

(Translation, for reference only)

Regulations Governing the Application of the Incentive for a Five-Year Exemption from Profit-Seeking Enterprise Income Tax to the Investments Made by Enterprises in the Manufacturing Industry and the Technical Service Industry between July 1, 2008 and December 31, 2009

Article 1

These Regulations are enacted pursuant to Paragraph 4, Article 9-2 of the Statute for Upgrading Industries (hereinafter referred to as the "**Statute**").

Article 2

The investments made between July 1, 2008 and December 31, 2009 may enjoy the investment incentives under Article 9-2 of the Statute if they meet either of the following criteria:

1. For enterprises in the manufacturing industry, the investment they make upon incorporation or expansion through capital increase shall be at least NT\$500,000, and the amount spent on the acquisition of new machinery, equipment or technologies shall be at least NT\$500,000; or
2. For enterprises in the technical service industry associated with the manufacturing industry, the investment they make upon incorporation or expansion through capital increase shall be at least NT\$100,000, and the amount spent on the acquisition of new machinery, equipment or technologies shall be at least NT\$100,000.

Article 3

The term "manufacturing industry" used in Paragraph 1, Article 9-2 of the Statute shall mean companies that engage in the business of manufacturing or processing of goods, while the term "technical service industry associated with the manufacturing industry" shall mean companies that provide the manufacturing industry with technical services in connection with research and development, design, inspection, testing, production process improvement, automation or computerization, energy conservation or new and clean energy technologies, recycling of resources, pollution control, industrial water treatment, carbon emission reduction, or intellectual property related technologies.

The term "incorporation" used in Paragraph 1, Article 9-2 of the Statute shall mean the completion of the registration of the incorporation of a company pursuant to applicable laws, while the term "expansion through capital increase" used in the Statute shall mean the completion of an amendment to corporate registration to reflect the implementation of a capital increase through cash injection or capitalization of undistributed surplus earnings. However, if a company implements a capital increase immediately after a capital reduction that took place on or after July 1, 2008, the amount of the increase in capital less the amount of the reduction in capital shall meet either of the criteria set forth in Article 1 hereof, unless the capital reduction is solely for the purpose of making up the deficit of the company.

The term "the date on which the company begins to sell products or render services" under Item 1, Paragraph 1, Article 9-2 of the Statute, and the term "the date on which the newly

purchased equipment is put into use or begins to render services" under in Item 2, Paragraph 1, Article 9-2 of the Statute shall each mean the date on which the investment project is accomplished by the company.

Article 4

The term "total amount of investment" used in Paragraph 3, Article 9-2 of the Statute shall mean the sum of the following expenses spent on implementing the investment project during the project period:

1. Expenses for acquiring the land at which the buildings used for production or business operation is located;
2. Expenses for constructing or acquiring buildings to be used for production or business operation;
3. Expenses for acquiring brand new machinery, equipment or technologies; and
4. Other expenses related to the investment project.

The amount of expenses referred to in Item 4 above shall be calculated at the following rates: (i) for the manufacturing industry, twenty percent (20%) of the total amount of the expenses described in Item 3 above; or (ii) for the technical service industry associated with the manufacturing industry, seventy percent (70%) of the total amount of the expenses described in Item 3 above.

Article 5

For a company that is incorporated or undergoes an expansion through capital increase on or after July 1, 2008, it shall procure brand new machinery, equipment or technologies for manufacture and provision of services, and shall, within six (6) months of the day following the date of issuance of a corporate incorporation registration card in the case of a newly incorporated company, or within six (6) months of the day following the date of issuance of a corporate amendment registration card in the case of an expanded company, but in any event prior to December 31, 2009, submit the following documents to the Industrial Development Bureau of the Ministry of Economic Affairs (hereinafter referred to as the "**IDB**") for a written approval of its investment project's entitlement to the incentives for an exemption from profit-seeking enterprise income tax for a period of five consecutive years.

1. Seven (7) copies of the investment plan;
2. Photocopies of the corporate incorporation registration card or corporate amendment registration card, as the case may be; and
3. Photocopies of the factory registration certificate or any other documents evidencing that the applicant is engaged in the manufacturing industry or technical service industry associated with the manufacturing industry.

The IDB, upon issuing the written approval described in the preceding paragraph above, shall forward a copy of the written approval to the authority in charge of issuing certificates of

completion of investment projects, the Taxation Agency under the Ministry of Finance, and the tax collection authority in the jurisdiction where the company is located.

