing Broker Business by Securities Firms” adopted in accordance with Paragraph 3, Article 82 of the “Futures Trading Act.” A total of four cases of such violation were reported, including: (1) performing duties without obtaining qualification as associated persons (two cases); (2) engaging in futures trading analysis under an unregistered name or a name other than one’s real name (one case); and (3) failure to implement the mechanisms for checking transaction fees and adjusting transaction fees in a timely manner (one case).

Case of violation:

HX Securities Investment Consulting Co., Ltd. (Hereinafter referred to as "HX SICE") is currently engaged in futures advisory business with the approval from the FSC. The company appointed Jiang, one of its employees, to conduct training on futures advisory business. Jiang, however, did not use his/her real name and was not a qualified associated person while conducting futures training. Therefore, the FSC imposed a fine of NT\$240,000 on HX SICE and requested it to suspend Jiang from performing futures advisory business for two months.

8. F3: Article 61 of the "Futures Trading Act"

Brief Analysis:

In 2018, the FSC requested futures commission merchants to suspend their employees who violated the "Regulations Governing Responsible Persons and Associated Persons of Futures Commission Merchants" adopted in accordance with Article 61 of the "Futures Trading Act." A total of three cases of such violation were reported, including: (1) making recommendations for trading to futures traders in any way (two cases); and (2) agreeing with futures trader on the sharing of benefits or losses (one case).

Case of violation:

While operating futures brokerage business with the FSC's approval, the associated person of Chun X Futures Company, Chen, posted the strategies for offshore futures trading in LINE groups, which violated the provisions that responsible persons and associated persons of futures commission merchants shall not make recommendations for trading to futures traders in any way. Therefore, the FSC requested Chun X Futures Company to suspend Chen for one month.

III. Investigation of Criminal Liability¹

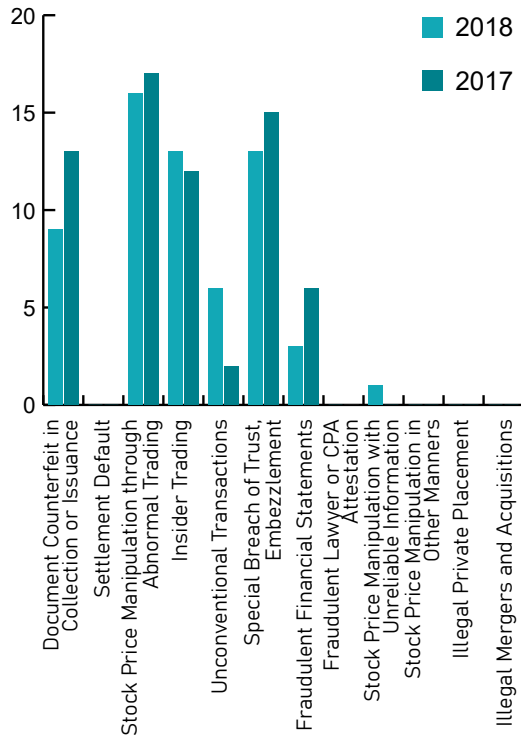
According to the statistics of the Investigation Bureau, Ministry of Justice, stock price manipulation through abnormal trading accounted for the largest percentage of violations of the "Securities and Exchange Act", totaling 16 and 17 cases in 2018 and 2017. In 2018, the highest number of suspects was involved in stock price manipulation through abnormal trading, totaling 61. In 2017, the largest number of the suspects was involved in document counterfeit in collection or issuance, totaling 95. In 2018, the biggest amount of money was involved in fraudulent financial statements, reaching NT\$10,798,432,908. In 2017, this money in the same area of counterfeit activities reached NT\$11,901,302,105.

¹ Source: 2018 The Prevention and Investigation of Economic Crime Yearbook, Ministry of Justice Investigation Bureau
<https://www.mjib.gov.tw/eBooks/eBooks_Detail?CID=12#>

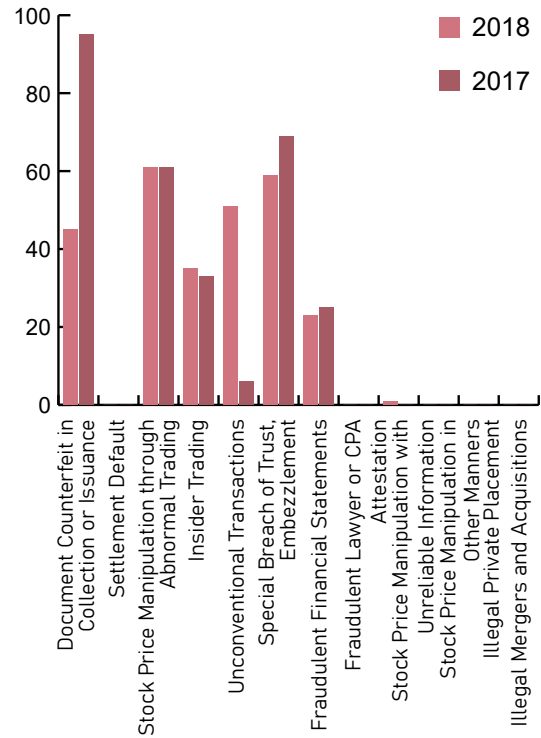
Statistics on Violations of the "Securities and Exchange Act"

Violation Type	Number of Cases		Number of Suspects		Amount of Money (NT\$)	
	2018	2017	2018	2017	2018	2017
Document Counterfeit in Collection or Issuance	9	13	45	95	1,921,649,227	11,901,302,105
Settlement Default	0	0	0	0	0	0
Stock Price Manipulation through Abnormal Trading	16	17	61	61	2,068,786,402	2,053,225,452
Insider Trading	13	12	35	33	47,412,740	283,084,966
Unconventional Transactions	6	2	51	6	1,018,196,168	220,240,512
Special Breach of Trust, Embezzlement	13	15	59	69	4,190,436,544	5,343,592,000
Fraudulent Financial Statements	3	6	23	25	10,798,432,908	1,541,505,624
Fraudulent Lawyer or CPA Attestation	0	0	0	0	0	0
Stock Price Manipulation with Unreliable Information	1	0	1	0	20,363,500	0
Stock Price Manipulation in Other Manners	0	0	0	0	0	0
Illegal Private Placement	0	0	0	0	0	0
Illegal Mergers and Acquisitions	0	0	0	0	0	0
Subtotal	61	65	275	289	20,065,277,489	21,342,950,659

