

Evertex Fabrinology Limited

Rules Governing Financial and Business Matters between the Company and Its Affiliated Enterprises

- Article 1 : To ensure sound financial and business interactions between the Company and its affiliated enterprises and to prevent non arm's-length transactions and improper channeling of interests with respect to the business transactions, the acquisition and disposal of assets, and loans of funds between the Company and its affiliated enterprises, these Rules are adopted pursuant to Article 17 of the Listed and OTC Companies Corporate Governance Guidelines.
- Article 2 : Except as otherwise provided by laws and regulations, the Articles of Incorporation, or by the Measures for the Administration of Investment Business, Procedures for the Acquisition or Disposal of Assets, financial and business matters between the Company and any of its shall be handled in accordance with the provisions of these Rules.
- Article 3 : The term “related party” as used herein means that shall be determined in accordance with the provisions of the Financial Reporting Standards for Securities Issuers. The term “affiliated company” as used herein means that in accordance with Article 369-1 of the Company Act, company exist independently but have the following relationships with each other:
1. A relationship of control or subordination.
 2. Mutual investment company. In determining whether a relationship of control or subordination under the preceding paragraphs exists, the substance of the relationship shall be considered in addition to the legal form.
- Article 4 : The Company shall establish an effective internal control system in regard to its own and its related party (include affiliated company) overall operational activities, and shall continue to review the system in order to adapt to changes in the internal and external environment and ensure that the system's design and operation remain effective. The Company shall ensure that any subsidiary develops an effective internal control system, taking into account the industry type of the subsidiary and the laws and regulations of the jurisdiction in which the subsidiary is located and the nature of its operations. For any related party that is not a public company, the Company shall still, in consideration of the degree of influence it has on the Company's business and finances, require that it develop effective systems for internal control and for managing financial, business, and accounting matters.
- Article 5 : In addition to implementing the adopted internal control system, the Company shall pay close attention to the following matters when exercising supervision over the operation and management of its affiliated company:
1. The Company shall obtain an appropriate number of the seats of director of the board and supervisor in the affiliated company in accordance with the percentage of the shares it holds.
 2. A director of the board that the Company assigns to an affiliated company shall regularly attend the affiliate's board meetings, and in order to monitor its operation, shall carefully review its corporate objectives and strategy, financial position, business performance, cash flows, and important contracts, as reported by the various members of the affiliate enterprise's management. The director assigned to the affiliated company shall ascertain the cause of any irregularity found, compile a record, and report the matter to the chairperson or president of the Company.
 3. A supervisor or independent director assigned to an affiliated company by the Company shall supervise the affiliate's business operations, investigate its financial

and business conditions, and review its books, records and audit reports, and may also request reports from the affiliate's board of directors or managerial officers. For any irregularity that may be found, the supervisor or independent director assigned to the affiliate shall ascertain the cause, compile a record, and report to the chairperson or president of the Company.

4. The Company shall assign competent personnel to assume important positions at its affiliated company, such as president, financial officer, accounting officer, or internal audit officer, in order to assume the duties and responsibilities of management, decision-making, and supervision and evaluation.
5. The Company, in consideration of the type of business, scale of operations, and number of personnel of a subsidiary, shall instruct the subsidiary in the procedures and methods for establishing an internal audit unit and adopting internal control system self-inspection operations.
6. In addition to reviewing the audit reports or self-inspection reports submitted by the subsidiaries, the internal auditors of the company shall also carry out audits of the subsidiaries on a scheduled or unscheduled basis. After audit findings and recommendations have been presented, they shall instruct the audited subsidiaries to make any necessary corrections, and shall prepare follow-up reports on a regular basis to ensure that the subsidiaries have taken appropriate corrective measures in a timely manner.
7. Subsidiaries of the Company shall regularly (before the 15th of each month) submit monthly financial statements for the preceding month, including balance sheets, income statements, statements of expenses, fund loan to others and endorsement guarantee monthly report etc. In the event of irregularities, analysis reports shall also be submitted to allow management and control by the Company. Other affiliated company shall also regularly (before the 15th of each quarter) submit financial statements for the preceding quarter, including balance sheets and income statements, for analysis and review by the Company.

Article 6 : The division of powers and responsibilities between the Company and its affiliated company with respect to personnel management shall be clearly identified, and personnel transfers between the two shall be avoided. However, where personnel support or transfer is indeed necessary, the scope of work, division of powers and responsibilities, and allocation of costs shall be specified in advance.

Article 7 : With respect to an affiliated company with which it has financial and business interactions, the Company shall especially maintain close control over material financial and business items for the purpose of risk management.

