

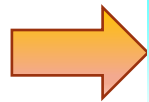
**Explanation of Events from MOF :  
The Disputes Related to Type-B Preferred Stock Issued  
By Chang Hwa Commercial Bank, Ltd. in 2005**

June 5<sup>th</sup>, 2017

# Reasons for the Issuance of Type-B Preferred Stock

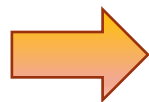
According to CHB consolidated Financial Report for first-half year ending on June 30th of 2005, audited and certificated by the accountants, the total assets were NTD\$ 1,279 billion, the net capital was NTD\$ 67.589 billion, and the Moody's Long-Term Rating had remained at A3 from 2003 to 2014 and rated at A2 in 2015&2016. A rating from S&P is at BBB+ since 2009.

On average, CHB's stock price remained between NT\$16 to NT\$18 per share from July to Sept. of 2005.



When CHB issued Type-B Preferred Stock, its financial situation was stable, **without poor financial situation or being on the verge of bankruptcy.**

**Use of Funds: To improve the financial structure and reinforce self-owned capital**



Introduce strategic investor to improve financial structure, not connected to any plans for a merger.

# Type-B Preferred Stock Featuring Management Rights

**Normal Preferred Stock**

**CHB Type-B Preferred Stock**

**Right to Vote and to be Elected at Common Stocks Shareholder Meeting**

**Calling Right of Shareholder Meeting**

**Preemptive Right**

**Preemptive Right**

Type-B Preferred Stock issued by CHB is different from normal preferred stock, which only have Preemptive Right and no Right to Vote. CHB's Type-B Preferred Stock has Right to Vote, and its rights are the same as those of the Common Stock Shareholders.

# Duration of Type-B Preferred Stock has Expired and No Longer Exists

**July 22, 2005**

TSFHC Won the Bidding of Type-B Preferred Stock

**October 3, 2008**

TSFHC converted its preferred stock into common stock, and its rights became the same as those of other Common Stock Shareholders

**October 3, 2005**

TSFHC finished the payment process of subscription, obtained CHB Type-B Preferred Stock

**3 Years**

**Duration of Type-B Preferred Stock**

# The core issue of contention

- Concerning the press released by Ministry of Finance on July 5, 2005, the press released on July 21, 2005 and the reply to the questions from the letter brought up from CHB on July 21, 2005, which were all from the public bidding activity for the private placement of preferred stock of CHB in 2005:
  - ◆ What is the real meaning and understanding of Ministry of Finance?
  - ◆ What is the understanding of the potential investors who joined the bidding?

The situation  
in 2005 around  
the preferred stock  
tender of CHB

Background

Contents

Effect

# Background

The ex-president, Shui-Bian Chen, declared that one of the main goals on the second financial reform after the economic advisory group meeting on October 20, 2004: **To cut the domestic 14 financial holdings in half** before the end of 2006.

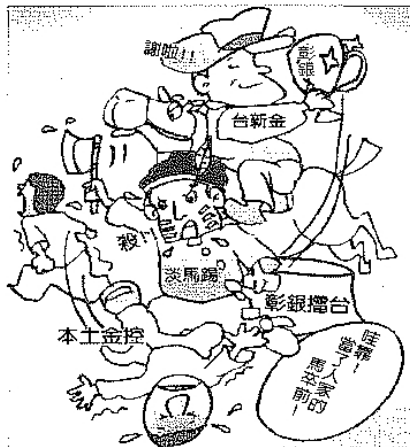
Unit:NTD Million

Rank of Assets	Name of the Financial Holdings	June 2005	
		Total Amount of Amalgamated Assets	Percentage
1	Cathy Financial Holdings	2,786,258	17.92%
2	Mega Financial Holdings	2,106,726	13.55%
3	Fubon Financial Holdings	1,608,609	10.34%
4	First Financial Holdings	1,597,294	10.27%
5	Hua Nan Financial Holdings	1,573,707	10.12%
6	China Trust Financial Holdings	1,490,267	9.58%
7	Shin Kong Financial Holdings	1,009,505	6.49%
8	Taishin Financial Holdings	957,718	6.16%
9	Sinopac Financial Holdings	628,172	4.04%
10	E Sun Financial Holdings	558,809	3.59%
11	Fu Hwa Financial Holdings	415,230	2.67%
12	Jih Sun Financial Holdings	328,562	2.11%
13	China Development Financial Holdings	259,903	1.67%
14	Waterland Financial Holdings	230,335	1.48%
Total Amount of Assets from Whole Financial Holdings		15,551,095	100.00%