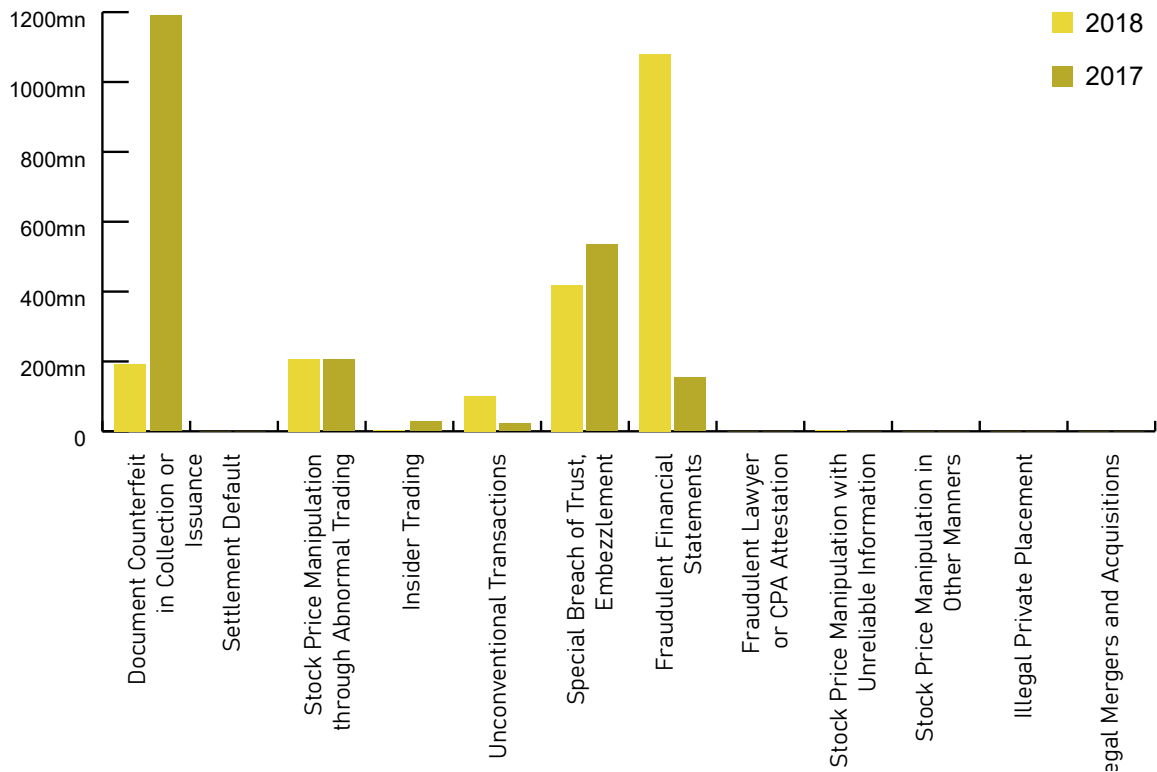
Number of Violations of the Securities and Exchange Act



Number of Suspects Involved in Violations of the Securities and Exchange Act



Type of Violations of the Securities and Exchange Act



Major cases:

1. Document counterfeit in collection or issuance: Weng, X-Lung and others of Tzu X Company involved in violations of the Securities and Exchange Act

Weng, X-Lung was the person in charge of Tzu X Technology Development Co., Ltd. (hereinafter Tzu X Company). Sheng, X-Wen (Weng's spouse) was a director of Tzu X Company. Wang, X-Kuan was the de facto person in charge of Ling X International Marketing Co., Ltd. (hereinafter Ling X Company). Li, X-Wang was the former president of Tzu X Company and a consultant of Ling X Company. Chu, X-Hua was a former special assistant of the chairperson of Tzu X Company. Hsiao, X-Tao was an investor and lender of Tzu X Company. Weng, X-Hsien and Chang, X-Lin were the persons in charge of Kang X Company in sequence. Cheng, X-Ren was Kang X Company's stock salesperson.

Weng, X-Lung, Sheng, X-Wen, Hsiao, X-Tao, and Li, X-Wang were aware that according to Article 22 of the "Securities and Exchange Act" that public offering or issuing of securities without approval from or an effective registration with the competent authority is strictly prohibited. Moreover, according to Article 20 of the "Securities and Exchange Act" that there shall be no misrepresentations, fraud, or any other acts sufficient to mislead other people in securities trading. Nonetheless, because the above-mentioned people wanted to generate funds from illegal profits for running Tzu X Company, they jointly had the intention to use document counterfeit in collection or issuance. In 2014, Weng and others held several presentations in Tzu X Company to recruit unspecific investors to visit the company. Then, through Ling X Company and other downstream distributors that were not approved by the competent authority, the Securities and Futures Bureau (SFB), Tzu X Company's unlisted shares were promoted to the public. Weng, X-Lung requested the uninformed reporter, Liu, X-Song, to write articles suggesting that the company had a high profit potential, deceiving the public by claiming that "they have received an order from the UK for yearly 500 units of X drone aircraft main body composite for a term of 10 years, bringing the company nearly NT\$0.1 billion of revenue each year." They also used illegal wholesale investor evaluation reports to provide false company operations information, and these reports were sent to the general public. They claimed that Tzu X Company had good business prospects and highlighted that once the company became TWSE/TPEX listed, its investors would absolutely earn good profits. Aside from comparing the company to a high stock-price, TWSE/TPEX listed company like Wang Steak (2727), Weng also claimed that the company was collaborating with the Ministry of National Defense for manufacturing drone aircraft-related components and was a contract manufacturer of bicycle components. In other words, Weng created a false impression that the company had high business prospects. Consequently, investors, including Lin, X-Sheng, were misled to purchase Tzu X Company's

shares at NT\$55 per share. In Tzu X Company's notification of its 2014 cash capital increase payment, Weng, X-Lung pointed out to the company's shareholders that "the company last year acquired orders for developing automobile FRP components, such as Jaguar decorative car rims, and that these components, accounting for 30% of the total revenue this year, have been certified and entered the mass production stage." Nevertheless, Jaguar and other car distributors in Taiwan denied that they had placed any car component orders with Tzu X Company and pointed out that they had no business interaction with Tzu X Company. Weng, X-Lung and others used false high profitability information to misled Lin, X-Sheng and others, causing them to make wrong decisions, i.e., participating in stock subscription. The review of Tzu X Company's income in 2012, 2013 and 2014 indicated that Tzu X Company lost NT\$9,503,188, NT\$4,882,464, and NT\$4,620,029, respectively. Even though the actual operation of the company was poor and the company was not TWSE/TPEX listed, Weng commissioned Hui X Printing Company to print 12,193,972 shares and then 18,804,502 shares between 2014 and 2015 to try to use "exchanging shares for cash" to defraud investors. Weng and others had obtained more than NT\$950 million from selling the company's stock. The case was referred to the Taiwan Taichung District Prosecutors Office for prosecution by the New Taipei City Field Division of the Investigation Bureau, Ministry of Justice.

