

## **Principles Governing Endorsements and Guarantees**

### Article 1 Purpose

These Principles are prescribed to strengthen internal management and lower operating risks when the Company making endorsements/guarantees.

### Article 2 Scope and content of endorsements/guarantees

The endorsements/guarantees referred herein are defined as follows:

1. Financial endorsements/guarantees, including:
  - (1) Bill discount financing.
  - (2) Endorsements or guarantees made to meet the financing needs of other companies.
  - (3) Issuance of separate negotiable instruments to non-financial enterprises as security to meet the financing needs of the Company itself.
2. Customs duty endorsements/guarantees, meaning endorsements or guarantees made for the Company itself or other companies in respect of customs duty matters.
3. Other endorsements/guarantees, meaning endorsements or guarantees beyond the scope of the above two subparagraphs.

Any creation by the Company of a pledge or mortgage on its chattel or real property as security for the loans of other companies shall also comply these principles hereunder.

### Article 3 Entities for the Company endorsements/guarantees are made

Endorsements/guarantees shall only be made in favor of the following entities:

1. Any companies having business transaction calls with the Company.
2. Any companies in which the Company holds, directly and indirectly, more than 50% of the voting shares.
3. Where all capital contributing shareholders make endorsements/guarantees for their jointly invested company in proportion to their shareholding percentages, such endorsements/guarantees may be free of the restriction of the preceding two paragraphs.

Capital contribution referred to in the preceding paragraph shall mean capital contribution directly by the Company, or through a company in which the Company holds 100% of the voting shares.

### Article 4 Limits of endorsements/guarantees of the Company

The limits of endorsements/guarantees are as follows:

1. The total amount of endorsements/guarantees shall not exceed 300% of the net value of the Company's latest audited or reviewed financial reports.
2. The total amount of endorsements/guarantees provided to a single company shall not exceed 160% of the net value of the Company's latest audited or reviewed financial reports.
3. The total amount of endorsements/guarantees provided by the Company and its subsidiaries shall not exceed 400% of the net value of the Company's latest audited or reviewed financial reports.
4. The total amount of endorsements/guarantees provided by the Company and its subsidiaries to

a single company shall not exceed 180% of the net value of the Company's latest audited or reviewed financial reports.

5. The total amount of endorsements /guarantees made due to needs arising from business dealings for any single company shall not exceed the above mentioned limits and the total business dealing amount with the Company of the latest two years.

#### Article 5 Hierarchy of decision-making authority and delegation thereof

Before making an endorsement/guarantee, the Company shall carefully evaluate whether the endorsement/guarantee is in compliance with "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies"(hereinafter "the Governing Regulations") made by Financial Supervisory Committee and these Principles. The Company may make an endorsement/guarantee only after the evaluation results under this paragraph and Article 6, paragraph 2 have been submitted to and resolved upon by the board of directors, or for the sake of time-saving, approved by the chairman of the board within the limits stated in Article 4, for subsequent submission to and ratification by the next board of directors' meeting.

Where the Company needs to exceed the limits set out in these Principles to satisfy its business requirements, and where the conditions set out in these Principles are complied with, it shall obtain approval from the board of directors and half or more of the directors shall act as joint guarantors for any loss that may be caused to the Company by the excess endorsement/guarantee. It shall also amend these Principles accordingly and submit the same to the shareholders' meeting for ratification after the fact. If the shareholders' meeting does not give consent, the Company shall adopt a plan to discharge the amount in excess within a given time limit.

#### Article 6 Procedures for endorsements/guarantees

The Company may make an endorsement/guarantee only after the evaluation report prepared by the department in charge has been submitted to and resolved upon by the chairman, audit committee and the board of directors.

The evaluation report shall include:

1. The necessity and reasonableness of endorsements/guarantees.
2. Whether the accumulated amount of endorsements/guarantees is within the limits.
3. Where an endorsement/guarantee is made due to needs arising from business dealings, the Company shall evaluate whether the amount of endorsements/guarantees and business dealing is within the limits.
4. Credit status and risk assessment of the entity for which the endorsement/guarantee is made.
5. The impact on the Company's business operations, financial status and shareholders' equity.
6. Whether collateral must be obtained and appraisal of the value thereof.