- The pressure Taishin Financial Holding faced is different from other potential investors



# 出價門謀！台新金加2.5元買必勝保險



縱特別股花落誰家避底稿  
 高得離譜。但是對台新金而言，在合併議程上，已經脫胎以每股定價思考的傳統併購策略，而以取得通路、市佔率為長遠考量，因此，誠如台新金控高層所言，「就算是賣貴了，但為了爭奪台灣金融業霸主地位，這世界一張必須購買的人場券。」

究竟台新金如何鴨子划水？最後「浮出水面」以超高價格得標？過程殊值尋味。

據了解，兩個月即影隨增資案本是一隻「死鴨子」，問津者甚少，主要竟與淡馬錫土團過高、底價又不便宜，然而與東亞及其主要幕僚吳德雄早已備份分析「特別股」的商品價值，尤其與該國國內特別股的權威，更對其中奧妙詳加剖析說動了吳東亮下達入主決心。

然而，由於政府推出外資可入主彰銀之說法，加上淡馬錫態度極為積極，使得各金控對出價的高低陷入左右為難。台新金於是在最關鍵的小組中運作，沙盤推演淡馬錫可能出價範圍，據反覆推演獲得一個結論是：淡馬錫能出的合理價格在二、三元，然而若被

極開辦，可能上限是「四、三元。此則價區間，又因淡馬錫在投票前一天，獲得財政部一紙公文保證取得主權，更使台新金認為淡馬錫明顯在鬧心，以上限價出價的可能。

此價位的合理性，台新金委託花旗證券的參考價區間在二、一元到三、三元之間，兩相印證，可觀却外資的思維段高價約在三、一元左右，因此台新金即定的應酬價格也在三、五元左右，不論當時願感到另一金控強邦金可能最後一刻加碼，敲出硬咬金，因此淡馬錫當天早上十點半，由吳東亮下決心，決定一口氣加碼二、五元，以「確保」無人可以匹敵，付出「保險費」來錫錫取得彰銀。

這股思考，由於淡馬錫完全以一般金控及外資可能的作法出發，因此，大出意外，但是富邦金未加碼出價比大出台新金意外，兩相意外之下，台新金如願「高價」擊下彰銀。

對於「價格高低」，吳東亮下決心的理由是，未來併購行情只會愈來愈寬。現在併購行情是傳統併購的高點價，不過，卻可能是未來國內併購的低點價，兩相衡量，寧選是趁熱吃划算！

(周慧如)



專前訪 出手續 關切

台新金控董事長吳東亮(圖圈)決  
 台 繩龍擺)以街登黃約之慈懷斷出  
 微帶下彰銀主項輸，這個舞動機內部  
 人士表示，吳東亮最真誠的乾坤  
 一擲，將是他個人一生中最重要的里  
 程碑，而且，由昨天的大膽行動與謀  
 略來看，吳東亮的行事風格早已擺脫  
 傳統新光家族的思維定勢，成為以獨  
 立格調的企業家。

以昨天的併購  
 事況來看，出價確實正  
 爭對手甚至外資的預期  
 光以讓台新金聯成最  
 的轉機點策略思考，一  
 刻自行決策加碼2.5元  
 估總價13.9元，其重點  
 是：「確保萬無一失得勝  
 這股高的價值，會不離  
 亮的思惟：「既入主彰

- The representative of Taishin Financial Holding, Wu, Dong-liang, was interviewed by the Commercial Times after getting the bid. "Taishin Financial Holding commissioned CitiBank to calculate the reference price range. It would be NTD 21.3-23.3, ...considered Fubon financial holding might increase their bid at the last minute, so representative Wu, Dong-liang decided to add NTD 2.5 to make sure the offer price would be unbeatable to firmly get the open bid of CHB preferred stock." So the high bid from Taishin financial holding was to defeat competitors rather than related to the news press or official letters from the Ministry of Finance.

