

 直港科技服務有限公司 CHIEFTEK PRECISION CO.,LTD.	Document Name	<b>Procedures for Governing the Making of Endorsements and Guarantees</b>  <b>3-FI-2-K-001</b>	Version	4
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### Article 1 Purpose and the Legal Basis

To make a reference for making endorsements or guarantees for others, improving financial management and decreasing operational risk for the Company. We established the procedure in accordance with the regulations of the Company Act, Securities and Exchange Act and Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies issued by Securities and Futures Commission, Ministry of Finance specifically

### Article 2 Risk Analysis

- (1) Where the making of endorsements and guarantees is not passed at the meeting of the Board of Directors.
- (2) Where the counterparty or amount for the making of endorsements and guarantees is not property reviewed.
- (3) Where matters relating to the making of endorsements and guarantees are not recorded for reference and as a result unable to offset and cancel or terminate before the maturity of the guarantee period.
- (4) Corporate chops used for the making of endorsements and guarantees are not in the safekeeping of a designated personnel.

### Article 3 Applicability

The term “endorsements/guarantees as used in the procedure means the following items:

- (1) Financing endorsements/guarantees includes bill discount financing, endorsement or guarantee made to meet the financing needs of another company, and issuance of a separate negotiable instrument to a non-financial enterprise as security to meet the financing needs of the Company itself.
- (2) Customs duty endorsements/guarantees refer to endorsements or guarantee for the Company itself or another company relating to customs duty matters.

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(3) Other endorsements/guarantees refer to endorsements or guarantees beyond the scope of the preceding two subparagraphs.

Any creation of a pledge or mortgage on the Company's chattel or property as security for the loans of another company shall be likewise subject to the provisions of the Procedures.

**Article 4 Counterparties in respect of the Making of Endorsements and Guarantees**

Where the Company fulfills its contractual obligations by providing mutual 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, endorsements/guarantees shall be made for the following companies:

- (1) Other companies that the Company does business with.
- (2) The Company in which the public company directly and indirectly holds more than 50 percent of the voting shares.
- (3) Any company that directly or indirectly holds more than fifty percent of the Company's voting share.

The term "investment" used in the preceding paragraph refers to the Company's direct investment or investment through a company that has one hundred percent voting shares.

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's most current financial statement.

However, this restriction shall not apply to endorsements/guarantees made between companies in which the Company holds, directly or indirectly, 100% of the voting shares.

The terms "subsidiary" and "parent company" used in the Procedures refer to the definitions laid down in the Regulations Governing the Preparation of Financial Reports by Securities Issuers. The Company's financial statements are compiled in accordance with the International Financial Reporting Standards. Further, the term "net worth" used in the Procedures refers to equities attributable to the shareholders recognized in the balance sheets compiled in

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accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

The determination of the net worth of subsidiary's most current financial statement, means subsidiary's most current financial statement audited (reviewed) by the accountant, or the net worth of the subsidiary's most current consolidated financial report was audited (reviewed) by the accountant as reference.

#### **Article 5 Limits Permissible for the Making of Endorsements/Guarantees**

- (1) The ceilings on the amounts the Company is permitted to make in endorsements/guarantees is 50% of the net worth of the most current financial statement. The Company's amount of its endorsements/guarantees for any single entity is 20% of the net worth of the most current financial statement as restriction.
- (2) Where an inter-company or inter-firm business transaction calls for endorsements/guarantees with the Company, except the preceding regulations of amount limit, the amount of independent endorsements/guarantees shall not exceed the amount of business transaction of the last year between the two parties as restriction.  
The term "the amount of business transaction" means the higher amount of stock and sales between the two parties
- (3) Between the Company holds, directly and indirectly, 100% of any company's voting shares, the total amount of endorsements/guarantees shall not exceed 50% of the net worth of the most current financial statement of any industry which makes endorsements/guarantees for others as restriction. The amount of endorsements/guarantees for one single industry shall not exceed 20% of the net worth of the most current financial statement of any industry which makes endorsements/guarantees for others as restriction.

#### **Article 6 Determination and Level of Authorization**

- (1) When the Company and its subsidiary have to make guarantees or endorse bills for business requirements, it shall report to the Board of Directors for approval first; cooperating with aging, the Board of Directors shall authorize the chairman to conduct within one single amount of NT\$ 50,000,000 first in accordance with the regulations of the procedure, afterward report to the most current Board of Directors for approval.

