

# **YIEH PHUI ENTERPRISE CO., LTD.**

## **Operation Procedures for Loans to Others and Endorsement**

modified on June 20, 2019

- Article 1: The “Procedures for Loaning of Funds and Making of Endorsements/Guarantees” are stipulated to substantiate the Company’s loaning of funds and making of endorsements/guarantees in order to reduce operating risks.
- Article 2: The “Procedures for Loaning of Funds and Making of Endorsements/Guarantees” are stipulated in accordance with the “Procedures for Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” of the Financial Supervisory Commission.
- Article 3: The Company’s loaning of funds and making endorsements/guarantees should be processed in accordance with the “Procedures for Loaning of Funds and Making of Endorsements/Guarantees,” unless otherwise provided by other related financial regulations and regulations that shall prevail.
- Article 4: In terms of the objects for the loaning of funds by the Company, according to Article 15 of the Company Law, the Company’s funds may not be loaned to the shareholders or any other except for in the following circumstances:
- I. The companies or firms that have business deals conducted with the Company.
  - II. The companies or firms that are with the need of short-term financing.
- The foreign companies with 100% voting shares held by the Company directly or indirectly;  
The so-called “short-term” in the preceding paragraph meant for one year; however, if the Company’s operating cycle is longer than one year, it is subject to the business cycle.  
The financing period of the foreign companies with 100% voting shares held by the Company directly or indirectly or foreign companies directly and indirectly owned by Yieh Phui with 100% voting rights, is subject to the requirements of Article 6.  
The loaning of funds for the business transactions conducted between the Company and other companies or firms should be processed in accordance with Article 5 Paragraph 1 Clause 2. The loaning of funds for short-term financing is limited to the following circumstances:
- (I) The short-term financing needed for business operation of the company with over 20% shares held by the Company.
  - (II) The short-term financing needed for raw material procurement or working capital of other companies or firms.
- Article 5: Total loaning of funds and individual loan limit  
The Company’s total loaning of funds is limited to 40% of the

Company's net worth, in which, the limit of loaning of funds to each company is subject to the following criteria:

- I. The total and individual loaning of funds to the subsidiaries of the Company is limited to 40% of the Company's net worth.
- II. The total loaning of funds to the company or firm conducting business with the Company is limited to 40% of the Company's net worth. The loaning of funds to each individual company is limited to the total business transaction amount between the two companies within the year. The so-called "business transaction amount" meant for the higher of the purchase amount or sales amount between the two companies.
- III. The loaning of funds to the companies or firms in need is limited to 40% of the Company's net worth. The loaning of fund to individual company or firm is limited to 5% of the Company's net worth.
- IV. The loaning of funds to foreign companies with 100% voting shares held by the Company directly or indirectly or foreign companies directly and indirectly owned by Yieh Phui with 100% voting rights is limited to 40% of the Company's net worth. The borrowers referred to in the preceding paragraph must provide sufficient collateral for the loaning of funds from the Company; however, the Company's subsidiaries are exempted from the requirement of providing collateral for loaning of funds.

Article 6: Financing period and interest-bearing methods

- I. Period: The financing period of each loaning of funds may not exceed 1 year from the date of the loan granted. However, the financing period for the foreign companies with 100% voting shares held by the Company directly or indirectly or foreign companies directly and indirectly owned by Yieh Phui with 100% voting rights, may not exceed 10 years in response to the need of business operation.
- II. Interest rate: Interest rate is determined depending on the financial market interest rate at the time; however, it may not be less than the maximum interest rate of short-term borrowings from financial institutions. The Company has loan interest accrued monthly and it may be adjusted depending on the actual practice under a special circumstance with the approval of the Board of Directors.

Article 7: The endorsements/guarantees referred to in this "Procedures for Loaning of Funds and Making of Endorsements/Guarantees" include:

- I. Financing endorsements/guarantees:
  - (I) Checks discount financing.
  - (II) The making of endorsements/guarantees for the financing of other companies.
  - (III) The checks issued to non-financial businesses as collateral for the financing of the Company.
- II. Tariff endorsements/guarantees: The making of endorsements/guarantees for the tariff matters of the Company or other companies.
- III. Other endorsements/guarantees: The other endorsements/guarantees are other than those that are classified

into the two categories in the preceding paragraphs. The Company offers properties or real properties to be mortgaged or pledged as collateral for the loans of other companies that is to be processed in accordance with the “Procedures for Loaning of Funds and Making of Endorsements/Guarantees.”

