

# **HERMES MICROVISION, INC.**

## **Procedures Governing Management of Lending**

### **Funds to Other Parties**

#### **1. Purpose**

In order to provide a reference for the procedures of the Company's fund lending to other parties, the Company specifically sets up the Procedures.

#### **2. Legal basis**

The Procedures are set up in accordance with the "Rules Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" published by the Financial Supervisory Commission (hereafter referred to as the FSC).

#### **3. Funds lending targets**

The Company's funds lending to other parties is limited to the following targets:

3.1 Companies or businesses having a business relationship with the Company. The aforesaid "business relationship" refers to those that have the act of purchase or sale with the Company.

3.2 Companies or businesses requiring short-term funds financing. The aforesaid "short-term" refers to a period of one year or one business cycle (the one having the longer period shall prevail).

#### **4. Evaluation criteria for lending funds to other parties**

4.1 The Company's funds lending to other companies or businesses due to a business relationship shall be processed in accordance with "5.1" of the Procedures.

4.2 The funds lending as required by short term funds financial shall be limited to the following circumstances:

4.2.1 When a company with which the Company directly or indirectly holds more than 50% of their voting shares requires short term funds financing due to the need in business.

4.2.2 When a company directly or indirectly holds more than 50% of the Company's voting shares requires short term funds financing due to the need in business.

- 4.2.3 Companies that are approved by the board of directors of the Company for funds lending.

## **5. Limits of the total funds lending amount and the amount of a loan to an individual borrower**

- 5.1 The total amount of the funds lending to companies or businesses having a business relationship with the Company shall not be over 10% of the Company's net value, whereas the amount of the funds lending to an individual borrower shall not exceed the total trading amount incurred between the Company and the individual borrower in the latest year. The trading amount incurred in the latest year refers to the higher of the amount of purchase or sale incurred between both parties.
- 5.2 For the company or business requiring short term funds financial, the total lending amount to them shall not exceed 40% of the Company's net value, whereas the lending amount to an individual borrower shall not be over 20% of the Company's net value. Also, the accumulated amount of the Company's short term financing funds shall not be over 40% of the borrowing company's net value.
- 5.3 When the foreign company with which the Company directly or indirectly holds 100% of their voting shares requires short term funds financing, the Company's total lending amount shall not exceed 100% of the borrowing company's net value, whereas the lending amount to an individual foreign borrowing company shall not exceed 50% of borrowing company's net value. In principle, each time of funds lending period shall be no more than one year or one business cycle (the one having the longer period shall prevail).

## **6. Funds lending period and calculation method**

- 6.1 In principle, each time of funds lending period shall be no more than one year or one business cycle (the one having the longer period shall prevail) from the day that the loan is released.
- 6.2 The interest of the lending funds shall be calculated on a monthly basis, in which the annual rate shall not be lower than the average rate of the Company's bank short term loans.
- 6.3 The loan interest shall be calculated and received once a month. In case of any special circumstances, it can be adjusted as the case may be after approval of the board of directors.

## **7. Funds lending processing and review procedure**

### **7.1 Execution unit**

The financial unit shall be responsible for the related operation of the Company's funds lending to other parties. The general manager may designate other dedicated personnel to help when necessary.

### **7.2 Processing and review procedure**

#### **7.2.1 Application**

The borrower shall provide their basic information and financial data, describe the funds application and indicate the borrowing period and amount, followed by applying for credit facilities in writing to the financial unit.

#### **7.2.2 Credit investigation**

7.2.2.1 After receiving the application, the Company's financial unit shall investigate and evaluate the borrower's business, financial status, solvency, credit, profitability and loan application, and prepare a report.

7.2.2.2 Those who borrow for the first time shall provide their basic information and financial data for the Company to process the credit investigation.

7.2.2.3 If it is a continuing borrowing, in principle, credit investigation shall be conducted again when application for the continuous borrowing is filed. If it is a serious or emergency case, credit investigation shall be conducted at any time as the case may be.

7.2.2.4 If the borrower has good financial condition, and its certified public accountant (CPA) has already issued the financing certification according to its annual financial statements, the investigation report which has been issued less than one year ago can continue to be used and the CPA auditing report for the period in question shall be attached as the reference for loan approval.

#### **7.2.3 Evaluation**

7.2.3.1 For the funds lending to a borrowing company having a business relationship with the Company, the Company's financial unit shall check if the funds lending amount is beyond both parties' trading amount. In case that short term funds financing is required by the borrower, the financial unit

shall list the reasons and status for funds lending accordingly.

7.2.3.2 The Company's financial unit shall discreetly review the necessity and rationality for funds lending to other parties and conduct the risk evaluation to assess the influence on the Company's operating, financial status and shareholders' equity.

