

# **Chlitina Holding Limited**

## **Procedure for Lending to Others**

## I. Objectives

In order to meet operating demands and to comply with the applicable requirements of the laws and regulations so that there is something to be followed in the lending of funds to others by the Company, this Procedure is prepared in accordance with the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” released by the Securities and Futures Bureau under the Financial Supervisory Commission of the Republic of China. For matters not covered herein, applicable requirements of the laws and regulations of the Republic of China and those promulgated by the competent authority shall also be followed.

## II. Scope

When lending funds to others, the Company shall follow the requirements herein with regards to the procedure for lending to others.

## III. Responsible parties

Related sales representatives at financial and accounting units and related responsible supervisors.

## IV. Operation details

### (I) Counterparty of funds lending:

1. Company or trade name that currently does business with the Company. By “do business with” as mentioned above, it refers to one that purchases from or sells to the Company.
2. Company or tradename with the necessity for short-term financing. “Short-term” in the preceding paragraph is a year. When a business cycle of a company is longer than a year, the business cycle shall govern.

Lending to meet the demand for short-term financing is limited to the following:

- (1) Companies or affiliates that the Company hold directly or indirectly more than 50% of their shares require short-term financing in order to meet their operational needs.
- (2) There is the necessity for short-term financing due to purchase of materials or as the operating fund between companies or trade names.
3. Lending of funds may take place between the Company and its subsidiaries where it holds directly or indirectly at least 50% of their shares with voting rights.
4. Lending of funds may take place between the Company and its subsidiaries where it holds directly or indirectly 100% of their shares with voting rights.
5. The lending of funds between subsidiaries where the Company holds directly or indirectly 100% of their shares with voting rights or lending of funds between the Company and its subsidiaries where it holds directly or indirectly 100% of their shares with voting rights and is not limited to 40% of the net worth of the lending enterprise.
6. When the person in charge of the Company violates applicable requirements regarding

the counterparty of funds lending, the liabilities involved shall be based on the applicable requirements of the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies”.

(II) Evaluation criteria for lending of funds to others

1. For lending of funds due to a business relationship, whether the value involved in the lending is comparable to the current value of business between the parties shall be evaluated according to Article (3).
2. When short-term financing is necessary, the requirements in Article (3) with regards to the cause and condition involved in the lending of funds shall be followed.
3. The processing unit shall perform the review procedure as required in Article (6) and pay attention to whether the evaluation criteria in the foregoing have been fulfilled or not.

(III) Total value involved in the lending of funds and limits for respective counterparties

1. When funds are lent to a company or trade name with current business with the Company, the combined value may not exceed 20% of the net worth of the Company and the value of each entry may not exceed the business value over the most recent year between the parties. The so-called “business value” refers to the value of purchases or sales between the parties, whichever is higher.
2. When funds are lent to a company or trade name with a necessity for short-term financing with the Company, the combined value may not exceed 40% of the net worth of the Company. The lending of funds between subsidiaries where the Company holds directly or indirectly 100% of their shares with voting rights is not limited to 40% of the net worth. The value of each entry may not exceed 20% of the net worth of the Company. The so-called net worth is based on the equities that belong to the client of the parent company as shown in the Balance Sheet as part of the most recent financial statement audited and certified or reviewed by the CPA.
3. For the lending of funds between subsidiaries where the Company holds directly or indirectly 100% of their shares with voting rights, however, it is allowed not to exceed 100% of the net worth of the lending enterprise.

(IV) Duration involved in lending of funds: The duration involved in lending of funds each time shall basically not exceed one year. When a business cycle of a company is longer than a year, however, the business cycle shall govern. When lending of funds takes place between the Company and its subsidiaries that it holds directly or indirectly 100% of their shares with voting rights due to the necessity for short-term financing, the duration involved may not exceed five years.

(V) How interest is calculated in the lending of funds

1. For the funds lent, the daily interest applies; the daily interest is calculated with the balance of the loan released each day multiplied by the annual interest rate and then divided by 365 days. The annual interest rate may not be lower than the average interest rate among banks for short-term borrowings as shown in the most recent financial statement of the Company in principle.
2. Unless specified otherwise, the interest for loans is to be collected once a month in principle; the borrower will be notified a week before the interest payment date agreed upon to pay the interest on time.

(VI) Funds Lending Review

1. For financing available to affiliates, related departments of the Company shall review the financial application materials presented by them for the legitimacy and necessity, investigate the credit status of the counterparty and perform the risk assessment as well as review the impacts on the operational risk, financial standing, and shareholders' equity of the Company before preparing a report of the review outcome and opinions from the evaluation and submitting it to the Board of Directors for a final decision to facilitate subsequent processes.

The lending of funds between the Company and its subsidiaries or between its subsidiaries shall be based on the final decision made by the Board of Directors as required in the preceding paragraph and the Chairman may be authorized to release the loan at different time points at the limit determined by the Board of Directors within a period of one year to the same counterparty or utilize the limit cyclically. The so-called authorized limit in the preceding paragraph, besides meeting the requirements in Article 4 Paragraph (1) Items 2.(3), for a single enterprise from the Company or its subsidiaries, may not exceed 10% of the net worth of the Company as shown in the most recent financial statement.