2. Stock price manipulation through abnormal trading: Cheng, X-Yi and others manipulated the stock price of Da X Company

In August 2016, the stock price of Da X Company, a TWSE-listed company, had stayed low (under NT\$6 per share) for a long time because of poor business operations and chairperson Lin, X-Shan's tunneling lawsuit. Cheng, X-Yi, a Taiwanese businessman in Japan, and Jen, X-Lung, the chairperson of Lung X Corporate Group, Shanghai, China, found out that although Da X Company's stock price had been steadily low, Da X Company had more than hundreds of billions of dollars in land. In other words, they believed there was a significantly underestimated price-book ratio for Da X Company. These two persons had an idea: Jen, X-Lung would provide huge capital from China for Cheng, X-Yi to purchase Da X Company's equity. They wanted to control Da X Company by purchasing a significant number of its shares. Cheng, X-Yi also considered that because Da X Company's stock price was lower than its face value, the stock price was very likely to go up. Cheng believed that with money from Jen, X-Lung in China for the bulk purchase of Da X Company's shares in the open market, the stock price of Da X Company would go up. Cheng also had the idea of purchasing Da X Company's shares using money from China before the re-election of the board of directors of Da X Company on May 11, 2017, creating an impression of parties wrestling for the management and control of Da X Company, which would attract more investors to purchase Da X Company's stock, and in that case, Cheng would be able to

make profit from stock price differences. Therefore, Cheng collaborated with Chang, X-Ling and Tsou, X-Hua and used a total of 14 securities accounts from Cheng, X-Yi and others to purchase a significant number of Da X Company's shares. Then, Jen, X-Lung was instructed to use Yung X Jin (Asia) Agency Co., Ltd., a customer of Hong Kong Yung X Jin Securities (Asia) Co., Ltd., to commission Yung X Securities Co., Ltd. to purchase a significant number of Da X Company's shares using money from China. This way, the money from China for purchasing shares looked like money from Hong Kong instead. At the same time, Cheng used the opportunity to gain more profits by instructing Chang, X-Ling and Tsou, X-Hua to privately request seven type-C investors for loans and to use 42 securities accounts for purchasing the shares of Da X Company. Consequently, the shares of Da X Company started to escalate from NT\$5.48 per share on September 1, 2016 to NT\$9.54 per share on December 30, 2016. In January and February 2017, when the stock price went above NT\$10 per share, Cheng instructed Jen, X-Lung to use Hong Kong Jin X Digital Securities Co., Ltd. (renamed Feng X Securities Co., Ltd. on February 13, 2017) and Liu X Securities (Hong Kong) Co., Ltd., two accounts for funds from China, to purchase a significant number of Da X Company's shares at high prices, creating a second escalation of Da X Company's stock price, from NT\$10.65 per share on January 10, 2017 to as high as NT\$20.65 per share (an intraday price) on February 10, 2017 (the highest price in 2017). Cheng and others then sold the shares purchased using money from type-C investors at high prices to the above-mentioned Chinese investors and the uninformed public, making huge personal profits. From September 1, 2016 to February 10, 2017 (the period this case was analyzed), the above-mentioned people had made a profit of NT\$1,114,000,160. The case was referred to the Taiwan Taipei District Prosecutors Office for prosecution by the Taipei City Field Division of the Investigation Bureau, Ministry of Justice.

3. Stock price manipulation through abnormal trading: Manipulation of He X Company's stock price

Wu, X-Ching was the chairperson of Po X Wei Company. In October and November 2015, Wu found that the stock price of He X Company was way below the net value, even though there was about NT\$1.7 billion of cash available. Wu considered that the price of He X Company was likely to go up, and so with the intent to obtain illegal benefits, Wu started to recommend the stock to Cheng, X-Lai, the chairperson of Po X Wei Company, and Lin, X-Hu, a distant relative. Since the beginning of December 2015, Wu and others were aware that, according to Subparagraphs 4 and 5, Paragraph 1, Article 155 of the "Securities and Exchange Act", when trading negotiable securities in a stock exchange market, it is prohibited to manipulate the stock price; they had liaison of intention to affect (raise or suppress) the stock price of He X Company and to create an impression of active trading of the company's stock. Wu used his, his wife, Wu, X-Chen's, his daughter, Wu, X-Yi's, Bai X

Lin Investment Company's, Cheng, X-Yueh's, his niece, Lai, X-Chen's, and his sister-in-law, Chiu, X-Hua's securities accounts, Cheng, X-Lai used his securities account, and Lin, X-Hu used his sister-in-law, Li, X-Feng's and others' securities accounts to lift the stock price of He X Company, causing the company's stock price to fluctuate abnormally and deviate from the trend of the general stock index or a similar kind of stock for 24 trading days from December 1, 2015 to January 4, 2016 (the period this case was analyzed). In the period this case was analyzed, Wu and others manipulated the stock price of He X Company to the highest of the phase and then sold the stock whenever the price was high. From December 1, 2015 to March 31, 2016, they earned about NT\$11,660,000 from manipulating He X Company's stock price. The case was referred to the Taiwan Hsinchu District Prosecutors Office for prosecution by the Hsinchu City Field Office of the Investigation Bureau, Ministry of Justice.

4. Insider trading: Han X Company's stock

In April 2016, TPEx-listed Han X Company met Company A, the trading counterparty, in LA, USA for their merger and acquisition case. Company A commissioned XX Credit Finance Company to be its financial adviser, and XX Credit Finance Company authorized Chiu, X-Ping, the person in charge of its Taiwan Branch, and her team members to participate in this merger and acquisition case. After April 2016, Chiu frequently discussed the merger and acquisition case after work by phone when she's alone at home. One evening in May 2016 when Chiu was talking on the phone for business at home, her spouse, Hsu, X-Jen, discovered that Chiu was involved in the tender offer case about Han X Company, upon hearing Chiu mentioning words like tender offers and premiums, suggesting that the merge and acquisition case was almost settled. After learning about this critical information, which was not yet announced, Hsu, with the intent to make illegal profits, started to use various securities accounts, including his and those under Yun X Co., Ltd., where he was the vice president, to purchase 120 thousand shares of Han X Company gradually and sold 95 thousand shares gradually after the news was announced. The remaining 25 thousand shares were used for tender offering (NT\$1,410 per share). In total, Hsu gained the illegal profits of NT\$22,905,000 (including the transaction cost) from insider trading. The case was referred to the Taiwan Taipei District Prosecutors Office for prosecution by the Taipei City Field Division of the Investigation Bureau, Ministry of Justice.

