CMC Magnetics Corporation
Procedures for Loaning of Funds and Making of Endorsements/Guarantees Operation

Chapter I General Principles

Approved during the meeting of shareholders on June 5, 2019

Article 1: These Procedures are defined in accordance with Article 36-1 of the Taiwan Securities and Exchange Act and “Regulations governing Loaning of Funds and Endorsements/ Guarantees” (hereinafter referred to as the “Regulations”).

Article 2: The Company shall comply with these Procedures when making loans to and endorsements/guarantees for others.

Article 3: Under Article 15 of the Company Act, the Company shall not loan fund to any of its shareholders or any other person except under the following circumstances:

1. Where an inter-company or inter-firm business transaction calls for a loan arrangement.
2. Where an inter-company or inter-firm short-term financing facility is necessary.

The term "short-term" means within the period of one year.

Article 4: The term "endorsements/guarantees" as used in these Procedures refers to the following:

1. Financing endorsements/guarantees, including:
   (1) Bill discount financing.
   (2) Endorsements/guarantees 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.
2. Customs duty endorsements/guarantees, meaning endorsements/guarantees for the Company itself or another company with respect to customs duty matters.
3. Other endorsements/guarantees, meaning endorsements/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 these Procedures.

Article 5:The Company's endorsements/guarantees are limited to the following companies. However, inter-industry or joint creations based on the needs of contracting projects are mutually protected according to the contract. Or because of the joint investment relationship, the endorsement of the Company by the Company and all the capital contribution shareholders according to their shareholding ratio guarantees that they are not subject to this article.

1. A company with a business relationship with our Company.
2. Our Company in which directly and indirectly holds more than 50% of the voting shares of the company.
3. A company that directly and indirectly holds more than 50% of the voting shares in the Company.

The Company in which holds, directly or indirectly, 90% or more of the voting shares of a company, 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.

Capital contribution referred to in the preceding paragraph shall mean capital contribution directly by our Company, or through a company in which our Company holds 100% of the voting shares.

Article 6: The Company has determined that this Procedure shall be approved by more than one-half of all members of the audit committee, and the resolution of the board of directors shall be implemented after the approval of the shareholders' meeting. If any director expresses dissent and it is contained in the minutes or a written statement, the company shall submit the dissenting opinion to the audit committee, and for discussion by the shareholders' meeting. The same shall apply to any amendments to the Procedures.

When the company submits this Procedure to the board for discussion in accordance with the provisions of the preceding paragraph, it shall fully consider the opinions of the independent directors and include their clear agreeing or dissenting opinions and reasons for objections in the board's meeting minutes.

If the first item is not approved by more than one-half of all members of the audit committee, it may be agreed by more than two-thirds of all directors, and the resolution of the audit committee shall be stated in the minutes of the board's meeting. All the members of the audit committee referred to in the foregoing procedure and all the alleged directors are calculated by the actual incumbent.

Chapter II Formulation of Operation Procedures

Section I Loans of Funds to Others

Article 7:The Company's Loaning Funds to Others should be handled according to the following Operating Procedures:

1. Entities to which the company may loan funds: It shall be in accordance with the provisions of Article 3 of this Procedure.
2. Evaluation standards for loaning funds to others:

   The Company and other companies or firms call for a loan arrangement due to business relationship with loan to others, or when short-term financing facility is necessary, subject to the following circumstances:

   (1) The company has more than 20% of the invested company.

   (2) Other companies or firms.
3. The aggregate amount of loans and the maximum amount permitted to a single borrower:

   The Company's funds are in line with the reasons set out in the preceding article, and the maximum amount is limited to 40% of the company's net value. The limits for a single borrower are as follows:

   1. A subsidiary that has no business transactions with the Company and is not directly or indirectly holding 50% of the Company's shares shall not exceed NT$300 million (based on the funds exchange and the remittance of the daily exchange rate as the limit evaluation basis).
   2. A subsidiary that has business transactions with the Company but is not directly or indirectly holding 50% of the company's shares. The amount of individual loans is no more than the amount of business transactions between the two parties ("Business transaction amount" refers to the amount of purchase or sale between the parties, whichever is higher).
   3. A subsidiary that has business transactions with the Company and is directly or indirectly holding 50% of the Company's subsidiaries. The amount of individual loans is 15% of the Company's net worth or the amount of business transactions (as defined above) between the two parties, whichever is higher, is the limit.
   4. A subsidiary that has no business transactions with the Company but is directly or indirectly holding 50% of the Company's subsidiaries. The amount of individual loans is limited to 15% of the Company's net worth.