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Where the Company has appointed independent directors, when it makes endorsements or endorses bills for business requirements, it shall take into full consideration each independent director's opinions; independent directors' opinions specifically expressing assent or dissent and their reasons for dissent shall be included in the minutes of the board of directors' meeting.

Where the Company has established an audit committee, when it makes endorsements or endorses bills for business requirements, it shall require the approval of one-half or more of all audit committee members, and furthermore shall be submitted for a resolution by the board of directors, and the provisions of paragraph 2 shall not apply.

If the approval of one-half or more of all audit committee members as required in the preceding paragraph is not obtained, the Operational Procedures may be implemented if approved by two-thirds or more of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting. The terms "all audit committee members" and "all directors" in the preceding paragraph shall be counted as the actual number of persons currently holding those positions.

- (2) The Company holds, directly or indirectly, 90% or more of the voting shares of the subsidiary in accordance with the regulations of paragraph 2 of Article 4, before making endorsements/guarantees, it shall be reported to the Company's board of directors for resolution, and therefore start to conduct. However, it shall not apply to endorsements/guarantees when the Company holds, directly or indirectly, 100% or more of the voting shares of any company.
- (3) Where the Company needs to exceed the limits set out in the procedure for Endorsements/Guarantees to satisfy its business requirements, and where the conditions set out in the procedure for Endorsements/Guarantees 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 the procedure for Endorsements/Guarantees 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. Where the Company has appointed independent directors, when it makes

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endorsements/guarantees for others, it shall take into full consideration the opinions of each independent director; independent directors' opinions specifically expressing assent or dissent and the reasons for dissent shall be included in the minutes of the board of directors' meeting.

- (4) Where the Company's subsidiary intends to make endorsements/guarantees for others, the Company shall report to the parent company's board of directors for resolution in accordance with these Regulations.

## **Article 7 Operating Procedures**

- (1) When the endorsed/guaranteed industry has to use the amount of endorsement/guarantee within the amount limit, except the Company holds, directly and indirectly 100% of voting shares of the subsidiary, it shall provide basic information and financial information, and fill in the application form to submit for application for the Company's financial department. The financial department shall evaluate in detail, and make credit investigation. The evaluation items include: its necessary and rationality, the credit investigation and risk assessment of the endorsed/guaranteed object, operational risk, financial condition and the influence of shareholders' equity of the Company, and it shall assess to obtain the collateral and the collateral's value. Furthermore, the net worth of the endorsed/guaranteed object is lower than one second of paid-in capital of the subsidiary, the subsidiary shall provide the improvement program, and report to the board of directors. The board of directors shall make a resolution for continuing to make endorsements/guarantees or not.
- (2) "The Making of Endorsements/Guarantee Reference Book" created by the Finance Department shall document the companies the endorsements/guarantees made for, amount thereof, the date of passage at the Board of Directors or approval obtained from the Managing Director, as well as matters that require careful considerations laid down in the preceding subparagraph, for reference and inspection.
- (3) When related certificates or bills of endorsement/guarantee renews and remove for paying off debts or extending the period, the related certificates of endorsement/guarantee shall be stamped "write-off", and therefore kept as reference.
- (4) The Finance Department shall assess and recognize contingent losses incurred in the making of endorsements/guarantees. And further disclose

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suitable information relating to the making of endorsements/guarantees in the financial statements and provide relevant information to the attesting CPA. Henceforth, the attesting CPA is enabled to proceed with necessary audit process and present a fair audit report thereto.

- (5) 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 first clause, the sum of the share capital plus paid-in capital in excess of par shall be substituted.
- (6) The responsible personnel shall make a balance statement of endorsements/guarantees of the last month before the fifth day of every month.

#### **Article 8 The Safekeeping of Company Chop and Relevant Procedures**

The Company shall use the corporate 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 approved by the board of directors; when making endorsements/guarantees, may be used to seal or issue negotiable instruments only in prescribed procedures; when making a guarantee for an overseas company, the Company shall have the Guarantee Agreement signed by a person authorized by the board of directors.

#### **Article 9 Important Issues Relating to the Making of Endorsements/Guarantees**

- (1) The Company's internal auditors shall audit the Operational Procedures for Endorsements/Guarantees for Others and the implementation thereof no less frequently than quarterly and prepare written records accordingly. They shall promptly notify all independent directors in writing of any material violation found.
- (2) Where as a result of changes of condition the entity for which an endorsement/guarantee is made no longer meets the requirements of these Regulations, or the amount of endorsement/guarantee exceeds the limit, a public company shall adopt rectification plans and submit the rectification plans to all independent directors and the audit committee, and report to board of directors, and shall complete the rectification according to the timeframe set out in the plan.