Article 8: The Company’s endorsement/guarantee is limited to the following objects:

- I. The companies that conduct business transactions with the Company.
- II. The companies that are with over 50% voting shares held by the Company directly or indirectly.
- III. The companies that own over 50% voting shares of the Company directly or indirectly.
- IV. The companies that are with 100% voting shares held by the Company directly or indirectly.

The Company may make endorsements/guarantees for the companies that are with over 90% voting shares held by the Company directly or indirectly and it is for an amount limited to 10% of the invested company’s net worth. However, the endorsements/guarantees made for the companies that are with 100% voting shares held by the Company directly or indirectly are not subject to this restriction.

The mutual guarantees between the industry or co-builder for the need of undertaking engineering projects according to the contract signed, or, the endorsement/guarantee made for the invested company by the shareholders proportionally to their shareholding ratio due to a joint investment, or, joint performance bond for the pre-sale house contract by the industry in accordance with the Consumer Protection Law are not subject to the restrictions in the preceding paragraphs. Therefore, making of endorsements/guarantees is permitted. The so-called “investment” in the preceding paragraph meant for the funding made by the companies directly or through the invested company with 100% voting shares held by the public companies.

Article 9: The Company’s total making of endorsements/guarantees amount may not exceed the Company’s net worth; in addition, the making of endorsements/guarantees amount for one single subsidiary may not exceed the subsidiary’s net worth depending on the actual business operation of the subsidiary. The total making of endorsements/guarantees amount by the Company and its subsidiaries as a whole shall not exceed twice of the net worth of the Company, for a single enterprise shall not exceed one-third of the Company’s net worth. The making of endorsements/guarantees due to business operation shall not exceed the total transaction amount with the Company within the year (the higher of the sales or purchase amount between the two companies). The so-called “net worth” is based on the most recent financial statements audited or reviewed by the CPAs.

Article 10: The so-called “subsidiary” and “parent company” in the “Procedures for Loaning of Funds and Making of Endorsements/Guarantees” should be recognized in accordance with the definition given in the “Regulations Governing the Preparation of Financial Reports by Securities Firms.”

The financial reports of public companies are prepared in accordance with the International Financial Reporting Standards (IFRSs), in which, the so-called “net worth” means the “Shareholders’ Equity of Parent Company” in the balance sheet that is prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Firms.”

The so-called “notice and declaration” in the “Regulations Governing the Preparation of Financial Reports by Securities Firms” means to have information posted on the information reporting website designated by the Financial Supervisory Commission.

The so-called “Event Date” in the “Regulations Governing the Preparation of Financial Reports by Securities Firms” means the deal signing date, payment date, board resolution date, or other date that are sufficient to determine the amount of loans or the endorsed, whichever is sooner (earlier).

Article 11: The Company’s “Procedures for Loaning of Funds”

1. Resolution of the Board of Directors

The loaning of fund quota granted to one single enterprise should be with the consent of the Board of Directors. Carefully assess whether the loaning of funds is in compliance with the “Procedures for Loaning of Funds” before granting the loans and it should be approved by the auditing committee and then implemented with the approval of the board of directors for resolutions along with the evaluation of the Finance Office; moreover, the decision-making process cannot be reassigned to any other person. However, major loans have to be approved by the auditing committee and to be decided by the board of directors.

The loaning of funds between the Company and its subsidiaries or among the subsidiaries should be presented to the Board of Directors for resolutions in accordance with the provisions in the preceding paragraph. In addition, the Chairman may be authorized to grant certain loans amount to one borrower that is resolved in the board meeting distributed in installments or revolving use within one year.

The so-called “certain loan amount” in the preceding paragraph, unless otherwise in compliance with Article 5 Paragraph 1 Clause 4, means that the Company or its subsidiaries are authorized to grant loans to one enterprise for an amount limited to 10% of the enterprise’s net worth in the most recent financial statements.