# TSFHC's Bidding Price Analysis for the Publicly Held Share Release on July 21, 2005

From the bottom of 12<sup>th</sup> line on page 21 in the The Control Yuan's No. 0033 investigation report in 2005 :

The Content of Special Investigation Unit's Investigation	<ul style="list-style-type: none"><li>• “Why was TSFHC willing to pay high price to obtain CHB preferred shares?” With regard to the question above, based on Citi Group's analysis, if TSFHC's intention was purely to invest CHB, not to merge with CHB, the CHB preferred shares price should be between 10.5 and 14.9 (middle price of 12.7); However, if TSFHC merged with CHB and exchanged all shares in 2005, the CHB preferred shares price should be between 22.5 and 25.9 (middle price of 24.2). Attached is Citi Group's “Project Chandra” analysis on July 21, 2005.</li></ul>
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THEREFORE IT WAS OBVIOUS THAT TSFHC INTENDED TO INVEST IN CHB AND POSSIBLY MERGE WITH CHB BY EXCHANGING SHARES IN 2004. OBTAINING CHB'S MANAGEMENT CONTROL AND PERMANENTLY SECURING OVER HALF OF THE BOARD SEATS WAS NOT TSFHC'S AGENDA.

# THE CHB OFFICIAL DOCUMENT ON 2005 JUL 15<sup>TH</sup> PRESENTS THE REPORT ON INVESTORS' OPINIONS FROM DELOITTE & TOUCHE

事項/投資人名稱	第一金	富邦金	兆豐金	淡馬錫 (附註二、三)
股東協議書			兆豐金控可經由股東協議書尋求規範在三年內公股股東之支持。包括： <ul style="list-style-type: none"> <li>條款規範公股股東能支持未來兆豐金控最終併購彰銀剩餘持股。</li> <li>條款提供若公股股東在3年內決定處分其持股，兆豐金控有優先承購權。若公股股東提出售持股，兆豐金控保留優先議價之機會。若兆豐金控選擇不收購公股股東之持股，保留核准最終併購者對象之權利。</li> </ul>	務狀況、法律地位及業務或其於新股認購書項下義務之履行可能有重大影響之事項。

Mega Financial Holding Company can get supports from shareholders of government-owned bank, through shareholders' agreement, if they can dispose of their shares within three years.

Including:

- The Clause regulates that shareholders of government-owned bank can support Mega Financial Holding Company acquiring the remaining shares of Chang Hwa bank.
- The Clause provides that Mega Financial Holding Company can have prior purchase right, if shareholders of government-owned bank can dispose of their shares within three years. If shareholders of government-owned bank desire to sell their shares, Mega Financial Holding Company can reserve the opportunity of prior bargaining power. If Mega Financial Holding Company chose not to acquire the shares of shareholders of government-owned bank, it can reserve the right of approving of the final merger.

At the time, none of the investors requested or interpreted that MOF should, for an unlimited period of time, support the bid winning investor in gaining majority seats at CHB's directors' election.

- **Temasek Holdings requested MOF to include "matters that MOF agreed to coordinate with" as part of the bidding document and subscription book. There's no indication in the final bidding document or the MOF official document relating to merging or that MOF should, for an unlimited period of time, support the bid winning investor in gaining majority seats at CHB's directors' election.**
- **TSFHC claimed to have established contract with MOF, yet completely neglects its differences in understanding compared with other potential bidding investors and MOF.**

# The continuance of policies and release of government-invested stocks cannot be decided by the Ministry of Finance alone

**Administration of authority**

- Right of deciding total government spending and implementation of policies

**Legislative Yuan**

- Right of budget reviewing

Administration of authority cannot overtake the Legislative Yuan in terms of rights of establishing contract with others

# The continuance of policies and release of government-invested stocks cannot be decided by the Ministry of Finance alone

