Zyxel Group Corporation

Procedures for Acquisition or Disposal of Assets

Chapter I General Principles

Article 1 These Regulations are adopted in accordance with the provisions of Article 36-1 of the Securities and Exchange Act ("the Act").

Article 2 The Company shall handle the acquisition or disposal of assets in compliance with these Regulations; provided, where financial laws or regulations provide otherwise, such provisions shall govern.

Article 3 The term "assets" as used in these Regulations includes the following:

1. Investments in stocks, government bonds, corporate bonds, financial bonds, securities representing interest in a fund, depositary receipts, call (put) warrants, beneficial interest securities, and asset-backed securities.
2. Real property (including land, houses and buildings, investment property, and construction enterprise inventory) and equipment.
3. Memberships.
4. Patents, copyrights, trademarks, franchise rights, and other intangible assets.
5. Right-of-use assets.
6. Claims of financial institutions (including receivables, bills purchased and discounted, loans, and overdue receivables).
7. Assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with law.
8. Other major assets.

Article 4 Terms used in these Regulations are defined as follows:

1. Assets acquired or disposed through mergers, demergers, acquisitions, or transfer of shares in accordance with law: Refers to assets acquired or disposed through mergers, demergers, or acquisitions conducted under the Business Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institution Merger Act and other acts, or to transfer of shares from another company through issuance of new shares of its own as the consideration therefor (hereinafter "transfer of shares") under Article 156-3 of the Company Act.
2. Related party: As defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

3. Subsidiary: As defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers.
4. Professional appraiser: Refers to a real property appraiser or other person duly authorized by law to engage in the value appraisal of real property or equipment.
5. Date of occurrence: Refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, dates of boards of directors resolutions, or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier; provided, for investment for which approval of the competent authority is required, the earlier of the above date or the date of receipt of approval by the competent authority shall apply.
6. Mainland China area investment: Refers to investments in the mainland China area approved by the Ministry of Economic Affairs Investment Commission or conducted in accordance with the provisions of the Regulations Governing Permission for Investment or Technical Cooperation in the Mainland Area.
7. Investment professional: Refers to financial holding companies, banks, insurance companies, bill finance companies, trust enterprises, securities firms operating proprietary trading or underwriting business, futures commission merchants operating proprietary trading business, securities investment trust enterprises, securities investment consulting enterprises, and fund management companies, that are lawfully incorporated and are regulated by the competent financial authorities of the jurisdiction where they are located.
8. Securities exchange: "Domestic securities exchange" refers to the Taiwan Stock Exchange Corporation; "foreign securities exchange" refers to any organized securities exchange market that is regulated by the competent securities authorities of the jurisdiction where it is located.
9. Over-the-counter venue ("OTC venue", "OTC"): "Domestic OTC venue" refers to a venue for OTC trading provided by a securities firm in accordance with the Regulations Governing Securities Trading on the Taipei Exchange; "foreign OTC venue" refers to a venue at a financial institution that is regulated by the foreign competent authority and that is permitted to conduct securities business.
10. The Company's net worth in latest financial statement：the net worth in the latest only financial report or individual financial report prepared under the Regulations Governing the Preparing of Financial Reports by Securities Issuers before the Company’s acquisition or disposal of assets.

Article 5 Professional appraisers and their officers, certified public accounts, attorneys, and securities underwriters that provide public companies with appraisal reports, certified public accountant's opinions, attorney's opinions, or underwriter's opinions shall meet the following requirements:

1. May not have previously received a final and unappealable sentence to imprisonment for 1 year or longer for a violation of the Act, the Company Act, the Banking Act of The Republic of China, the Insurance Act, the Financial Holding Company Act, or the Business Entity Accounting Act, or for fraud, breach of trust, embezzlement, forgery of documents, or occupational crime. However, this provision does not apply if 3 years have already passed since completion of service of the sentence, since expiration of the period of a suspended sentence, or since a pardon was received.
2. May not be a related party or de facto related party of any party to the transaction.
3. If the Company is required to obtain appraisal reports from two or more professional appraisers, the different professional appraisers or appraisal officers may not be related parties or de facto related parties of each other.

When issuing an appraisal report or opinion, the personnel referred to in the preceding paragraph shall comply with the self-disciplinary regulations of the industry association he/she belongs to and the following:

1. Prior to accepting a case, they shall prudently assess their own professional capabilities, practical experience, and independence.
2. When executing a case, they shall appropriately plan and execute adequate working procedures, in order to produce a conclusion and use the conclusion as the basis for issuing the report or opinion. The related working procedures, data collected, and conclusion shall be fully and accurately specified in the case working papers.
3. They shall undertake an item-by-item evaluation of the suitability and reasonableness of the sources of data used, the parameters, and the information, as the basis for issuance of the appraisal report or the opinion.
4. They shall issue a statement attesting to the professional competence and independence of the personnel who prepared the report or opinion, and that they have evaluated and found that the information used is reasonable and suitable, and that they have complied with applicable laws and regulations.

Chapter II Disposition Procedures

Section I Establishment of Disposition Procedures

Article 6 When the procedures for the acquisition and disposal of assets are adopted or amended they shall be approved by one-half or more of all audit committee members and submitted to the board of directors for a resolution. After the procedures have been approved by the board of directors, they shall be submitted to a shareholders' meeting for approval; the same applies when the procedures are amended. If any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the director's dissenting opinion to each independent director.

When the procedures for the acquisition and disposal of assets are submitted for discussion by the board of directors pursuant to the preceding paragraph, the board of directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board of directors meeting.

If approval of one-half or more of all audit committee members as required in the preceding paragraph is not obtained, the procedures may be implemented if approved by two-thirds or more of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.

The terms "all audit committee members" in paragraph 3 and "all directors" in the preceding paragraph shall be counted as the actual number of persons currently holding those positions.

