

MANAGEMENT OF LOANS TO OTHERS

A) Purposes and the regulatory basis

The company may be required to lend funds to other companies (the "borrowers") depending on its business requirements. All lending activities shall comply with these procedures. These procedures were established according to the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies". Any matters that are not addressed in the procedures shall be governed by other relevant regulations.

B) Borrowers and the assessment criteria

According to Article 15 of "The Company Act", the company cannot loan to shareholders or any other parties except under the following circumstances:

1. Businesses with which the company has business dealings. The term "business dealings" mentioned above refers to purchases or sales of inventory. For loans granted to facilitate business dealings, determine whether the amount is equivalent to the underlying business transaction.
2. The amount of loans to companies with short-term liquidity needs must not exceed 40% of the lender's net value. Loans to each individual Company cannot exceed 20%.
 - (1) The duration of "short-term" mentioned above refers to a period of one year or one business cycle (whichever is longer).
 - (2) The "amount of loans" refers to the cumulative balance of short-term capital lent by the company.
 - (3) Loans granted for short-term liquidity needs are permitted only under the following circumstances; the reasons for lending must also be provided. An external credit assessor may be commissioned if necessary to check borrower's credit:
 - a. When short-term lending is needed to facilitate business transactions.
 - b. When other companies are in need of short-term financing for material purchases or for working capital.
 - c. Other circumstances approved by the company's Board of Directors.

C) The total loan limit and the limits on individual borrowers

1. The company's loans to others in total must not more than 40% of its net value, as shown in the latest financial statements.
 - (1) The amount of loans to companies with short-term liquidity needs must not aggregate more than 40% of the company's shareholders value; loans to individual borrower must not exceed 20% of the company's shareholders value.
 - (2) The amount of loans to companies with business dealing must not aggregate more than 40% of the company's shareholders value.
2. Each subsidiary total lending cannot exceed 40% of its own net value as shown in its latest financial statements.

Total lending amounts to a single company cannot exceed 30% net value and the lending tenure shall not exceed 12 months. Lending can only be done upon the approval by the Board of Directors.

2. The term "latest financial statements" mentioned above refers to the company's CPA certified or reviewed financial statements that were published prior to lending to others.

D) Loan tenor and interest accrual

1. Loans cannot be extended for more than one year; the underlying interest rates must not be lower than MIBOR.
2. Loan tenors and methods of interest accrual are subject to approval by the Board of Directors before execution.
3. Loans tenors for 100% foreign companies in which the Company holds 100% direct or indirect voting interest is set at a maximum of 3 years. Board of Directors approval must be obtained and a resolution passes for loan tenor's extension.

E) Loan execution and review procedures

1. When a borrower requests a loan, the company shall demand the borrower provide its basic profile and financial information, together with submitting to the company an application detailing the use of funds, the loan tenor, and loan amount.
2. The company will perform due diligence assessments to determine if the loan complies with its policy. The due diligence assessment must cover:

- (1) Evaluations on necessity and rationality of loans to others.
 - (2) Credit assessment and risk evaluation on the borrower. If the borrower exhibits sound financial strength, and its annual financial statements have been audited and certified by a certified public accountant, the company may continue to use borrower's credit report that is less than one year old and borrower's current CPA audited and certified financial report to support its lending decision.
 - (3) When performing credit assessments on the borrower, the company must also evaluate the impacts on its operational risks, financial status, and shareholders' equity arising from lending the loan.
 - (4) Determine whether collateral is needed and estimate the value of secured collateral. If the loan needs to be secured by collateral, then the borrower shall provide it accordingly. The company will ensure to create a pledge or lien against the collateral and to evaluate the value of the collateral. The collateral should be insured against fire or other hazards if necessary. To secure the company's debt entitlements, the amount of insurance coverage must not be lower than the collateral value, and the insurance policy must be underwritten as the company as the beneficiary.
3. All information stated above is required to be approved by Head of Division and Chief Executive Officer, and must be approved by the Board of Directors before proceeding. The approval authority cannot be delegated to any other party. If the company has Independent Directors in place, the opinions of the Independent Directors must be fully taken into consideration. Any pros and cons of opinions made by Independent Directors must be shown in the Board of Directors meeting minutes.
 4. Once the loan has been approved by the Board of Directors, the handling officer must notify the borrower as soon as possible of the lending terms, including the loan limit, tenor, interest rate, and collateral and guarantor requirements etc. The borrower shall be advised to sign contract within the given timeframe. If the Board of Directors does not approve the loan application, the handling officer will also respond to the borrower in writing as soon as possible to explain why the loan was rejected.
 5. Once the loan has been approved, the contracts has signed by the borrower, the collateral has been created as a pledge or lien, and all relevant procedures are completed without errors, the company may proceed to disburse funds.
 6. A public company shall prepare a memorandum book for its fund-lending activities and truthfully record the following information: borrower, amount, date of approval by the board of directors, lending/borrowing date, and matters to be carefully evaluated under paragraph 1 of the preceding Article.