5. Insider trading: Lien X Company's acquisition of Li X Company

Chen, X-Lin was a layout engineer in the IC department of Lien X Company, a TWSE-listed company. Wang, X-Yi was a friend of Chen, X-Lin. Chen, X-Yuan was the technology director of the Strategy Department of Lien X Company. These three people played golf together.

In August 2015, Chen, X-Lin learned from Chen, X-Yuan that Lien X Company had established a project team evaluating the benefits of acquiring Li X Company. Since then, Chen, X-Lin paid attention to the progress of the case. On August 17 and 18, 2015, Chen, X-Lin used LINE to inquire to Chen, X-Yuan about the progress of the acquisition and obtained the evaluation results and information that the acquisition was likely to continue. At that moment, Chen, X-Lin was certain that Lien X Company would merge with Li X Company, which was a piece of material information in this case. After learning about such material information from Chen, X-Yuan, Chen, X-Lin wanted to make illegal profits from the increased stock price after the announcement of the merger even though he was aware of the prohibition of insider trading by the "Securities and Exchange Act." In this case, Chen, X-Lin violated the insider trading prohibition by opening a securities account at the Banqiao Branch of Cathay Securities Corporation and by purchasing a significant number of subscription warrants (1,969 thousand units at NT\$0.4924 per unit) targeting the shares of Li X Company from August 18 to September 4, 2015. Moreover, Chen, X-Lin sold all of the units from September 8 to 10, 2015, resulting in the proceeds of crime of NT\$2,078,080. After learning about the news, Chen, X-Lin also instructed uninformed Wang, X-Yi to purchase the subscription warrants of Li X Company. From August 19 to 24, 2015, Wang used the securities account at the Hsinchu Branch of Yuanta Securities to purchase the subscription warrants (110,000 units at NT\$0.68 per unit) targeting the shares of Li X Company. All of the units were sold on September 8, 2015, resulting in the proceeds of crime of NT\$99,700. In total, Chen, X-Lin had made the profit of NT\$2,168,217 from insider trading. The case was referred to the Taiwan Taipei District Prosecutors Office for prosecution by the Taipei City Field Division of the Investigation Bureau, Ministry of Justice.

6. Special breach of trust: Former general counsel of Hong X Company, Wu, X-Min, involved in breach of trust

In 2015 and 2016, Hong X Company, a TWSE-listed company, invested many resources for securing its intellectual property rights (IPR) in order to enhance its global competitiveness. Aside from eliminating those infringing on their rights, the company also needed to face competitors challenging their patent rights. For the latter, the legal department adopted the company's global strategy to collect information on competitors' market development for the company's patent right management. Wu, X-Min and Huang,

X-Chen were the director and the deputy director of the company's legal department, respectively. They had liaison intention to make illegal profits or damage the interest of the company and opened a dummy company, H X Company (the Chinese name was Kai X Intellectual Property Right Agency Co., Ltd.), and the name of which was similar to the Chinese name (and the English name too) of Kai X Legal Patent Office, an existing customer of Hong X Company, in order to be a contractor of legal services outsourced by Hong X Company. On July 22, 2015, Wu, X-Min instructed his spouse, Yu, X-June, to establish and register H X Company in the Republic of Seychelles as a citizen of the Republic of Guinea-Bissau and assume the position of director. On August 14, 2015, a bank account was opened at the Shanghai Commercial and Savings Bank (Hong Kong Branch) for H X Company. On August 19, 2015, Huang, X-Chen used special reporting for legal management to draw up Hong X Company's patent right promotion and China's patent purchase work for the second half of 2015. Huang also explained that he had visited Kai X Legal Patent Office, H X Company (Kai X Intellectual Property Right Agency Co., Ltd.) and six other offices and noted that "all these companies have offices in Guangzhou/Shenzhen/Dongguan." The general counsel, Wu, X-Min, signed and commented that "the progress of patent right maintenance in China has been reported to the president on August 10, 2015, indicating that aside from Beijing, Aten also need to implement patent right maintenance in Guangdong Province." After President Chen, X-Chung approved the above information on August 24, 2015, Huang, X-Chen fraudulently, under the name of a salesperson of H X Company, used emails to discuss the signing and performance of contracts and payment requests for legal services. Huang made illegal profits from "price differences", "repeated bidding", and "making payments for no reason." Consequently, Hong X Company suffered a loss of US\$2,308,400 (equal to NT\$71,560,400) in total.

To cover up or conceal the proceeds of material crime or to hide the proceeds of others, Wu, X-Min and Huang, X-Chen had liaison intention and took advantage of the situation where foreign financial institutions did not accept requests from neither the competent authorities nor the investigation agencies of Taiwan. They first transferred the money to overseas company accounts and then transferred the money from there to their personal accounts to cut the connection between the money and the crime, so as to escape from criminal prosecution and punishment. On August 13, 2015, Huang, X-Chen first set up Y X Company in the Republic of Seychelles and then opened an account at Cambodian Union Commercial Bank, Cambodia Post Bank, and Canadia Bank, respectively. Wu, X-Min also opened an account at Cambodian Union Commercial Bank. These two persons agreed to transfer the proceeds from Hong X Company to the account of Y X Company and then to their personal accounts fifty-fifty. Huang, X-Chen then committed money laundering by transferring the proceeds of crime to Cambodia Post Bank in the form of deposit certificates or for purchasing real property in Cambodia. The case was referred to

the Taiwan Taipei District Prosecutors Office for prosecution by the New Taipei City Field Division of the Investigation Bureau, Ministry of Justice.

