

# **X-LEGEND Entertainment Corp.**

## **Operational Procedures for Endorsements and Guarantees**

Date of Preparation: 2009/06/30  
Date of Revision: 2010/06/29  
Date of Revision: 2011/06/24  
Date of Revision: 2013/06/25  
Date of Revision: 2014/06/26

### Article 1: Purpose

In order to serve as the standard to be followed by the Company in making endorsements/guarantees, the Procedure is defined in accordance with the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" to maintain the Company's benefit and right. Any matters not provided herein shall be handled in accordance with the relevant laws.

### Article 2: Definitions

The Company's financial statements are prepared in accordance with the IFRSs. The terms used herein shall be defined as following:

1. Subsidiary and parent company: as defined under the Regulations Governing the Preparation of Financial Reports by Securities Issuers, unless otherwise is defined.
2. Net worth: means the equity attributable to the owners of the parent company in the balance sheet under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.
3. Announce and report: means entry of data to the information reporting website designated by the Financial Supervisory Commission (FSC).
4. Date of occurrence: Refers to the date of conclusion of contract, payment, boards of directors resolutions, or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier.

Article 3: Entities for which the Company may make endorsements/guarantees shall meet the following conditions:

1. Companies having business relationship with the Company.
2. Companies in which the Company hold more than 50% of the shares with voting right, directly and indirectly.

3. Companies which hold more than 50% of the Company's shares with voting right, directly and indirectly.
4. 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, 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.

#### Article 4: Scope and contents of endorsements/guarantees referred to herein

1. Financing endorsements/guarantees:
  - (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. Other endorsements/guarantees, i.e. endorsements or guarantees beyond the scope of the above two subparagraphs.

Any creation by the Company of a pledge or mortgage on its chattel or real property as security for the loans of another company shall also comply with the Procedure.

#### Article 5: The limit of endorsements/guarantees made by the Company for others

1. The aggregate endorsements/guarantees made by the Company or the Company and its subsidiary shall be no more than 50% of the Company's net worth. The limit of endorsement/guarantee to a single entity shall be no more than 20% of the Company's net worth.
2. Where an endorsement/guarantee is made due to needs arising from business dealings, in addition to said limit, the limit of individual endorsement/guarantee shall be no more than the total amount of trading between the two companies. The term "total amount of trading" referred to herein shall mean the higher of the

purchase or sale amount between both parties in the most recent year.

3. Where the aggregate of endorsements/guarantees made by the Company and its subsidiaries amounts to 50% or more of the Company's net worth, it is necessary to explain the necessity and reasonableness thereof at a shareholders' meeting.

The net worth referred to in the item 2 of the preceding paragraph shall be based on the most recent financial statements audited and certified or reviewed by the external auditor.

#### Article 6: Decision making and level of authorization

1. The endorsement/guarantee shall be made only upon resolution of the board of directors. Where it is necessary to meet business need, the board of directors may authorize the Chairman to decide the endorsement/guarantee no more than 40% of the limit referred to in the preceding paragraph, at the time of adjournment of directors' meeting, and then the endorsement/guarantee shall be reported to the board of directors afterwards for ratification, and reported to the shareholders' meeting for record.
2. Where the Company needs to exceed the limits set out in the Procedure to satisfy its business requirements, and where the conditions set out in the Procedure are complied with, it shall obtain approval from the board of directors and a majority 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 Procedure accordingly and submit to the shareholders' meeting for ratification afterwards. 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 Company has appointed independent directors. When discussing the matter referred to in the preceding paragraph, the board of directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board of directors meeting.

#### Article 7: Custody of official seal and procedure

The Company shall use the official seal registered with the Ministry of Economic Affairs as the dedicated seal for endorsements/guarantees. The seal shall be kept in the

custody of a designated person and may be used to seal or issue negotiable instruments only in accordance with the procedures prescribed by the Company. The person dedicated to keeping the seal for endorsements/guarantees shall be the dedicated person approved by the board of directors.

