

HTC Corporation  
Rules for Endorsements and Guarantees

Article 1 Purpose and basis

These Rules are adopted pursuant to the Regulations Governing Lending of Funds and Making of Endorsements and Guarantees by Public Companies issued by the Securities and Futures Bureau under the Financial Supervisory Commission, to protect the rights and interests of shareholders, ensure sound financial management, and minimize operational risk.

Article 2 Applicable scope:

Endorsements and guarantees referred to in these rules include:

1. Financing endorsements and guarantees: i.e. bill discounting; any endorsement or guarantee made to meet financing needs of another company; and issuance of any separate negotiable instrument to a non-financial enterprise as security to meet financing needs of the Company itself.
2. Customs duty endorsements and guarantees: i.e. any endorsement or guarantee made for the Company itself or another company with respect to customs duty matters.
3. Other endorsements and guarantees: i.e. any endorsement or guarantee beyond the scope of the above two subparagraphs.

The creation of a pledge or a mortgage over any personal or real property provided by the Company as security for any borrowing by another company shall also be subject to these Rules.

Article 3 Recipients of endorsements and guarantees

The Company may make endorsements and guarantees for the following companies:

1. A company with which the Company has business relations.
2. A company in which the Company directly and/or indirectly holds more than 50 percent of the voting shares.
3. A company that directly and/or indirectly holds more than 50 percent of the voting shares in the Company.

Endorsements and guarantees may be made between companies in which the Company directly and/or indirectly holds 90 percent or more of the voting shares. The amount thereof may not exceed



10 percent of the Company's net worth, provided that this restriction shall not apply to endorsements and guarantees between companies in which the Company directly and/or indirectly holds 100 percent of the voting shares. This paragraph shall not apply if any restriction to the contrary is imposed by the law of the place where an overseas company in which the Company directly and/or indirectly holds 90 or more percent of the voting shares is located.

In cases of a mutual endorsement/guarantee made between enterprises in the same industry or between joint builders in accordance with contract stipulations as required for purposes of undertaking a construction contract, or in cases of a joint investment relationship where the entire body of contributing shareholders make an endorsements/guarantees for their jointly invested company in proportion to their shareholding percentages, such endorsement/guarantee may be made, and the restrictions of the preceding 2 paragraphs shall not apply.

The term "contributing" in the preceding paragraph refers to contributions made by the Company directly or contributions made by it through a subsidiary or subsidiaries in which it holds 100 percent of the voting shares.

#### Article 4 Limits on Endorsements and Guarantees:

The limits on the total amount of endorsements and guarantees made by the Company itself, or by the Company and its subsidiaries as a whole, and the amount of endorsements and guarantees made by the Company itself or by the Company and its subsidiaries as a whole for any single enterprise, are as follows:

1. The cumulative total amount of external endorsements and guarantees may not reach 50 percent of the Company's net worth as stated in the Company's latest financial statements audited and certified or reviewed by a certified public accountant (CPA).
2. The total amount of endorsements and guarantees for any single enterprise may not exceed 20 percent of the Company's net worth as stated in the Company's latest financial statements audited and certified or reviewed by a CPA.
3. The total amount of endorsements and guarantees made for a company with which the Company has business relations may not exceed the amount of the business transacted between the two parties. The "amount of the business transacted between the two parties" means the operating revenue and service revenue for goods sold or services provided, or the amount spent on purchases of goods and expenditures for services, whichever is higher, in the course of regular business activities between the two companies.

#### Article 5 Handling procedures



An application for an endorsement or guarantee shall be submitted to the finance unit of the Company, specifying the company in whose favor the endorsement or guarantee is made, and the recipient, type, reason, and amount of the endorsement or guarantee. After the application has passed review, it shall be submitted to the board of directors for final approval and handled in accordance with the board of directors resolution.

If the party in whose favor an endorsement or guarantee is made by the Company or its subsidiary is a subsidiary whose net worth is lower than half of its paid-in capital, the applicant shall also specify the measures and plans for risk management and control related to such endorsement or guarantee, for review by the Company's finance unit under Article 6 of these Rules, and the Company's finance unit shall regularly track and monitor the implementation of the measures and plans for risk management and control.

#### Article 6 Review procedures

When handling endorsements and guarantees, the financial unit shall, upon the application of the unit responsible for the endorsement or guarantee, establish credit and risk assessment data and perform an item-by-item review of whether the qualifications and amount meet the requirements of these Rules, and shall assess the necessity and reasonableness of the endorsement or guarantee, and its impact on the Company's operational risk, financial condition, and shareholders equity, as well as whether collateral shall be obtained and the assessed value of the collateral, with an assessment record. Collateral shall be obtained when necessary.

#### Article 7 Establishing a log book

The financial unit shall establish a log book for endorsement and guarantee matters, and shall record in detail for future reference for endorsement or guarantee the recipient, amount, date of passage by the board of directors or decision by the chairman of the board of directors as authorized, date of the endorsement or guarantee, and the abovementioned assessment data.

#### Article 8 Procedures for use and custody of seals

The Company's relevant negotiable instruments and corporate seals shall be kept separately under the custody of specifically designated persons, and the Company's rules of procedure shall be complied with before seals may be used or a negotiable instrument signed and issued. The persons designated as custodians, and any change therein, shall be reported to the board of directors for



approval. The dedicated seals for purposes of endorsements and guarantees are the corporate seals registered with the Ministry of Economic Affairs.

When making a guarantee for a foreign company, the letter of guarantee issued by the Company may be signed by the chairman of the board or the president upon authorization by the board of directors

#### Article 9 Decision making and hierarchy of authority

1. The Company shall first obtain a resolution passed by the board of directors before it may handle any matter of an endorsement or guarantee.
2. The board of directors may authorize the chairman of the board to initially approve endorsements or guarantees within a certain dollar amount at the chairman's discretion, and subsequently report to the board of directors for retroactive recognition; the circumstances of the handling of such cases shall also be reported to the shareholders meeting for recordation.