Article 7 Investment scope and the amount limitations：

Besides the acquisition of real property for operational purposes by the Company and, its subsidiaries, the restrictions of amount for the transactions in real property or securities for non-operational purposes are as follows:

1. The acquisition of real property or rights-of-use assets for non-operational purposes or total amount of all security investments by the Company shall not exceed 300 percent of the Company's net worth in latest financial statement, the acquisition of investments in a single security shall not exceed 100 percent of the Company's net worth in latest financial statement. However this provision does not apply if get approved by project by the board of director.
2. The acquisition of real property for non-operational purposes by the Company shall not exceed 20 percent of the Company's paid-in capital.
3. The acquisition of real property or rights-of-use assets for non-operational purposes or total amount of all security investments by the Company and its subsidiaries shall not exceed 100 percent of the Company's net worth in latest financial statement, the acquisition of investments in a single security shall not exceed 50 percent of the Company's net worth in latest financial statement. However this provision does not apply, when the investment by each subsidiary exceeds the limit and get approved by the its board of directors and ratification by the Company’s next board of directors' meeting.

Article 8 Evaluating procedure：

1. To conduct any acquisition or disposal of assets, the in-charge division shall submit to the authority division the reason for the proposed acquisition or disposal, the object, the transaction counterparty, the transfer price, the payment terms, and the price reference for their approval in accordance with the handling procedures, and then the acquisition or disposal of assets shall be implemented by relevant division.
2. The reference basis for determining the price of acquisition or disposal of assets by the Company shall be considered the professional appraiser and opinions of

professional experts such as CPA and handled in accordance with the following situations：

A. When the securities are acquired or disposed of through stock exchange or OTC markets, the then current stock or bond prices shall be used as the basis for determining the price.

B. In acquiring or disposing of securities which are not traded on any securities exchanges or OTC markets, its net worth per share, profitability, market rates, interest rates of bonds, potential of future growth, and its current market price shall be evaluated.

C. In acquiring or disposing of memberships, its benefits and the recent transaction price shall be considered.

D. In acquiring or disposing of patents, copyrights, trademarks, franchise rights, and other intangible assets, its international or market practices, useful lives and effects on the Company's technology and business shall be evaluated.

E. The transaction price of the acquisition or disposal of real property and equipment with de facto related party shall be handled with in accordance with Articles 19 and 20, and determined by reference to parcels close in publicly announced current value, appraised value, and the actual transaction price of other real property located nearby. The transaction price reaches a threshold in accordance with Articles 13 shall be assessed by professional appraiser. In acquisition or disposal of assets shall be conducted by way of issuing request for proposal, price competition under restricted tendering, and price negotiation under single tendering or bidding.

F. To conduct any mergers and consolidations, splits, acquisitions, and assignment of shares, its business nature, net worth per share, assets value, technology, profitability, capacity and potentiality of the objective company shall be evaluated.

Article 9 Operating procedure：

1. Authorization quota and level：

A. Securities：

a. The acquisition or disposal of long-term securities investment shall be approved by the board of directors, and the investment amount within NT $ 30,000 shall be authorized by the chairman or general manager to make a decision, and ratification by the Company’s next board of directors' meeting.

b. The appraisal of securities investment, except in transactions with a long-term securities investment that are acquired or disposed of by the Company shall be done after the feasibility evaluation report conducted by the assets sponsoring department, signed by the management department and with approval in accordance with approval authority regulations of the Company.

c. In acquiring or disposing of stock, corporate bonds or private placement of securities which are not traded on any securities exchanges or OTC markets, when the transaction amount reaches a threshold requiring public announcement, the transaction shall be submitted for approval in advance by the board of directors. The investment in the mainland China area shall be approved in advance by the board of directors and Ministry of Economic Affairs Investment Commission.

B. Related Party Transactions：

The matter shall be handled in compliance with Section 3, Chapter 2 and approved in advance by the audit committee and board of directors.

C. Mergers and consolidations, splits, acquisitions, and assignment of shares：

The matter shall be handled in compliance with Section 4, Chapter 2 and approved in advance by the shareholders' meeting. Provided, where a provision of another act exempts a company from convening a shareholders meeting to approve, this restriction shall not apply.

D. Other：

The matter shall be handled in compliance with the internal control and approval authority regulations of the Company. When the transaction amount reaches a threshold requiring public announcement in accordance with Article 30, it shall be approved in advance by the broad of directors. The acquisition or disposal of equipment for operational purposes shall be ratification by the Company’s next board of directors' meeting. If there are any matters in Article 185 of the Company Law, it shall be approved in advance by the shareholders' meeting.

2. Sponsoring department and operation Procedure

The sponsoring department of long-term securities investment is authority department and the person pointed by chairman; the sponsoring department of real property and other assets is the user and relevant authority department; The sponsoring department of mergers and consolidations, splits, acquisitions, and assignment of shares is pointed by chairman; the acquisition or disposal of assets are evaluated and approved in accordance with the regulations, the sponsoring department will conduct contracting, collection, delivery, acceptance and other transaction processes, and handle the operations in accordance with the internal control depending on the nature of the assets. Mergers and consolidations, splits, acquisitions, and assignment of shares with related parties shall be handled in accordance with the sections 3 and 4 of chapter 2 of this procedure.

Article 10 The Procedures for Supervising Acquisition or Disposal of Assets by Subsidiaries：

1. The Company’s subsidiaries shall establish its procedures for the acquisition or disposal of assets. After the procedures have been approved by the board of directors, they shall be submitted to each supervisor, and then to a shareholders' meeting for approval; the same applies when the procedures are amended.

2. The acquisition or disposal of assets by the Company's subsidiaries shall be handled in compliance with its internal control and procedures for the acquisition or disposal of assets.

Article 11 With respect to the Company's acquisition or disposal of assets that is subject to the approval of the board of directors under the Company's procedures or other laws or regulations, if a director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the director's dissenting opinion to each independent director members of the audit committee.

In accordance with the provisions of the Act, when a transaction involving the acquisition or disposal of assets is submitted for discussion by the board of directors pursuant to the preceding paragraph, the board of directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board of directors meeting.