Article 8 : Any loans or endorsements/guarantees between the company and an affiliated enterprise shall be carefully assessed and carried out in compliance with the provisions of the Regulations Governing Lending of Funds and Making of Endorsements /Guarantees by Public Companies and with the procedures prescribed by the company regarding loans to others and provision of endorsements/guarantees.

With respect to the provision of loans, endorsements, or guarantees between the company and an affiliated enterprise, the matters set out below shall be closely reviewed, and results of the assessment submitted to the board of directors. Any loan of funds shall be made only by a resolution of the board of directors, and no other party may be authorized to decide on the matter. The board of directors, in accordance with the preceding paragraph, may authorize the chairperson to provide an endorsement or guarantee within a specific limit (according to the company's fund loan and endorsement guarantee operation procedures), provided it is subsequently submitted to and ratified by the next board meeting:

1. The necessity and the reasonableness of the loan or the endorsement or guarantee. When funds are loaned or an endorsement or guarantee is made because of business dealings, an assessment shall be made of whether the amount of the loan or amount of the endorsement or guarantee is commensurate with the total amount of the business involved. When shortterm financing is needed, the reasons for and the circumstances surrounding the loan shall be set out.
2. A credit check and a risk assessment of the counterparty requesting the loan or the endorsement or guarantee.
3. The effects on the company's operational risk and financial position and the rights and interests of its shareholders.
4. Whether collateral must be obtained, and an appraisal of its value.

Any endorsement or guarantee provided pursuant to Article 5, paragraph 2 of the Regulations Governing Lending of Funds and Making of Endorsements/Guarantees by Public Companies between any subsidiaries in which the company directly or indirectly holds 90 percent or more of the voting shares shall first be submitted for a resolution by the board of directors of the company, except when an endorsement or guarantee is provided between companies in which the company directly or indirectly holds 100 percent of the voting shares.

Any proposed loan between the company and its parent or a subsidiary, or between its subsidiaries, shall be submitted for a resolution by the board of directors. The chairperson may also be authorized, with respect to a specific borrowing counterparty, and within a limit resolved by the board of directors and a period not to exceed 1 year, to provide an accreting loan or to make available a revolving line of credit.

The board of directors shall give full consideration to each independent director's opinion with respect to loans, endorsements, or guarantees between the company and any of its affiliated enterprises. Specific opinions by independent directors expressing assent or dissent, and the reasons for dissent, shall be included in the minutes of board meetings.

When a loan of funds for short-term financing is necessary between any two foreign companies in which the company directly or indirectly holds 100 percent of the voting shares, the loan amount is not subject to the restriction of 40 percent of the net worth of the company making the loan. The amount of an endorsement or guarantee between two companies in which the company directly or indirectly holds 90 percent or more of the voting shares may not exceed 10 percent of the company's net worth, except for endorsements or guarantees between two companies in which the company directly or indirectly holds 100 percent of the voting shares.

The company shall properly implement subsequent control measures with respect to loans or endorsements or guarantees. When there is a likelihood of overdue claims or the occurrence of loss, the company shall adopt appropriate conservatory measures to safeguard its rights and interests.

Article 9 : Price terms and payment methods shall be expressly stipulated for any business interaction between the Company and any related party. The purpose, pricing, and terms of a transaction, and its formal and substantive nature and the related handling procedures, shall not differ markedly from those of a normal transaction with a non-related party, nor may they be obviously unreasonable.

When business needs require the purchase of finished products, semi-finished products, or materials from an affiliated enterprise, purchasing personnel shall thoroughly evaluate the reasonableness of the price quoted by the affiliated enterprise based on market prices and other transaction terms and conditions. Except in special circumstances, or given advantageous conditions that differ from those of ordinary suppliers, under which the

granting of preferential pricing or terms of payment can be reasonably stipulated, any other prices and payment terms shall be commensurate with those offered to ordinary suppliers.

Price quotes for the sale of any finished products, semi-finished products, or materials to an affiliated enterprise shall be made with reference to current market prices. Except in cases of long-term cooperation or other special factors that are different from ordinary clients, under which reasonable stipulations may be made to grant preferential pricing or terms of payment, any other prices and payment terms shall be commensurate with those offered to ordinary clients.

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For professional or technical services provided between the Company and an related party, both parties shall enter into a contract stipulating the scope of the services, fees charged, time period, payment terms, and after-sales service. All contract terms and conditions shall comply with normal business practice.

By the end of each quarter, the accounting personnel of both the Company and its related party shall perform cross checks of the balances of accounts payable and receivable resulting from the transactions between each other for the preceding quarter. If any discrepancies are found, accounting personnel shall identify the cause and prepare a reconciliation statement.

