

Kwong Fong Industries Corporation
Making of Endorsements / Guarantees operating procedure

Revised and approved May 31, 2022

Article 1 These Regulations are promulgated pursuant to Article 36-1 of the Securities and Exchange Act ("the Act") and the "Regulations Governing Loaning of Funds and Making of Endorsements / Guarantees for Public Companies" promulgated by the competent authority.

Article 2 Scope of application of this operating procedure

1. Financing endorsements/guarantees, including:

(1). Bill discount financing.

(2). Endorsement or guarantee made to meet the financing needs of another company.

(3). 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 endorsement/guarantee, meaning an endorsement or guarantee for the company itself or another company with respect to customs duty matters.

3. Any creation by the company of a pledge or mortgage on its chattel or real property as security for the loans of another company.

4. Other endorsements/guarantees, meaning endorsements or guarantees beyond the scope of the above three subparagraphs.

Article 3 Subject to the Endorsement Guarantee

The company may make endorsements/guarantees for the following companies:

1. A company with which it does business.

2. A company in which the company directly and indirectly holds more than 50 percent of the voting shares.

3. A company that directly and indirectly holds more than 50 percent of the voting shares in the company.

Companies in which 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 public company, provided that this restriction shall not apply to endorsements/guarantees made between companies in which the company holds, directly or indirectly, 100% of the voting shares.

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 of the preceding two paragraphs.

Capital contribution referred to in the preceding paragraph shall mean capital contribution directly by the company, or through a company in which the company holds 100% of the voting shares.

Article 4 The amount of the endorsement guarantee

The total amount of the Company's external endorsement guarantee shall not exceed the Company's net value. The same applies to the endorsement guarantee limit for a single enterprise. The net value is based on the most recent financial statements audited or audited by accountants.

If the aggregate amount of endorsements/guarantees that is set as the ceiling for the company and its subsidiaries as a whole reaches 50% or more of the net worth of the company, an explanation of the necessity and reasonableness thereof shall be given at the shareholders meeting.

Article 5 Decision-making and delegation levels

1. The company's endorsement and guarantee matters shall be approved by the resolution of the board of directors.
2. The amount of the company's endorsement guarantee shall not exceed the amount specified in this operating procedure.

Article 6 Endorsement Guarantee Handling Procedure

1. When the company handles the endorsement guarantee matters, the endorsed guarantee company shall issue an application to the company, and the company shall designate the relevant departments to conduct a credit investigation on the endorsed guarantee company, assess its risk and keep an assessment record, and submit it to the general manager, vice chairman and chairman of the board of directors for verification after passing the review, and obtain collateral if necessary.
2. The above-mentioned relevant departments shall conduct a credit investigation and risk assessment of the endorsed guarantee company, and the assessment items shall include:
 - (1). The necessity of and reasonableness of endorsements/guarantees.
 - (2). Whether the endorsement guarantee amount is still within the limit.
 - (3). The impact on the company's business operations, financial condition, and shareholders' equity.
 - (4). Whether collateral must be obtained and appraisal of the value thereof.
 - (5). Attach endorsement guarantee credit and risk assessment records.
3. The endorsement guarantee operation unit shall establish a memorandum book, and publish the endorsement guarantee object, amount, date of approval of the board of directors, date of endorsement guarantee and matters that should be prudently evaluated in accordance with the provisions of the preceding paragraph, and submit the relevant copies to the Finance Department for future reference.

4. The Finance Department shall, in accordance with the provisions of the Financial Accounting Standards Bulletin No. 9, assess or recognize the contingent loss of the endorsement guarantee, properly disclose the endorsement guarantee information in the financial report, and provide the relevant information of the certified accountant for the accountant to adopt the necessary audit procedures and issue a proper audit report.
5. In the event that the Company changes its circumstances and makes the object of the endorsement guarantee originally complied with the provisions of these Enforcement Measures but subsequently does not comply with the provisions, or the amount of the endorsement guarantee exceeds the prescribed amount due to the change in the basis of which the limit is calculated, the amount of the endorsement guarantee or the part exceeding the limit shall be eliminated at the expiration of the term specified in the contract or within a certain period of time, and the relevant improvement plan shall be submitted to the Audit Committee and reported to the Board of Directors.

Article 7 Endorsement guarantee cancellation

If the relevant documents or bills of endorsement guarantee need to be released due to debt repayment or extension and replacement, the endorsed company shall deliver the original endorsement guarantee certificate to the relevant department of the company for cancellation seal and return, and a copy of the application letter shall be submitted to the Finance Department for future reference.

Article 8 Internal Control

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 the supervisors in writing of any material violation found.
2. The company shall handle the endorsement guarantee in accordance with the prescribed procedures, and if a major violation is found, the manager and the organizer shall be punished, and the civil or criminal liability shall be prosecuted according to the circumstances caused to the company's losses.

Article 9 Procedures for the use and storage of seals

1. 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 and may be used to seal or issue negotiable instruments only in prescribed procedures.
2. When making a guarantee for an overseas company, a public company shall have the Guarantee Agreement signed by a person authorized by the board of directors.

Article 10 Announcement declaration procedure

A public company shall announce and report the previous month's balance of

endorsements/guarantees of itself and its subsidiaries by the 10th day of each month. The company whose balance of endorsements/guarantees reaches one of the following levels shall announce and report such event within two days commencing immediately from the date of occurrence:

1. The aggregate balance of endorsements/guarantees by the company and its subsidiaries reaches 50 percent or more of the company's net worth as stated in its latest financial statement.
2. The balance of endorsements/guarantees by the company and its 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/guarantees by the public company and its subsidiaries for a single enterprise reaches NT\$10 millions 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 public company's net worth as stated in its latest financial statement.
4. The amount of new endorsements/guarantees made by the public company or its subsidiaries reaches NT\$30 million or more, and reaches 5 percent or more of the public company's net worth as stated in its latest financial statement.

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 of the preceding paragraph.

Article 11 If a subsidiary of the Company intends to endorse or provide a guarantee for others, the Company shall order the subsidiary to formulate the operating procedures for endorsement and guarantee in accordance with the regulations, and handle it in accordance with the prescribed operating procedures. If the target of the endorsement guarantee is a subsidiary whose net value is less than one-half of the paid-in capital, the company shall review the financial status of the guaranteed enterprise on a monthly basis after providing the endorsement guarantee, and if there is any collateral, it shall pay attention to whether there is any change in the value of the guarantee.

Article 12 "Subsidiary" and "parent company" as referred to in these Regulations shall be as determined under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Where the company's financial reports are prepared according to the International Financial Reporting Standards, "net worth" in these Regulations means the balance sheet equity attributable to the owners of the parent company under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

- Article 13 Matters not covered in this procedure shall be handled in accordance with the relevant laws and regulations and the relevant rules and regulations of the company.
- Article 14 The establishment of these operating procedures shall be approved by more than one-half of all members of the Audit Committee, and shall be implemented after the resolution of the Board of Directors is passed and submitted to the shareholders' meeting for approval.
In the case of the preceding paragraph without the consent of more than one-half of all members of the Audit Committee, the approval of more than two-thirds of all directors shall be obtained, and the resolution of the Audit Committee shall be stated in the minutes of the Board of Directors.
- Article 15 The Company shall fully consider the opinions of each independent director when handling the endorsement guarantee and submitting the operating procedures to the Board of Directors for discussion in accordance with the provisions of the preceding paragraph, and shall include in the Board record the clear opinions of their agreement or disagreement and the reasons for their disagreement.