In accordance with the provisions of the Act, any transaction involving major assets or derivatives shall be approved by one-half or more of all audit committee members and submitted to the board of directors for a resolution, and shall be subject to mutatis mutandis application of Article 6, paragraphs 3 and 4.

Article 12 Penalty：

Any employee who undertakes responsibilities for acquisition or disposal of assets in violation of these procedures will be referenced for the annual personal performance assessment.

Section II Acquisition or Disposal of Assets

Article 13 In acquiring or disposing of real property, equipment, or right-of-use assets thereof where the transaction amount reaches 20 percent of the Company's paid-in capital or NT$300 million or more, the Company, unless transacting with a domestic government agency, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of equipment or right-of-use assets thereof held for business use, shall obtain an appraisal report prior to the date of occurrence of the event from a professional appraiser and shall further comply with the following provisions:

1. Where due to special circumstances it is necessary to give a limited price, specified price, or special price as a reference basis for the transaction price, the transaction shall be submitted for approval in advance by the board of directors; the same procedure shall also be followed whenever there is any subsequent change to the terms and conditions of the transaction.

2. Where the transaction amount is NT$1 billion or more, appraisals from two or more professional appraisers shall be obtained.
3. Where any one of the following circumstances applies with respect to the professional appraiser's appraisal results, unless all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be disposed of are lower than the transaction amount, a certified public accountant shall be engaged to perform the appraisal and render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:
   A. The discrepancy between the appraisal result and the transaction amount is 20 percent or more of the transaction amount.
   B. The discrepancy between the appraisal results of two or more professional appraisers is 10 percent or more of the transaction amount.
4. No more than 3 months may elapse between the date of the appraisal report issued by a professional appraiser and the contract execution date; provided, where the publicly announced current value for the same period is used and not more than 6 months have elapsed, an opinion may still be issued by the original professional appraiser.

Article 14 The Company acquiring or disposing of securities shall, prior to the date of occurrence of the event, obtain financial statements of the issuing company for the most recent period, certified or reviewed by a certified public accountant, for reference in appraising the transaction price, and if the dollar amount of the transaction is 20 percent of the Company's paid-in capital or NT$300 million or more, the Company shall additionally engage a certified public accountant prior to the date of occurrence of the event to provide an opinion regarding the reasonableness of the transaction price. This requirement does not apply, however, to publicly quoted prices of securities that have an active market, or where otherwise provided by regulations of the Financial Supervisory Commission (FSC).

Article 15 Where the Company acquires or disposes of intangible assets or right-of-use assets thereof or memberships and the transaction amount reaches 20 percent or more of paid-in capital or NT$300 million or more, except in transactions with a domestic government agency, the Company shall engage a certified public accountant prior to the date of occurrence of the event to render an opinion on the reasonableness of the transaction price.

Article 16 The calculation of the transaction amounts referred to in the preceding three articles shall be done in accordance with Article 31, paragraph 2 herein, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items for which an appraisal report from a professional appraiser or a CPA's opinion has been obtained need not be counted toward the transaction amount.

Article 17 Where a public company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may be substituted for the appraisal report or CPA opinion.

Section III Related Party Transactions

Article 18 When the Company engages in any acquisition or disposal of assets from or to a related party, in addition to ensuring that the necessary resolutions are adopted and the reasonableness of the transaction terms is appraised, if the transaction amount reaches 10 percent or more of the Company's total assets, the Company shall also obtain an appraisal report from a professional appraiser or a CPA's opinion in compliance with the provisions of the preceding Section and this Section. The calculation of the transaction amount referred to in the preceding paragraph shall be made in accordance with Article 16 herein.

When judging whether a transaction counterparty is a related party, in addition to legal formalities, the substance of the relationship shall also be considered.

Article 19 When the Company intends to acquire or dispose of real property or right-of-use assets thereof from or to a related party, or when it intends to acquire or dispose of assets other than real property or right-of-use assets thereof from or to a related party and the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the Company's total assets, or NT$300 million or more, except in trading of domestic government bonds or bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises, the Company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by the audit committee and the board of directors:

1. The purpose, necessity and anticipated benefit of the acquisition or disposal of assets.
2. The reason for choosing the related party as a transaction counterparty.
3. With respect to the acquisition of real property or right-of-use assets thereof from a related party, information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with Article 20 and Article 21.
4. The date and price at which the related party originally acquired the real property, the original transaction counterparty, and that transaction counterparty's relationship to the Company and the related party.

5. Monthly cash flow forecasts for the year commencing from the anticipated month of signing of the contract, and evaluation of the necessity of the transaction, and reasonableness of the funds utilization.
6. An appraisal report from a professional appraiser or a CPA's opinion obtained in compliance with the preceding article.
7. Restrictive covenants and other important stipulations associated with the transaction.

The calculation of the transaction amounts referred to in the preceding paragraph shall be made in accordance with Article 31, paragraph 2 herein, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been approved by the audit committee and the board of directors need not be counted toward the transaction amount.

With respect to the types of transactions listed below, when to be conducted between a public company and its parent or subsidiaries, or between its subsidiaries in which it directly or indirectly holds 100 percent of the issued shares or authorized capital, the Company's board of directors may pursuant to Article 7, paragraph 1, subparagraph 3 delegate the board chairman to decide such matters when the transaction is within a certain amount and have the decisions subsequently submitted to and ratified by the next board of directors meeting:

1. Acquisition or disposal of equipment or right-of-use assets thereof held for business use.
2. Acquisition or disposal of real property right-of-use assets held for business use.

When a matter is submitted for discussion by the board of directors pursuant to paragraph 1, the board of directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board of directors meeting.

The matters for which paragraph 1 requires recognition by the audit committee and then submitted to the board of directors for a resolution, and shall be subject to mutatis mutandis application of Article 6, paragraphs 4 and 5.