7. Special breach of trust: Yu, X-Min, the chairperson of He X Recreation Company, and others involved in special breach of trust

Yu, X-Min was the person in charge of emerging stock board-listed He X Recreation Company and He X Food Service Company. Yu was aware that, as the person in charge of He X Recreation Company, he was entrusted by the shareholders of the company for management and that he should fulfill the duty of care as a good administrator by protecting the best interests of all shareholders. He was also aware that, as a director, supervisor, or manager of a company issuing securities according to the "Securities and Exchange Act", it is prohibited to violate the duty or to embezzle the company's assets for the interests of his own or any third party. Under the condition that no construction target or construction work was completed, Yu ignored the interests of He X Recreation Company. In 2017, Li X Construction Company, a company that Yu was the de facto person in charge of, became the trading counterparty of He X Recreation Company. Yu instructed He X Recreation Company to advance the construction payment in full even though he was aware that He X Recreation Company did not have sufficient money and that the construction work was not implemented yet. Apparently, this decision was unfavorable to He X Recreation Company's use of working capital. The full construction payment received from He X Recreation Company was then transferred to Chien X Hotel Company owned by Yu's brother, Yu, X-Fu, and Yuan X Venture Capital Group owned by Yu. By doing so, Yu had tunneled NT\$125,000,000 from He X Recreation Company. Furthermore, Yu was aware that He X Recreation Company and He X Food Service Company had signed a "brand licensing agreement" on the "brand licensing royalty", where starting from July 1, 2017, He X Food Service Company shall pay NT\$8 million monthly to He X Recreation Company, instead of having He X Recreation Company pay He X Food Service Company. Nevertheless, Yu violated his duty by illegally obtaining NT\$33.27 million from He X Recreation Company for He X Food Service Company, causing damage to the interests of the shareholders of He X Recreation Company. On October 25, 2017, Yu and He X Recreation Company jointly acquired the real property of He X Recreational Villa. In the same month, without approval or posterior approval of the board of directors of He X Recreation Company, Yu used the ownership of the above-mentioned real property to borrow NT\$80 million from an individual and set a generalizing paramount limited mortgage of NT\$0.1 billion even though He X Recreation Company should be entitled to one-third of the ownership of He X Recreational Villa. For the above-mentioned loan, He X Recreation Company should be entitled to one-third of NT\$80 million (equal to NT\$26,666,666). Nevertheless, Yu instructed the borrower to remit the full amount to the account that he was the de facto person in

charge of, causing damage to the interests of He X Recreation Company. The case was referred to the Taiwan Keelung District Prosecutors Office for prosecution by the New Taipei City Field Division of the Investigation Bureau, Ministry of Justice.

8. False financial statements: Yang, X-Heng of Hua X Company involved in false financial statements

Yang, X-Heng was the chairperson of TPEX-listed Hua X Company. Chang, X-Jung was the chairperson of TPEX-listed Ying X Erh Company. Lu, X-Tung was the vice chairperson of Hua X Company. These three people were responsible for the decision-making and fund dispatch of Hua X Company and Ying X Erh Company, but they failed to run the companies properly. To create false business performance of Hua X Company and Ying X Erh Company to attract investors, to get bank loans, and to gain illegal benefits, Chen, X-Chiang set up Pu X Xing Company in Shenzhen, China and claimed that the company was the contact of Pu X Group (China) in Taiwan and ordered electronic products from Hua X Company and Ying X Erh Company on behalf of Pu X Group (China). Then, a three-party trading contract was signed, appointing Hua X Company and Ying X Erh Company to place orders with Li X Company and Chuang X Company in Hong Kong. For the purpose of false trading, Yang also arranged Ying X Trading Co., Ltd. and Hua X Electronics Co., Ltd. in Hong Kong to pretend to be the customers appointed by Pu X Group (China) for receiving shipments. This way, Yang had increased Hua X Company's 2014 sales income to NT\$1,703,439,120, 2015 sales income to NT\$5,219,458,932, 2016 sales income to NT\$5,929,765,271, and 2017 sales income to NT\$608,994,916, and had increased Ying X Erh Company's 2014 sales income to NT\$7,425,301,890, 2015 sales income to NT\$12,176,266,838, 2016 sales income to NT\$11,118,961,176, and 2017 sales income to NT\$3,601,044,575. Yang and others also used the above false sales transactions to make and publish false balance sheets, income statements, statements of changes in equity, and statements of cash flows in the monthly, quarterly, semi-annual and annual financial statements of Hua X Company and Ying X Erh Company for the period starting from January 2014 to November 2017, seriously misleading investors' decisions. To cover up or conceal the proceeds of crime, Yang and others transferred part of the proceeds of crime from the OBU accounts of the above-mentioned suppliers to the account of a dummy company in the British Virgin Islands owned by Chen, X-Chiang for money laundering. The case was referred to the Taiwan Taipei District Prosecutors Office for prosecution by the Taoyuan City Field Division of the Investigation Bureau, Ministry of Justice.

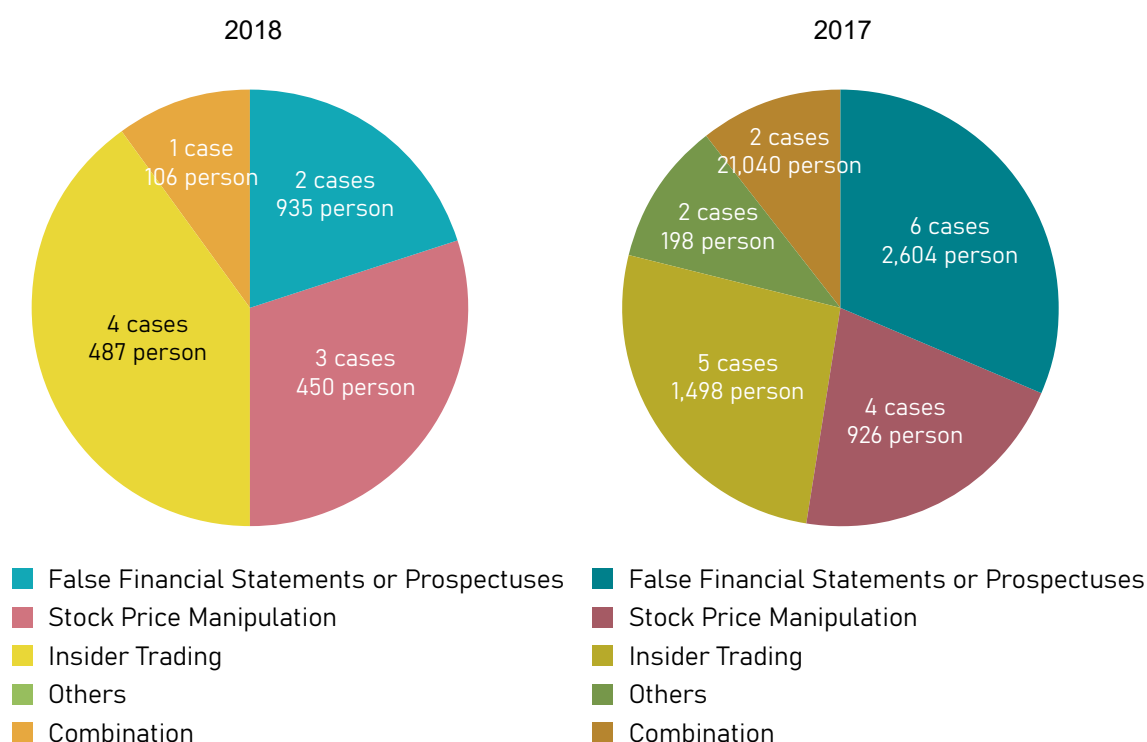
IV. Investigation of Civil Liability

(I) Class action litigations:

In 2018 and 2017, the SFIPC instituted 10 and 19 class action litigations, respectively; the amount of compensation sought reached NT\$1,006,295 thousand and NT\$7,814,557 thousand, respectively, and the number of authorizers was 1,978 and 26,266, respectively.

