

TECO ELECTRIC & MACHINERY CO., LTD.

Supplier/Vendor Management Policy

(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.

1. Categorization of Supplier/Vendor

Suppliers/vendors should be fully responsible to guarantee the quality of design and product quality assurances for the goods (or services) ordered by the Company, according to the "Third party supplier/Vendor Management Procedures" categorization of suppliers/vendors as below; For example:

1.1 Based on the type of raw materials.

1.2 Materials that are transacted by product (parts) verification mode, e.g., OEM products, insulating material, electronics, active and passive components of appliances, motor parts, special screws, nameplate and printed items.

Suppliers are again divided by whether the subject of the transaction has direct influence on a product's compliance with RoHS provisions and service quality in two types, namely,

Type 1: Those with direct influence on product's compliance with RoHS provisions and service quality.

Type 2: Those without direct influence on product's compliance with RoHS provisions and service quality.

2. Evaluation of supplier/vendor qualification

A qualified vendor should be carefully chosen by following the "Third Party Supplier/Vendor Evaluation Implementation Procedures" prior to a transaction, ensuring that it meets the quality/environmental/safety and health requirements and the products meet green management and control standards. Also, a supplier/vendor should be regularly audited after the initial transaction to monitor variations of its standards. According to the "Third Party Supplier/Vendor Evaluation Implementation Procedures":

2.1 Any provider of products or services delivered to the Company should be assessed by these procedures except a foreign supplier, items sold on shelves, and a suppliers/vendors with excellent quality control, or a special case, that should be listed as qualified with approval by a business division director or the CEO.

2.2. A new vendor shall first be requested by the responsible and account handler at the purchasing department to fill out the supplier/vendor survey form and this account handler should keep track of the dynamic status of

the suppliers/vendors and should review and modify the supplier/vendor data in case it undergoes any changes. The information should be revised every three years in principle.

2.3 The assessment of a new supplier/vendor should be conducted after the supplier/vendor survey. The assessment of a new supplier is conducted by an assessment committee comprising persons from relevant departments like R&D, Quality Control, the factory team and Finance, who shall be assembled by the purchasing department of each division as the committee for assessment of operations. The convener of the assessment committee shall be chosen and approved by the director of the Corporate Purchasing Division or the chief of purchasing team at each plant according to the purchasing unit for each relevant item of purchase.

2.4 After the assessment, the assessment committee shall send the assessment data and the summary of the assessment to the convener. The convener shall submit a summary report for approval; when necessary, he may also call a meeting of the committee to assess the results.

3. Management of supplier transaction

When a transaction has been concluded, the Company and the supplier/vendor should execute a "Basic agreement for supplier/vendor transactions (raw materials)" based on the principles of mutual respect and good faith. The execution of the basic transaction agreement is a task for the purchasing department supervisor and can be exercised flexibly as necessary. The term of the "Basic agreement for supplier/vendor transactions(raw materials)" shall be set at one year; but, the Basic agreement is subject to auto renewal and shall remain in force under the same terms and conditions unless the factory/ unit or the supplier/vendor alters or terminates the agreement in writing by two months' notice prior to the expiration of the current term; the same applies to the next year's term extension. The maximum number of contract term extensions shall not exceed two.

4. Supplier evaluation and rewards

The "Third Party Supplier/Vendor Assessment and Incentives Program" are set out as the basis for management by the executive departments to encourage the supplier/vendor to improve on quality, delivery and costs, so as to enhance its operational performance and competitive ability, as well as to serve as the basis for the Company to evaluate and/or replace the supplier/vendor.

The "Third Party Supplier/Vendor Assessment and Incentives Program" works as

follows:

4.1. Monthly evaluation:

4.1.1 The monthly quality scores are the result of the sum of in-coming flaw rates, accuracy in inspection on delivery, coordination on preventive quality management and tidiness, recorded by the incoming inspection department and handed to the Quality Control department for calculation to derive the line flaw rate scores, which, when added up, shall be confirmed by the Quality Control manager, with an announcement of the quality evaluation results and highlighted quality items for the attention of the supplier/vendor.

4.1.2 The purchasing unit gives scores on delivery and coordination every month. These scores are combined with the quality scores into a “Monthly Supplier/Vendor Comprehensive Evaluation Report”, which shall be approved and published by the factory director, with a notice of request for improvements to be issued.

4.2. Vendors who are evaluated and obtain good grades are entitled to the following rewards:

4.2.1 The Company’s sponsored trainings and seminars.

4.2.2 Those elected the Company’s good vendors have priority to obtain business opportunities.

4.2.3 The Company also gives other rewards to those who promote price rationalization, and propose improvement of systems, quality systems and the factory production department and obtain significant results.

4.3. Penalties

4.3.1 Any damage caused by poor quality and delayed delivery attributable to a vendor should be compensated by such vendor (methods of compensation are set out elsewhere).

4.3.2 Ratings are given for A, B, C and D grades according to the evaluation results. This is adjusted flexibly as necessary, by the factory, and published.

4.3.3 Any vendor with a grade of C or below in the monthly evaluation results for 3 consecutive months should be subjected to TECO’s measures such as reduced trading volume, audits, counseling for improvement and other measures.

4.3.4 Any vendor with a D grade in the monthly evaluation results for 3 consecutive months who fails to improve within the time frame given by the Company may be stopped from further trading with the Company.