2. Detailed review procedures

- (I) The borrowing enterprise or firm when requesting loans should have the Letter of Declaration delivered to the Company.
- (II) To ensure the borrowing company or firm having the loan amount repaid before deadline, the Company depending on the need may request the borrowing company or firm to issue a 1-year promissory note for the loan amount with the maturity date in blank and the Company as the payee, and protest

exemption, which will be returned to the borrowing company or firm once the loan is fully repaid.

- (III) The application form should be reviewed by the highest supervisor of the Finance Office in advance as follows:
  - 1. The necessity and reasonableness of the loaning of funds.
  - 2. The credit and risk evaluation on the borrowers.
  - 3. Assessing the impact on the Company operational risk, financial status, and shareholders' equity.
  - 4. Whether or not to obtain collateral and assess the value of the collateral.
- (IV) The application form reviewed by the Finance Officer along with the evaluation result of the Finance Officer is to be presented to the Board of Directors for discussion.
- (V) After the resolution reached by the Board of Directors, the Finance Officer issues and submits the voucher for the issuance of a check to the Chairman for approval.
- (VI) Upon the approval of the Chairman, the Finance Officer is to have a check issued and processed in accordance with the following requirements:
  - 1. The check must be stamped and crossed to prohibit endorsement and transfer; also, it is made payable to "limit deposit ×× bank account no. ×× company account;" so is the repayment.
  - 2. The contents of the "Borrowing Companies or Firms Registry" include the borrowers, amount, the Board approval date, the funds distribution date, and the matters stated in Clause (3) to be carefully assessed for controlling the loan amount; so is the repayment.
  - 3. Interest is accrued at the end of each month.
  - 4. Prepare the Borrowing Companies or Firms Statement at the end of each month for notice and declaration accordingly.
- 3. Subsequent control of the loan amount and procedures for non-performing loan
  - (I) Frequently observe the finance, business, and the related letter of credit of the borrower and guarantor after the loan distributed. If there is any collateral collected, observe whether there is any change in the value, in case of major changes in the collateral value, the Chairman should be notified immediately to give instructions for proper handling.
  - (II) If the borrower has the loan repaid on or before the due date, the interest payable should be calculated for payment along with the principals. The promissory note for the loan can be returned or mortgage can be cancelled only when the loan is repaid in full.
- 4. Finance Officer should assess the situation of loaning of funds and

appropriate adequate allowance for bad debts; also, disclose the information of loaning of funds and provide the related information to the CPAs for implementing necessary auditing procedures.

5. If the change of circumstances causes the Company's borrowers to no longer comply with the requirements or the loan balance exceeding the quota, the Company should have a corrective plan formed and then delivered to each supervisor, deliver the related corrective action to the Audit Committee, and complete the corrective action in accordance with the project schedule.

Article 12: The Company's "Procedures for Making of Endorsements/Guarantees"

- I. The Company's decision-making unit and levels of authority for handling the making of endorsements/guarantees:
  - (I) The Company shall have the endorsements/guarantees approval handled in accordance with Paragraph 2 of this Article after the resolution reached by the Board of Directors. However, to meet the need for adequate timing, for a total loan amount of NT\$1 billion and a loan amount to one single enterprise for NT\$500 million, the Chairman is authorized by the Board of Directors to make a decision first and report it in the latest Board meeting for ratification.
  - (II) The Company before making endorsements/guarantees for the companies that are with over 90% voting shares held by the Company directly or indirectly in accordance with Article 8 Paragraph 2 should have it reported to the Board of Directors for resolutions. However, the endorsements/guarantees made for the companies that are with 100% voting shares held by the Company directly or indirectly are not subject to this restriction.
  - (III) If the company has to endorse over the limit designated on Item 9, it has to be done by the approval of the auditing committee and the board of directors with more than half of the directors to guarantee the likely losses, modify the operating procedures herein, to be ratified by the stockholder's meeting and devise a plan to clear the upper bound within a set deadline.
- II. The Company's "Procedures for Making of Endorsements/Guarantees" is as follows:
  - (I) For the process of endorsements/guarantees, the Finance Officer should examine the itemized review of qualifications, ensure the loan quota complying with the requirements of the "Procedures for Making of Endorsements/Guarantees," determine whether there are incidents to be noticed and declared mandatorily in accordance with the application filed by each endorsement/guarantee object and analyze the business operations and financial and credit conditions of the endorsement/guarantee object to assess and document the risk of endorsements/guarantees, and shall obtain collateral when necessary. The endorsements/guarantee contents,