Type of Action	Number of Class Action Litigations		Number of Authorizers		Amount of Compensation Sought (in NT\$1,000)	
	2018	2017	2018	2017	2018	2017
False Financial Statements or Prospectuses	2	6	935	2,604	369,199	735,956
Stock Price Manipulation	3	4	450	926	254,959	355,028
Insider Trading	4	5	487	1,498	309,898	1,167,368
Others (Note 1)	0	2	0	198	0	55,663
Combination (Note 2)	1	2	106	21,040	72,239	5,500,543
Total	10	19	1,978	26,266	1,006,295	7,814,558

Statistics on Class Action Litigations Instituted by the SFIPC

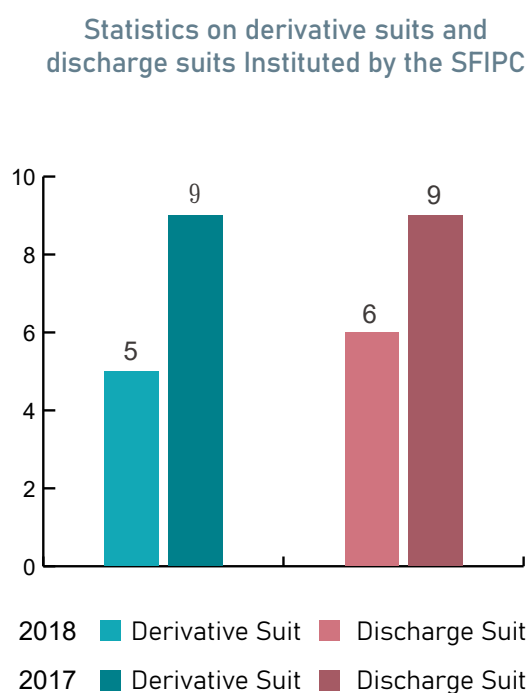


Note 1: Types of violations other than false financial statements or prospectuses, stock price manipulation, and insider trading.

Note 2: The combination of two or more types of violations, including false financial statements or prospectuses, stock price manipulation, insider trading, and others.

(II) Derivative Suit and Discharge Suit:

In 2018 and 2017, the SFIPC instituted 5 and 6 derivative suits (including participation) and 9 and 9 discharge suits, respectively.



Type of Action	2018	
	Number of Actions	Amount of Compensation Sought (in NT\$1,000)
Derivative Suit	5	3,438,567
Discharge Suit	9	-

Type of Action	2017	
	Number of Actions	Amount of Compensation Sought (in NT\$1,000)
Derivative Suit	6	4,084,902
Discharge Suit	9	-

(III) Cases:

1. False financial statements: Ying X Company

Between 2014 and 2017, Ying X Company, a TPEx-listed company, had false business dealings with X Group, a state-owned company in China, resulting in false financial statements, tunneling, money laundering, and loan scams. In January 2018, the Taiwan Taipei District Prosecutors Office of Taiwan Taipei District Court (hereinafter the "Taipei Court") prosecuted the offenders for false financial statements, unconventional transactions, special breach of trust, making of false accounting vouchers, bank fraud, and money laundering.

In May 2018, the SFIPC made an announcement based on the violations specified in the criminal indictment to accept investors' request for compensation. In November 2018, according to Article 28 of the "Securities Investor and Futures Trader Protection Act", the SFIPC instituted, with the Taipei Court, a class action litigation against Ying X Company, criminal offenders, directors and supervisors, CPAs and their accounting firm for damages.

The above conduct of the person in charge of Ying X Company, the accused in this case, caused material damage to Ying X Company and violated the law. In July 2018, according to Article 10-1 of the "Securities Investor and Futures Trader Protection Act", the SFIPC instituted, with the Taipei Court, an action to discharge the person in charge of Ying X Company from his/her position as director. In terms of damage caused to Ying X Company, according to Article 10-1 of the "Securities Investor and Futures Trader Protection Act", the SFIPC instituted, with the Taipei Court, an action to ask the accused for damages on behalf of Ying X Company in September 2018.

2. Stock price manipulation: Da X Company

The accused acknowledged that the price per book value of Da X Company was significantly undervalued. Considering the reelection of the board of directors in May 2017, the accused asked the businessmen from China to provide tens of billions of funds to assist in intervening in the management rights of Da X Company and falsely claimed the repatriation of Taiwanese businessmen with intent to attract investors and illegally profit from the manipulation of Da X Company's stock price. The accused were suspected of manipulating the stock price of Da X Company between September 2016 and February 2017. In August 2018, the Taiwan Taipei District Prosecutors Office prosecuted the offenders for stock price manipulation.

In October 2018, the SFIPC made an announcement based on the violations specified in the criminal indictment to accept investors' request for compensation. In December 2018, according to Article 28 of the "Securities Investor and Futures Trader Protection Act", the SFIPC instituted a class action litigation against the criminal offenders for damages with the Taipei Court.

3. Insider trading: Han X Company

The accused lived with his wife. In May 2016, he happened to hear the material information from his wife's conference call that a Dutch company A would acquire Han X Company in cash. The accused, after learning about the material information, considered it profitable and purchased many shares of Han X Company before the announcement of the material information and sold them after the announcement of the material information, resulting in the profits of about NT\$22.9 million. In September 2017, the Taiwan Taipei District Prosecutors Office prosecuted the offender for insider trading.

In November 2017, the SFIPC made an announcement based on the violations specified in the criminal indictment to accept investors' request for compensation. In June 2018, according to Article 28 of the "Securities Investor and Futures Trader Protection Act", the SFIPC instituted a class action litigation against the criminal offender for damages with the Taiwan High Court.