Where the Company and the subsidiary not a public company in Taiwan engages a transaction in Subparagraph 1, and the transaction amount reaches 10 percent or more of the public company’s total assets, the Company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by the shareholders' meeting.However, it does not apply to the transactions among the Company, its parent or subsidiaries, or between its subsidiaries.

The calculation of the transaction amounts referred to in the Paragraph 1 and preceding paragraph shall be made in accordance with Article 31, paragraph 2, herein; and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been submitted to, and approved by the Audit Committee, the board of directors and a shareholders' meeting, need not be counted toward the transaction amount.

Article 20 The Company that acquires real property or right-of-use assets thereof from a related party shall evaluate the reasonableness of the transaction costs by the following means:

1. Based upon the related party's transaction price plus necessary interest on funding and the costs to be duly borne by the buyer. "Necessary interest on funding" is imputed as the weighted average interest rate on borrowing in the year the Company purchases the property; provided, it may not be higher than the maximum non-financial industry lending rate announced by the Ministry of Finance.
2. Total loan value appraisal from a financial institution where the related party has previously created a mortgage on the property as security for a loan; provided, the actual cumulative amount loaned by the financial institution shall have been 70 percent or more of the financial institution's appraised loan value of the property and the period of the loan shall have been 1 year or more. However, this shall not apply where the financial institution is a related party of one of the transaction counterparties.

Where land and structures thereupon are combined as a single property purchased or leased in one transaction, the transaction costs for the land and the structures may be separately appraised in accordance with either of the means listed in the preceding paragraph.

The Company that acquires real property or right-of-use assets thereof from a related party and appraises the cost of the real property or right-of-use assets thereof in accordance with the preceding two paragraphs shall also engage a CPA to check the appraisal and render a specific opinion.

Where the Company acquires real property or right-of-use assets thereof from a related party and one of the following circumstances exists, the acquisition shall be conducted in accordance with the preceding article, and the preceding three paragraphs do not apply:

1. The related party acquired the real property or right-of-use assets thereof through inheritance or as a gift.
2. More than 5 years will have elapsed from the time the related party signed the contract to obtain the real property or right-of-use assets thereof to the signing date for the current transaction.
3. The real property is acquired through signing of a joint development contract with the related party, or through engaging a related party to build real property, either on the Company's own land or on rented land.
4. The real property right-of-use assets for business use are acquired by the Company with its subsidiaries, or by its subsidiaries in which it directly or indirectly holds 100 percent of the issued shares or authorized capital.

Article 21 When the results of the Company's appraisal conducted in accordance with paragraph 1 and paragraph 2 of the preceding Article are uniformly lower than the transaction price, the matter shall be handled in compliance with Article 22. However, where the following circumstances exist, objective evidence has been submitted and specific opinions on reasonableness have been obtained from a professional real property appraiser and a CPA have been obtained, this restriction shall not apply:

1. Where the related party acquired undeveloped land or leased land for development, it may submit proof of compliance with one of the following conditions:
   A. Where undeveloped land is appraised in accordance with the means in the preceding Article, and structures according to the related party's construction cost plus reasonable construction profit are valued in excess of the actual transaction price. The "Reasonable construction profit" shall be deemed the average gross operating profit margin of the related party's construction division over the most recent 3 years or the gross profit margin for the construction industry for the most recent period as announced by the Ministry of Finance, whichever is lower.
   B. Completed transactions by unrelated parties within the preceding year involving other floors of the same property or neighboring or closely valued parcels of land, where the land area and transaction terms are similar after calculation of reasonable price discrepancies in floor or area land prices in accordance with standard property market sale or leasing practices.
2. Where the Company acquiring real property, or obtaining real property right-of-use assets through leasing, from a related party provides evidence that the terms of the transaction are similar to the terms of completed transactions involving neighboring or closely valued parcels of land of a similar size by unrelated parties within the preceding year.

Completed transactions involving neighboring or closely valued parcels of land in the preceding paragraph in principle refers to parcels on the same or an adjacent block and within a distance of no more than 500 meters or parcels close in publicly announced current value; transactions involving similarly sized parcels in principle refers to transactions completed by unrelated parties for parcels with a land area of no less than 50 percent of the property in the planned transaction; within the preceding year refers to the year preceding the date of occurrence of the acquisition of the real property or obtainment of the right-of-use assets thereof.

Article 22 Where a public company acquires real property or right-of-use assets thereof from a related party and the results of appraisals conducted in accordance with the preceding two articles are uniformly lower than the transaction price, the following steps shall be taken:

1. A special reserve shall be set aside in accordance with Article 41, paragraph 1 of the Securities and Exchange Act against the difference between the real property transaction price and the appraised cost, and may not be distributed or used for capital increase or issuance of bonus shares. Where the Company uses the equity method to account for its investment in another company, then the special reserve called for under Article 41, paragraph of the Securities and Exchange Act shall be set aside pro rata in a proportion consistent with the share of public company's equity stake in the other company.
2. The independent director members of the audit committee shall comply with Article 218 of the Company Act.
3. Actions taken pursuant to the preceding two subparagraphs shall be reported to a shareholders meeting, and the details of the transaction shall be disclosed in the annual report and any investment prospectus.

The Company that has set aside a special reserve under the preceding paragraph may not utilize the special reserve until it has recognized a loss on decline in market value of the assets it purchased or leased at a premium, or they have been disposed of, or the leasing contract has been terminated, or adequate compensation has been made, or the status quo ante has been restored, or there is other evidence confirming that there was nothing unreasonable about the transaction, and the FSC has given its consent.

When the Company obtains real property or right-of-use assets thereof from a related party, it shall also comply with the preceding two paragraphs if there is other evidence indicating that the acquisition was not an arms length transaction.

