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# Regulations Governing Endorsement & Guarantee Operations



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Revise History				
Version	Owner	Review	Release Date	Release Explain
A	Tsai Hsing-fang	Chang Sheng-shih	110637	First Release
B	Tsai Hsing-fang	Chang Sheng-shih	130416	In order to comply with the FSC revised 「Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies」 dated July 6, 2012
C	Chen Yu Wen	Tsai Hsing-fang	140623	In order to conform to the needs of commercial practice
D	Wu Ching-chen	Huang An-pang	150612	In order to conform to the needs of commercial practice
E	Fu RueiI-Fang	Huang,Mei-Fang	190412	In order to conform to the needs of commercial practice
F	Lin Song-Po	Huang,Mei-Fang	200410	Revise the text in accordance with the 「Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies」
G	Zhao Yan-Ling	Huang,Mei-Fang	211007	In order to conform to the needs of commercial practice



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## 1. Objectives:

These Regulations are duly enacted in an attempt to safeguard shareholders' interests, assure sound and wholesome endorsements/guarantees related financial management so as to minimize business operation risks.

## 2. Scope:

Unless otherwise prescribed in financial laws and ordinances concerned, these Regulations are applicable to all practices of the Company in external endorsements/guarantees.

## 3. Powers and responsibilities:

These Regulations are duly enacted and amended by the Financial and Accounting Department exactly in accordance with "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies".

## 4. Definitions:

- 4.1 "Subsidiary" and "parent company" as referred to in these Regulations shall be as determined under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.
- 4.2 "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, whichever date is earlier.
- 4.3 Where a public company's financial reports are prepared according to the International Financial Reporting Standards, "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.

## 5. Contents of operation:

- 5.1 The term "endorsements/guarantees" as set forth herein denotes the following business operation:



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5.1.1 Financing endorsements/guarantees, including:

- (1) Bill discount financing.
- (2) Endorsement or guarantee made to meet the financing needs of another company.
- (3) Issuance of a separate negotiable instrument to a non-financial enterprise as security to meet the financing needs of the company itself.

5.1.2 Customs duty endorsement/guarantee: An endorsement or guarantee for the company itself or another company with respect to customs duty matters.

5.1.3 Other endorsements/guarantees: 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 another company shall also comply with these Regulations.

5.2 The Company may grant endorsements/guarantees for the following targets:

5.2.1 Targets for the Company's endorsements/guarantees:

- (1) A company or firm in business transaction with the Company.
- (2) A company in which the Company directly and indirectly holds more than 50 percent of the voting shares.
- (3) A company that directly and indirectly holds more than 50 percent of the voting shares in the Company.

5.2.2 Companies in which the Company holds, directly or indirectly, 90% or more of the voting shares may make endorsements/guarantees for each other, and the amount of endorsements/guarantees may not exceed 10% of the net worth of the Company, provided that this restriction shall not apply to endorsements/guarantees made between companies in which the Company holds, directly or indirectly, 100% of the voting shares.

5.2.3 Where the Company fulfills its contractual obligations by providing mutual



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endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project, or where all capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages, or where companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other such endorsements/guarantees may be made free of the restriction set forth in 5.2.1~5.2.2.

5.2.4 The term “capital contribution” as set forth herein denotes shall mean capital contribution directly by the Company, or through a company in which the Company holds 100% of the voting shares.

5.2.5 Credit line limits for endorsements/guarantees:

(1) Unless agreed upon by the shareholders’ meeting, the total amount of endorsements/guarantees granted by the Company for other firms shall not exceed 200% of the Company’s net worth as shown through the Company’s latest financial statements duly certified or audited by the Certified Public Accountant. Unless agreed upon by the shareholders’ meeting, the aggregate total amount of endorsements/guarantees granted by the Company and all its subsidiaries for other firms shall not exceed 200% of the Company’s net worth as shown through the Company’s latest financial statements duly certified or audited by the Certified Public Accountant.

(2) Unless agreed upon by the shareholders’ meeting, the amount of endorsements/guarantees granted by the Company for any single enterprise shall not exceed 200% of the Company’s net worth as shown through the Company’s latest financial statements duly certified or audited by the Certified Public Accountant. Unless agreed upon by the shareholders’ meeting, the aggregate total amount of endorsements/guarantees granted by the Company and all its subsidiaries for any single enterprise shall not exceed 200% of the Company’s net worth as shown through the Company’s latest financial statements duly certified or audited by the Certified Public Accountant.

(3) Where the Company renders endorsements/guarantees for business transaction, the amount of endorsements/guarantees granted by the Company for any single target shall not exceed the total amount of business transactions concluded by and between both sides during the twelve



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months prior to granting of endorsements/guarantees and shall not exceed 50% of the Company's net worth as shown through the Company's latest financial statements duly certified or audited by the Certified Public Accountant. The term "amount of business transactions" as set forth herein denotes the amounts of either purchases or sales, whichever is the higher in amount.