Law Enforcement Collaboration and Coordination

- › Interdepartmental Collaboration in Supervision on the Issuance Market
- › Interdepartmental Collaboration in Supervision on the Trading Activities
- › Inter-ministerial Collaboration between the FSC and Ministry of Justice
- › Cross-border Collaboration in Financial Supervision

I. Interdepartmental Collaboration in Supervision on the Issuance Market

If TWSE/TPEX listed companies are involved in the violation of the Securities and Exchange Act and other relevant laws and regulations, the TWSE and TPEX will refer the cases to the SFB for relevant sanctions. If the violations involve criminal liability, they will be transferred to the Investigation Bureau, Ministry of Justice or district prosecutor's offices for criminal investigation or action after being reviewed by the prosecutors stationed at the FSC. In 2018 and 2017, 16 and four cases with respect to the persons in charge of TWSE/TPEX companies who were involved in the violation of Subparagraph 1 (misrepresentation or non-disclosure of financial reports), Subparagraph 2 (unconventional transactions), or Subparagraph 3 (special breach of trust), Paragraph 1, Article 171 of the "Securities and Exchange Act", Subparagraphs 4 and 5 (the making of false statements on the account books, forms/statements, documents, other reference or report materials or other business documents) or Subparagraph 6 (the making of false statements in the content of financial statements by managerial officers or accounting officers), Paragraph 1, Article 174 of the "Securities and Exchange Act", and Subparagraph 2, Paragraph 2, Article 174 of the Securities and Exchange Act (the making of false financial statements or opinions by CPAs), respectively, were transferred to the Investigation Bureau, Ministry of Justice or district prosecutor's offices for criminal investigation or action after being reviewed by the prosecutors stationed at the FSC. The TWSE and TPEX also coordinated with law enforcement agencies for prosecution and investigation as needed. In 2018 and 2017, the TWSE provided law enforcement on 23 and 26 cases, respectively, with the TPEX having 38 and 33 cases.

In addition, the SFB, TWSE, and TPEX hold "corporate supervisory meetings" together to strengthen liaison between supervisory agencies, so as to identify abnormal trading activities early and take relevant supervisory measures in time. The Banking Bureau, Insurance Bureau, Financial Examination Bureau, SFIPC, and Taiwan Depository & Clearing Corporation are invited to attend when necessary. In 2018 and 2017, the corporate supervisory meeting was held once and four times, respectively.

II. Interdepartmental Collaboration in Supervision on the Trading Activities

In 2018 and 2017, five and two cases with respect to the investors who were involved in the violation of Article 155 (stock price manipulation) and Article 157-1 (insider trading) of the "Securities and Exchange Act" were reviewed in consultation with the prosecutors stationed at the FSC. The TWSE and TPEX also work with law enforcement agencies for prosecution and investigation in securities-related violations, including stock price manipulation and insider trading. In 2018 and 2017, this happened a total of 67 and 68 times for the TWSE, and TPEX totaled 89 and 97 times.

The aforesaid violations in which the TWSE and TPEX cooperated with law enforcement agencies have been prosecuted by district prosecutor's offices or convicted by a court of law. In

2018 for example, six defendants involved in the manipulation of Long X Company's stock price were sentenced to imprisonment for not less than three years and not more than 15 years for violation of the "Securities and Exchange Act"; four defendants were convicted of manipulation of Le X Company's stock price and insider trading in the first instance by the Taiwan Taipei District Court in February 2018 for violation of the "Securities and Exchange Act" and were sentenced to imprisonment for not less than one year and one month and not more than 12 years by the Taiwan High Court in November 2018.

III. Inter-ministerial Collaboration between the FSC and the Ministry of Justice

The FSC and the Ministry of Justice hold liaison meetings on a regular basis. In 2018, two liaison meetings were held. On October 25, 2018, the Investigation Bureau, Ministry of Justice held the "Inter-agency Meeting on Execution of Economic Crime Prevention"¹, where the FSC, Fair Trade Commission, Bureau of Consular Affairs, Ministry of Foreign Affairs, Department of Commerce, Ministry of Economic Affairs, Intellectual Property Office, Ministry of Economic Affairs, Department of Prosecutorial Affairs, and Ministry of Justice, Taiwan High Prosecutors Office, Police Affairs Agency, Ministry of Internal Affairs, and National Immigration Agency, Ministry of the Interior were invited to deliberate on measures to prevent economic crimes. This included an information sharing system established by the FSC and the Anti-money Laundering Division of the Investigation Bureau, Ministry of Justice (Financial Intelligence Unit, FIU) and action to be taken in response to the third round of mutual evaluation of the Asia/Pacific Group On Money Laundering (APG).

In 2018, the Taiwan High Prosecutors Office also consulted with the FSC, Investigation Bureau, Ministry of Justice, Criminal Department, Judicial Yuan, Bureau of Foreign Trade, Ministry of Economic Affairs, Department of Foreign Exchange, Central Bank, and Department Navigation and Aviation, and Ministry of Transportation and Communications about the economic crimes under investigation.

¹ Source: 2018 The Prevention and Investigation of Economic Crime Yearbook, Ministry of Justice Investigation Bureau <https://www.mjib.gov.tw/eBooks/eBooks_Detail?CID=12#>

IV. Cross-border Collaboration in Financial Supervision

For law enforcement purposes, the FSC may cooperate with foreign securities and futures bureaus in financial supervision, such as information exchange and investigation, through a multilateral memorandum of understanding (MMOU) established by the International Organization of Securities Commissions (IOSCO). In 2018, the SFB sought assistance in nine cases from competent authorities in other countries, including the Australian Securities and Investments Commission, Financial Markets Authority of New Zealand, Securities and Futures Commission of Hong Kong, and Financial Market Authority of France; authorities in other countries requested assistance in five cases from the SFB, including the Securities and Futures Commission of Hong Kong, U.S. Commodity Futures Trading Commission, and Financial Supervisory Service of South Korea.

Review/Evaluation of Results of Law Enforcement

- › Results of Law Amendments and Enforcement Achieved by the SFB in 2018
- › Results of Major Rules Amendments and Enforcement Achieved by the TWSE and TPEx in 2018

I. Results of Law Amendments and Enforcement Achieved by the SFB in 2018

(I) Securities and Exchange Act

Some provisions of the "Securities and Exchange Act" were amended between January 31, 2018 and April 25, 2018. In addition to some changes to the proceeds of crimes under the new confiscation system set forth in the Criminal Code, these amendments specify that the "Securities and Exchange Act" may not be applied to the innovative experimentation of securities business conducted to promote inclusive finance and financial technology development, and that companies shall not impede, refuse, or evade the actions of the independent directors in the performance of their duties in order to strengthen their supervision and protect independent directors from improper interference.