2. For financing available to non-affiliates, besides the requirements in the preceding paragraph, the guaranteed promissory note showing the same value shall be obtained or personal property or real estate of the same value shall be set as pledge if necessary.
3. Approving the lending:
  - (1) The processor will prepare a report containing review comments and submit it to the Board of Directors; whether or not lending to others is approved is up to the Board of Directors.
  - (2) When lending is determined to be feasible based on the report, the processor shall

submit a brief document containing the lending conditions hierarchically to the Board of Directors to be finalized.

- (3) When lending is determined by the Board of Directors to be non-feasible, the processor shall notify the applying company.
- (4) Once borrowing is approved, the processor shall notify the borrower immediately, detailing the lending conditions set by the Company (including the value, duration, interest rate, collateral, and guarantor, etc.) and have the borrower sign the contract by the given deadline.

4. Contract signing and setting of collateral rights:

- (1) The Company shall sign the lending contract with the borrower, specifying the rights and obligations of both the lender and the borrower. The borrower and its joint guarantor shall sign and seal the contract and the Company's processor shall complete the identity verification process.
- (2) If collaterals are needed, the borrower shall be asked to complete the pledge or mortgage setup process. The Company also needs to evaluate values of the collaterals in order to ensure the creditor's right of the Company.
- (3) Except for land and securities, fire insurance and related insurance shall be purchased for other collaterals and the premium may not be below the collateral pledge and mortgage in principle. The insurance policy shall specify that the Company is the beneficiary. The name, quantity, storage site, insurance conditions, and insurance endorsements of the object indicated in the insurance policy shall be consistent to the conditions originally approved by the Company. The processor shall pay attention to notifying the borrow of extending the insurance duration prior to the expiration date.

5. Releasing loans: Once the lending conditions are approved, the borrower has signed the contract, pledge or mortgage registration of the collateral is completed, and all procedures are confirmed to be free of errors, the Finance Department will release the loan following the required procedure.

6. Bookkeeping: Upon completing the lending process for each amount of funds, the Company shall have the financial unit prepare the journal voucher for the collateral or credit guarantee and submit it to the accounting unit so that it may be registered in necessary books.

(VII) Subsequent control measures and repayment of lent funds and management of delinquent creditor's rights

1. Once funds are lent, attention should be paid frequently to the financial, operational and

related credit standings of the borrower and the guarantor. If collaterals are provided, attention shall also be paid to whether or not the collateral value has changed. Prior to the expiration of a loan, the borrower shall be notified to pay off the principal and interest or extend the duration of the loan. Major changes, if any, shall be reported to the Chairman immediately and properly addressed as instructed.

## 2. Re-payment

- (1) The lending contract and respective mortgage documents are to be properly kept by the Finance Department and the loan statement shall be prepared sequentially by the expiration date.
  - (2) Upon expiration of a loan or to pay off the borrowed funds prior to the expiration date, the financial unit shall calculate first the interest payable. Once it is paid off along with the principal, the promissory note or the receipt for a loan may be voided and returned to the borrower.
  - (3) When the borrower applies for canceling a collateral, the financial unit shall first find out whether or not the interest and principal involved are already paid off; cancellation of a collateral can only be approved once they are paid off.
3. The borrower shall pay off the principal and the interest by the expiration date. If they are not paid off by the expiration date and an extension is needed, such request needs to be submitted in advance and an extension is only allowed after the request is approved by the Board of Directors. The extension for each loan may not exceed three months and may only occur once. For violators, the Company may unilaterally dispose of the provided collateral and go after the guarantor.

## (VIII) Registration and custodianship

1. When organizing the lending of funds, the Company shall prepare the reference book that documents the counterparty, the value, the date approved by the Board of Directors, the date funds are lent and matters that shall be carefully evaluated in the lending of funds according to this Procedure for future reference.
2. Once the loan is released for a case that is taken care of personally by the processor, creditor's right-related certificates such as the receipt of the contract or the promissory note and collateral certification, insurance policy, correspondence documents shall be orderly sorted out and placed in the custody bag that shall show what is included in the bag and the name of the customer and be submitted to the unit supervisor at the Finance Department to be inspected. Once the inspection reveals no errors, it will be sealed. The parties shall also sign or seal the registration book for items in custody before it is placed

in custody.

(IX) Precautions for Lending Funds to Others

1. Before lending funds to others, the Company shall carefully evaluate if the said Regulations and the requirements herein are fulfilled and submit along with the evaluation outcome in Articles (2) to (7) to the Board of Directors for a final decision and handle the case accordingly; no one may be authorized to make such a decision.
2. When lending funds to others, the Company shall sufficiently take into consideration opinions from respective independent directors. In case of any disagreement or reserved opinions from independent directors, it shall be stated so in the Board of Directors' meeting minutes.
3. When organizing the lending of funds, the Company shall have the financial unit to prepare the "reference book for funds lent to others" that documents the counterparty, the value, the date approved by the Board of Directors, the date funds are lent, and matters that shall be carefully evaluated in the lending of funds as required in Paragraph 1 hereunder for future reference.
4. The internal audit staff of the Company shall audit this Procedure and its implementation status at least on a quarterly basis and prepare the "Internal Audit Report". In cases of major violations discovered, respective audit members shall be notified immediately in writing.
5. Due to the change in situation that results in the counterparty no longer meets the requirements herein or the balance exceeding the limit, the Company shall have the financial unit to prepare the Improvement Plan for Lending to Others and submit related improvement plans to respective audit members and complete improvements as scheduled in the plan.
6. The processor shall prepare the statement of funds lent to others by the Company and its subsidiaries in the previous month by the tenth day of each month and submit it hierarchically for review and approval.