Article 6

Where a company's corporate incorporation registration card or corporate amendment registration card reflecting a capital increase was issued during the period from July 1, 2008 to the promulgation date of these Regulations, the company may, within six (6) months of the day following the promulgation of these Regulations, apply to the IDB for a written approval of its investment project's entitlement to an exemption from profit-seeking enterprise income tax for a period of five consecutive years.

Article 7

During the project period, the company's expenditures on land, buildings and brand new machinery, equipment and technologies shall meet the following requirements:

1. In the case of procurement of land, the relevant purchase agreement shall be executed by the parties after July 1, 2008; the company shall obtain the land ownership certificate before the completion of the investment project; and the building(s) on the land shall meet the requirements specified in Item 2 below for use of production and business operation.
2. In the case of constructing a new building, the construction permit shall be obtained after July 1, 2008, and the occupancy permit shall be obtained before the completion of the investment project. In the case of purchasing an existing building, the relevant purchase agreement shall be executed by the parties after July 1, 2008, and the company shall obtain the building ownership certificate before the completion of the investment project.
3. In the case of purchasing of brand new machinery, equipment and technologies, the relevant purchase agreement shall be executed by the parties after July 1, 2008, and the purchase price shall be paid in full before the completion of the investment project.

The term "technologies" referred to in Item 3 above shall mean patents, proprietary technologies, or standardized and commercialized packaged software that are provided specifically for production, business operations or provision of services and that can be used perpetually.

The cost of purchasing a land as described in Item 1 above includes the purchase price as well as all necessary expenses incidental to the purchase and incurred for making the land suitable for business operations.

The cost for constructing a new building as described in Item 2 above includes the cost of all materials, labor and other expenses required and incurred for the design and construction of the building to the extent necessary to make the building suitable for business operations. The cost for the purchase of an existing building described in Item 2 above includes the purchase price as well as all necessary expenses incidental to the purchase and incurred for making the building fit for business operations.

The cost for purchasing brand new machinery, equipment or technologies as described in Item 3 above includes the purchase price, shipping costs and insurance premiums, but excludes any other expenses incidental to the purchase of the machinery, equipment or technology at issue. The purchase cost of machinery or equipment that is manufactured by the company for its own use should be based on the costs and expenses necessary for producing the machinery or equipment.

Article 8

A company that has received a written approval for its investment project's entitlement to an exemption from profit-seeking enterprise income tax for a period of five consecutive years in accordance with Article 5 hereof shall complete the investment project before December 31, 2010. In the event that the company is unable to complete the investment project by the aforesaid deadline, and the investment project falls into any of the following situations, the company shall, prior to December 31, 2010, apply to the IDB for an extension of time to complete the investment project by the relevant due dates as prescribed below:

1. If the investment project involves the construction of a new building, the project shall be completed before December 31, 2011.
2. If the total amount of investment in the project is NT\$10 billion or above, and the relevant environmental impact assessment has commenced before the IDB issues a written approval for an exemption from profit-seeking enterprise income tax for a period of five consecutive years, the investment project shall be completed either within three (3) years of the day following the date the relevant environmental impact assessment report is approved or acknowledged for recordation by the environmental protection authority, or before December 31, 2016, whichever is earlier.
3. Where the investment project prescribed in Item 2 above involves the reclamation of land of an area of 1,000 hectares or more, the project shall be completed either within six (6) years of the day following the date the relevant environment impact assessment report is approved or acknowledged for recordation by the environmental protection authority, or by December 31, 2019, whichever is earlier. If the land to be reclaimed is less than 1,000 hectares, the project shall be completed either within five (5) years of the day following the date the relevant environment impact assessment report is approved or acknowledged for recordation by the environmental protection authority, or by December 31, 2018, whichever is earlier.

Article 9

A company that has received a written approval for its investment project's entitlement to an exemption from profit-seeking enterprise income tax for a period of five consecutive years in accordance with Article 5 hereof shall, within one (1) year of the day following the date of the completion of the investment project, submit the relevant documents along with an application for a project completion certificate in accordance with the following provisions:

1. If the investment project is implemented in a science-based industrial park, the company shall file the application with the authority in charge of administration of that science-based industrial park.

2. If the investment project is implemented in an agricultural technology park, the company shall file the application with the authority in charge of the park administration of that agricultural technology park.
3. If the investment project is implemented in an export processing zone, the company shall file the application with the authority in charge of the administration of that export processing zone.
4. If the investment project is implemented in a municipality (directly administered by the central government), the company shall file the application with the Economic Development Bureau or the Department of Economic Development of the local municipal government. If the investment project is implemented outside a municipality, the company shall file the application with the IDB.
5. If the investment project is implemented across the four districts described above, the company shall file the application with the authority having jurisdiction over the district that has supplied most of the machinery, equipment or technologies in terms of purchase price.