(II) Securities Investment Trust and Consulting Act

Some provisions of the "Securities Investment Trust and Consulting Act" were amended on January 31, 2018. These mainly include the "special breach of trust" in the breach of duties committed by the personnel of securities investment trust enterprises or securities investment consulting enterprises; if such personnel commit an act in breach of duties, causing damage to their enterprises, they shall be punished with imprisonment for not less than three years and not more than ten years; if the proceeds of the crime reach NT\$100 million or more, such personnel shall be punished with imprisonment for not less than seven years. In addition, the regulations governing the business of these two groups are loosened to improve the competitiveness of the domestic asset management industry.

(III) Certified Public Accountant Act

In response to the changes in domestic CPA practices, the FSC drafted an amendment to the Certified Public Accountant Act to properly modify CPA supervision and practice. On January 31, 2018, the amendment was promulgated by the President to improve the management and business development of CPAs. It mainly strengthens the disqualifications of CPAs, deletes the provision that pre-professional training may replace practical training, implements compulsory membership in CPA associations, and stipulates the establishment of CPA co-location contracts.

(IV) Futures Trading Act

The amendments to the "Futures Trading Act" were promulgated by the President on January 16th, 2019. To strengthen legal compliance by futures enterprises and related institutions, the FSC amended the penalties by raising the maximum administrative fine from NT\$600,000 to NT\$2.4 million, and granting exemptions from penalties for minor violations as well as granting the FSC to take necessary measures if appropriate.

II. Results of Major Rules Amendment and Enforcement Achieved by the TWSE and the TPEX in 2018

(I) Regulating the powers of the board of directors and various sanctions:

In response to the implementation of the Corporate Governance Roadmap (2018~2020) in 2018 and recent developments of corporate governance at home and abroad, the "Taiwan Stock Exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers" and "Taipei Exchange Directions for Compliance Requirements for the Appointment and Exercise of Powers of the Boards of Directors of TPEX Listed Companies" were amended on December 27, 2018, specifying that a majority of the members of the remuneration committee shall be independent directors and that TWSE/TPEX listed companies shall establish a standard operational protocol for responding to requests from directors, appoint a chief corporate governance officer, take out directors' and supervisors' liability insurance, and evaluate the performance of the board of directors. Based on the regulations of exchanges in the U.S., Hong Kong, and Singapore, the TWSE and TPEX also established various sanctions against those violating the "Taiwan Stock Exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers" or the "Taipei Exchange Directions for Compliance Requirements for the Appointment and Exercise of Powers of the Boards of Directors of TPEX Listed Companies". Sanctions imposed on the violators include imposition of penalties, issuance of a letter requesting improvement within a specific deadline, adoption of an altered-trading method, suspension of trading or listing, and making of a public announcement.

(II) Strengthening corporate governance of emerging stock board registered companies:

To strengthen corporate governance of emerging stock board registered companies and implement the supervision of the board of directors, the TPEX announced the amendment to the "Taipei Exchange Rules Governing the Review of Emerging Stocks for Trading on the TPEX" (hereinafter the "Rules Governing the Review of Emerging Stocks for Trading on the TPEX") on May 7, 2018. The amendment specifies that starting from 2019, a company applying for trading on the TPEX emerging stock board shall have appointed independent directors under Article 14-2 of the Securities and Exchange Act and related provisions. The number of independent directors shall not be less than two and shall not be less than one fifth of the directors. To give companies flexibility and enough time to respond, the TPEX announced the amendment to the "Rules Governing the Review of Emerging Stocks for Trading on the TPEX" on May 3, 2019. The amendment specifies that if a company submits the application by June 30, 2020 and by the time of the application it has passed a board of directors meeting's resolution for election of independent directors and it undertakes to complete the election at a shareholders' meeting to be held within three months from the date on which its stock is registered for TPEX trading, it may also be entitled to registration for TPEX trading.

In 2019, a total of 53 companies applied for trading on the TPEX emerging stock board; by the time of the application, 43 companies had appointed independent directors, and 10 companies had passed a board of directors meeting's resolution for election of independent directors and undertook to complete the election at a shareholders' meeting to be held within three months.

(III) Increasing the information disclosure of TWSE/TPEX listed companies in English:

In response to the action plan (Increasing the information disclosure of TWSE/TPEX listed companies in English) under the Corporate Governance Roadmap (2018~2020), the "Rules Governing Information Reporting by Companies with TWSE/TPEX Listed Securities" stipulate that a TWSE/TPEX listed company whose percentage of shares held by foreign investors accounts for 30% or more or which has paid-in capital of NT\$10 billion or more shall submit an English version of its or the shareholders' meeting handbook, annual report to shareholders' meeting and annual financial statements starting from 2019.

(IV) Strengthening the protection of shareholders' equity of TWSE/TPEX listed companies:

Considering business development, customer relationship management, and local market development of TWSE/TPEX listed companies or the strategic alliance or overseas listing of the subsidiaries of TWSE/TPEX listed companies, the "Operating Rules of the Taiwan Stock Exchange Corporation", "Taipei Exchange Rules Governing Securities Trading on the TPEX", and relevant material information regulations were amended to protect the shareholders' equity of TWSE/TPEX listed companies from damage caused by the excessive transfer of equity or business of major subsidiaries. If a TWSE/TPEX listed company is reducing its direct or indirect shareholding in (or contribution to) its subsidiary by a certain percentage or has lost its control over the subsidiary, it shall appoint an independent expert to issue an opinion. The company shall then submit the written opinion, how the percentage of shareholding in (or contribution to) the subsidiary will be reduced, whether the parties to whom equities (or contributions) are to be assigned or the specified persons being contacted are normal, and whether continued listing of shares on the TWSE/TPEX will affect its audit committee and board of directors for review and deliberation to protect its shareholders' equity. If a subsidiary of the company applies for listing of securities in an overseas securities market for trading, the company shall submit it to the shareholders' meeting for deliberation and include and explain related matters in the reason for convening the shareholders' meeting to help shareholders exercise their voting rights with full knowledge.

(V) Strengthening the early warning system in the securities market:

In response to the trading activities in the securities market, the "Detailed Numerical Standards and Exceptions to the Irregularity Standards in the Subparagraphs under Article 4, paragraph 1 of the Taipei Exchange Directions for Announcement or Notice of Attention to Trading Information and Dispositions on the TPEx" were amended to announce abnormal trading activities, so as to remind investors and securities firms of transaction risk and to avoid frequent announcements of attention to trading information and disposition measures .

To strengthen the management of abnormal securities trading, the TWSE and TPEx will continuously review and analyze the securities trading activities and timely adjust relevant numerical standards as needed.

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