

# SDI Corporation's Operational Procedures for Endorsements/Guarantees

## Article 1. Purpose:

To strengthen the Company's internal control over matters of endorsements/guarantees and to reduce business risks, all matters relating to endorsement/guarantees of the Company shall be handled in accordance with these Rules.

## Article 2. The term "endorsements/guarantees" as used in these Operational Procedures refers to the following:

- I. Financing endorsements/guarantees, including:
  - (I) Bill discount financing.
  - (II) Endorsement or guarantee made to meet the financing needs of another company.
  - (III) Issuance of a separate negotiable instrument to a non-financial enterprise as security to meet the financing needs of the Company itself.
- II. Customs duty endorsement/guarantee, meaning an endorsement or guarantee for the Company or another company with respect to customs duty matters.
- III. Other endorsements/guarantees, meaning endorsements or guarantees beyond the scope of the above two paragraphs.
- IV. Any creation by the Company of a pledge or mortgage on its chattel or real property as security for the loans of another company.

## Article 3. The Company may make endorsements/guarantees for the following companies:

- I. A company with which it does business.
- II. A company in which the Company directly and indirectly holds more than 50% of the voting shares.
- III. A company that directly and indirectly holds more than 50% 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 Company. This restriction shall not apply to endorsements/guarantees made between companies in which the Company holds, directly or indirectly, 100% of the voting shares.

## Article 4. Ceilings on the Amount of Endorsement/Guarantee

- I. The Company's aggregate amount of endorsements/guarantees is limited to 50% of the Company's net worth. The amount of its endorsements/guarantees for any single entity shall not exceed 45% of the Company's net worth.
- II. The Company and subsidiaries' aggregate amount of endorsements/guarantees for external entities shall not exceed 50% of the Company's net worth. The maximum endorsements/guarantees for a single entity shall not exceed 45% of the Company's net worth.
- III. If the aggregate amount of endorsement of the Company and subsidiaries reaches over 50% of the Company's net worth, the necessity and reasonableness shall be explained at the shareholders' meeting.

## Article 5. Procedures for endorsements/guarantees made by the Company:

- I. The Chairman of the Board is authorized to, at his or her discretion, handle subsidiaries' endorsements/guarantees within the amount set forth in the preceding paragraph, which will subsequently be ratified by the Board of Directors.
- II. Where a subsidiary in which the Company holds, directly or indirectly, more than 90% of the voting shares provides endorsements/guarantees in accordance with

Article 3, Paragraph 2, it shall submit the proposal to the Company's Board of Directors for approval before proceeding. This restriction shall not apply to endorsements/guarantees made between companies in which the Company holds, directly or indirectly, 100% of the voting shares.

- III. Endorsements/guarantees for entities other than subsidiaries shall be proceeded after it is passed by the Board of Directors.
- IV. Where the Company needs to exceed the limits set out in the Operational Procedures for Endorsements/Guarantees to satisfy its business requirements, it shall obtain approval from the Board of Directors and half or more of the Directors shall act as joint guarantors for any loss that may be caused to the company by the excess endorsement/guarantee. It shall also amend the Operational Procedures for Endorsements/Guarantees accordingly and submit the same to the shareholders' meeting for ratification after the fact. If the shareholders' meeting does not give consent, the Company shall adopt a plan to discharge the amount in excess within a given time limit. The relevant plan to discharge the amount in excess shall be submitted to each Supervisor.
- V. Where the entity for which an endorsement/guarantee is made that met but no longer meets the requirements of Item 3, or the amount of endorsement/guarantee exceeds the limit because the basis of calculation changed, the Company shall cancel all of the amount of endorsements/guarantees or the part exceeding the limit upon the expiration of the agreement or adopt plans and cancel the same within a certain period of time. The same shall be reported to the Board of Directors.
- VI. The Company shall take into full consideration each Independent Director's opinions. If an Independent Director expresses any dissent or reservation, it shall be specifically recorded in the minutes of the Board meeting.