Article 9-1 : If the Company purchases and sells goods, conducts labor services or technical service transactions from related parties, and the transaction amount is expected to reach 5% of the Company's latest consolidated total assets or net consolidated operating income in the latest year, in addition to the applicable provisions of the standards for the treatment of assets acquired or disposed of by a publicly offered company, or a transaction between the Company and the parent company, subsidiaries or subsidiaries, the following information shall be submitted to the board of directors for approval before the transaction may be made:

1. The project, purpose, necessity and expected benefits of the transaction.
2. The reason for selecting the related party as the transaction counterparty.
3. The principle of calculating the transaction price and the upper limit of the estimated transaction amount for the whole year.
4. An explanation of whether the trading conditions comply with normal commercial terms and do not harm the interests of the Company and shareholders.
5. Restrictions on transactions and other important matters.

For transactions with related parties in the preceding paragraph, the following matters shall be submitted to report to the latest shareholders' meeting after the end of the year:

1. Actual transaction amount and terms.
2. Whether it is handled in accordance with the principle of calculation of the transaction price approved by the board of directors.
3. Whether the maximum transaction amount for the whole year approved by the board of directors has not been exceeded. If the maximum transaction amount has been exceeded, the reason, necessity and reasonableness should be stated.

Article 10: Any asset transaction, derivative trading, merger, demerger, acquisition, or share transfer between the Company and an related party shall be conducted in accordance with "Regulations Governing the Acquisition and Disposal of Assets by Public Companies"

and the Company's Procedures for the Acquisition or Disposal of Assets.

The Company acquiring or disposing of securities from related party or acquisition of securities with affiliated company as the target, shall prior to the date of occurrence of the event, obtain financial statements of the issuing company for the most recent period, for reference in appraising the transaction price, and if the amount of the transaction is 20% of the Company's paid-in capital or NTD 300 million or more, the Company shall additionally engage a CPA prior to the date of occurrence of the event to provide an opinion regarding the reasonableness of the transaction price. This requirement does not apply, however, to publicly quoted prices of securities with an active market, or where otherwise provided by the regulations of the competent authority.

Expert opinion for intangible assets or right-of-use asset thereof or memberships Where the Company acquires or disposes of intangible assets or right-of-use assets thereof or membership cards from related party and the transaction amount reaches 20% or more of its paid-in capital or NTD300 million or more, except in transactions with a domestic government agency, the Company shall engage a CPA prior to the date of the occurrence of the event to render an opinion on the reasonableness of the transaction price.

Article 11 : When the Company intends to conduct any acquisition or disposal of real property or its right-to-use assets from or to any of its related party, or to conduct an acquisition or disposal of assets other than real property or its right-to-use assets from or to any of its related party in which the transaction amount is 20 percent or more of the Company's paid-in capital, 10 percent or more of its total assets, or NT\$300 million or more, with the exception of the purchase or sale of government bonds, repo or reverse repo bond transactions, or subscription to or redemption of domestic money market funds, the following information shall be submitted to the audit committee & the board of directors for approval, the Company may enter into a contract for the transaction and pay the required monies:

1. An appraisal issued by a professional appraiser as required by regulations, or an opinion of a CPA.
2. The purpose, necessity, and projected benefits of the acquisition or disposal of real property.
3. The reason for choosing the related party as a trading counterparty.
4. Information relating to appraisal of the reasonableness of the predetermined transaction terms in accordance with Articles 16 and 17 of the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" when acquiring real property or its right-to-use assets from a related party.
5. The date and price at which the real property was originally acquired by the related party, the trading counterparty, and the trading counterparty's relationship with the Company and its related party.
6. Monthly cash flow forecasts for a full year commencing from the scheduled month of contract signing, and an evaluation of the necessity of the transaction and the reasonableness of the utilization of funding.
7. Any restrictions on the transaction and other important stipulations.
8. An opinion issued by a CPA engaged to review whether the transaction with the affiliated enterprise conforms with ordinary commercial terms and whether it is not damaging to the interests of the company and its minority shareholders.

When the amount of the transaction of acquisition or disposal of real property, equipment or right-to-use assets under the preceding paragraph is 20 percent or more of the Company's paid-in capital, 10 percent or more of its total assets, or NT\$300 million or more, the Company shall obtain an appraisal report issued by a professional appraiser. If the discrepancy between the appraisal result and the transaction amount is 20 percent

or more of the transaction amount, the Company shall additionally request a CPA to provide a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price, and it shall be approved by a majority of the directors in attendance at a board of directors meeting attended by two-thirds or more of the directors.

In an acquisition of real property from a related party, if the actual transaction price is higher than the appraised transaction cost, and no objective evidence can be presented and no concrete opinion that the transaction is reasonable can be obtained from a professional appraiser and a CPA, the board of directors shall thoroughly review the transaction and determine whether it may prejudice the rights and interests of the Company and its shareholders, and when necessary, shall refuse to enter into the transaction. The audit committee shall also exercise its powers in respect of such a transaction, and when necessary shall notify the board of directors to stop the transaction.

