

# **Endorsement and Guarantee Procedure**

## **Article 1. Purpose and Legal Basis**

This procedure is established in accordance with Article 36-1 of the Securities Transaction Act and the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” by the Securities and Futures Bureau of the Financial Supervisory Commission by order (91) Tai-Cai-Zhen (6) Zhi No. 0910161919 for the purpose of ensuring shareholder interest, sound financial management and reduction of operational risk. Any endorsement or guarantee by the company shall be done in accordance with this procedure.

## **Article 2. Scope of Application**

Endorsement and guarantee referred to in this procedure include:

1. Financing endorsement and guarantee include:
  - (1) Client voucher factoring financing.
  - (2) Endorsement or guarantee for the purpose of obtaining financing for another company.
  - (3) Issuance of instrument to a non-financial institution as guarantee by the company for financing purpose.
2. Customs endorsement and guarantee mean endorsement and guarantee performed for customs-related matters of the company or another company.
3. Other endorsement and guarantee mean endorsement or guarantee that cannot be categorized under the previous two sections.
4. Any chattel or real estate provided by the company with pledge or mortgage created as guarantee for borrowing by another company shall be done in accordance with this procedure.

## **Article 3. Applicable Entities**

The company may only provide endorsement and guarantee to the following companies, except reciprocal guarantee in accordance with contract among companies of the same industry or co-constructors due to project contracting requirements or endorsement and guarantee undertaken by all investing shareholders to their invested company in accordance with their shareholding ratios.

1. Companies with business dealings with the company.
2. Companies of which 50% or more voting shares are directly or indirectly held by the company.
3. Companies directly or indirectly holding 50% or more voting shares of the company.

Companies of which 90% or more voting shares are directly or indirectly held by the company may provide endorsement and guarantee for each other.

## **Article 4. Amount Limit and Evaluation Standard of Endorsement and Guarantee**

1. The total amount of liability, standard of amount limit and amount for the company’s external endorsement and guarantee are as follows:
  - (1) The total amount of a reciprocal guarantee among companies of the same industry in accordance with contract for project contracting requirement shall not exceed 5 times the net value of the company. The amount of endorsement and guarantee to any single enterprise shall not exceed 3 times the company’s net value.
  - (2) Other than a guarantee for project contracting, the accumulated amount of liability under external endorsement and guarantee for other companies that not directly or indirectly be owned by the company shall not exceed 20% of the net value of the company. The amount of endorsement and guarantee for any single enterprise shall not exceed 10% of the

company's net value.

- (3) The total amount of an endorsement and guarantee for companies of which 50% or more of the shares are held directly or indirectly by the company shall not exceed 8 times the net value of the company. The amount of an endorsement and guarantee to any single enterprise shall not exceed 5 times the company's net value.
  - (4) The amount of an endorsement and guarantee among companies of which 90% or more voting shares are held directly or indirectly by the company shall not exceed 10% of the net value of the company.
  - (5) The endorsement and guarantee by the company for companies whose 100% voting shares are directly or indirectly held by the company are not limited to the restriction of the previous subsection.
  - (6) The amount of an endorsement and guarantee provided for business dealings shall not exceed the amount of such business dealings. Amount of business dealing means the amount of product purchase or product sale between the companies during one year, whichever is higher, based on the latest accountant certified financial statements.
2. The total amount of liability, amount limit standard and amount for external endorsement and guarantee by the company and its subsidiaries are as follows:
    - (1) For a reciprocal guarantee in accordance with a contract by the company and its subsidiaries based on project contracting requirements, and endorsement and guarantee among the company and its parent and subsidiaries or among companies whose 100% voting shares are held directly or indirectly held by the company, the total amount shall not exceed 8 times the net value of the company. The amount of an endorsement and guarantee to any single enterprise shall not exceed 5 times the company's net value.
    - (2) Other than the endorsement and guarantee under the previous subsection, the accumulated total amount of liability under external endorsement and guarantee shall not exceed 50% of the net value of the company. The amount of endorsement and guarantee to any single enterprise shall not exceed 20% of the company's net value.
  3. The above company net value shall be based on the latest accountant certified or audited financial statements.

Parent and subsidiary in these Regulations shall be as determined under the Regulations Governing the Preparation of Financial Reports by Securities Issuers. "Net worth" in these Regulations means the balance sheet equity attributable to the owners of the parent company under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

#### **Article 5. Decision and Authorization Level**

1. When the company provides an endorsement and guarantee, approval procedures shall be carried out in accordance with Article 6 of this procedure and the endorsement and guarantee shall only be provided after board resolution. However, to meet timing requirements, execution may be done in accordance with the following rules:
  - (1) Any single endorsement and guarantee among companies of the same industry in accordance with contract for project contracting requirement below NT\$1 Billion (inclusive) may be executed by the chairman first with the authorization from the board of directors and then submitted to the next board of directors for ratification.
  - (2) Any single endorsement and guarantee between parent companies and subsidiaries below NT\$1 Billion (inclusive) may be executed by the chairman first with the authorization from the board of directors and then submitted to next the board of directors for ratification.
  - (3) Any endorsement and guarantee other than the previous two subsections within the total endorsement and guarantee amount below NT\$200 Million (inclusive) may be executed by the chairman first with the authorization from the board of directors and then submitted to the

next board of directors for ratification.