Article 6. Operational Procedures and Control Procedures over Subsidiaries:

- I. When the Company makes or cancels endorsements/guarantees, an application detailing the name of the entity endorsed/guaranteed, warranty, amount and conditions and date for rescinding the endorsement or guarantee obligation shall be prepared and submitted by the financial department to the Chairman of the Board for authorization or to the Board of Directors for passage by resolution. The financial department shall post warranties to account and register the same in the memorandum book based on its nature. The memorandum book shall record in detail the following information for the record:
  - (I) the entity for which the endorsement/guarantee is made,
  - (II) the amount,
  - (III) the date of passage by the Board of Directors or of authorization by the Chairman of the Board,
  - (IV) the date the endorsement/guarantee is made,
  - (V) matters to be carefully evaluated under the foregoing evaluation and resolution procedures.
- II. If the entity for which the endorsement/guarantee is made is a subsidiary with net worth lower than one-half of the paid-in capital, the Company shall submit financial statements each quarter and adopts relevant control measures in accordance with internal audit procedures under Article 9.

If the subsidiary's stock has no denomination or the denomination of each share is NT\$ 10, the amount of paid-in capital calculated in accordance with the above provisions shall be the sum of the capital reserve plus the issue premium.

- III. Where a subsidiary of the Company intends to provide endorsements/guarantees for others, the Company shall instruct it to formulate its own Operational Procedures for Providing Endorsements/guarantees in compliance with these Regulations, and it shall comply with the Operational Procedures when making endorsements/guarantees.
- IV. "Subsidiary" and "parent company" as referred to in these Rules shall be as determined under the Regulations Governing the Preparation of Financial Reports by Securities Issuers. Where its financial reports are prepared according to the International Financial Reporting Standards, "net worth" in these Rules 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 7. Procedures for Use and Custody of Corporate Chops:

Relevant notes and corporate chops shall be separately kept by designated persons, and chops may be affixed or notes may be signed and issued only in accordance with the operational procedures stipulated by the Company. The relevant persons are appointed by the Chairman of the Board under the Board of Directors' authorization. The company shall use the corporate chop registered with the Ministry of Economic Affairs as the dedicated chop for endorsements/guarantees.

Article 8. Public announcement and regulatory filing procedures:

I. General announcement and reporting:

- (I) Announcement and reporting deadline: Enter the information reporting website designated by the competent authority in charge of securities before the 10th day of each month.
- (II) Announcement and reporting content: The previous month's balance of endorsements/guarantees of the Company and its subsidiaries.

II. Where the balance of endorsements/guarantees reach one of the following levels, the Company shall announce and report such event within 2 days commencing immediately from the date of occurrence:

- (I) The aggregate balance of endorsements/guarantees by the Company and its subsidiaries reaches 50% or more of the Company's net worth as stated in its latest financial statement.
- (II) The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches 20% or more of the Company's net worth as stated in its latest financial statement.
- (III) The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches NT\$ 10 million or more and the aggregate amount of all endorsements/guarantees for, long-term investment in, and balance of loans to, such enterprise reaches 30% or more of the Company's net worth as stated in its latest financial statement.
- (IV) The amount of new endorsements/guarantees made by the Company or its subsidiaries reaches NT\$ 30 million or more, and reaches 5% 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 subsidiary thereof that is not a domestic public company any matters that such subsidiary is required to announce and report pursuant to Subparagraph 4 of the preceding paragraph.

III. "Date of occurrence" in this Article means the date of contract signing for the transaction, date of payment, dates of Boards of Directors' resolutions, or other date that can confirm the counterparty and monetary amount of the endorsement/guarantee, whichever date is earlier.

Article 9. Internal Audit:

A. 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.

B. They shall promptly notify all supervisors in writing of any material violation found.

Article 10. These Operational Procedures are passed by the Board of Directors; where any Director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to each Supervisor and for discussion by the shareholders' meeting. The same shall apply to any amendments to the Operational Procedures.

During the Board of Directors' discussion under the preceding paragraph. If an Independent Director expresses any dissent or reservation, it shall be noted in the minutes of the Board meeting.