The 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 approval 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 article 5, paragraph 1.

If the net value of the subsidiary for which the endorsement/guarantee is made is below its paid-up capital, the Company shall strengthen risk management to watch out for its operating and financial situations and take necessary actions if any. If the subsidiary's stock has no par value or the par value is not NT 10, the paid-in capital should be counted by the sum of capital and additional paid-in capital – issuing premium.

The Company shall evaluate or record the contingent loss for endorsements/guarantees, and shall adequately disclose relevant information in the financial reports and provide CPA with relevant information for implementation of necessary audit procedures.

Where as a result of changes of condition the entity for which an endorsement/guarantee is made no longer meets the requirements of the Governing Regulations, or the amount of endorsements/guarantees exceeds the limit, the Company shall adopt rectification plans and submit the rectification plans to audit committee, and shall complete the rectification according to the timeframe set out in the plan.

#### Article 7 Internal Control

The Company's internal auditors shall audit the procedures for endorsements/guarantees and the implementation thereof no less frequently than quarterly and prepare written records accordingly. They shall promptly notify audit committee in writing of any material violation found and provide the plan improved the violation of the regulations.

The Company shall follow these Principles for endorsements/guarantees. In case there are material violations, the person in charge and the manager should be punished according to internal procedures.

#### Article 8 Procedures for use and custody of Company chops

The Company shall use the company chop registered with the Ministry of Economic Affairs as the dedicated chop for endorsements/guarantees. The chop shall be kept in the custody of a designated person according to internal procedures approved by the board of directors and may be used to seal or issue negotiable instruments only in prescribed procedures.

When making a guarantee for a foreign company, the Company shall have the Guarantee Agreement signed by the person authorized by the board of directors.

#### Article 9 Announcement and reporting procedures

The Company shall announce and report the previous month's balance of endorsements /guarantees of itself and its subsidiaries by the 10<sup>th</sup> day of each month.

If the Company's endorsements/guarantees balance reaches the levels regulated in the Governing Regulations and "Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Listed Companies", the Company shall announce and report such events.

The Company shall announce and report on behalf of any subsidiary thereof that is not a public company of the Republic of China any matters that such subsidiary is required to announce and

report pursuant to paragraph 2.

#### Article 10 Procedures for controlling and managing endorsements/guarantees by subsidiaries

Where the Company's subsidiaries intend to make endorsements/guarantees, such subsidiaries shall formulate its own procedures in compliance with the Governing Regulations, comply with the procedures when making endorsements/guarantees and report to the Company's Finance Department for consolidation and record.

Where the companies the Company holds, directly or indirectly, above 90% of the voting shares may make an endorsement/guarantee and the amount shall not exceed 10% of the net value of the Company's latest audited or reviewed financial reports. This limitation, however, shall not apply to the endorsements/guarantees made between companies in which the Company holds, directly or indirectly, 100% of the voting shares.

Where the subsidiaries the Company holds, directly or indirectly, above 90% of the voting shares may make an endorsement/guarantee under preceding paragraph only after resolved by the board of directors. This limitation, however, shall not apply to the endorsements/guarantees made between companies in which the Company holds, directly or indirectly, 100% of the voting shares.

#### **Article 11 Others**

**Anything that is not specified in the Procedures shall follow the related regulations, the Company's internal control system and operation procedures.**

#### **Article 12 Effect and Amendment**

These Principles should be approved by more than one-half of all members of the audit committee and be passed by the board of directors, these Principles will take effect after the Company submits to and be approved by the shareholders' meeting. Where there any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinions to and for discussion by the shareholders' meeting. The same shall apply to any amendments to these Principles.

If the above-mentioned is unapproved by more than one-half of all members of the audit committee, more than two-thirds of all directors can agree to do so, and the resolutions of the audit committee shall be stated in the minutes of the board meeting.

All members of the audit committee and all directors shall be counted as actual incumbents.