When a transaction as described under the preceding paragraph has been approved by the audit committee and the board of directors, the Company shall set aside a special reserve against the difference between the transaction price and the appraised cost, and may not distribute the difference or use it for capital increase or for issuance of bonus shares. In addition, the Company shall report the handling of the above transaction to the shareholders meeting and shall disclose the details of the transaction in the annual report and any prospectus.

When any of the following circumstances is present in a transaction with an affiliated enterprise, the materials in the first paragraph should still be submitted to the shareholders' meeting for approval, and shareholders with their own interests are not allowed to participate in voting:

1. If a public company or a subsidiary thereof that is not a domestic public company will have a transaction set out in paragraph 1 and the transaction amount will reach 10 percent or more of the public company's total asset.
2. A change in the Company Act, Articles of Incorporation or internal process of the transaction amount and terms that materially affects shareholder equity or corporate operations.

Article 12 : With respect to any financial or business interaction between the Company and any related party that requires a resolution of the board of directors, full consideration shall be given to each independent director's opinion. Specific opinions by independent directors expressing assent or dissent, and the reasons for dissent, shall be included in the minutes of board meetings.

When a director or an institutional investor he or she represents is a stakeholder with respect to a particular agenda item of the board meeting, which may be detrimental to the interests of the Company, that director shall enter into recusal, shall not participate in the discussion and vote on that item, and shall not exercise voting rights as proxy for another director. Directors shall maintain self-discipline among themselves and may not enter into relationships of inappropriate mutual support with other directors.

If a director's spouse, family members and relatives within the second degree of kinship, or a company with which the director has a controlling relationship is interested in the particular agenda item of the board meeting referred to in the preceding paragraph, the director shall be deemed to have an interested in such matter.

Upon discovering that, in the course of their duties, the board of directors or a director has committed a violation of laws or regulations, the Articles of Incorporation, or a shareholders meeting resolution, the audit committee shall immediately notify the board of directors or the individual director to cease the misconduct, and shall take appropriate

measures to curb expansion of the misconduct. When necessary, it shall also file a report with the relevant competent authority or agency.

Article 13 : The Company, in compliance with the requirements of laws and regulations regarding matters that must be publicly disclosed or filed and the deadlines for so doing, shall make timely arrangements for the provision by each subsidiary of required financial and business information, or to retain CPAs to audit or review the financial reports of each subsidiary.

The Company shall publicly disclose the consolidated balance sheets, consolidated statements of comprehensive income, and CPA secondary review reports covering affiliated enterprises by the deadlines for the filing of the annual financial reports under applicable laws and regulations. Information on any increase, decrease, or other change in affiliated enterprises shall be filed with the Taiwan Stock Exchange Corporation (TWSE) within two (2) days of the change.

Information on any material transaction between the Company and a related party shall be fully disclosed in the annual report, financial statements.

If a related party experiences financial difficulties, the Company shall obtain its financial statements and related materials in order to assess the resulting effect on the finances, business, or operations of the Company, and when necessary, appropriate conservatory measures shall be adopted to safeguard the Company's rights as a creditor. Under the above circumstances, in addition to specifying the resulting effect on the Company's financial position in its annual report and prospectus, the Company shall also make a timely announcement of material information on the Market Observation Post System (MOPS).

Before the end of each month, the company should enter the related party transactions of the previous month and up to the previous month on the MOPS - "Related Party Transactions Area", including "Sales", "Purchases", "Receivables", "Accounts Payable", "Acquisition of assets" and "Disposition of assets" and other related information.

The company shall disclose the balance and schedule information of the "capital loan" and "endorsement guarantee" between the company and its subsidiaries in the previous month at the MOPS before the tenth of each month.

Article 14 : When any of the following for the Company's affiliated company, it shall make a public disclosure and regulatory filing on its behalf.

1. For a subsidiary whose shares have not been publicly issued domestically, the dollar amount of the subsidiary's acquisition or disposal of assets, endorsements or guarantees for others, and loans of funds to others meets the criteria for public disclosure and regulatory filing.
2. The parent or the subsidiary undergoes bankruptcy or reorganization proceedings pursuant to applicable laws and regulations.
3. A major policy is adopted by resolution of the affiliated enterprise's board of directors that has a material effect on the rights and interests of the shareholders or the securities prices of the company.
4. Any matter regarding a subsidiary or the unlisted parent of the company constitutes material information required to be announced under the provisions of the Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities.

Article 15 : These Rules, and any amendments hereto, shall be implemented after adoption by the audit committee and the board of directors, report to the shareholders' meeting, and the same is true for revisions.