Section IV Mergers and Consolidations, Splits, Acquisitions, and Assignment of Shares

Article 23 The Company that conducts a merger, demerger, acquisition, or transfer of shares, prior to convening the board of directors to resolve on the matter, shall engage a CPA, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and submit it to the board of directors for deliberation and passage. However, the requirement of obtaining an aforesaid opinion on reasonableness issued by an expert may be exempted in the case of a merger by the Company of a subsidiary in which it directly or indirectly holds 100 percent of the issued shares or authorized capital, and in the case of a merger between subsidiaries in which the public company directly or indirectly holds 100 percent of the respective subsidiaries’ issued shares or authorized capital.

Article 24 The Company participating in a merger, demerger, acquisition, or transfer of shares shall prepare a public report to shareholders detailing important contractual content and matters relevant to the merger, demerger, or acquisition prior to the shareholders meeting and include it along with the expert opinion referred to in paragraph 1 of the preceding Article when sending shareholders notification of the shareholders meeting for reference in deciding whether to approve the merger, demerger, or acquisition. Provided, where a provision of another act exempts a company from convening a shareholders meeting to approve the merger, demerger, or acquisition, this restriction shall not apply.

Where the shareholders meeting of any one of the companies participating in a merger, demerger, or acquisition fails to convene or pass a resolution due to lack of a quorum, insufficient votes, or other legal restriction, or the proposal is rejected by the shareholders meeting, the Company participating in the merger, demerger or acquisition shall immediately publicly explain the reason, the follow-up measures, and the preliminary date of the next shareholders meeting.

Article 25 A company participating in a merger, demerger, or acquisition shall convene a board of directors meeting and shareholders meeting on the day of the transaction to resolve matters relevant to the merger, demerger, or acquisition, unless another act provides otherwise or the FSC is notified in advance of extraordinary circumstances and grants consent.

A company participating in a transfer of shares shall call a board of directors meeting on the day of the transaction, unless another act provides otherwise or the FSC is notified in advance of extraordinary circumstances and grants consent.

When participating in a merger, demerger, acquisition, or transfer of another company's shares, a company that is listed on an exchange or has its shares traded on an OTC market shall prepare a full written record of the following information and retain it for 5 years for reference:

1. Basic identification data for personnel: Including the occupational titles, names, and national ID numbers (or passport numbers in the case of foreign nationals) of all persons involved in the planning or implementation of any merger, demerger, acquisition, or transfer of another company's shares prior to disclosure of the information.
2. Dates of material events: Including the signing of any letter of intent or memorandum of understanding, the hiring of a financial or legal advisor, the execution of a contract, and the convening of a board of directors meeting.
3. Important documents and minutes: Including merger, demerger, acquisition, and share transfer plans, any letter of intent or memorandum of understanding, material contracts, and minutes of board of directors meetings.

When participating in a merger, demerger, acquisition, or transfer of another company's shares, a company that is listed on an exchange or has its shares traded on an OTC market shall, within 2 days counting inclusively from the date of passage of a resolution by the board of directors, report (in the prescribed format and via the Internet-based information system) the information set out in subparagraphs 1 and 2 of the preceding paragraph to the FSC for recordation.
Where any of the companies participating in a merger, demerger, acquisition, or transfer of another company's shares is neither listed on an exchange nor has its shares traded on an OTC market, the Company(s) so listed or traded shall sign an agreement with such company whereby the latter is required to abide by the provisions of the preceding two paragraphs.

Article 26 Every person participating in or privy to the plan for merger, demerger, acquisition, or transfer of shares shall issue a written undertaking of confidentiality and may not disclose the content of the plan prior to public disclosure of the information and may not trade, in their own name or under the name of another person, in any stock or other equity security of any company related to the plan for merger, demerger, acquisition, or transfer of shares.

Article 27 The Company participating in a merger, demerger, acquisition, or transfer of shares may not arbitrarily alter the share exchange ratio or acquisition price unless under the below-listed circumstances, and shall stipulate the circumstances permitting alteration in the contract for the merger, demerger, acquisition, or transfer of shares:

1. Cash capital increase, issuance of convertible corporate bonds, or the issuance of bonus shares, issuance of corporate bonds with warrants, preferred shares with warrants, stock warrants, or other equity based securities.
2. An action, such as a disposal of major assets, that affects the Company's financial operations.
3. An event, such as a major disaster or major change in technology, that affects shareholder equity or share price.
4. An adjustment where any of the companies participating in the merger, demerger, acquisition, or transfer of shares from another company, buys back treasury stock.
5. An increase or decrease in the number of entities or companies participating in the merger, demerger, acquisition, or transfer of shares.
6. Other terms/conditions that the contract stipulates may be altered and that have been publicly disclosed.

Article 28 The contract for participation by a public company in a merger, demerger, acquisition, or of shares shall record the rights and obligations of the companies participating in the merger, demerger, acquisition, or transfer of shares, and shall also record the following:

1. Handling of breach of contract.
2. Principles for the handling of equity-type securities previously issued or treasury stock previously bought back by any company that is extinguished in a merger or that is demerged.
3. The amount of treasury stock participating companies are permitted under law to buy back after the record date of calculation of the share exchange ratio, and the principles for handling thereof.
4. The manner of handling changes in the number of participating entities or companies.
5. Preliminary progress schedule for plan execution, and anticipated completion date.
6. Scheduled date for convening the legally mandated shareholders meeting if the plan exceeds the deadline without completion, and relevant procedures.

Article 29 After public disclosure of the information, if any company participating in the merger, demerger, acquisition, or share transfer intends further to carry out a merger, demerger, acquisition, or share transfer with another company, all of the participating companies shall carry out anew the procedures or legal actions that had originally been completed toward the merger, demerger, acquisition, or share transfer; except that where the number of participating companies is decreased and a participating company's shareholders meeting has adopted a resolution authorizing the board of directors to alter the limits of authority, such participating company may be exempted from calling another shareholders meeting to resolve on the matter anew.

Article 30 Where any of the companies participating in a merger, demerger, acquisition, or transfer of shares is not a public company, the Company shall sign an agreement with the non-public company whereby the latter is required to abide by the provisions of Article 25, Article 26, and the preceding article.