   The maximum amount of the fund loan of the subsidiary and others shall not exceed 40% of the net worth of the subsidiary. However, the foreign companies that directly and indirectly hold 100% of the voting shares of the company or the foreign companies that directly and indirectly hold 100% of the voting shares of the company, engage in capital lending to the Company. The maximum limit is not more than 100% of the company's net worth.
4. Duration of financing and calculation of interest:

The term of the financing is limited to one year, but the foreign company that directly and indirectly holds 100% of the voting shares of the company. Or the Company directly and indirectly holds 100% of the voting shares of the foreign companies engaged in the Company's financial loans, its duration for financing is limited to five years.

Calculation of interest：shall not be lower than the highest interest rate of the Company's short-term capital borrowing from the financial institution during the same period and shall calculate interest on a monthly basis. Subsidiaries engaged in the Company's financial loans are handled according to their Operating Procedures.

5. Review procedures：

(1) In accordance with the provisions of Subparagraph (1) of Paragraph 2 in this Article, the financing of the affiliated company, shall be based on the financing request (or official letter) issued by the affiliated company and the relevant departments shall review the necessity and the reasonable amount of the loan. And assessing the use, purpose and benefits of the loan according to its financial status, solvency, credit and profitability, and providing opinions on whether the signing should be loaned. The financial department shall formulate the interest rate and duration, and shall handle them in accordance with provisions of Subparagraph (3) of Paragraph 5 in this Article.

(2) In accordance with the provisions of Subparagraph (2) of Paragraph 2 in this Article, the financing of non-affiliated company shall, in addition to the handling of the preceding paragraph, obtain secured notes worth the same value. If necessary, appropriate movable property or real property mortgage setting should be handled

(3) In accordance with the foregoing provisions of Subparagraphs (1) to (2), the Company intends to loan funds to others. After the credit evaluation of the relevant departments, the credit investigation and risk assessment forms are issued and approved by the general manager and the chairman and submitted to the board of directors for approval.

(4) The loan between the Company and its subsidiaries, or between its subsidiaries, shall be reported to the board of directors for the resolution. Authorize the chairman to the same loan and party, a certain amount of loan that is decided by the board of directors, and disbursement or circulating within period of no more than one year. A certain amount referred to in the previously shall not exceed the net value of the Company's latest financial statements by 10%, unless it meets the requirements of Paragraph 3 in this Article.

6. Subsequent measures for management of loans, and procedures for handling delinquent creditor's rights:

(1) The board of directors decides to pass the loan and funds to others. The relevant departments of the company shall, in the case of appropriations and loans and deposits, login the loan amount into the checklist, and collect the interest on the loan periodically according to the contract of both parties.

(2) Make an inventory the collateral regularly to ensure the effectiveness of the creditor's rights and collateral.

(3) The borrower shall provide financial statements to the relevant departments of the Company on a regular basis to monitor its operational status and operating results.

(4) The approach for handling delinquent creditor's rights: shall be reported to the general manager and the chairman of the board for approval, and submitted to the board of directors for resolution.

(5) Procedures for handling delinquent creditor's rights：

In the event that the creditor's rights of others are overdue in accordance with the Operating Procedures. The relevant department of the Company shall be responsible for the assessment in any of the following approaches and shall report to the board of directors for action in accordance with the provisions of the preceding subparagraph of this paragraph.

(1)Extension of creditor's rights: Re-evaluation according to the procedures set out in the Paragraph 5 in this Article.

(2)Disposal of collateral immediately: The relevant department of the company, together with the legal supervisor, handles the "acquisition and disposal of assets" as set out by the Company.

Article 8:Where a subsidiary of the Company intends to make loans to others, the formulation of the Operational Procedures, audit and operation methods shall be handled in accordance with this Procedure.

Section II Endorsements/Guarantees for Others

Article 9: The Company's Operating Procedures for Endorsements/Guarantees

1. Entities for which the Company may make endorsements/guarantees: it shall be handled in accordance with the provisions of Article 5 of this Procedure.
2. Evaluation standards for endorsements/guarantees due to business dealings:

   When the Company needs to apply for endorsements/guarantees due to business needs, in addition to the provisions of Paragraph 4 in Article 9 of this Procedure, the amount of endorsements/guarantees shall not exceed the amount of business transactions between the two parties.
3. The ceilings on the amounts the Company is permitted to make in endorsements/ guarantees

   The total amount of the Company's external endorsements/guarantees is limited to 30% of the company's current net value, and the amount of its endorsements/guarantees for any single entity is limited to 30% of the company's current net value.

