

# **STANDARD FOODS CORPORATION**

## **Procedures for Loaning of Funds to Other Parties**

Amended and Adopted by Ordinary Resolution passed on June 15, 2018

### **Article 1: Purpose**

The Procedures for Loaning of Funds to Other Parties (hereinafter referred to as “the Procedures”) is formulated pursuant to the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies promulgated by the competent authority.

### **Article 2: Subject of Loans**

1. A company (or firm) with which the Company has a business relationship.
2. Where an inter-company (or inter-firm) short-term financing is deemed necessary.

The “shore-term” as mentioned above means one year or an operating cycle whichever is longer.

### **Article 3: Evaluation standards for loaning of funds to others**

Where the Company intends to lend loans to an entity with which the Company has a business relationship, the loan shall be granted on the principle that the business transaction behavior has already happened.

In case that a loan is under consideration because of the necessity of short-term financing, the loan shall only be granted under one of the following circumstances:

1. Where an investee of the Company is deemed necessary to obtain short-term financing due to business needs (evaluated using the equity method by the Company).
2. Where a subsidiary of the Company in which the Company holds, directly or indirectly more than fifty percent (50%) of voting shares is deemed necessary to obtain short-term financing due to business needs.

Foreign companies in which the Company holds, directly or indirectly, 100% of voting shares may lend funds to each other without being restricted by provisions of Paragraph 1 of Article 4 of the Procedures. . Nevertheless, such loans shall not exceed the 100% net worth of the lender as indicated in its latest financial statement that has been verified or reviewed by CPAs and shall follow the financing period as described in Article 5 of the Procedures.

**Article 4: Aggregate amount of loans and maximum amount permitted to a single borrower**

The aggregate amount of loans granted by the Company shall not exceed forty percent (40%) of the net worth of the Company as indicated in its latest financial statement that has been verified or reviewed by CPAs. The maximum amount permitted to a single borrower is specified below based on the reasons for the loan:

1. For entities with which the Company has a business relationship, the maximum amount permitted to a single borrower shall not exceed the business transaction amount between the Company and the borrower as indicated in the last fiscal year or the current fiscal year up to the time of the loan. The business transaction amount herein refers to the amount of purchases or sales between the Company and the borrower whichever is higher.
2. For entities to which short-term financing is deemed necessary, the maximum amount permitted to a single borrower shall not exceed twenty percent (20%) of the net worth of the Company as indicated in its latest financial statement that has been verified or reviewed by CPAs. Nevertheless, the above limit does not apply to inter-company loans between foreign companies in which the Company holds, directly or indirectly, 100% of the voting shares.

The subsidiary and parent company as referred to in the Procedures shall be identified in accordance with the provisions of the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

In case that the financial report is prepared in accordance with the provisions of the International Financial Reporting Standards

(IFRS), the net worth as referred to in the Procedures shall be the equity attributable to owners of the parent company in the balance sheet as specified in the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

**Article 5: Duration of loans and calculation of interest**

The duration of loans granted by the Company shall not exceed one (1) year. Nevertheless, where short-term financing is deemed necessary and the operating cycle is longer than one (1) year, the operating cycle shall prevail.

The interest rate for loans granted by the Company shall not be lower than the average interest rate for short-term loans granted to the Company by financial institutions. The interest for loans granted by the Company shall be accrued on a monthly basis. In the event that the subject of loans is an entity in which the Company holds, directly and indirectly, one hundred percent (100%) of voting shares, it may be exempt from paying the interest. Under special circumstances, the Company may adjust the interest rate based on the actual situations with the approval of the Board of Directors.

**Article 6: Procedures for handling of loans**

1. Handling procedures
  - (i) Matters concerning granting of loans or short-term financing by the Company shall be conducted with the review of the responsible unit, approval of the General Manager, and resolution of the Board of Directors beforehand.

Where the loans are made between the Company and its subsidiaries or between its subsidiaries, after a Board resolution is obtained in accordance with the preceding paragraph, the Chairman of the Board may be authorized to allow the same subject to receive the loan in installment or use it as a revolving loan facility within a certain monetary limit and within a period not longer than one year.

Regarding the “certain monetary limit” as referred to in the preceding paragraph, apart from meeting the provisions of

Paragraph 3 of Article 3 of the Procedures, the maximum amount granted to a single entity by the Company and its subsidiaries shall not exceed ten percent (10%) of the net worth of the Company as indicated in its latest financial statement.