Press release on 5<sup>th</sup> of July of Ministry of Finance and Official reply letter on 21<sup>st</sup> of July

- In terms of contractual offers, the condition of release of government-invested stocks should be included

The control and execution of government-invested stocks

- The Ministry of Finance should be delivering all of the contracts to Legislative Yuan for future reference

The ministry of Finance has never delivered to Legislative Yuan for reference

- The Ministry of Finance has proven that this is not a contractual agreement objectively
- Taishin Financial Holdings has never asked to be delivered to Legislative Yuan for reference

# TSFHC has tried four times to merge with CHB, since acquiring CHB preferred stock in 2005.

#1

Aug. 17<sup>rd</sup> 2006  
~ Oct. 16<sup>th</sup> 2006

- TSFHC's Chairman of Board visited the head of MOF, asking the Government to dispose the stock shares of CHB.
- During the Board Meeting, the Representative of Government claimed that TSFHC was manipulating the meeting process in order to prohibit the attendance of Auditor General, EVPs and division heads, and the meeting documents were even not corresponded to the meeting content. Eventually, without the attendance mentioned above, TSFHC technically passed the resolution to include CHB into the 'Selection of Financial Adviser Company Approach' ruled by TSFHC.
- To have more discussion, MOF asked CHB to hold the Board Meeting again, the Board Meeting held on Oct. 14<sup>th</sup> 2006 are also considered to be invalid by Financial Supervisory Commission.
- Legislative Yuan passed the resolution: MOF should terminate the contemplated merger between CHB and TSFHC immediately.

#2

June 11<sup>st</sup> 2007  
~ July 20<sup>th</sup> 2007

- Zhang Bo-Xin, Zhang Ding-Min, Xie Wen-Huang respectively resigned as Chairman of Board, Director, Secretary of Board in CHB.
  - TSFHC sent the official document to ask CHB to measure the feasibility of stock conversion and proceed the relevant process.
  - CHB held the Extraordinary Board Meeting and passed the following resolutions :
    1. The feasibility of merging CHB into TSFHC by stock conversion.
    2. Select a financial consultant to evaluate the process mentioned above.
    3. Hire a financial consultant to enact the rule for mentioned above.
- ◆ **Based on Article 206 and 178 of Company Act and 2002經商字第09102102680 from Ministry of Economic Affairs , representatives of CHB Board appointed by TSFHC can not exercise the right to vote for these three resolutions. The board meeting casts the doubt on resolutions which could not be applied in law.**

# TSFHC has tried four times to merge with CHB, since acquiring CHB preferred stock in 2005.

#3

Aug. 13<sup>rd</sup> 2007  
~Jan. 16<sup>th</sup> 2008

- TSFHC had absolute majority in CHB board of directors held Extraordinary Board Meeting and passed the following resolutions :
  1. To merge into TSFHC.
  2. Hire a financial consultant to conduct a physical verification.
  3. Revise the guidelines of selecting a financial consultant.
- After finishing the physical verification by the financial consultants hired by CHB and TSFHC respectively, CHB proposed setting 1:>1.4 as the conversion ratio compared to 1:1.2 proposed by TSFHC.
- TSFHC held Extraordinary Board Meeting and passed the resolution of issuing 50 billion new shares, for the purpose of stock conversion with CHB; and informed CHB of 1:1.3 stock conversion ratio.
- TSFHC Board' Resolution repealed the proposal of stock conversion, for disagreement from both sides on the terms and conditions for stock conversion. CHB also canceled Board Meeting on January 31<sup>st</sup> 2008.

#4

Feb. 5<sup>th</sup> 2013  
~Nov. 22<sup>nd</sup> 2013

- TSFHC's Chairman of Board Mr. Wu Tong-Liang and Director Mr. Wu Cheng-Ching visited MOF and suggested to merge Taishin International Bank (TSB) into CHB.
- TSFHC Board passed the resolution of "Proposal to the Ministry of Finance to merge TSB into CHB. CHB continues operations while TSB closes."
- TSFHC sent the official document to CHB's Chairman Mr. Julius Chen (appointed by TSFHC) , requesting to expedite the assessment of TSB and CHB merger.
- CHB Executive Board controlled by TSFHC passed the resolution of "TSB and CHB Merger Assessment", and established a Merger Research Group.
- MOF stated that to promote the consolidation of public banking sectors, merger of TSB into CHB was not the only option.