7.2.3.3 For those loans that require collateral, the borrower shall provide collateral accordingly, for which the person in charge in the financial unit shall assess the value of the collateral, so as to secure the Company's credit right.

#### 7.2.4 Approval and notification

7.2.4.1 Prior to lending its funds to other parties, the Company's responsible personnel shall discreetly assess if the lending complies with the Procedures, followed by submitting the related data and drafted terms of the lending along with the evaluation results to the board of directors for resolution. Other personnel are not allowed to be authorized to determine the lending.

7.2.4.2 The proposal of the funds lending between the Company and its parent company or its subsidiaries shall be submitted to the board of directors for resolution according to the preceding paragraph. The president shall be authorized to release a loan to the same borrower within a certain limit resolved by the board of directors in installments or have the loan revolve within one year.

7.2.4.3 For the certain limit referred to in the preceding paragraph, except no limit in authorized lending to the foreign company with which the Company directly or indirectly holds 100% of their voting shares, the authorized limit for the Company or its subsidiaries' funds lending to an individual enterprise shall not be over 10% of the net value shown in the latest financial statements of the borrowing enterprise.

7.2.4.4 When lending its funds to other parties, the Company shall take the opinions from respective independent directors into account, and the specific affirmative and opposed opinions as well as the reasons for objections shall be recorded in the board meeting minutes book.

7.2.4.5 In the case that the board of directors does not pass a loan case, the responsible personnel shall notify the borrower of the rejection reasons as soon as possible.

7.2.4.6 If the board of directors resolves to approve a loan case, the responsible personnel shall notify the borrower of the approval, give an account of the Company's terms of lending which shall include the lending amount, period, interest rate, collateral and guarantor, etc. as soon as possible, whereas the borrower shall complete the contract signing procedure within the time limit.

#### 7.2.5 Contract signing and confirmation check

7.2.5.1 For any lending case, the responsible personnel shall draft the lending clauses, which shall be reviewed and approved by the supervisor and sent to the legal consultation committee for examination and approval before the contract signing procedure is implemented.

7.2.5.2 The contract content shall be consistent with the ratified lending terms, for which, after the borrower and the back-up guarantor put their signature and affix their seal on the contract, the responsible personnel shall complete the confirmation-check procedure.

#### 7.2.6 Collateral value assessment and pledge setting

For those loan cases that require collateral, the borrower shall provide collateral accordingly, for which the financial unit shall process the pledge or mortgage setting. In addition, the Company also requires assessment of the collateral value, so as to ensure the Company's credit right.

#### 7.2.7 Insurance

7.2.7.1 Except land and securities, the collateral shall be insured with the fire insurance policy and other related insurance policies. In principle, the insured amount shall not be lower than the value of the collateral, and the Company shall be listed as the beneficiary in the insurance policy. The underlying object's name, quantity, retention place, insurance terms and insurance endorsements shall be consistent with the Company's originally ratified lending terms.

7.2.7.2 The financial unit's responsible personnel shall be on the lookout for the expiration of the insurance, and be sure to notify the borrower of renewal of the insurance prior to expiration of the insurance.

#### 7.2.8 Loan release

After all the procedures covering approval of the terms of lending, establishment of the contract with the borrower, and completion of the collateral pledge (mortgage) registration are completed and confirmed correct, the funds lending case shall be sent to the financial unit for processing loan release.

### **8. Ensuing control measures for the lent loan amount and overdue debt handling procedure**

8.1 After release of a loan, the financial unit shall keep an eye on borrower and guarantor's financial, business and credit status. For those loans that have collateral, the financial unit shall be precautionous about the change in the value of the collateral. Furthermore, one month prior to expiration of the loan, the financial unit shall notify the borrower to prepare to liquidate the principal and interest. In case of running into significant change, the financial unit shall promptly report to the president and follow instructions to properly handle the case.

8.2. When a loan expires or a borrower plans to early retire their loan, the financial unit shall first calculate the accrued interest. After the borrower fully liquidates the principal and interest, the promissory note used to guarantee the borrowing can then be voided and returned to the borrower, or the mortgage deletion can then be processed.

8.3 If a borrower applies for mortgage deletion, the financial unit shall first check if there is any borrowing balance left before determining if agreeing to process the mortgage deletion.

### **9. Case registration and retention**

9.1 For the funds lending matters processed by the Company, the financial unit shall set up a reference book, in which the funds borrowers, funds lending amounts, the dates approved by the board of directors, loan release dates, and the matters discreetly assessed in accordance with the Procedures shall be recorded in the book in detail for future reference.

