

## **MANAGEMENT OF ENDORSEMENTS AND GUARANTEES**

### **A) Purposes**

These Procedures are adopted to establish standards for the Company's related external endorsement/ guarantee. These Procedures are adopted pursuant to the Regulations Governing Loaning of Funds and Making of Endorsements/ Guarantees by Public Companies. The unclear concerns of these Procedures should be governed by related laws.

### **B) Scope**

The term "endorsements/guarantees" as used in these Procedures refers to the following:

1. Financing endorsements/guarantees, including bill discount financing; endorsement or guarantee made to meet the financing needs of another company; issuance of a separate negotiable instrument to a non-financial enterprise as security to meet the financing needs of the Company itself.
2. Customs duty endorsement/guarantee, meaning an endorsement or guarantee for the Company itself or another Company with respect to customs duty matters.
3. Other endorsements/guarantees, meaning endorsements or guarantees beyond the scope of the above two subparagraphs.
4. Any creation by the Company of a pledge or mortgage on its chattel or real property as security for the loans of another company shall also comply with these regulations.

### **C) The beneficiaries of endorsements and guarantees**

- (1) The company may provide endorsements and guarantees to the following business parties:
  - i. Businesses with which the company has business dealings.
  - ii. Businesses in which the company holds more than 50% direct or indirect voting interest.
  - iii. Businesses which hold more than 50% direct or indirect voting interest in the company.
  - iv. Businesses related through a common shareholder who hold more than 50% direct or indirect voting interest in the company.
- (2) Businesses in which the company holds more than 90% direct and indirect voting interest may provide endorsements and guarantees to each other. The amount of endorsements and guarantees must not exceed 10% of the net value of the company. This restriction does not apply to endorsements and guarantees among

investees in which the public listed company holds 100% direct or indirect voting interest.

- (3) For the company which need to provide guarantees to other peers or partners in a construction contract, or to investees in a joint investment arrangement, the endorsements and guarantees are not subject to the above 2 restrictions. The investment arrangement mentioned above refers either to the direct contribution of capital by the company, or indirect contribution of capital through a 100% held subsidiary.
- (4) The terms "subsidiary" and "parent company" mentioned above are defined in the Statement of Financial Accounting Standards No. 5 and No. 7 published by the Accounting Research and Development Foundation of the R.O.C.

#### **D) Limit for endorsement and guarantee**

1. The aggregate external endorsement/guarantee amount made by the Company for the non-subsidiaries with an endorsement/guarantee is made due to needs arising from business dealings shall not exceed 100% of the Company's net equity.
2. The amount of the endorsements/guarantees made by the Company for any single non-subsidiary with an endorsement/guarantee is made due to needs arising from business dealings shall not exceed the lower of the 30% of the Company's net equity or the total amount of trading between the two companies. The "total amount of trading" shall be the amount of the goods purchased or the amount of the goods sold, whichever is higher.
3. The aggregate external endorsement/guarantee amount made by the Company for its subsidiaries shall not exceed 100% of the Company's net equity.
4. The amount of the endorsement/guarantee made by the Company for any single subsidiary shall not exceed 65% of the Company's net equity.
5. The aggregate external endorsement/guarantee amount made by the Company for entities under the related through a common shareholder who hold more than 50% direct or indirect voting interest in the company shall not exceed 100% of the Company's net equity.
6. The amount of the endorsement/guarantee made by the Company for any single entity under the related through a common shareholder who hold more than 50% direct or indirect voting interest in the company shall not exceed 65% of the Company's net equity. The sum of all the company shall not exceed 100% of the Company's net equity.
7. The restrictions above shall not apply to endorsements/guarantees made between the companies in which the Company holds, directly or indirectly, 100% of the voting shares, but the aggregate endorsement/guarantee amount shall not exceed 100% of the Company's net equity, and related matters shall be submitted to the next board meeting of the Company for future reference.

8.If the aggregate amount of the endorsements/guarantees permitted to be made by the Company and its subsidiaries as a whole as adopted by the Company exceeds 50% of the Company's net equity, the necessity and reasonableness thereof shall be explained in the shareholders meeting of the Company.

9.All capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages. Each company shall not exceed 65% of the Company's net equity. The sum of all the company shall not exceed 100% of the Company's net equity.

#### **E) Limits of authority**

- (1) All matters relating to the company's endorsements and guarantees shall proceed according to Article G of the procedures, and are subject to approval by the board of directors.
- (2) Endorsements or guarantees to outsiders amounting to certain number are subject to approval by the group parent's board of directors before execution, in accordance with "Limits of Authority".

#### **F) Procedures for executing and reviewing endorsements and guarantees**

- (1) The execution unit

The Finance Unit is responsible for executing the company's endorsements and guarantees. The Managing Director may appoint other employees to assist in the execution if necessary. The company's major commitments and contingencies must be handled by dedicated staff in written records to monitor and track their likely impacts.

- (2) The review procedures

All endorsements and guarantees provided by the company are subject to reviews and evaluations. The evaluation reports must cover the following aspects:

- i. The necessity and rationality of endorsements and guarantees.
- ii. Determine whether the endorsement or guarantee is necessary by assessing

the financial status of the endorsed or the guaranteed.

- iii. Monitor whether the cumulative endorsement and guarantee amount is still within limit.
- iv. For endorsements and guarantees that are provided to facilitate business dealings, determine whether the amount is equivalent to the underlying business transaction.
- v. Credit assessment and risk evaluation on the endorsed or the guaranteed.
- vi. Impacts to the company's operational risks, financial status, and shareholders' equity.
- vii. Whether collateral is needed and the estimated value of secured collateral.