- (ii) The Company shall prepare and maintain a memorandum book for its fund-lending activities and truthfully record the following information once the loan is approved by the Board of Directors: the subject of the loan, amount, date of approval by the Board of Directors, lending/borrowing date, and matters to be carefully evaluated in accordance with auditing procedures.
- (iii) The internal auditors shall perform auditing on the Procedures and its implementation condition on a quarterly basis and produce written auditing reports. Should there be any material violations found, the Audit Committee must be notified immediately with a written report prepared by the internal auditors.
- (iv) The Company shall, on a monthly basis, make a detailed list of the newly granted and written off loans in the previous month in order to control and track the fund-lending activities of the Company and conduct announcement and reporting. The Company shall also estimate and set aside sufficient allowance for bad debts on a quarterly basis, disclose information on loans in the financial report, and provide related data to CPAs.
- (v) Should the subject of loans no longer satisfy the criteria set forth in the Procedures or there be any excess over the lending limit due to unexpected change of circumstances, an improvement plan shall be drawn up and submitted to the Audit Committee, which shall be implemented and completed in accordance with the plan schedule.

## 2. Auditing procedures

- (i) In applying loans from a company or a firm, the borrower shall submit an application in writing describing in detail its relevant financial data and usage of the loan.
- (ii) Upon accepting the application, the Company shall start

review and evaluation on the following matters:

- (a) To evaluate the necessity and reasonability of the loan based on the purpose and usage of it and the limit and balance of loan funds available to the Company.
- (b) To evaluate any possible risks and whether or not appropriate collateral should be provided based on the operational status, financial and credit conditions, and source of repayment of the borrower.
- (c) To consider the impact of aggregate amount of the loans granted by the Company on the operational risk, finance condition, shareholders' equity of the Company.
- (d) To evaluate the value of the collateral (if any).

**Article 7: Procedures for announcement and reporting**

1. The Company shall announce and report the balance of loans granted by the Company and its subsidiaries in previous month by the 10<sup>th</sup> of each month.
2. Other than announcing and reporting the balance of loans granted by the Company and its subsidiaries every month, where such balance reaches one of the following thresholds, announcement and report, affixed with related materials, shall be made within two days commencing immediately from the day of occurrence of such event:
  - (i) The balance of loans of the Company and its subsidiaries reaches twenty percent (20%) or more of the Company's net worth in its latest financial statement.
  - (ii) The balance of loans of the Company and its subsidiaries to a single enterprise reaches ten percent (10%) or more of the Company's net worth in its latest financial statement.
  - (iii) The balance of new loans of the Company and its subsidiaries reaches more than ten million New Taiwan Dollars (NT\$ 10,000,000) and reaches two percent (2%) of the Company's net worth in its latest financial statement.

In case that any subsidiary of the Company is not a public company in the Republic of China and such subsidiary meets the conditions for announcement and report as described in item 3 of the preceding Paragraph, the announcement and report of loans

shall be made by the Company.

**Article 8: Follow-up control measures for granted loans and procedures for handling overdue loans**

After a loan is extended, the finance unit shall pay attention to any changes in the financial status, business conditions, and relevant credit situations of the borrower and its guarantor.

In the event that a borrower cannot repay the loan on schedule and needs an extension of loan repayment, the borrower must submit an application for extension of loan repayment, which shall be approved by the Board of Directors before the extension can be granted. In case that the borrow fails to fulfill its contractual obligations, the Company may, according to law, take direct actions against the borrower or its guarantor and claim for reimbursement on any collaterals provided by the borrower.

**Article 9: Penalties**

In case that managerial officers or persons-in-charge of the Company violate the Procedures or the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies promulgated the competent authority, the violators shall be subject to verbal warning for the first violation, written warning for the second violation, and job relocation for repeated or serious violations.

**Article 10: Control and management of loans granted by subsidiaries**

1. Where a subsidiary of the Company intends to provide loans for another, it shall also formulate the Procedures for Loaning of Funds to Other Parties pursuant to the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies promulgated the competent authority.
2. When providing loans for another, a subsidiary of the Company shall make it in accordance with its own Procedures for Loaning of Funds to Other Parties and submit a written report to the Company by the 7<sup>th</sup> of each month specifying the balance, subjects, and duration of the loans in the previous month. The auditing unit of the Company shall include the operation of loans

provided by subsidiaries to its checklist and report its audit findings to the Audit Committee.

3. Where a subsidiary of the Company is not a public company, if the balance of loans reaches the reporting threshold as specified in Paragraph 2 of Article 7 of the Procedures, the Company shall be notified of the situation on the date of occurrence of the fact and hence make a public disclosure on designated websites according to regulations.

#### **Article 11: Effectiveness and amendment**

In the event of amendment to the Procedures or deliberation of individual cases, the opinions of all independent directors shall be fully considered and their position of agreement or disagreement, along with their reasons thereof, shall be recorded in the minutes of the Board meeting.

The Procedures shall be effective upon approval by the Board of Directors, review of the Audit Committee, and ratification of the shareholders' meeting. In the event that any director expresses objections to the proposed Procedures which have been put on record or given in a written statement, the Board of Directors shall submit those objections to the Audit Committee for review and shareholders' meeting for discussion. The same applies in the case of an amendment.