When making a guarantee for a foreign company, the Company shall have the letter of guarantee signed by a person authorized by the board of directors.

#### Article 8: Procedures for Making Endorsements/Guarantees

1. When the guaranteed entity asks for endorsement, it shall provide its company information and financial information, and complete the "Application Form for Endorsement/Guarantee" and then submit to the Company's financial unit.
2. Financial Accounting Dept. guidelines governing review of said application.
  - (1) Whether the reasons for endorsement are justified and whether the accumulated endorsements/guarantees are less than the limit.
  - (2) Financial Dept. shall conduct credit investigation and risk evaluation on the endorsed/guaranteed company. The scope of evaluation shall include:
    1. Necessity of and reasonableness of endorsement/guarantee.
    2. Measure whether the endorsement amount is required, based on the endorsed/guaranteed company's financial condition.
    3. Whether the accumulated endorsements/guarantees are less than the limit.
    4. Where an endorsement/guarantee is made due to needs arising from business dealings, evaluate whether the endorsement/guarantee amount and the total amount of trading are less than the limit.
    5. Impact on the Company's business operations, financial condition, and shareholders' equity.
    6. Whether collateral and appraised value thereof are available.
    7. Attach the endorsement/guarantee credit investigation and risk evaluation record.
3. The financial supervisor shall submit the evaluation comments, together with the "Application Form for Endorsement/Guarantee", to the responsible supervisor for approval, and then submit them to the board of directors for review and approval.
4. The notes approved to be endorsed shall be returned to the guaranteed company upon completion of the following formalities.

- (1) Affix the Company's official seal into the notes.
  - (2) Keep the copies of the front and reverse sides of endorsed notes, deeds and agreements, and note the contents thereof.
  - (3) Except the bill discount financing, Financial Dept., prior to the expiry date of endorsement/guarantee, shall notify the guaranteed voluntarily to recall the guaranteed notes recorded at the bank or creditor's entity and cancel the deeds related to endorsement/guarantee.
5. Financial Dept. shall collect and analyze the information about the operation of each endorsement/guaranteed, and provide the information to the board of directors for reference.
  6. Financial Dept. shall prepare a "reference book for its endorsement/guarantee activities" and record in detail the following information for the record: the entity for which the endorsement/guarantee is made, the amount, the date of resolution made by the board of directors or of authorization by the chairman of the board, the date the endorsement/guarantee is made, and the matters to be carefully evaluated under this requirements, contents of collaterals and appraised value thereof, and conditions for relieve from the endorsement/guarantee liability and the date.
  7. Where as a result of changes of condition the entity for which an endorsement/guarantee is made no longer meets the requirements of the Procedure, or the amount of endorsement/guarantee exceeds the limit, the non-conformance or limit must be eliminated prior to expiration of contract or within specific time limit defined in a corrective action plan, and the Company shall submit the corrective action plan to all the supervisors and report it to the board of directors.
  8. Before making any endorsement/guarantee, a subsidiary in which the Company holds, directly or indirectly, 90% or more of the voting shares shall submit the proposed endorsement/guarantee to the Company's board of directors for a resolution, 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.
  9. For circumstances in which an entity for which the Company makes any

endorsement/guarantee is a subsidiary whose net worth is lower than half of its paid-in capital, the items of Article 8 in the Procedure shall apply, and the financial unit handler shall summarize the increase/decrease in endorsement/guarantee on a monthly basis and the balance thereof in the form of table and submit it to the Chairman of Board for review and approval. Where the subsidiary's operation is getting worse or the risk over endorsement/guarantee might arise, the financial unit shall report the same to the Chairman of Board and submit the plan to mitigate the endorsement/guarantee risk.

10. In the case of a subsidiary with shares having no par value or a par value other than NT\$10, for the paid-in capital in the calculation under the preceding subparagraph, the sum of the share capital plus paid-in capital in excess of par shall be substituted.