   The aggregate amount of the external endorsements/guarantees that is set for the Company's and its subsidiaries shall not exceed 50% of the Company's current net value. The Company's endorsements/guarantees for a single enterprise endorsement shall not exceed 30% of the company's current net value. The current net value is based on the most recent financial statements.
4. Procedures for handling and scrutinizing endorsements/guarantees:

   (1) When handling endorsements/guarantees, the applicant should fill in the endorsements/guarantees application form, state the endorsements/guarantees relationship between the parties, amount, nature and period, etc. The Company shall evaluate the necessity and

the reasonability of the entity for which the endorsements/guarantees are made, the impact of operational risk, financial status and shareholders' equity, whether the collateral and the assessed value of collateral should be obtained, etc. All the above are analyzed and made into a risk assessment form. The related endorsements/guarantees party is a subsidiary whose net value is less than one-half of the paid-up capital. The subsidiary shall immediately submit an improvement report signed by the general manager to explain the relevant plans and timelines for the subsequent improvement of the net value, so as to provide high-level supervisors to review their qualifications on a case-by-case basis, whether the amount meets the requirements of this Operating Procedure, and whether it has reached the declared reporting standard, and if necessary, collateral should be obtained.

If the subsidiary's stock has no par valued or the par value is not NT$10.The amount of paid-up capital calculated in the preceding paragraph shall be the sum of the capital reserve plus the issue premium.

The endorsements/guarantees application form and the risk assessment form shall be submitted to the chairman for approval and submitted to the board of directors for discussion and consent. If still within the prescribed authorization amount, the chairman shall verify the credit level and financial status of the party engaged in endorsements/guarantees. Afterwards, it shall be reported to the most recent board of directors.

(2) The department of finance shall establish an archive for the endorsements/

guarantees application form and the risk assessment form. After the endorsements/guarantees is approved by the board of directors or the chairman, in addition to applying for seal in accordance with the prescribed Procedures, The commitment guarantee, the name of the company to be guaranteed, the risk assessment result, the amount engaged in endorsements/guarantees, the date, the content of the collateral and the conditions or the date for terminating the endorsements/guarantees responsibility, and the date of the approval by the board of directors or the chairman's decision date. All shall record in details for the time being, and the relevant notes shall also be photocopied for safe keeping.

(3) The finance department shall prepare a schedule of the guarantees that occur and cancel on a monthly basis. Control the tracking, and engaged in announcement and report, and provide a statement to the account department for the quarterly assessment and recognition of the contingent loss of endorsements/ guarantees. In the financial report, reveal endorsements/guarantees information and provide relevant information for CPA.

(4) Before the end of the endorsements/ guarantees date, the finance department shall take the initiative to notify the guaranteed enterprise to take back the guarantee notes of the retained bank or creditor institution, and cancel the relevant deed of endorsements/guarantees.

5. Procedures for managing endorsements/guarantees by subsidiaries:

The formulation and operation content for external endorsements/ guarantees of the subsidiary company shall be handled in accordance with the provisions of this Procedure. The subsidiaries that directly or indirectly hold more than 90% of the voting shares of the Company, their Procedures for managing endorsements/ guarantees should be handled in accordance with Paragraph 2 in Article 5, after the resolution of the board of directors of the Company. However, except for the following, the Company directly and indirectly holds 100% of the inter-company endorsements/guarantees of voting shares.

The subsidiary shall report the amount, party and duration of the endorsements/ guarantees to the company before the 5th of each month. However, if it meets the standards set out in Article 20 of this Procedure, The Company shall immediately notify the company to make an announcement.

6. Procedures for custody of the corporate chop
   (1) The company had used the corporate chop registered with the Ministry of Economic Affairs as the dedicated chop for endorsements/ guarantees. The chop custodian is selected according to the chop usage and management method. When the chop custodian changes, it shall report to the board of directors for approval and the chop kept is included in the transfer.
   (2) After the resolution of endorsements/guarantees is approved by the board of directors or by the chairman of the board. The finance department shall fill out the “application/borrowing company chop application form”, together with the approval record and endorsements/guarantees contract or guarantee notes, etc. The mentioned printed documents have been approved by the financial supervisor, and the company chop will be used to seal by the custodian.
   (3) When the custodian uses the chop, he/she should check whether the board of directors or the chairman's approval record and the "use/borrow corporate chop application form" are approved by the financial supervisor and the application for the printed documents is consistent. After sealed, it should be indicated on the "please use/borrow chop application form".
   (4) When making a guarantee for a foreign company, a public company shall have the guarantee agreement signed by the chairman or general manager authorized by the board of directors.
7. Hierarchy of decision-making authority and delegation thereof:
   (1) When the Company makes any endorsements/guarantees, it shall be signed in accordance with the relevant procedures set out in Article 9 of this Procedure and shall be approved by the resolution of the board of directors. However, in order to meet the statute of limitations, the board of directors must authorize the chairman to decide in accordance with relevant regulations, and report it to the board of directors for ratification.
   (2) If the endorsements/guarantees are necessary for business needs and exceeds the endorsements/guarantees limit specified in Paragraph 3 in Article 9 of this Procedure, it must be approved by the board of directors and signed by more than half of the directors. Amend this Operation Procedure and report it to the shareholders' meeting for ratification.

When the shareholders' meeting disagrees, the plan shall be made to eliminate the overrun limit within a certain period of time.