Chapter III Public Disclosure of Information

Article 31 Under any of the following circumstances, the Company acquiring or disposing of assets shall publicly announce and report the relevant information on the FSC's designated website in the appropriate format as prescribed by regulations within 2 days counting inclusively from the date of occurrence of the event:

1. Acquisition or disposal of real property or right-of-use assets thereof from or to a related party, or acquisition or disposal of assets other than real property or right-of-use assets thereof from or to a related party where the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the Company's total assets, or NT$300 million or more; provided, this shall not apply to trading of

domestic government bonds or bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises.

2. Merger, demerger, acquisition, or transfer of shares.
3. Losses from derivatives trading reaching the limits on aggregate losses or losses on individual contracts set out in the procedures adopted by the Company.
4. Where equipment or right-of-use assets thereof for business use are acquired or disposed of, and furthermore the transaction counterparty is not a related party, and the transaction amount meets any of the following criteria:
   A. For a public company whose paid-in capital is less than NT$10 billion, the transaction amount reaches NT$500 million or more.
   B. For a public company whose paid-in capital is NT$10 billion or more, the transaction amount reaches NT$1 billion or more.
5. Where land is acquired under an arrangement on engaging others to build on the Company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and furthermore the transaction counterparty is not a related party, and the amount the Company expects to invest in the transaction reaches NT$500 million.
6. Where an asset transaction other than any of those referred to in the preceding five subparagraphs, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20 percent or more of paid-in capital or NT$300 million; provided, this shall not apply to the following circumstances:
   A. Transaction of domestic government bonds or the foreign government bonds with rating no lower than Taiwan's sovereign rating.
   B. Where done by professional investors-securities trading on securities exchanges or OTC markets, or subscription of foreign government bonds, or ordinary corporate bonds or general bank debentures without equity characteristics (excluding subordinated debt) that are offered and issued in the primary market, or subscription or redemption of securities investment trust funds or futures trust funds, or subscription or redemption of ETN or subscription by a securities firm of securities as necessitated by its undertaking business or as an advisory recommending securities firm for an emerging stock company, in accordance with the rules of the Taipei Exchange.
   C. Trading of bonds under repurchase and resale agreements, or subscription or redemption of money market funds issued by domestic securities investment trust enterprises.

The amount of transactions above shall be calculated as follows:

1. The amount of any individual transaction.

2. The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same transaction counterparty within the preceding year.
3. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of real property or right-of-use assets thereof within the same development project within the preceding year.
4. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.

"Within the preceding year" as used in the preceding paragraph refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with these Regulations need not be counted toward the transaction amount.

When the Company at the time of public announcement makes an error or omission in an item required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety within two days counting inclusively from the date of knowing of such error or omission.

A public company acquiring or disposing of assets shall keep all relevant contracts, meeting minutes, log books, appraisal reports and CPA, attorney, and securities underwriter opinions at the Company, where they shall be retained for 5 years except where another act provides otherwise.

Article 32 Where any of the following circumstances occurs with respect to a transaction that the Company has already publicly announced and reported in accordance with the preceding article, a public report of relevant information shall be made on the information reporting website designated by the FSC within 2 days counting inclusively from the date of occurrence of the event:

1. Change, termination, or rescission of a contract signed in regard to the original transaction.
2. The merger, demerger, acquisition, or transfer of shares is not completed by the scheduled date set forth in the contract.
3. Change to the originally publicly announced and reported information.

Chapter IV Additional Provisions

Article 33 Information required to be publicly announced and reported in accordance with the provisions of the preceding Chapter on acquisitions and disposals of assets by the Company's subsidiary that is not itself a public company in Taiwan shall be reported by the public company.

The paid-in capital or total assets of the public company shall be the standard applicable to a subsidiary referred to in the preceding paragraph in determining whether, relative to paid-in capital or total assets, it reaches a threshold requiring public announcement and regulatory filing under Article 31, paragraph 1.

Article 34 For the calculation of 10 percent of total assets under these Regulations, the total assets stated in the most recent parent company only financial report or individual financial report prepared under the Regulations Governing the Preparation of Financial Reports by Securities Issuers shall be used.

Article 35 When the procedures are adopted or amended they shall be approved by the audit committee and submitted to the board of directors for a resolution and then to a shareholders' meeting for approval.

Article 36 This procedure was approved on June 17, 2010.
The first amendment was approved on June 12, 2012.
The second amendment was approved on June 18, 2013.
The third amendment was approved on June 17, 2014.
The fourth amendment was approved on June 15, 2017.
The fifth amendment was approved on June 12, 2019.
The sixth amendment was approved on June 15, 2022.

Zyxel Group Corporation

Procedures for Derivatives Trading

Article 1: To enhance the asset management, implement the information disclosure, and reinforce the risk management system for the derivative transaction, the Procedures are established.

Article 2: The definitions of the terms used in the Procedures are as the follows:

I. Derivatives:
Forward contracts, options contracts, futures contracts, leverage contracts, or swap contracts, whose value is derived from a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable; or hybrid contracts combining the above contracts; or hybrid contracts or structured products containing embedded derivatives. The term "forward contracts" does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) contracts.

II. Subsidiary:
As defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

III. Date of occurrence:
Refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, dates of boards of directors resolutions, or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier; provided, for investment for which approval of the competent authority is required, the earlier of the above date or the date of receipt of approval by the competent authority shall apply.

Article 3: The Company establishes the Procedures for Derivatives Trading; which are approved by the majority of all the Audit Committee members, as well as the board of directors and shareholders meeting. The same applies to the amendments. If any director expresses dissent and it is contained in the minutes or a written statement, the company shall submit the director's dissenting opinion to the Audit Committee.
When the Procedures for Derivatives Trading are submitted for discussion by the board of directors pursuant to the preceding paragraph, the board of directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board of directors meeting.
The Procedures may be imposed upon the approval of two third or more of all directors, if the approval of the majority of all the Audit Committee members is not

obtained; the resolution of the Audit Committee shall be recorded in the minutes of the board of directors meeting.