# What happened in the 2004 Extraordinary Shareholders Meeting?

## Before CHB shareholders meeting in 2014

TSFHC wanted to negotiate with MOF regarding directors' seats distribution (**six director seats and three independent director seats, total of nine seats**)

- 1 However, TSFHC wanted to hold more seats (**five seats, 5/9**) than the proportion of its stake (**22.5%**) and ask MOF to sacrifice the right and interest of national property.

- 2 MOF didn't ask to acquire a majority of seats, but only asked to maintain the status (two seats for directors and two seats for independent directors) However, MOF and TSFHC didn't achieve the agreement.

- 3 Although the 23th term of the directors had expired, under the situation that TSFHC had absolute majority in **CHB board of directors**, didn't want to hold the extraordinary shareholder's meeting. After MOF's request by sending official documents to CHB, representatives of CHB Board appointed by TSFHC, holding the majority seats, held the meeting on Dec 8<sup>th</sup> 2014.

## In CHB shareholders meeting in 2014

- 1 The percentage of shareholders and principals attendance reached 89%.

- 2 Representatives of CHB Board appointed by TSFHC held the meeting and the proceedings of the meeting is legal after the judicial decision to Recognize.

- 3 The result of election:  
MOF secures 4 seats for directors, two seats for independent directors.  
TSFHC secures 2 seats for directors, one seats for independent directors.



TSFHC was not satisfied with the result of election which represented the free will of majority shareholders and filed a series of lawsuit against MOF since Dec 9, 2014.

## In accordance with TSFHC's opinions

# SEVERE IMBALANCE

TSFHC  
only paid  
36.5  
Billion on  
July 22,  
2005

Obtains and  
Receives Permanent  
Allocation

CHB 1.4 Billion  
Preferred Share (MTM  
24.7 Billion)

Received 12.8 Billion in  
Dividend

Perpetual CHB  
Management Control  
(Capital of 76 Billion)

CHB yet to be revalued  
asset (1.2 Trillion)

Permanently deprived  
other CHB 200  
thousand shareholders'  
fair voting rights

It is unfair and deprives other CHB 200 thousand shareholder's fair voting rights. Absolutely violates public order and morality, and undermines the intention of the Company Act.

# Conclusion

MOF's press release on July 5, 2005 and Letter on July 21, 2005 were not contracts

- Press release was intended as a government policy explanation, not intended as a contract.
- Policy cannot be the subject of a contract. It was not an offer or promise from MOF.
- It was a response specifically to CHB, not TSFHC. Representation was mismatched and not even the subject party of a contract.
- The subject party of MOF's letter was CHB on July 21, 2005. Other potential investors were all aware that it was not an offering contract.
- Both press release and the letter do not meet binding contract requirements and elements

- Our constitutional system is based on the check and balance and mutual respect of five independent Yuans. The Executive Yuan subject to Legislative Yuan's resolution. According to the Legislative Yuan's resolution in 2003, when there is a board of director and supervisor reelection at a shareholder meeting, delegates from the publicly held shareholders cannot support delegates from the privately held shareholders. MOF is under Executive Yuan; hence, should follow the above mentioned policy.
- According to the Control Yuan, MOF should obtain the Board seat based on its shares held proportionally; therefore, MOF cannot support TSFHC having more than half (5 seats) of the general directors' seats.
- According to the High Court's verdict, TSFHC, with 22.5% of shareholding, should secure 5 general directors' seats without asking supports from other shareholders. This obviously restricts other shareholder's rights in obtaining board of directors' seat based on its shareholding. It violates the principle of proportionality and limits shareholders' rights. In addition, not only it is unjustifiable and falls short of public expectation, but is also not a normal practice in a standardized security market. On the other hand, TSFHC will have final say at CHB Board meetings and other shareholders will not be able to stop TSFHC from any wrongful manipulations.