2. Any subsidiary of which 90% or more voting shares are directly or indirectly held by the company can only provide endorsement and guarantee in accordance with Section 2, Article 3 after submission to and resolution by the board of directors of the company, except endorsement and guarantee among companies whose 100% voting shares are directly or indirectly held by the company.
3. If the company provides any endorsement and guarantee exceeding the amount limit provided under the previous article due to business requirements and if the conditions under the endorsement and guarantee procedure of the company are complied with, approval from the board of directors shall be required and the majority of directors shall provide a joint guarantee for the loss that may arise out of the company's exceeding the limit. This procedure shall also be amended and submitted to the shareholder meeting for ratification. If the shareholder meeting does not approve, a plan shall be established with a certain deadline to remove the exceeding portion.
4. When this procedure is submitted to the board of directors for discussion in accordance with the previous section, opinions of each independent director shall be fully taken into consideration and their specific opinions for approval or objection and the reasons for objection shall be included in the minutes of the board meeting.

#### **Article 6.** Procedure for Endorsement and Guarantee

1. In processing an endorsement and guarantee, the relevant department shall submit an endorsement and guarantee application form, specifying the beneficiary of the endorsement and guarantee, type, reason and amount. The application shall be filed with the finance department of the company.

The finance department shall review the application under the endorsement and guarantee application form item by item and make records. The following shall be included:

- (1) Necessity and reasonableness of the endorsement and guarantee.
  - (2) Credit and risk evaluation of the beneficiary of endorsement and guarantee.
  - (3) Impact on the company's operational risk financial status and shareholder interest.
  - (4) Whether collateral should be required and the evaluation value of the collateral.
2. The finance department shall submit the endorsement and guarantee application stating the relevant scope of endorsement and guarantee, reason and risk evaluation to the chairman for approval. Then a board resolution shall be required. If the proposal is within the authorized amount, the chairman may decide based on the credit level and financial status of the beneficiary of the endorsement and guarantee.

#### **Article 7.** Establishment of Reference Book

The finance department shall establish a reference book for endorsement and guarantee matters. After the endorsement and guarantee are approved by the board of directors or decided by the chairman, in addition to filing a request for use of seal, the beneficiary and amount of the endorsement and guarantee, the date of board approval or chairman's decision and the date of the endorsement and guarantee shall be recorded in detail for future reference.

#### **Article 8.** Procedure for Use and Custody of Sample Seal

1. The company shall use the company seal registered with the Ministry of Economic Affairs to be the dedicated seal for endorsements and guarantees. Such seal and relevant instruments shall be kept by dedicated staff designated by the chairman under the authorization of the board of

directors. Any change of seal safe-keeper shall be reported to and approved by the board of directors and the seal under the custody shall be handed over. The seal may only be used and an instrument may only be signed and issued in accordance with the seal management rules established by the company.

2. If the company provides any guarantee for any overseas company, the guarantee letter issued shall be signed by the chairman under the authorization of the board of directors.

#### **Article 9.** Procedure for Public Announcement

1. The company shall make a public announcement about the balance amount of endorsement and guarantee by the company and its subsidiaries for the previous month within the 10<sup>th</sup> day of every month.
2. When the balance amount of endorsement and guarantee reaches one of the following thresholds, a public announcement shall be made within 2 days commencing immediately from the date of occurrence:
  - (1) Balance amount of any endorsement and guarantee by the company and its subsidiaries reaches 50% or more of the net value based on the latest financial statements of the company.
  - (2) Balance amount of any endorsement and guarantee by the company and its subsidiaries for any single enterprise reaches 20% or more of the net value based on the latest financial statements of the company.
  - (3) Balance amount of any endorsement and guarantee by the company and its subsidiaries to any single enterprise reaches NT\$10 Million and the combined balance amount of endorsement and guarantee, fair value of investments accounted for using the equity method and funds lending to such enterprise reaches 30% of the net value on the company's latest financial statements.
  - (4) The amount of new endorsements and guarantees by the company and its subsidiaries reaches NT\$30 Million and 5% of the net value on the company's latest financial statements.
3. If any subsidiary of the company is not a domestic publicly traded company and if such subsidiary has any matter subject to public announcement under any subsection Section 2 of this article, the company shall make a public announcement.
4. The percentage of balance amount of an endorsement and guarantee by the subsidiary under the previous section as a percentage of the net value shall be calculated as the balance amount of the endorsement and guarantee of such subsidiary as a percentage to the net value of the company.
5. "Date of occurrence" in these Regulations means the date of contract signing, date of payment, dates of boards of directors resolutions, or other date that can confirm the counterparty and monetary amount of the endorsement and guarantee, whichever date is earlier.