The terms "all audit committee members" in paragraph 3 and "all directors" in the preceding paragraph shall be counted as the actual number of persons currently holding those positions.

Article 4: Operation and hedging strategies

The derivative trading engaged by the Company shall ensure the operating profit of the Group, and mainly for the purpose of avoiding risks from exchange rates, interest rates or the price fluctuation of assets. Clearly define the purpose is transactional or not transaction, and establish a good internal control system. The counterparties shall be selected from the financial institutions having business with the Company and robust institution, and when conducting foreign exchange operation, the principle is to square off the overall foreign exchange positions of the Company (i.e. the foreign exchange incomes and expenses), to lower the overall foreign exchange risk of the Company and save the costs of foreign exchange operation.

Article 5: Authority division

I. Finance Department

(I). Collect the related information, judge trends and assess risks, get familiar with the derivatives and regulations, and formulate the operation strategy recommendation, to respond to the foreign exchange market movement.

(II). Based on the Company's policies, engage trading and risk management within the authorized limits.

(III). Periodical evaluations.

(IV). Establish a log book; details of the types and amounts of derivatives trading engaged in, and board of directors' approval dates be recorded in detail in the log book.

II. Accounting Department

(I). Verify transactions and articulate the position balance.

(II). Evaluate profit and loss of positions at the end of each month.

(III). Fully disclose when preparing periodical financial reports.

Article 6: Performance evaluation

I. The performance evaluation is based on costs and the profit and loss generated from the derivative transactions engaged on the Company's book.

II. To fully grasp and express the valuation risk of transactions, the Company assess the profit and loss with the monthly valuation.

III. The Finance Department shall provide the profit and loss evaluation of foreign exchanges, and the movement in the foreign exchange market and market analysis to executive management for reference and evaluation.

Article 7: Determine the total amount of contracts and maximum loss

I. Total amount of contracts:

The Finance Department shall grasp the Company's overall positions to avoid transaction risks. Depending on the purposes as transactional or non-transactional, the total amount of contracts are stipulated as following:

(I). Non-transactional purpose: Hedging is conducted based on the risk items involved the Company (e.g. risks generated from foreign exchanges, interest rates, or projects); the total contractual amount of hedging positions must not exceed the hedged positions.

(II). Transactional purpose: Trading engaged within the approved project limit.

II. Determine of the maximum loss:

(I). Maximum loss for a single contract is not exceeding 20% of the transaction contract amount. The maximum loss of all contracts is not exceeding 20% of the amount of all contracts. When the maximum loss is reached, the public announcement and report is made pursuant to the Procedures.

(II). For transnational purpose, when the maximum loss is reached, the Head of Finance Department shall evaluate the market risks and propose the treatment. For non-transnational purpose, the contract loss amount shall be calculated with the P&L of hedged positions; when the maximum loss is reached, the Head of Finance Department shall evaluate the market risks and propose the treatment.

Article 8: Operational procedures

I. Authorized limits

(I). The authorized limits for the non-transactional derivatives trading engaged, and the foreign exchange forward contracts are described as the following table. For accommodating the business development, responding to market movement, or other special circumstances, the authorized limits do not apply upon the approval of the board of directors. Other derivatives trading are engaged upon the approval of CEO.

Currency: EUR

Approval Level	Amount of single trading	Total amount of trading of the day
CEO	5 million or more	10 million or more
Head of Finance Department with the highest authority of decision-making	5 million (inclusive) and less	10 million (inclusive) and less

(II). The derivatives trading engaged for transaction, may only be conducted upon the approval of CEO.

II. Operational process and description:

(I). Evaluate the exchange rates and the Company's risk positions monthly, to formulate the operating strategy recommendations. The foreign exchange forward contract operating strategies are submitted to the Head of Finance Department with the highest authority of decision-making for approval, as the basis of trading. For other derivatives trading operating strategies, the approval of CEO is required. Personnel in charge: head of Finance Department.

(II). Any key movement in the financial market that invalid the existing strategies, then evaluation reports shall be provided any time to re-formulate the strategies. Operation of foreign exchange forward contracts are approved by the Head of Finance Department with the highest authority of decision-making as the basis of trading. Operations of other derivatives trading engaged upon the approval of CEO. Personnel in charge: head of Finance Department.

(III). The authorized traders negotiate the derivative transactions with banks based on the regulations and operating strategies. Personnel in charge: finance staff.

(IV). When a transaction is confirmed, the staff in charge verify the transactions certificates and contractual documents, submit such to the supervisors for approval. Personnel in charge: finance staff.

(V). Upon the expiry, the settlers settle the derivatives. The supervisors' sign-offs are required based on the settlement documents, for accounting treatments. Personnel in charge: finance and accounting staff.

(VI). The information of each derivative transactions shall be recorded in a log book one by one, and evaluated periodically. Personnel in charge: finance staff.

(VII). The public announcements are made to the designated information reporting website within the timeframe specified by the competent authority. Personnel in charge: accounting staff.

Article 9: Risk management measures.

For engaging derivative transactions, the risk management scope and the risk management measures to be taken are as following:

I. Credit risk management

The transaction counterparties shall be selected from the financial institutions and futures brokers having business relationships with the Company and good reputations, able to providing professional information, as the principle.

II. Market risk management

The losses that derivatives may generated from any price fluctuations in the future market are unknow; therefore, the stop-loss shall be strictly complied with once a position is built.

III. Liquidity risk management

To ensure the liquidity of the traded derivatives, the counterparties shall have sufficient equipment, information, and trading capacities to trade in any market.

IV. Operational risk management

The authorized limits and the operational procedure must be followed strictly to avoid any operational risk.

V. Legal risk management
For any contractual document entered with any financial institution, it is advisable to use the internationally standardized document to avoid legal risks.