F) The authorized limits

1. Before the company lends out its capital to others, it must conduct restrict assessments to determine if the transaction complies with "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" and the company's internal procedures on loans to others. The outcome of assessment under Article V, item 2 must be provided to the Board of Directors for the final resolution; the approval authority cannot be delegated to any other party.
2. Lending between the company and its parent company or subsidiaries, or lending subsidiaries among the same group, must be raised to the Board of Directors for its resolution. The Chief Executive Officer can be authorized to disburse loans in multiple drawdowns or on a revolving basis to the same borrower within a certain limit resolved by the Board of Directors for a period no more than one year.
3. The term "certain limit" mentioned above, except for the one described in Article III, item 2, should follow the rules below. The limits authorized by the company or subsidiaries to a single business must not exceed 10% of the company's net value, as shown in the latest financial statements.
4. If the company has Independent Directors in place, the Independent Directors' opinions toward the lending arrangement must be fully taken into consideration. Any pros and cons opinions made by Independent Directors must be shown in the Board of Directors meeting minutes.
5. Loans to other companies amounting to more than certain figure are required to be approved by the group parent's Board of Directors before execution. The certain figure should be refer to "Limits of Authority".

G) Post-lending management and the procedures on overdue loans:

1. Once the loan has been disbursed, the company will monitor the financial status, the business performance, and the credibility of its borrower and guarantor. If the loan is secured by collateral, the change in collateral value is also subject to monitoring. The Chief Executive Officer needs to be informed immediately of any major changes, and the handling officer will carry out the Managing Director's instructions in the proper manner. Borrowers shall be notified of the amount of principal and interest due one month before loan maturity.
2. The amount of interest payable by the borrower must be calculated before repayment at maturity or prepayment before maturity. Only after the principal has been fully settled may the company revoke and return the promissory note, loan slip or other certificates of debt entitlement to the borrower, or remove encumbrances from the pledged collateral. If the borrower wishes to have all encumbrances removed from the collateral, the company must ensure that no outstanding balances exist before deciding whether to proceed with the removal.
3. Borrowers must settle all outstanding principal and interest upon loan maturity. Borrowers who seek loan extensions due to their inability to make prompt repayment must submit a request for resolution by the Board of Directors before proceeding with

the relevant procedures. If the borrower is unable to comply, the company may dispose of the pledged collateral and demand repayment from the guarantor.

H) Documentation of loans to others

1. The finance unit of the company must maintain a registry of all loans granted. The registry will keep track of the borrower, the amount of loan, the Board of Directors resolution date, the effective date of loan, the lending conditions, and items that are subject to due diligence assessments under this policy.
2. Once the funds have been disbursed, the loan officer will file all certificates of debt entitlement such as contracts, promissory notes, etc., and the collateral documents, insurance policy, and correspondences etc., for future reference.

I) Information disclosure

1. The company is required to announce and report before the 10th calendar day each month the amount of loans granted by the company and its subsidiaries in the previous month.
2. Loans that satisfy any of the following criteria under Article 22 of the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" must be announced and reported within two days after the occurrence:
 - (1) When the amount lent by the company and by its subsidiaries to outsiders aggregates more than 20% of the company's net value, as shown in the latest financial statements.
 - (2) When the amount lent by the company and by its subsidiaries to a single business aggregates more than 10% of the company's net value, as shown in the latest financial statements.
 - (3) When the additional lending made by the company or by its subsidiary aggregates more than NTD10 million and represents more than 2% of the company's net value, as shown in the latest financial statements.

Any matters subject to announcements and regulatory reporting in item 1. and 2. above shall be made by parent company by reporting the relevant information to it.

3. The term "announcements and regulatory reporting" mentioned above involves inputting information into the reporting website designated by the Financial Supervisory Commission, Executive Yuan.

4. In the beginning of each month, the handling officer will compile a report on loans made to other companies in the previous month and circulate to the proper level of authority for its review and approval.

J) Other important notes

1. The company's internal audit staff must perform audits on loans to others 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.
2. If the company is in the position of lending 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, and rectify according to plan proposed.
3. The company shall comply with the Generally Accepted Accounting Principles to evaluate its loan portfolio and make adequate bad loan allowances. The company must also disclose properly all relevant information in its financial reports and provide any information necessary for certified public accountants to proceed with their audits.

K) Controls on loans to others by subsidiaries

1. Subsidiaries who wish to make loans to others must establish their own policies on "Management of Loans to Others" based on the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies", and proceed according to its policies.
2. If a subsidiary wishes to lend funds to others, it must report to the company's Board of Directors for resolution in accordance with Article VI of the policy before proceeding.
3. In the beginning of each month, the company's subsidiary will compile a registry on loans made to other companies in the previous month and circulate the report to the company.
4. While performing audits on the various subsidiaries according to the annual audit plan, the company's internal audit staff should also gain insights into the procedures adopted by subsidiaries when making loans to others. Internal audit staff will also follow up on rectifications toward any found weaknesses and report to the Board of Directors and to each Supervisor.
5. For subsidiaries that are not listed, all matters subject to announcements and

regulatory reporting under item IX of the policy shall be made by parent company. Among the announcements and reporting standards described above, the percentage of subsidiaries' loans to net value is calculated as the subsidiaries' outstanding balance proportionate to the company's net value.

L) Penalties

1. Managers and handling officers who violate these procedures will be subject to regular assessments under the HR Policy and the Employee Manual, and penalties depending on the severity.
2. The company's internal audit staff must perform regular inspections and evaluations regarding compliance with this policy. Any major violations shall be reported to the Managing Director for disciplinary actions, and notified immediately to Supervisors in writing.

M) Implementation and revision

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.