The opinions of each independent director shall be given full consideration in matters of endorsements or guarantees by the Company, and each independent director's explicit assenting or dissenting opinion and reasons for dissent shall be recorded in the board of directors meeting minutes.

#### Article 10 Procedures for exceeding limits

If the Company needs to exceed the limits set out in these Rules to meet business needs, it shall first obtain the approval of the board of directors and half or more of the directors shall sign as joint guarantors for any loss that may be caused to the Company, and shall amend these Rules and submit them to the shareholders meeting for retroactive approval. If the shareholders meeting does not give approval, a plan shall be adopted to eliminate the excess portion within a certain period of time.

If the Company has appointed an independent director(s), the opinions of each independent director shall be given full consideration in the discussion of the board of directors referred to in the preceding paragraph, and each independent director's explicit assenting or dissenting opinion and reasons for dissent shall be recorded in the board of directors meeting minutes.

#### Article 11 Handling of changes in circumstances

When as a result of a change in circumstances the recipient of an endorsement or guarantee no longer meets the requirements of these Rules, or the amount of the endorsement or guarantee



exceeds the limit, the Company shall adopt a corrective plan and submit the corrective plan to all the supervisors, and shall complete the corrections in compliance with the plan schedule.

#### Article 12 Information disclosure

1. The Company shall announce and report the previous month's balance of endorsements and guarantees made by itself and its subsidiaries by the 10th day of each month.
2. If the Company's endorsements and guarantees reach one of the following levels, the Company shall announce and report such fact within two days from its occurrence:
  - (1) The balance of endorsements and guarantees by the Company and the Company's subsidiaries reaches 50 percent or more of the Company's net worth as stated in its latest financial statement.
  - (2) The balance of endorsements and guarantees by the Company and the Company's subsidiaries for a single enterprise reaches 20 percent or more of the Company's net worth as stated in its latest financial statement.
  - (3) The balance of endorsements and guarantees by the Company and the Company's subsidiaries for a single enterprise reaches NT\$10 million or more and moreover the aggregate amount of all endorsements and guarantees for, long-term 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.
  - (4) The amount of new endorsements and guarantees by the Company or any of the Company's subsidiaries reaches NT\$30 million or more and also reaches 5 percent or more of the Company's net worth as stated in its latest financial statement.

The Company shall announce and report on behalf of any of its subsidiaries that is not a domestic public company any matters that such subsidiary is required to announce and report under subparagraph 4 of the preceding paragraph.

3. The Company shall evaluate or recognize contingent losses for endorsements and guarantees according to the Statement of Financial Accounting Standards No. 9, and shall adequately disclose relevant information in its financial reports and provide the certifying CPAs with relevant materials for the performance of necessary audit procedures.

#### Article 13 Procedures for Controlling Endorsements and Guarantees Made by Subsidiaries

1. If a subsidiary of the Company intends to provide endorsements or guarantees for others, the Company shall order that subsidiary to adopt rules for endorsements and guarantees pursuant to



the Regulations Governing Lending of Funds and Making of Endorsements and Guarantees by Public Companies issued by the Securities and Futures Bureau under the Financial Supervisory Commission, Executive Yuan, and any making of endorsements or guarantees shall be done in compliance with those rules.

2. When making any endorsement or guarantee, a subsidiary shall provide relevant materials to the Company, and shall give consideration to the opinions of the related personnel in the Company before proceeding with the endorsement or guarantee procedures.
3. The subsidiary shall each month submit a statement to the Company itemizing relevant information for the preceding month, to facilitate control by the Company.
4. The subsidiary shall self-inspect whether the rules adopted comply with applicable regulations and whether its endorsement and guarantee transactions are handled in accordance with the rules adopted.
5. A subsidiary in which the Company directly and/or indirectly holds 90 percent or more of the voting shares shall report to the board of directors meeting of the Company for a resolution before making any endorsement or guarantee, provided that this restriction shall not apply to endorsements or guarantees made between companies in which the Company directly and/or indirectly holds 100 percent of the voting shares.

#### Article 14 Auditing

The internal audit personnel of the Company shall handle the following matters. If any material violation is found, it shall immediately be reported in writing to all of the supervisors:

1. At least quarterly, audit the Company's operational procedures for endorsements and guarantees and the status of implementation thereof, and prepare a written record.
2. Review the self-inspection reports of subsidiaries.

#### Article 15 Penalties

When a managerial officer or in-charge personnel of the Company violate the Regulations Governing Lending of Funds and Making of Endorsements and Guarantees by Public Companies issued by the Securities and Futures Bureau under the Financial Supervisory Commission, Executive Yuan or these Rules, the auditors or the supervisory personnel with authority thereover shall immediately report the circumstances of the violation to the president or the board of directors. The president or the board of directors shall, depending on the materiality of the circumstances, impose appropriate penalties on the personnel involved.

#### Article 16 Amendments to these Rules



After passage by the Board of Directors, these Rules shall be sent to all supervisors and submitted to the shareholders meeting for approval. If any director expresses an objection and there is a record or written statement of the objection, the Company shall forward the director's objection to all supervisors and submit it to the shareholders meeting for discussion. The same procedures shall apply to any amendments to these Rules.

If the Company has appointed an independent director(s), the opinions of each independent director shall be given full consideration when the matter is submitted for discussion by the board of directors, and each independent director's explicit assenting or dissenting opinion and reasons for dissent shall be recorded in the board of directors meeting minutes. The aforesaid Rules shall also be complied with when providing endorsements and guarantees to others.