VI. Derivative risk management
Internal traders shall have the complete and accurate professional knowledge regarding the traded derivatives, to avoid losses due to mis-using derivatives.

VII. Cash settlement risk management
The authorized traders shall, not only strictly follow the authorized limit, but also monitor the cash flow of the Company to ensure sufficient cash for settlement.

VIII. Derivatives traders may not serve concurrently in other operations such as confirmation and settlement.

IX. The confirmation personnel shall regularly reconcile with the counterparty banks or request the written certificates, while checking if the total amount of transactions exceed the limits stipulated by the Procedures.

X. Risk measurement, monitoring, and control personnel shall be assigned to a different department that the personnel in the preceding subparagraph and shall report to the board of directors or senior management personnel with no responsibility for trading or position decision-making.

XI. Derivatives trading positions held shall be evaluated at least once per week; however, positions for hedge trades required by business shall be evaluated at least twice per month. Evaluation reports shall be submitted to senior management personnel authorized by the board of directors.

Article 10: Regular evaluation approach and handling irregularities

When engaging derivative transactions, the board of directors shall oversee and manage thoroughly under the following principles:

I. Designate senior management personnel to pay continuous attention to monitoring and controlling derivatives trading risk.

II. Periodically evaluate whether derivatives trading performance is consistent with established operational strategy and whether the risk undertaken is within the company's permitted scope of tolerance.

Senior management personnel authorized by the board of directors shall manage derivatives trading in accordance with the following principles:

I. Periodically evaluate the risk management measures currently employed are appropriate and are faithfully conducted in accordance with these Regulations and the procedures for derivatives trading formulated by the company.

II. Oversee the transaction, profit and loss; when irregular circumstances are found in the course of supervising trading and profit-loss circumstances, appropriate measures shall be adopted and a report immediately made to the board of directors.

When engaging derivative transactions, if transactions are engaged by the authorized personnel as specified in the Procedures for Derivatives Trading, the soonest board meeting shall be reported to afterwards.

Article 11: Accounting treating procedures

For the accounting treatment of derivatives, the Enterprise Accounting Standards shall apply.

Article 12: The Company, when engaging in derivatives trading, shall establish a log book; details of the types and amounts of derivatives trading engaged in, board of directors' approval dates, and the matters required to be carefully evaluated shall be recorded in detail in the log book.

Article 13: Internal audit system

The internal audit personnel shall periodically make a determination of the suitability of internal controls on derivatives and conduct a monthly audit of how faithfully derivatives trading by the trading department adheres to the procedures for derivatives trading, and prepare an audit report. If any material violation is discovered, all independent directors shall be notified in writing.

The Company shall file the auditing report of the preceding Paragraph and the implementing status of annual auditing plans of internal audits to the Financial Supervisory Commission (hereafter the "competent authority") before the end of February of next year and also shall report the improvement situation for any abnormal affairs to the SEC before the end of May of next year.

Article 14: Public announcement and reporting procedures

I. For losses from derivatives trading reaching the limits on aggregate losses or losses on individual contracts set out in the procedures adopted by the Company, the Company shall publicly announce and report the relevant information on the FSC's designated website in the appropriate format as prescribed by regulations within 2 days counting inclusively from the date of occurrence of the event.
II. The Company shall compile monthly reports on the status of derivatives trading engaged in up to the end of the preceding month by the company and any subsidiaries that are not domestic public companies and enter the information in the prescribed format into the information reporting website designated by the FSC by the 10th day of each month.
III. When the Company at the time of public announcement makes an error or omission in an item required by regulations to be publicly announced and so is

required to correct it, all the items shall be again publicly announced and reported in their entirety within two days counting inclusively from the date of knowing of such error or omission.

IV. The Company shall keep all relevant contracts, meeting minutes, log books at the company, where they shall be retained for 5 years except where another act provides otherwise.

Article 15: With respect to a transaction that the Company has already publicly announced and reported in accordance with the preceding article, a public report of relevant information shall be made on the information reporting website designated by the FSC within 2 days counting inclusively from the date of occurrence of the event, if any change, termination, or rescission of a contract signed in regard to the original transaction.

Article 16: Controls over the subsidiaries

I. The Company's subsidiaries shall establish the "Procedures for Derivatives Trading" approved by their boards, submitted to all supervisors, and approved by their shareholders' meetings. The same applies to the amendments.

II. When the Company's subsidiaries engaging derivatives trading, their respective "internal control system" and the "Procedures for Derivatives Trading" shall be followed. Their derivatives trading as of the end of the previous month shall be summarized in writing, and reported to the Company by the 5th day of each month. The Company's audit unit shall include the derivatives trading engaged by the subsidiaries as one of the monthly audit items; the audit status shall be specified as the required item to be reported to the independent directors of the Audit Committee and the board of directors.

III. Any of the Company's subsidiaries not a public company, and its derivative trading meeting the public announcement and report criteria, the Company shall be informed on the date of occurrence of the event, and the Company will publicly announce and report such on the designated website.

Article 17: Penalties

I. Where any person in charge of engaging derivatives trading violates the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" promulgated by the competent authority or the Procedures, such violations will be referred to for his/her personal annual appraisal.

II. Where the board or any director violates the related regulations and the resolutions adopted by the shareholders meetings, the Audit Committee shall inform the board or the concerned director to stop pursuant to Article 218-2 of the Company Act.

Article 18: Any material derivatives trading shall be approved by the majority of all the Audit Committee members, and resolved by the board of directors; Paragraph 4 and 5 of Article 3 apply mutatis mutandis.

Article 19: The establishment of and amendment to the Procedures shall be approved by the Audit Committee, resolved for approval by the board of directors, and finally submitted to a shareholders' meeting for approval.

Article 20: The Operational Procedures were prescribed on June 17, 2010.
The first amendment was approved on June 12, 2012.
The second amendment was approved on June 17, 2014.
The third amendment was approved on June 12, 2019.
The fourth amendment was approved on June 12, 2020.
The fifth amendment was approved on June 15, 2022.