reasons, and risk assessment result approved by the Chairman should be presented to the Board of Directors for discussion and approval. The endorsements/guarantees within the authorized quota will be reviewed and approved by the Chairman discretionally in accordance with the credit and financial status of the endorsement/guarantee object.

Major endorsement must be approved by the auditing committee and decided by the board of directors.

- (II) The Finance Office shall have the endorsements/guarantees registry prepared. The endorsements/guarantees approved by the Board of Directors or reviewed and approved by the Chairman are to be stamped and sealed in accordance with the prescribed procedures. In addition, the information of the commitments and guarantee matters, the name of the guaranteed enterprise, the risk assessment result, endorsement/guarantee amount, obtained collateral, and the conditions of cancelling endorsement/guarantee and date should be detailed in the registry for records. Moreover, the related notes, agreements, etc. should be photocopied for safekeeping.
  - (III) The Finance Office shall prepare the monthly statement for the guarantee matters occurred and cancelled for control, trace, notice, and declaration. The contingent loss of endorsement/guarantee should be assessed and recognized quarterly. Also, disclose the information of endorsement/guarantee in the financial statements and provide the related information to the CPAs for implementing necessary auditing procedures.
  - (IV) The Finance Officer before the endorsement/guarantee expiry date should take the initiative to inform the guaranteed enterprise to collect the promissory note from the bank or creditor institution and have the endorsement/guarantee related deed and document destroyed.
- III. The Company's endorsement/guarantee special specimen seals safekeeping and the procedures for the use of specimen seals:
- (I) The Company shall designate the corporate specimen seals that were filed with the Ministry of Economic Affairs for business registration as the specific specimen seals for endorsement/guarantee; also, the said specimen seals are placed under the custody of the Chairman's secretary with the consent of the Board of Directors. The change of the specimen seals custodian must be reported to the Board of Directors for approval and the custody of the specimen seals will be transferred thereafter.
  - (II) After the endorsement/guarantee resolved by the Board of Directors or approved by the Chairman, the Finance Office is to fill out the "Impression Application Form" to have the seal affixed on the document along with the record of approval and endorsement/guarantee agreement or guaranteed notes at the

seal custodian's with the approval of the Chairman.

- (III) The specimen seals custodian should check whether the approved record is enclosed, whether the "Impression Application Form" approved by the Chairman, and whether the document applied for impression is correct before affixing the specimen seals on the documents. The "Impression Application Form" should be marked for identification upon the completion of affixing specimen seals on the documents.
- (IV) For the guarantees made for foreign companies, the Letter of Guarantee is to be signed by the Chairman or the President with the authorization of the Board of Directors.

IV. If the change of circumstances causes the Company's endorsement/guarantee object to no longer complying with the requirements or the loan balance exceeding the quota, the Company should have a corrective plan formed and then delivered to the Audit Committee, and complete the corrective action in accordance with the project schedule.

Article 13: The "Procedures for Announcing and Declaring the Company's Loaning of Funds and Making of Endorsements/Guarantees" is as follows:

- I. The Finance Office is to have the loaning of funds and making of endorsements/guarantees by the Company and its subsidiaries of the prior month along with the sales report announced before the 10<sup>th</sup> day of this month and declared on the information reporting website designated by the Financial Supervisory Commission.
- II. In addition to noticing and declaring the loaning of funds and making of endorsement/guarantee balance monthly, when the loaning of funds and making of endorsement/guarantee by the Company and its subsidiaries meets one of the following criteria, the Finance Office should submit relevant information for announcement and declaration within 2 days from the Event Date and declared on the information reporting website designated by Financial Supervisory Commission:
  - (I) For the endorsement/guarantee balance of the Company and its subsidiaries amounted to 50% or more of the company's net worth on the most recent financial statements; and the loaning of fund balance by the Company and its subsidiaries amounted to 20% or more of the company's net worth on the most recent financial statements.
  - (II) For the endorsement/guarantee balance of the Company and its subsidiaries to one single enterprise amounted to 20% or more of the company's net worth on the most recent financial statements and the loaning of fund balance by the Company and its subsidiaries to one single enterprise amounted to 10% or more of the company's net worth on the most recent financial statements.
  - (III) For the endorsement/guarantee balance of the Company and its subsidiaries to one single enterprise amounted to NT\$10 million or more and endorsement/guarantee, the book value of