- (3) The Finance Unit must maintain a registry of all endorsement and guarantee details. The registry will keep track of the endorsed and the guaranteed, the underlying commitments, the amount of endorsements or guarantees, the board of directors resolution date, the effective date of endorsements or guarantees, the conditions for relieving endorsement and guarantee obligations, and items that are subject to due diligence assessments under Article 7, item 2 of the policy.
- (4) A public company shall prepare a memorandum book for its endorsement/guarantee activities and record in detail the following information for the record: the entity for which the endorsement/guarantee is made, the amount, the date of passage by the board of directors or of authorization by the chairman of the board, the date the endorsement/guarantee is made, and the matters to be carefully evaluated under paragraph 1 of the preceding article.

#### **G) Procedures for the use and custody of common seals**

The company shall provide a common seal specifically for endorsements and guarantees. That common seal must be held in custody by someone authorized by the board of directors. The use of seal is subject to compliance with the company's "Management of the Use of Seals". For guarantees to foreign companies, the letter of guarantee must be signed by someone authorized by the board of directors.

#### **H) Announcement and reporting procedures**

- (1) The company is required to announce and report before the 10th calendar day each month the amount of revenues generated by the company and its subsidiaries, and the outstanding amount of endorsements and guarantees provided by the company and its subsidiaries, in the previous month.

- (2) Apart from the monthly announcement and reporting of endorsement and guarantee balances, endorsements or guarantees that satisfy any of the following criteria must also be announced and reported within two days after the occurrence.
- i. When the outstanding amount of endorsements and guarantees provided by the company and its subsidiaries amount to more than 50% of the company's net value, as shown in the latest financial statements.
  - ii. When the amount of endorsements and guarantees provided to a single business by the company and its subsidiaries amount to more than 20% of the company's net value, as shown in the latest financial statements.
  - iii. When the amount of endorsements and guarantees provided to a single business by the company and its subsidiaries aggregate to more than NTD10 million, and the amount of endorsements, guarantees, long-term investments, and loans to the business amount to more than 30% of the company's net value, as shown in the latest financial statements.
  - iv. When the additional endorsement or guarantee undertaken by the company or its subsidiary amounts to more than NTD30 million and represents more than 5% of the company's net value, as shown in the latest financial statements.
- (3) For subsidiaries that are not listed in any domestic public exchanges, all matters subject to announcements and regulatory reporting (4) above shall be made by the company.

#### **I) Internal audit**

The company's internal audit staff must perform audits on endorsement and guarantee procedures at least on a quarterly basis, and produce written reports on audit findings. Any major violations must be notified immediately to each independent director in writing.

#### **J) Monitoring procedures for endorsements and guarantees tendered by subsidiaries**

- (1) Should any of the company's subsidiaries be required to provide endorsements or guarantees to outsiders, the company must supervise its subsidiaries in establishing endorsement and guarantee procedures according to the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies".
- (2) All subsidiaries must seek approval from the company's board of directors before providing endorsements or guarantees to outsiders. The company's Finance Unit and Managing Director will appoint dedicated personnel to evaluate the necessity,

rationality, and riskiness of each endorsement or guarantee, and determine the likely impacts to the parent company and its subsidiaries with regard to operational risks, financial status, and shareholders' equity. These evaluations are subject to approval by the board of directors.

- (3) The Finance Unit needs to obtain a report on changes in subsidiaries' endorsements and guarantees to outsiders in the beginning of each month.
- (4) While performing audits on the various subsidiaries according to the annual audit plan, the company's internal audit staff should also gain insights to the procedures adopted by subsidiaries when providing endorsements and guarantees to others. Internal audit staff will also follow up on rectifications toward any found weaknesses and report to the Managing Director.

#### **K) Penalties**

Any violations by the company's managers or officers in undertaking endorsements and guarantees are subject to disciplinary actions depending on the severity. Employees' violation records need to be taken into consideration during their individual performance reviews. The line manager of the violator will also receive penalties, except in circumstances where it can be demonstrated that adequate precautions have been taken in advance. For any violations against company policies or shareholders meeting resolutions by the board or its directors, the independent directors have the responsibilities to demand the board or its directors cease such conducts according to Section 218-2 of The Company Act.

#### **L) Other relevant notes**

- (1) If the company is in the position of providing endorsements or guarantees to the wrong parties or in excess of its authorized limits due to changes in the underlying circumstances, it must seek rectification and propose its plans to each independent director.
- (2) If the company is in need of undertaking endorsements or guarantees in excess of the limits specified in the Management of Endorsements and Guarantees due to business requirements, while in the meantime satisfying all relevant criteria specified in the Management of Endorsements and Guarantees, the company may proceed with the endorsement/guarantee subject to the board of directors' agreement with more than half of all board members jointly guaranteeing the likely losses to the company due to the excess. The company must also revise its Management of Endorsements and Guarantees and seek acknowledgment during the shareholders meeting; if shareholders do not agree to the revision, the company must arrange to have the excess eliminated within a given period.

#### **M) Settlement and relief of endorsement and guarantee obligations**

The company must assign dedicated personnel or someone from the Finance Unit to document the settlement or relief of all endorsements, guarantees, commitments, and contingencies. The responsible personnel will also proceed with the follow-up tracking to ensure proper management and the accuracy of maintained information.

**N) Supplementary notes on regulations**

Any matters that are not addressed in these procedures shall be governed by the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies".

**O) Implementation and amendment**

Once the policy has been approved by the Board of Directors, it will be reported to the shareholders meeting for the final approval prior to execution. The same applies to all subsequent revisions.