- 9.2 After a loan is released, the financial unit shall compile the debt obligation certificates, such as the contract and promissory, collateral certificates, insurance policies and other documents in order, and properly retain them.

## **10. Control procedure for subsidiaries' funds lending to other parties**

10. 1 In the case that a subsidiary of the Company plans to lend its funds to other parties, the Company shall order the subsidiary to set up the procedures governing management of funds lending to other parties in accordance with the "Rules Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" published by the FSC, for which the subsidiary in question shall follow the set procedures to process the case.
- 10.2 In the case that a subsidiary of the Company plans to lend its funds to other parties, it shall report to the Company and obtain the Company's approval before processing the case. The Company's financial unit and the designated dedicating personnel shall concretely evaluate the necessity and rationality of the funds lending to other parties, the risk, and the influence on the parent company and subsidiaries' business operating, financial status and shareholders' equity, followed by submitting the details to the general manager and president for approval.
- 10.3 For a loan released by a subsidiary, the subsidiary shall periodically submit its follow-ups of the loan to the parent company.
- 10.4 The Company's financial unit shall periodically evaluate the ensuing control measures taken for the funds lent by respective subsidiaries and assess if the overdue debt handling procedure is proper.

## **11. Public disclosure of information**

- 11.1 The Company shall transmit its funds lending balances and of its subsidiaries of the previous month to the Market Observation Post System prior to the 10<sup>th</sup> of each month.
- 11.2 When the Company's funds lending amount reaches any of the following standards, the information shall be transmitted to the Market Observation Post System within two days after the incident occurrence day.

- 11.2.1 The aforesaid incident occurrence day refers to the transaction contract signing day, payment day, or board of directors' resolution day, or any other day in which the transaction counterparty and transaction amount are confirmed (the one occurring earlier shall prevail).
- 11.2.2 When the Company and its subsidiaries' funds lending balance is over 20% of the net value shown in the Company's latest financial statements.
- 11.2.3 When the balance of the Company and its subsidiaries' funds lending to an individual enterprise is over 10% of the net value shown in the Company's latest financial statements.
- 11.2.4 When the increased amount of the Company and its subsidiaries' funds lending is over ten million NT dollars and exceeds 2% of the net value shown in the Company's latest financial statements.
- 11.3 For any of the Company's subsidiaries, if it is not a local public company and requires announcing or declaring the matter stated in the preceding 11.2.3, the Company shall make an announcement and declaration for the subsidiary.
- 11.4 The Company shall assess its funds lending status, set the allowance for bad debts aside, properly disclose the related information in the financial report and provide the CPA with related data for them to execute required auditing procedures.

## **12. Precautions to be taken in lending funds to other parties**

- 12.1 The Company's internal auditing personnel shall at least quarterly audit the operation procedure of funds lending to other parties and its execution status, and prepare the records in writing. In case of finding any material violation, they shall promptly notify the audit committee in writing.
- 12.2 In the case that the Company's funds borrower does not meet the "Rules Governing Loaning of Funds and Making of Endorsements/ Guarantees by Public Companies" published by the FSC or the lending balance is beyond the limit as a result of change in the circumstance, the financial unit shall lay down an improvement plan and send it to the president for approval, followed by submitting it to the board of



directors and the audit committee after obtaining the approval, and completing the improvement as the schedule set in the plan.

### **13. Penalties**

When processing the operation of funds lending to other parties, if the Company's managers and responsible personnel violate the "Procedures Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" published by the FSC or the "Procedures Governing Management of Funds Lending to Other parties" set up by the Company, their violation shall be submitted to the general manager, and they shall be punished according to the degree of their violation.

### **14. Implementation and revision**

14.1 After approval of the board of directors, the Procedures shall be submitted to the board of shareholders for approval, and implemented after obtaining the approval. If any director shows any objection which is on record or in a written statement, the Company shall submit the director's objection to the shareholders' meeting for discussion. The same shall also apply in case of any revision.

14.2 If the Company has independent directors and the Procedures are submitted to the board of directors for discussion as regulated in the preceding paragraph, the opinions from respective directors shall be taken into account, and the specific affirmative and opposed opinions as well as the reasons for objections shall be recorded in the board meeting minutes book.

14.3 If the Company has set up the audit committee as regulated, the institution or revision of the Procedures shall be agreed by more than half of the entire body of audit committee members before submitted to the board of directors for resolution. In case that the Procedures fail to pass the approval of more than half of the entire body of audit committee members, they can still be implemented if agreed by over two-thirds of the entire body of directors, in which the resolution adopted by the audit committee shall be recorded in the board meeting minutes book.