### 5.3 Policymaking process and authorization levels:

5.3.1 Whenever the Company is required to render guarantee or endorsement for negotiable instruments to meet business needs, after adequate discussion and assessment by the departments concerned, the suggestion may be submitted to the Board of Directors for final decision beforehand. To meet a need of timeliness, nevertheless, the Board of Directors may authorize the Chairman to proceed with endorsements/guarantees within the specified credit line limits and to report to the latest board of directors meeting for retrospective acknowledgement. The term "specified credit line limits" as set forth herein denotes: The credit line limit authorized to the Company and its subsidiaries for overall endorsements/guarantees toward a single enterprise under 5.2.1 shall not exceed 10% of the Company's net worth.

5.3.2 In case of a substantial business need where the Company is required to render endorsements/guarantees beyond the aforementioned credit line limits where the case proves to meet the requirements under these Regulations, it calls for a decision duly resolved by the Board of Directors through a majority vote and the Company's directors should jointly guarantee the excess beyond the limit. These Regulations should be amended to be acknowledged by the shareholders' meeting retrospectively. In the event that the shareholders' meeting disagrees, the shareholders' meeting should report to the Board of Directors with a request that the part of excess should be deleted within the specified time limit. If the Company has duly set up independent directors, upon discussion in the board of directors meeting mentioned in the preceding paragraph, the Company should take adequate consideration of the opinions of the independent directors. Their opinions, both pros and cons, and the reasons should be expressly entered into the minutes of the board of directors meeting.



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- 5.3.3 If the Company has duly set up independent directors, whenever the Company intends to render endorsements/guarantees for another party, the Company should take adequate consideration of the opinions of the independent directors. Their opinions, both pros and cons, and the reasons should be expressly entered into the minutes of the board of directors meeting.
- 5.3.4 Where the Company has set up the Audit Committee in accordance with the Articles of Incorporation, an act for major endorsements/guarantees shall be subject to consent by a minimum of one-second of all Audit Committee members and be submitted to the Board of Directors for final resolution. In the event that such a case does not pass approval by over one-second of the total Audit Committee members, the case may be granted directly if it is resolved by a two-thirds majority vote in the Board of Directors. Such fact should be expressly entered into the minutes of the board of directors meeting. The terms “entire Audit Committee members” and “entire directors” as set forth herein shall be duly calculated based on the numbers of Audit Committee members and directors actually serving on the post.
- 5.4 When the Company renders endorsements/guarantees externally, the case should be reviewed and handled through the following procedures:
- 5.4.1 The Company shall, before granting endorsement or rendering guarantee to another party, conduct prudential assessment whether the target satisfies the requirements under these Regulations and laws and ordinances concerned. The Financial Department shall further assess the indispensability and rationality of the target endorsements/guarantees, conduct credit investigation over the target beneficiaries, with review in detail about the Company’s operating risks, financial standing, impact upon the shareholders’ equity, whether collateral should be obtained and the values of the provided collateral, thereafter, should assemble the opinions of departments concerned within 「Application Form of Endorsement and Guarantee」which approved by the responsibilities director, and to submit the final result of assessment to the Board of Directors for the final decision beforehand. Board of Directors may, as well, authorize the Chairman to render endorsements/guarantees within the specified credit line limit before reporting afterward to the latest board of directors meeting for



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retrospective acknowledgement.

- 5.4.2 The Financial Department shall set up a Memorandum (Ready-to-Check) Book to enter details about the targets of endorsements/guarantees, amounts, the dates while the Board of Directors resolves or the Chairman conducts, date of endorsements/guarantees and the matters subject to prudential assessment mentioned in the preceding paragraph.
- 5.4.3 While rendering endorsements/guarantees externally, the Company may request that the beneficiary company of endorsements/guarantees to provide collateral.
- 5.4.4 In the event that a target of endorsement/guarantee is a subsidiary of the Company with net worth below one-second of the paid-in capital, the Company should take subsequent control measures, e.g., the Company should frequently watch that subsidiary's financial standing, business operation and credit status after the endorsements/guarantees. If that subsidiary has provided collateral, the Company should closely watch the change in collateral. In case of a significant change, it should be reported to the Chairman forthwith and take countermeasures as appropriate and as instructed. 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 the preceding paragraph, the sum of the share capital plus paid-in capital in excess of par shall be substituted.
- 5.4.5 In case of a change in situation where the endorsements/guarantees rendered by the Company turn from satisfaction to requirements into inconsistency or the amount of endorsements/guarantees becomes in excess of the requirements due to a change in the ground of calculation, the Financial and Accounting Department should work out improvement programs. The improvement program should be submitted to the Audit Committee and the corrective action (remedial measure) should be completed within the specified time limit..
- 5.5 Custody of registered specimen seals and the procedures:
- 5.5.1 For negotiable instruments, the special registered specimen seals should be put under custody by





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personnel specially assigned by the Board of Directors, and shall not be used to affix on or to issue negotiable instruments only according to the procedures specified by the Company. A change of a custodian shall be made only by the Board of Directors.

