

# TECO Electric & Machinery Co., Ltd.

## Procedures for Lending of Capital to Other Parties

(Summary Translation) This English version is a translation of the Chinese version. If there is any inconsistency or discrepancy between the Chinese and English versions, the Chinese version shall prevail for all intents and purposes.

### Article 1

These Procedures are promulgated pursuant to the “Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies”.

### Article 2

Recipients of the Company’s loaning funds:

- A. The Company’s affiliates with short accommodations needs listed below:
  - 1. Subsidiaries in which the Company directly owns more than 50% of its common shares;
  - 2. Companies in which the Company and its subsidiaries together own more than 50% of its common shares;
  - 3. Parent company owning more than 50% of the company’s common shares, either directly or indirectly via its subsidiaries.
- B. Companies with business dealings with the Company.
- C. Supporting factories founded by the Company’s employees.
- D. Other companies approved by the Board of Directors.

### Article 3

Reasons and necessity for loaning funds to others:

- A. Loan funds to affiliates and companies with business dealings, according to the regulation of Article 5 Item A.
- B. Loan funds to supporting factories founded by the company’s employees, according to the regulation of Article 5 Item B.
- C. Loan funds to other companies approved by the Board of Directors, according to the regulation of Article 5 Item A.

### Article 4

Limits on lending of capital to others:

- A. Total amount of loans shall not exceed 10% of the company’s book value in the most recent financial statement.
- B. Loan limits by the company to a single enterprise are listed below:
  - 1. Conforming to Items A, B, and D of Article 2:  
Cumulative amount of loans to a single enterprise shall not exceed 3% of the company’s book value as stated in the most recent financial statement.

2. Conforming to Item C of Article 2:

“Measures for assisting supporting factories founded by the company’s veteran quality employees” shall be implemented.

Overseas subsidiaries, in which the company directly or indirectly holds 100% of its voting shares, are free from the restrictions of Item A and Item B - 1, [however it is still necessary to set the quota for lending of capital and the deadline according to article 5, Item C \(3\)](#).

## **Article 5**

Proceeding for loaning funds to others is listed below: A.

Conforming to Items A, B, and D of Article 2:

Loan application shall be drafted on the “Application Form for Loans and Related Affairs of Teco Electric and Machinery Co., Ltd.” (appendix 1) by the financial unit, and ratified by the Chairman before being submitted to the Board of Directors for approval.

B. Conforming to Item C of Article 2:

Loans shall be conducted according to the “Measures for assisting supporting factories founded by the company’s veteran quality employees” approved by the Board of Directors. C.Regulation for loans:

1. Application procedure:

- (1) Borrowers must fill in the application form, stamp it with corporate seals, and provide all necessary company and financial information, before applying with the Company’s financial unit.
- (2) For companies with business dealings with the Company, the Company’s financial unit should evaluate the propriety of the amount of loans relative to the scale of business dealings. For short-term financing needs, reasons and situation for the loans shall be specified, as well as credit investigation and the effect of the loan on operating risks, financial status, and shareholders’ interest, before submitting all relevant data and formulated conditions to the Chief of the financial unit and the Chairman for ratification; then to the Board of Directors for approval.
- (3) In case that the company has instituted independent directors, the opinions of independent directors should be taken into account in loaning of funds to others; their agreement / opposition and reasoning shall be included in the record of the Board of Directors.

2. Mortgage and guarantee:

- (1) Borrowers conforming to Items A, B, and D of Article 2 shall provide promissory notes bearing similar value, or chattel, or real estates for mortgage. The company will accept guarantee of individuals or companies in lieu of the aforementioned collateral for debt claims, at the discretion of the Board of Directors, based on the aforementioned credit investigation. In the case of corporate guarantor, attention should be made about whether the guarantee is allowed by its corporate charter.
  - (2) Loans to borrowers conforming to Item C of Article 2 shall be made according to the regulation of “measures for assisting supporting factories founded by quality veteran employees” approved by the Board of Directors.
3. Terms of loaning funds:
  - (1) Loans to parties conforming to Items A and D of Article 2 shall bear terms under one year or one business cycle, whichever longer, in principle.
  - (2) Loans to parties conforming to Item B of Article 2 shall bear terms of one year in principle.
  - (3) Loans to parties conforming to Item C of Article 2 shall be set according to the “measures for assisting supporting factories founded by quality veteran employees” approved by the board of directors. Each lending shall bear terms under one **year**.
4. Interest rates:
  - (1) For borrowers conforming to Items A, B, and D of Article 2, interest rate for loans shall not be lower than the maximum interest rates on short-term loans borrowed by the company from financial institutions and are subject to flexible monthly adjustment. Interest payment shall be made once a month in principle but can be adjusted under special situation with the Board of Directors’ approval.
  - (2) Interest rates on loans to parties conforming to item C of Article 2 shall be set according to “measures for assisting supporting factories founded by the company’s quality veteran employees” approved by the Board of Directors.
5. Repayment methods:
  - (1) Borrowers conforming to items A, B, and D of Article 2 shall pay off principal and interest upon maturity of the loans and, should they be unable to do so, present request for extension by the

approval of the Board of Directors 30 business days before the maturity date. The extension can be made only once and shall not exceed three months or the company will take action against its collateral or guarantor in an effort to collect the debt.