the investment determined by the equity method, and loaning of fund balance to one single enterprise amounted to 30% or more of the company's net worth on the most recent financial statements.

(IV) For the cumulative loaning of fund and endorsement/guarantee amount exceeding the total business transaction amount conducted with the company within the year due to the consideration of business operations.

(V) For the new endorsement/guarantee of the Company and its subsidiaries amounted to NT\$30 million or more and 5% or more of the company's net worth on the most recent financial statements.

(VI) For the new loaning of funds of the Company and its subsidiaries amounted to NT\$10 million or more and 2% or more of the company's net worth on the most recent financial statements.

If the subsidiary is not a public company in Taiwan and is with the notice and declaration to be made as stated in Paragraph 5 or Paragraph 6, it should be handled by the parent company instead.

Article 14: Other matters to be handled

- I. If the Company's subsidiary intends to arrange loaning of funds, the company should command the subsidiary to have the "Procedures for Loaning of Funds" stipulated in accordance with the "Procedures for Loaning of Funds and Making of Endorsements/Guarantees by Public Companies;" also, it should be handled in accordance with the prescribed operating procedures.
- II. The subsidiary's "Procedures for Making of Endorsements/Guarantees" is stipulated and handled in accordance with the Company's. The subsidiaries are to have the endorsement/guarantee amount, object, and deadline reported to the Company before the 5<sup>th</sup> day of each month; however, it should be reported to the Company immediately for notice and declaration process when meeting the standards set in Article 13 Paragraph 1 Clause 2.
- III. Internal auditors should have the "Procedures for Loaning of Funds and Making of Endorsements/Guarantees" and its implementation audited at least quarterly with a written record prepared. The Audit Committee should be informed in writing immediately for any major nonconformity identified.

Article 15: Managers and organizers who have violated the "Procedures for Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" of the Financial Supervisory Commission and the "Procedures for Loaning of Funds and Making of Endorsements/Guarantees" will be punished in accordance with the "Disciplinary Act" of the Company.

Article 16: If the endorsement/guarantee object is the subsidiary with a net worth less than 50% of paid-in capital, the relevant subsequent control measures should be specified.

If the stock shares of the subsidiary has no face value or the face value is not for NT\$10, the paid-in capital calculated in accordance with the provisions in the preceding paragraph should be the total of the capital stock plus additional paid-in capital – premium.

Article 16.1: The foreign companies defined in Article 165.1 of the Securities and Exchange Act (hereinafter referred to as the “foreign company”) may have the loaning of funds and making of endorsements/guarantees handled in accordance with the “Procedures for Loaning of Funds and Making of Endorsements/Guarantees by Public Companies.”

Foreign companies without the use of specimen seals are not subject to the requirements of Article 12 Paragraph 3.

The net worth that is calculated by foreign company in accordance with the “Procedures for Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” meant for the “Shareholders’ Equity of Parent Company” in the balance sheet.

Article 17: The “Procedures for Loaning of Funds and Making of Endorsements/Guarantees” must be done with the consent of the Audit Committee, resolution of the Board of Directors, and approved in the shareholders’ meeting before implementation, so is the amendment. before submitted to the board of directors for approval, it has to be approved by the auditing committee

If it is not approved by the auditing committee with a majority vote, it can be done with the approval of the board of directors with two thirds of the members present. However, the minutes of the board of the directors have to specify the decision of the auditing committee. The whole members of the aforementioned auditing committee and the board of the directors are those still active. This operation procedures stipulates what must be approved by the board of the directors, for those to be decided by the board of the directors may follow the rule of Item 2.