#### **Article 10.** Internal Audit

The internal audit staff of the company shall perform at least quarterly audit on the procedure of endorsements and guarantees and the execution. Written records shall be made. If any significant violation is discovered, audit committee shall be informed in writing immediately.

#### **Article 11.** Control Procedure for Endorsement and Guarantee by Subsidiary

1. If any subsidiary of the company contemplates to provide an endorsement or guarantee for any other person, the company shall ensure that such subsidiary proceed in accordance with the endorsement and guarantee procedure established in accordance with the "Guidelines for Funds Lending and Endorsement and Guarantee by Publicly Traded Company" by the Securities and Futures Bureau, provided that the net value shall be calculated based on the net value of the

subsidiary.

2. Any subsidiary of the company except Nova Technology Corp. and its subsidiaries that contemplate to provide any endorsement or guarantee for any other person shall only do so following report to and approval from the company. The finance department of the company shall make a substantial evaluation of the necessity, reasonableness and risk of such endorsement and guarantee and the impact on the operational risk, financial status and shareholder interest of the parent and subsidiary. A report shall be filed with the chairman for approval.
3. The subsidiary shall prepare an endorsement and guarantee detail table by the 8th day of each month and such table shall be submitted to the company according to Regulations on the Management of subsidiary.
4. The internal audit staff of the company shall perform regular audit on its subsidiaries about the compliance with their "Endorsement and Guarantee Procedure". After the discoveries and suggestions of the audit report are submitted for approval, the audited subsidiary shall be informed for improvement. Regular follow-up reports shall also be prepared in order to ensure that appropriate and timely improvement measures have been undertaken.

#### **Article 12. Penalty**

If any manager or responsible staff of the company carrying out any endorsement or guarantee violates the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" of the Securities and Futures Bureau or the "Endorsement and Guarantee Procedure" of the company, sanctions shall be imposed based on the gravity of the matter in accordance with the company's human resource management rules and work rules and regular audit reports shall be filed.

#### **Article 13. Other Matters**

1. If the beneficiary of the company's endorsement and guarantee is consistent with this procedure but subsequently becomes inconsistent, or if the amount of endorsement and guarantee exceeds the regulated amount due to change of amount limit calculation basis, an improvement plan shall be established for the amount of the endorsement and guarantee for such beneficiary or the portion exceeding the limit to eliminate the inconsistencies. The relevant improvement plan shall be sent to audit committee.
2. The finance department shall prepare a detailed table about the guarantee matters that occurred or cancelled during each month to facilitate control, follow-up and public announcements. In addition, probable loss from the endorsement and guarantee shall be evaluated or recognized, and the endorsement and guarantee information shall be properly disclosed in the financial reports relevant information shall be provided to the certifying accountant to execute necessary audit procedure.
3. Prior to the expiry date of the endorsement and guarantee, the finance department shall take the initiative to inform the beneficiary enterprise of the guarantee to take back guarantee notes left with the bank or the creditor institution and cancel instruments related to the endorsement and guarantee.
4. If the beneficiary of the endorsement and guarantee is a subsidiary with net value that is less than 1/2 of the paid-in capital, the subsequent relevant control measures shall be specified and the control measures shall be reported to the next board of directors.  
In the case of a subsidiary with shares having no par value or a par value other than NT\$10, for the paid-in capital in the calculation under subparagraph 11 of the preceding paragraph, the sum of the share capital plus paid-in capital in excess of par shall be substituted.

**Article 14.** Relevant Legislation

Any matter that is not fully provided for hereunder shall be handled in accordance with relevant legislation.

**Article 15.** Implementation and Amendment

1. This procedure shall be implemented following approval by more than half of all audit committee members, submission to the board of directors for further approval and submission to the shareholder meeting for approval. If any director voices any objection by recording or written statement, the company shall also submit the objection to audit committee and shareholder meeting for discussion. The procedure shall be applicable to any amendment hereof.
2. If approval by more than half of all members of the Audit Committee is not obtained as mentioned above, as long as approval from more than two-thirds of all members of the Board of Directors is obtained, it may be implemented and resolution reached by the Audit Committee shall be indicated in the Board of Director meeting minutes. "All members of the Audit Committee" and "all members of the Board of Directors" indicated in the foregoing paragraph refer to the actual number of incumbent members.
3. When the endorsement and guarantee procedure is submitted to the board of directors for discussion in accordance with paragraph 1, opinions from each independent director shall be fully taken into consideration. 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.

**Article 16.** Date of Establishment and Amendment

This procedure was made on 3 May 2005. The first amendment to this procedure was made on 4 October 2005. The second amendment to this procedure was made on 16 June 2009. The third amendment to this procedure was made on 10 June 2010. The fourth amendment to this procedure was made on 19 June 2013. The fifth amendment to this procedure was made on 28 May 2015. The sixth amendment to this procedure was made on 30 May 2018. The seventh amendment to this procedure was made on 29 May 2019.