5.5.2 When the Company renders guarantee for an overseas company, the letter of guarantee issued by the Company shall be signed by the representative authorized by the Board of Directors.

5.6 Procedures to control over endorsements/guarantees rendered by a subsidiary:

(1) Where a subsidiary of the Company intends to render endorsements/guarantees to others, that subsidiary should duly enact Regulations Governing Endorsement & Guarantee Operations in accordance with the laws and ordinances concerned and should duly implement endorsements/guarantees according to the Regulations.

(2) Where a subsidiary of the Company renders endorsements/guarantees to others, that subsidiary should submit the supporting documents to the Company to be approved by the Company's Board of Directors beforehand except a endorsements/guarantees case within the specified credit line limit which may be implemented through the subsidiary's chairman and be reported to the Company's latest board of directors meeting for retrospective acknowledgement..

(3) The Company's subsidiaries shall work out and submit to the Company the itemized statements of endorsements/guarantees rendered in the preceding month on a monthly basis to assure a sound control over endorsements/guarantees.

5.7 The Company's internal auditors shall, on a quarterly basis at least, audit the Endorsement & Guarantee Procedures and the implementation thereof, work out documented records. Whenever a major default is found, it should be reported to the Audit Committee in writing.

5.8 Full disclosure of information:

(1) The Company shall promulgate and declare the balances of endorsements/guarantees rendered by the Company and its subsidiaries in the preceding month on or before the 10<sup>th</sup> day of every



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month.

(2) The Company whose loans of funds reach one of the following levels shall announce and report such event within two days commencing immediately from the date of occurrence:

(2.1) Whenever the balances of endorsements/guarantees case rendered by the Company and its subsidiaries reach over 50% of the net worth shown through the Company's latest financial statements.

(2.2) Whenever the balances of endorsements/guarantees case rendered by the Company and its subsidiaries toward a single enterprise reach over 20% of the net worth shown through the Company's latest financial statements.

(2.3) Whenever the balances of endorsements/guarantees case rendered by the Company and its subsidiaries toward a single enterprise reach over NT\$10 million and the aggregate of the endorsements/guarantees, face value of investment with equity method and capital lent out reaches over 30% of the net worth shown through the Company's latest financial statements.

(2.4) Whenever the amount of endorsements/guarantees newly increased by the Company and its subsidiaries reaches over NT\$30 million and reaches over 5% of the net worth shown through the Company's latest financial statements.

(3) Where a subsidiary of the Company is not a public company of the Republic of China and where that subsidiary has any fact subject to promulgation, declaration required under 5.8(2)(2.4), the promulgation and declaration shall be conducted by the Company instead.

(4) The Company shall evaluate or record the contingent loss for endorsements/guarantees, and shall adequately disclose information on endorsements/guarantees in its financial reports and provide certified public accountants with relevant information for implementation of necessary audit



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procedures.

- 5.9 Penalty clauses: The Company's managerial officers and personnel in charge who violate these Regulations shall receive due penalty in accordance with the Company's Personnel Rules as the actual requirements may justify.
- 5.10 Supplementation of Laws and Ordinances Concerned: Any matters insufficiently provided for herein shall be subject to laws and ordinances concerned.
- 5.11 Enforcement and amendment:
- 5.11.1 These Regulations shall be put into enforcement after being resolved in the Board of Directors, reported to and agreed upon by the shareholders' meeting, and implemented on the public-listing date of the company's stocks. Where a director objects with record or written declaration, the Company should submit the objection to the shareholders' meeting for discussion. This same principle is equally applicable to an event of amendment.
- 5.11.2 After the Company duly sets up independent directors, in case of 5.11.1 which is submitted to the Board of Directors for discussion, the Company should take adequate consideration of the opinions of the independent directors. Their opinions, both pros and cons, and the reasons should be expressly entered into the minutes of the board of directors meeting.
- 5.11.3 Where the Company has set up the Audit Committee in accordance with the Articles of Incorporation, enactment or amendment of these Regulations shall be subject to consent by a minimum of one-second of all Audit Committee members and be submitted to the Board of Directors for final resolution. The stipulation in 5.11.2 is not applicable to this condition.
- 5.11.4 In the event that a case under 5.12.3 does not pass approval by over one-second of the total Audit Committee members, the case may be granted directly if it is resolved by a two-thirds majority vote in the Board of Directors. The minutes of the board of directors meeting should also expressly



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remark the decision resolved in the Audit Committee.

5.11.5 The terms total Audit Committee members under 5.11.3 and the aforementioned total directors shall refer to those actually serving during the tenure of office.

## 6. References:

6.1 Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies.

## 7. Forms concerned:

7.1 Memorandum (Ready-to-Check) Book.

7.2 Application Form of Endorsement and Guarantee.

## 8. Appendices:

8.1 Nil

Attachment :

1. Nil.

Important notes:

1. Nil.