Article 10: Where a subsidiary of the Company intends to make endorsements/guarantees for others, the Company shall instruct it to formulate its own Operational Procedures for endorsements/guarantees in compliance with these regulations, and it shall comply with the Procedures when making endorsements/guarantees.

Chapter III Implementation Evaluation

Section I Loans of Funds to Others

Article 11: The Company shall prepare a memorandum book for its fund-loaning activities and truthfully record the following information: borrower, amount, date of approval by the board of directors, lending/borrowing date, and matters to be carefully evaluated under Paragraph 5 of Article 7.

The Company's internal auditors shall audit the Operational Procedures for Loaning Funds to Others and the implementation thereof no less frequently than quarterly and prepare written records accordingly. They shall promptly notify all the supervisors in writing of any material violation found.

Article 12: If, as a result of a change in circumstances, an entity for which endorsements/guarantees are made does not meet the requirements of these Procedures or the loan balance exceeds the limit, the Company shall adopt rectification plans and submit the rectification plans to the audit committee and report to the board of directors, and shall complete the rectification according to the timeframe set out in the plan.

Section II Endorsements/Guarantees for Others

Article 13: The Company shall prepare a memorandum book for its endorsements/guarantees activities and record in detail for the record. The matters to be carefully evaluated under Subparagraph 2 of Paragraph 4 in Article 9.

The Company's internal auditors shall audit the Operational Procedures for Loaning Funds to Others and the implementation thereof no less frequently than quarterly and prepare written records accordingly. They shall promptly notify all the supervisors in writing of any material violation found.

Article 14: The party to whom the Company provides endorsements/guarantees no longer satisfies the criteria set forth in Article 5 herein, or the amount of endorsements/guarantees exceeded the limits due to changes of basis on which the amounts of limits are calculated. The endorsements/guarantees amount or overdue portion of the object shall be eliminated at the

expiration of the time limit set by the contract. The non-contracted party shall be eliminated by the financial department after approval by the chairman of the board of directors within a certain period of time. The related plans shall be submitted to the audit committee and report to the board of directors, and shall complete the rectification according to the timeframe set out in the plan.

Article 15:If the employee of the company undertakes Loaning Funds to Others and Endorsements/Guarantees Procedure. If there is any violation of the provisions of this Operating Procedure, the employee shall be report and assess according to the personnel management method and employee handbook of the Company, and shall be punished according to the circumstances.

Chapter IV Information Disclosure

Section I Loans of Funds to Others

Article 16: The Company shall, in accordance with the relevant regulations of the authority, announce and report the previous month's loan balances of its parent company and subsidiaries by the 10th day of each month.

Article 17: The information of the Company's loan balance which reaches one of the following levels shall be announced and reported within two days from today of date of occurrence of the event:

1. The aggregate balance of loans to others by the Company and its subsidiaries reaches 20% or more of the Company's net worth as stated in its latest financial statement.
2. The balance of loans by the Company and its subsidiaries to a single enterprise reaches 10% or more of Company's net worth as stated in its latest financial statement.
3. The amount of new loans of funds by the Company or its subsidiaries reaches NT$10 million or more, and reaches 2% or more of Company's net worth as stated in its latest financial statement.

"The date of occurrence" of the above-mentioned facts refers to the date of contract signing, date of payment, board resolution date or other dates on which the counterparty for fund loan or endorsements/guarantees and monetary amount are determined.

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 3 of the preceding paragraph.

Article 18: The Company shall evaluate the status of its loans of funds and reserve sufficientallowance for bad debts, and shall adequately disclose relevant information in its financial reports and provide the CPA with relevant information for implementation of necessary Auditing Procedures.

Section II Endorsements/Guarantees for Others

Article 19: The Company shall announce and report the previous month's balance of endorsements/guarantees of itself and its subsidiaries by the 10th day of each month.

Article 20: The information of the Company's balance of endorsements/guarantees which reaches one of the following levels shall be announced and reportd within two days from today of the date of occurrence of the event:

1. 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.
2. 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.
3. The balance of endorsements/guarantees of the Company and its subsidiaries for a single enterprise reaches NT$10 millions or more ,and the aggregate amount of its endorsements/guarantees for the equity investment in its book value, and balance of loans to such enterprise reaches 30% or more of the Company's net worth as stated in its latest financial statement.
4. 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 date of occurrence" of the above-mentioned event refers to the date of contract signing, date of payment, board resolution date or other dates on which the counterparty for fund loan or endorsements/guarantee and monetary amount is determined.

The Company shall announce and report on behalf of any subsidiary thereof that is not a public company of Taiwan, any matters that such subsidiary is required to announce and report pursuant to subparagraph 4 of the preceding paragraph.

Article 21: 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 the CPA with relevant information for implementation of necessary audit Procedures.