When applying for a project completion certificate, the applicant company shall state in the application form the date of the completion of the investment project, types of product or service, total amount of investment, and the purchase cost for purchasing machinery, equipment or technologies for production or provision of services. The aforesaid information cannot be changed after the application is approved.

The expenditures on machinery, equipment or technologies purchased for the sole purpose of research and development shall not be included in the purchase cost of machinery, equipment or technologies acquired for the purpose of production or provision of services.

The authorities that issue project completion certificates under Paragraph 1 of this Article 9 may conduct a documentary review or an on-site survey.

Upon issuing completion certificates in accordance with Paragraph 1 of this Article 9 hereof, the authorities shall forward a copy of the certificate to the Taxation Agency of the Ministry of Finance and the tax collection authority in the jurisdiction where the company is located.

Article 10

If a company that has received a written approval for its investment project's entitlement to an exemption from profit-seeking enterprise income tax for a period of five consecutive years in accordance with Article 5 hereof needs to change the products or services covered in its investment project, and the proposed change calls for a change of businesses of a middle or higher class (main category or a subcategory) classified under the Standard Industrial Classifications of the Republic of China, the company shall file an application with the IDB to amend its application no later than December 31, 2010 and before receiving the project completion certificate, and shall, after the completion of its investment project, apply for a project completion certificate in accordance with Article 9 hereof. No amendment application will be accepted if filed after the aforementioned deadline.

The IDB shall, upon issuing a written approval for an amendment application as described in the preceding paragraph, forward one copy of the written approval to the authority in charge of issuing project completion certificate, the Taxation Agency under the Ministry of Finance, and the tax collection authority in the jurisdiction where the company is located.

Article 11

If a company applies for a project completion certificate after the deadline specified in Paragraph 1, Article 9 hereof, the authority accepting such a late application may still approve such application and grant the applicant company the tax incentives provided for in these Regulations for the residual period of the tax exemption period prescribed under Article 9-2 of the Statute; provided, however, that no incentives for tax exemption may be granted if the length of the residual period is less than one month.

The residual period mentioned above shall commence on the day on which all the documents required in Article 12 hereof have been submitted.

Article 12

When applying for a project completion certificate in accordance with Paragraph 1, Article 9 hereof, the company shall submit the following documents along with the application:

1. Photocopies of the corporate incorporation registration card obtained by the company at the time when the company was incorporated; or, photocopies of the corporate amendment registration card obtained by the company prior to or after the amendment to its registration regarding its capital;
2. Photocopies of the written approval of the entitlement of an investment project to the incentive for an exemption from profit-seeking enterprise income tax for a period of five consecutive years;
3. For the construction of new buildings, photocopies of the payment receipts, construction permit, occupancy permit of such buildings or relevant documents; for the purchase of existing buildings, photocopies of the purchase agreement, proof of payment and the building ownership certificate;
4. For the purchase of land, photocopies of the purchase agreement, proof of payment and land ownership certificate;
5. For an investment project that involves an environmental impact assessment and that exceeds NT\$10 billion, photocopies of the written approval or acknowledgement for recordation issued by the environmental protection authority;
6. For an investment project that involves the reclamation of land, photocopies of the letter issued by the relevant authority approving the reclamation project;
7. Photocopies of proofs of purchase orders and payments, or a CPA audited document for the purchase of brand new machinery, equipment or technologies;
8. Six (6) copies of a list of the brand new machinery, equipment or technologies purchased;

9. The layout drawing and location map of the brand new machinery and equipment acquired; and
10. Other supporting documents relating to the investment project.

If the machinery or equipment described in the preceding paragraph is installed in an urban planning area, its installation shall comply with the Urban Planning Act and the zoning regulations applicable to urban areas. If the machinery or equipment is installed in a non-urban planning area, its installation shall comply with the Regional Planning Act and the zoning regulations applicable to non-urban areas.

In the event of any changes to the location where the machinery and equipment are installed, the company shall report such change to the tax collection authority in the jurisdiction where the company is located for its recordation.