#### **Article 10 Time Limit and Content Required for the Public Announcements**

- (1) The Company shall upload the previous month's endorsements/guarantees relevant information of its head office and subsidiaries to the Market

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Observation Post System (MOPS) in accordance with the regulations before the 10th day of each month.

- (2) The Company whose endorsements/guarantees balances reach one of the following levels shall announce and report such event to the Market Observation Post System (MOPS) within two days commencing immediately from the date of occurrence:
- (i) The endorsements/guarantees balances of the Company and its subsidiary reaches 50 percent or more of the Company's net worth as stated in its latest financial statement.
  - (ii) The endorsement/guarantee balance of the Company and its subsidiary for one single industry reaches 20 percent or more of the Company's net worth as stated in its latest financial statement.
  - (iii) The balance of endorsements/guarantees for a single enterprise reaches NT\$10 million or more and the aggregate amount of all endorsements/guarantees for, carrying value of equity method investment in, and balance of loans to, such enterprise reaches 30 percent or more of the Company's net worth as stated in its latest financial statement, or after announcing and reporting in accordance with the regulations of the procedure, the balance increases every 5 percent or more of the Company's net worth as stated in its latest financial statement.
  - (iv) The amount of new endorsements/guarantees made by the Company or its subsidiaries reaches NT\$30 million or more, and reaches 5 percent or more of the Company's net worth as stated in its latest financial statement.
- (3) The public 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 subparagraph 4, clause 2 of the article.
- (4) "Date of occurrence" in the procedure means the date of contract signing, date of payment, dates of boards of directors resolutions, or other date that can confirm the counter party and monetary amount of the loan of funds or endorsement/guarantee, whichever date is earlier.

**Article 11 Control Mechanisms for the Making of Endorsements/Guarantees by the Subsidiaries**

- (1) Where a subsidiary of the Company intends to make endorsements/guarantees for others, the Company shall instruct it to

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formulate its own Operational Procedures for Endorsements/Guarantees in compliance with these Regulations, and it shall comply with the Procedures when making endorsements/guarantees; however, the net worth shall be calculated by the net worth as stated in the latest financial statement of the industry which makes endorsements/guarantees for others as standard.

- (2) The subsidiary shall make "the balance statement of endorsements/guarantees" of the previous month by the 5th day of each month, and report to the Company.
- (3) The Company's internal auditors shall audit the Operational Procedures for Endorsements/Guarantees of the subsidiary in accordance with the annual audit program, and comprehend the implementation of Procedures for Endorsements/Guarantees for others. When the deficient matters were found, the Company shall continue to follow up the implementation of improvement and make a follow-up report for reporting to the chairman; they shall promptly notify all the independent directors in writing of any material violation of endorsement/guarantee found.

**Article 12 Penalty for violation of these Regulations or the company's Operational Procedures for Endorsements/Guarantees by managers and personnel in charge**

When the Company's managers and personnel in charge violate the operational procedure, it shall be reported for appraisal in accordance with the Company's personnel management measures and work rules, and punished in accordance with the seriousness of the case; the Company shall send the relevant rectification plans to all the independent directors in accordance with Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies , and report to audit committee and board of directors, and shall complete the rectification according to the time frame set out in the plan.

**Article 13 Procedures for Implementation**

After the procedure was approved by the board of directors, shall be reported to shareholders' meeting for approval. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinions to each independent director and for discussion by the shareholders' meeting. The same shall apply to any amendments to the Procedures.



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The Operational Procedures for endorsements/guarantees according to the preceding regulation for discussion by the board of directors under the preceding paragraph, the board of directors shall take into full consideration each independent director's opinion. If an independent director expresses any dissent or reservation, it shall be noted in the minutes of the board of directors meeting.

Where the Company has established an audit committee, when it adopts or amends its Operational Procedures for endorsements/guarantees, the procedures or amended procedures shall require the approval of one-half or more of all audit committee members, and furthermore shall be submitted for a resolution by the board of directors, and the provisions of paragraph 2 shall not apply.

If the approval of one-half or more of all audit committee members as required in the preceding paragraph is not obtained, the Operational Procedures may be implemented if approved by two-thirds or more of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting. The terms "all audit committee members" and "all directors" in the preceding paragraph shall be counted as the actual number of persons currently holding those positions.