(2) Repayment by borrowers conforming to Item 3 of Article 2 shall be made according to the regulation of “measures for assisting supporting factories founded by quality veteran employees” approved by the Board of Directors.

6. Borrowers shall pay off their principals and interests upon or before maturity of their loans before they can retrieve their collateral or erase the mortgage.
7. Financial and legal units shall keep a close watch on the financial status, repayment ability and credit standing, repayment sources, and changes in the value of collateral of borrowers and guarantors. In case of major changes, they shall report to the chairman immediately and implement proper counter-measures according to instruction.

## **Article 6**

Evaluation standards for lending of capital:

- A. Prudent evaluations shall be made before lending of capital to other parties to ensure compliance with its own Operating Procedures and the evaluation result shall be submitted to the Board of Directors for resolution, without commissioning others to make decision.
- B. The financial unit shall record details of lending of capital in separate accounts, including name of the borrowing company, amount of loans, date of resolution by the Board of Directors, date of lending, expected date of collection, outstanding loans at end of each month, and the status and evaluation result of guarantee.
- C. Loan extension between the company and subsidiaries or between subsidiaries needs to be approved by the board of directors, according to the previous two items, the board of directors can also authorize the chairman to extend loans to a same recipient in several batches or in a revolving manner under the set quota within one year.
- D. In addition to the regulation of article 4, authorized quota for loans extended by subsidiaries to a single enterprise cannot exceed 10% of their book values in the latest financial statement.
- E. The company's internal auditors shall check the Operating Procedures for Lending of Capital to Other Parties, as well as its execution, at least every

quarter, and record the finding, in addition to informing supervisors in written form the discovery of major violations.

- F. In case borrowing parties are not allowed by the regulation or outstanding amount of loaned funds exceeds the limit due to unexpected change, the auditing unit shall administer the financial unit to collect the loans by a deadline and submit an improvement plan to the Supervisors, in addition to completing the plan on schedule.
- G. Case officers shall compile reports on details of the previous month's loan balances by the 10<sup>th</sup> day of each month and submit for review.

## **Article 7**

### Information Publication

- A. The Company shall post the outstanding amount of loans and that of its subsidiaries on the Market Observation Post System by the 10<sup>th</sup> day of each month.
- B. The Company and its subsidiaries shall post the lending information on the Market Observation Post System in two days whenever it reaches the following standards, [the date of actual occurrence specified by the rule refers to the earliest date of the signing of transaction contract, payment, the resolution of the board of directors, or other dates ascertain transaction object and transaction value](#):
  - 1. The outstanding amount of loans to others exceeds 20% of the Company's book value in its most recent financial statement.
  - 2. The outstanding amount of loans to a single enterprise exceeds 10% of the Company's book value in its most recent financial statement.
  - 3. New application for loans by the Company or subsidiaries exceeding NT\$10 million and 2% of the Company's book value in its most recent financial statement.
- C. The company shall undertake the aforementioned posting of information for its subsidiaries which are not domestic companies with public offering if the subsidiaries reach the standards of Item B No. 3.
- D. The company shall evaluate and make proper bad-debt **provision**, as well as properly disclose relevant information in financial report and provides relevant information to certified public accountants for necessary inspection.

## **Article 8**

Managers and employees responsible for handling the procedures will receive penalties if procedures or related matters are violated, according to the employee working rules.

## **Article 9**

Control procedure for lending of capital by subsidiaries to others:

- A. The company's subsidiaries shall also formulate their "guideline for lending of capital to others" to regulate their loan procedures. Calculation shall be based on their own book values.
- B. Subsidiaries shall compile report on details of the previous month's loan balances by the 10<sup>th</sup> (exclusive) day of each month and submit to the Company for review.
- C. The subsidiaries' internal auditors shall check the operating procedures for lending of capital to others, as well as its execution, at least every quarter and record the finding, in addition to informing the Company's auditing unit, in written form, the discovery of major violations. The Company's auditing unit shall also pass the written information to Supervisors.
- D. When undertaking auditing works at subsidiaries according to yearly auditing plan, the Company's auditors shall understand their execution on loan procedures and carry out reviews of improvement on mistakes or irregularities, in addition to producing improvements reports and submit to the Chairman for review.

## **Article 10**

The Procedures will be put into practice after the approval by the Board of Directors, submission to supervisors, and ratification by the Shareholders' Meeting. If the Board Director(s) express contrary opinions on record or in the form of written statement, the Company shall pass their opinions to supervisors and Shareholders' Meeting for discussion. The same process also applies to revision of the Procedures. If the Company has instituted independent directors, the Board of Directors should take the opinions of independent directors into account when discussing the Operating Procedures and include their opinions and reasons for support or opposition in the record of the Board of Directors.

## **Article 11**

These Procedures were formulated on Feb. 2, 1988.

The first amendment was implemented on Oct. 29, 1992.

The second amendment was implemented on Dec. 21, 1994.

The third amendment was implemented on April 9, 2002.

The fourth amendment was implemented on June 6, 2003.

The fifth amendment shall be implemented on June 19, 2009.

The sixth amendment shall be implemented on June 18, 2010.

[The seventh amendment shall be implemented on June 21, 2013.](#)