Article 13

The deferred tax exemption period selected by a company in accordance with Paragraph 2, Article 9-2 of the Statute shall be reported to the relevant competent authority for its approval in accordance with the following provisions and within two (2) years of the completion date of its investment project. No application for such approval may be filed after the foregoing deadline, and once the commencement date of the deferred tax exemption period is approved, no amendment to such commencement date may be made:

1. Where the application for approval of the commencement date of the tax exemption period is made simultaneously with the application for a project completion certificate, the applicant should specify in the same application the commencement date of the tax exemption period selected by the company and the beginning date and the ending date of its fiscal year.
2. Where the application is to be made after the issuance of a project completion certificate, a separate application stating the commencement date of the deferred tax exemption period selected by the company and the beginning date and the ending date of its fiscal year, and together with the IDB's written approval for the entitlement of an investment project to the incentive for an exemption from profit-seeking enterprise income tax for a period of five consecutive years and the project completion certificate, shall be filed with the Ministry of Finance for its approval.

Article 14

Any company that is incorporated or expanded through capital increase on or after July 1, 2008 and that has, in accordance with the Regulations for Encouraging the Manufacturing Industry and Technical Service Industry in the Newly Emerging, Important and Strategic Industry or the Enforcement Rules of the Statute for Updating Industries, obtained a written approval of its status as a company in a newly emerging, important and strategic industry, but has not yet applied for a project completion certificate, may, within six (6) months of the day following the date on which these Regulations are promulgated, apply to the IDB for nullification of the previous written approval of its status as a company in a newly emerging, important and strategic industry and request to be subject to these Regulations in accordance

with Articles 5 and 6 hereof.

The nullification of the written approval of its status as a company in a newly emerging, important and strategic industry described in the preceding paragraph may be effected concurrently with the issuance of a letter approving the entitlement of an investment project to the incentive for an exemption from profit-seeking enterprise income tax for a period of five consecutive years under these Regulations. A copy of the letter approving the nullification shall be sent to the Taxation Agency of the Ministry of Finance and the tax collection authority in the jurisdiction where the company is located.

Article 15

If a proposed investment project falls into either of the situations described in Item 2 or Item 3 of Article 8 hereof, and the company has obtained the IDB's approval for an extension of the deadline for completing the proposed investment project, the relevant authority shall not approve the company's application for a project completion certificate if the actual amount of investment does not reach NT\$10 billion.

Article 16

In the event that any machinery, equipment, technologies, lands or buildings whose acquisition costs are included in the total amount of investment made by a company, is subsequently borrowed, leased, or resold to another person, claimed back by others in accordance with the law, exchanged with others or deemed by the competent authority as not purchased for the company's own use within three (3) years from the acquisition of machinery, equipment or technologies at issue, or during the tax exemption period in the case of land and building, the tax collection authority in the jurisdiction where the company is located may deduct such purchase costs from the total investment amount originally stated by the company. Notwithstanding the foregoing, this Article shall not apply if any of the aforementioned situations is caused by an earthquake, storm, flood, drought, plagues of insects, fires, wars, or any other force majeure event, or a legal expropriation.

If the company has been exempted from profit-seeking enterprise income tax in accordance with Article 9-2 of the Statute, and the exempted amount exceeds the total amount of investment after deduction in accordance with the preceding paragraph, the company shall pay the difference to the tax collection authority in the jurisdiction where it is located.

If, (i) prior to the completion of the investment project, the amount of investment made for incorporating a new company or expanding the company through capital increase, or, (ii) during the tax exemption period, the purchase cost for machinery, equipment or technologies is below the minimum threshold set forth in Article 2 hereof due to either of the following reasons, the company shall pay the exempted or reduced amount of profit-seeking enterprise income tax payable due to the investment project to the tax collection authority in the jurisdiction where it is located:

1. The company has reduced its capital not solely for the purpose of making up the deficit of the company; or
2. The purpose of the investments made in accordance with Article 2 hereof has changed other than for the company's own use as described in Paragraph 1 above.

The company shall pay the exempted or reduced amount of profit-seeking enterprise income tax payable plus interest to be calculated on a daily basis at the fixed interest rate for a one-year fixed deposit with Chunghwa Post Co., Ltd. from the date following the deadline for filing the profit-seeking enterprise income tax return for the relevant tax year until the date of full payment.

Article 17

For companies eligible for exemption from profit-seeking enterprise income tax under Article 9-2 of the Statute, the method of calculating tax-exempt income shall be prescribed by the Ministry of Finance.

The company's entitlement to exemption from profit-seeking enterprise income tax shall be limited to those products or services specified on the project completion certificate of the relevant investment project.

If a company, in order to be qualified for tax exemption, raises funds by shutting down its plant or ceases operation without a justifiable cause, or by transferring its machinery, equipment or technologies, and subsequently invests the funds obtained therefrom in the products or technical services that the company was originally engaged in, the incentives provided for under these Regulations shall not apply.

Article 18

These Regulations shall come into force from the date of promulgation.