#### Article 9: Cancellation of endorsement/guarantee

1. Where the certificate or note related to endorsement/guarantee needs to be cancelled upon clearance of debt or renewal, the entity for which the endorsement/guarantee is made shall prepare an official letter and return the certificate or note to the Company's Financial Dept. for affixation of the "Cancellation" stamp, and then the certificate or note shall be returned, while the official letter shall be recorded for reference.
2. Financial Dept. shall credit the cancelled note into the reference book for cancellation of endorsement/guarantee activities, in order to decrease the accumulated endorsement amount.
3. When renewing the note, if the financial organization asks for endorsement on the new note and then returns the old one, Financial Dept. shall prepare the follow-up record and recall the old note as possible as it could for cancellation.

#### Article 10: Internal control

1. The Company's internal auditors shall audit the Operational Procedures for Endorsements/Guarantees and the implementation thereof frequently no less than quarterly and prepare written records accordingly. They shall promptly notify all the supervisors in writing of any material violation, if any.

2. The Company shall evaluate or record the contingent loss for endorsements/guarantees, and shall adequately disclose information on endorsements/guarantees in its financial reports and provide certified public accountants with relevant information for implementation of necessary audit procedures.

#### Article 11: Time limit and contents of announcement and report

1. The Company shall announce and report the previous month's endorsement/guarantee balances of the Company and the subsidiary by 10th day of each month.
2. If the Company's balance of endorsements/guarantees meets one of the following circumstances, it shall announce and report such event within two days commencing immediately from the date of occurrence:
  - (1) The aggregate balance of endorsements/guarantees to others by the Company and its subsidiaries reaches 50 percent or more of the Company's net worth as stated in its latest financial statements.
  - (2) The aggregate balance of endorsements/guarantees to a single entity by the Company and its subsidiaries reaches 20 percent or more of the Company's net worth as stated in its latest financial statements.
  - (3) The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches NT\$10 millions or more and the aggregate amount of all endorsements/guarantees for, investment of a long-term nature 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 statements.
  - (4) The amount of new endorsements/guarantees by the Company or its subsidiary reaches NT\$30 million or more, and reaches 5 percent or more of the Company's net worth as stated in its latest financial statements.
3. The 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 item 4 of the preceding paragraph.

#### Article 12: Procedures for controlling and managing endorsements/guarantees by subsidiaries

1. Where any of the Company's subsidiaries wishes to make endorsements/guarantees for others, it shall define its operating procedure for making endorsements/guarantees to others in accordance with the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" promulgated by the FSC, and submit the same to each supervisor and to a shareholders' meeting for approval upon approval of the board of directors. The same shall apply where the procedure is amended, and the subsidiary shall follow the operational procedure defined by it.
2. The Company's internal auditors, if any, shall audit whether there is any endorsements/guarantees made for others frequently no less than quarterly and prepare written records accordingly. They shall promptly notify the parent company in writing of any material violation, if any.
3. The subsidiary shall summarize the information about balance of the endorsements/guarantees made for others in the previous month and statement thereof and submit the same to the Company by 10th day of each month.
4. The Company's internal auditor shall conduct an audit on the subsidiary according to the annual audit plan, as well as the status of the endorsements/guarantees made for others, and prepare written records accordingly. They shall follow upon the correction of any material non-conformance and report the same to the chairman of board and the president.

Article 13: Any matters not provided herein shall be handled in accordance with the relevant laws and the Company's regulations.

#### Article 14: Penalty

The Company's managerial officers and organizers who violate the Procedure shall be disciplined in accordance with the Company's personnel management rules, subject to the circumstances.

#### Article 15: Enforcement and amendment

The Procedure shall be submitted to each supervisor and reported to the shareholders' meeting upon resolution of the board of directors. In the event that a director objects with a record of declaration in writing, all documents regarding objection by



that director shall be handed over to the supervisors and reported to a shareholders' meeting. The same shall apply where the Procedure is amended.

The Company has appointed independent directors. When discussing the matter referred to in the preceding paragraph, the board of directors shall take into full consideration of each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board of directors meeting.