(X) Control over for lending of funds to others by subsidiaries

1. If the lending of funds to others is intended by subsidiaries of the Company, the Procedure shall also be established and be followed accordingly. The net worth, however, is calculated on the basis of the net worth of the subsidiary.
2. The subsidiary shall prepare the statement of funds lent to other companies in the previous month by the fifth day, exclusive, of each month and submit it to the Company for review and approval.

3. The internal audit staff of the subsidiary shall also audit the procedure for lending to others and its implementation status at least on a quarterly basis and prepare the “Internal Audit Report”. In cases of major violations discovered, the Company’s audit unit shall be notified immediately in writing. The Company’s audit unit shall deliver written materials to respective audit members.
4. When performing an audit in a subsidiary according to the Annual Audit Plan, the audit staff of the Company shall also have an understanding of how the procedure for lending to others is implemented in the subsidiary. In case of any deficiency found, its improvement status shall be followed up continuously and the “Improvement Report for Deficiencies Found during Internal Audit” shall be prepared and submitted to the General Manager.

(XI) Announcement and filing deadline and contents after public offering of the Company

(The procedure below applies after the Company has its public offer in Taiwan.)

1. Balance of the funds available for lending from the previous month of the Company and its subsidiaries shall be announced and filed before the tenth day of each month.
2. When lending of funds meets one of the following criteria, the Company shall announce and file it within two days from the actual date of occurrence:
  - (1) The balance of the funds available for lending to others of the Company and its subsidiaries reaches at least 20% of the net worth of the Company as shown in its most recent financial statement.
  - (2) The balance of the funds available for lending to a single enterprise of the Company and its subsidiaries reaches at least 10% of the net worth of the Company as shown in its most recent financial statement.
  - (3) The value of additional funds lent by the Company or its subsidiaries reaches NT\$10 million (or equivalent value in RMB) and above and 2% of the net worth of the Company as is shown in its most recent financial statement.
3. If a subsidiary of the Company is not a domestic public offering company and has the matters described above in respective sub-paragraphs of the preceding paragraph that shall be announced and filed, the Company shall do it.
4. The Company shall evaluate the lending of funds and set aside adequate allowance for bad debts and adequately disclose related information in the financial statement as well as provide the CPA with related materials for the latter to perform necessary audit procedures.
5. The so-called “actual date of occurrence” herein is the date when a transaction contract is



signed, the payment is made, the Board of Directors makes a decision, or it is sufficient to define the counterparty of funds lending and the value, whichever occurs first.

(XII) Penalty

When the Company's managers and responsible people violate this Procedure, penalties varying in severity under the Company's applicable personnel rules shall apply, depending on the severity of the condition.

(XIII) Implementation and Revision

1. This Procedure shall be approved by at least one-half of all members of the Audit Committee and be submitted to the Board of Directors for a final decision. Once they are approved by the Board of Directors, they shall be submitted to respective Audit Committee members and also the shareholders' meeting for approval and be implemented accordingly. In case of disagreement expressed by directors with records or written statements or revisions to applicable laws and regulations, the Company shall submit the disagreement to the respective Audit Committee and also the shareholders' meeting for discussion; the same applies upon revision.
2. When submitting this Procedure to the Board of Directors for discussion as required in the preceding paragraph, the Company shall sufficiently take into consideration opinions from respective independent directors. In case of any disagreement or reserved opinions from independent directors, it shall be so stated in the meeting minutes of the Board of Directors.
3. Establishment or revising this Procedure is subject to approval by at least one half of all members of the Audit Committee and submission to the Board of Directors for a final decision. Without the approval by at least one half of all members of the Audit Committee, it may be supported by at least two-thirds of all directors and the decision of the Audit Committee shall be specified in the meeting minutes of the Board of Directors.

(XIV) Compliance

This Procedure is prepared in accordance with the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies. In case of conflicts between this Procedure and the local laws and regulations for the subsidiaries, the local laws and regulations shall prevail.

V. Related documents

- (I) Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies
- (II) Work Rules

VI. Related forms

- (I) Reference Book for Funds Lent to Others
- (II) Board of directors meetings minutes
- (III) Internal Audit Report
- (IV) Improvement Plan for Excessive Lending to Others
- (V) Improvement Report for Deficiencies Found during Internal Audit

VII. Version record

Version	Summary of changes contents	Date
1	Addition	August 23, 2012
2	Amendment	December 11, 2012
3	Amendment	June 5, 2019