

Operating Procedures for Loaning Funds to Others of Kenda Rubber Ind. Co., Ltd.

Resolved on June 11, 2019 at the Annual Meeting of Shareholders

1. To increase the reliability and integrity of financial management.
2. The Company has formulated these Operating Procedures in accordance with the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” promulgated by the competent authority. The Company's operating procedures for loaning of funds to others are carried out in accordance with these Operating Procedures.
3. The formulation/amendment/repeal of these Procedures is handled as required by the competent authority.
4. The manager of these Procedures is the Head of Finance Department.
5. According to Article 15 of the Company Act, the Company may not loan funds to shareholders or other persons unless under the following circumstances:
 - 5.1 Where an inter-company or inter-firm business transaction calls for such a lending arrangement
 - 5.2 Where an inter-company or inter-firm short-term financing facility is necessary provided that the amount of such a financing facility shall not exceed forty percent of the amount of the net worth of the lending enterprise.

The Company's financial reports are prepared according to the International Financial Reporting Standards. “Net worth” in these Regulations means the balance sheet equity attributable to the owners of the parent company under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

The term “short-term” as used in the Article is defined as one year, or where the company's operating cycle exceeds one year, one operating cycle. The term “financing facility” as used in the Article is defined as the cumulative balance of the Company's short-term financing.
 - 5.3 The restriction in 5.2 shall not apply to inter-company loans of funds between overseas companies in which the Company holds, directly or indirectly, 100% of the voting shares, nor to loans to the Company by any overseas company in which the Company holds, directly or indirectly, 100% of the voting shares. However, the Company shall be subject to the limits prescribed in 5.7 and shall not exceed 50% of the net worth of the Company's most recent financial statements audited or reviewed by the accountants. The aggregate amount of such loans shall not exceed 60% of the net worth of the Company's most recent financial statements audited or reviewed by the accountants.
 - 5.3.1 Where the responsible person of the Company violates the proviso of 5.1, 5.2, or 5.3, he/she shall be jointly liable with the borrower for the repayment of the loan. Where the Company suffers any loss, the responsible person of the Company shall be held accountable for such loss.
 - 5.4 The aggregate amount of the Company's loans to others may not exceed 60% of the net worth of the Company's most recent financial statements audited or reviewed by the accountants. The limits for each loan borrower, according to the reason for the loan are as follows:

- 5.4.1 For those with who the Company has business dealings, the amount of a loan to a single enterprise may not exceed the Company's purchase or sales amount in the most recent year or the current year when a fund is loaned to the borrower, whichever is higher.
- 5.4.2 For those with a necessary financing facility, the amount of a loan to a single enterprise may not exceed 40% of the net worth of the Company's most recent financial statements audited or reviewed by the accountants.
- 5.5 Procedures for loaning funds:
- 5.5.1 The Company's loans or short-term financing facilities are carried out after they have been reviewed and approved by the Authority Department, then approved by the chairman and finally submitted to the Board of Directors for resolution. Loans of funds between the Company and its parent company or subsidiaries, or between its subsidiaries, shall be submitted for resolution by the Board of Directors pursuant to the preceding paragraph, and the chairman may be authorized, for a specific borrowing counterparty, within a certain monetary limit resolved by the Board of Directors, and within a period not to exceed one year, to give loans in installments or to make a revolving credit line available for the counterparty to draw down.
Except for companies meeting 5.2 and 5.3, the "certain monetary limit" mentioned in the preceding paragraph on authorization for loans extended by the Company or any of its subsidiaries to any single entity shall not exceed 10% of the net worth of the Company's most recent financial statements.
- 5.5.2 The finance unit shall establish a memorandum for loaning of funds (as show in Attachment 1). After a loan has been approved by the Board of Directors, the borrower, amount, date of approval by the Board of Directors, lending/borrowing date and matters to be carefully evaluated under the procedures shall be truthfully recorded.
- 5.5.3 The Company's internal auditors shall audit the Operating Procedures for Loaning Funds to Others and the implementation thereof no less frequently than quarterly and prepare written records accordingly. They shall promptly notify the Audit Committee in writing of any material violation found.
- 5.5.4 The finance unit shall prepare a monthly statement of the loan and write-offs for tracking and public reporting. The finance unit shall assess and provide adequate allowance for bad debts and disclose information on the loan while also providing relevant information to CPAs.
- 5.5.5 If, as a result of a change in circumstances, a borrowing entity fails to meet the requirements of the Regulations prescribed by the competent authority or the loan balance exceeds the limit, the Company shall adopt rectification plans and submit the rectification plans to the Audit Committee, and shall complete the rectification according to the timeframe set out in the plan.
- 5.6 Review procedures for loaning funds:
- 5.6.1 Prior to providing a loan, the borrowing inter-company or inter-firm shall first enclose financial

information and explain the reason for the loan in writing.

- 5.6.2 After the Company receives the application, the Authorization Department investigates and evaluates the necessity and reasonableness of the loan to others, whether the borrower has direct (indirect) business relations with the Company, their financial condition, solvency and credit, profitability and use of the loan. The Authorization Department also considers the degree of impact of the total amount of the loan on the Company's operations, financial condition and shareholders' equity. Then a written report will be prepared to be submitted to the Board of Directors for review.
- 5.6.3 When providing a loan or short-term financing facility, the Company shall obtain a guaranteed bill in the same amount. Movable or immovable property may be set up as collateral if necessary. The value of the collateral shall be evaluated on a quarterly basis to ensure it is equivalent to the balance of the loan and provide additional collateral if necessary. With respect to the preceding "loan guarantee", if the debtor provides a personal or corporate guarantee of comparable capital or credit in lieu of providing collateral, the Board of Directors may refer to the review report prepared by the Authorization Department. Borrowers using their company as a guarantee shall check whether there are provisions regarding guarantees in the Charter.
- 5.7 Duration of loans and calculation of interest:
 - 5.7.1 Loans provided by the Company shall be repaid within a year. Loans to the Company by any overseas company in which the Company holds, directly or indirectly, 100% of the voting shares shall be repaid within 5 years.
 - 5.7.2 The interest on the Company's loans may not be lower than the average interest rate for short-term loans from financial institutions and shall be calculated each month. In case of special circumstances, with approval of the Board of Directors, adjustments may be made according to the actual situation.
- 5.8 Subsequent measures for control and management of loans, and procedures for handling delinquent creditor's rights:
 - 5.8.1 After a loan has been allocated, the Finance Department shall take frequent notice of the changes in the financial, business and relevant credit condition of the borrower and their guarantor as well as changes in the value of collateral, and written records shall be prepared. In the event of a major change, the president and relevant authority units must be immediately notified to handle such change as soon as possible.
 - 5.8.2 Where a borrower repays the loan before the due date or on the due date, the borrower shall repay the loan together with the principal plus interest payable before the guaranteed bill can be returned to the borrower or have the mortgage cancelled.
 - 5.8.3 Where a borrower fails to repay the loan by the due date and requires to extend the period, the borrower must submit a request in advance and pay the interest payable together plus interest payable before the guaranteed bill can be returned to the borrower or the guarantor for disposition

and compensation in accordance with the law.

5.9 Announcement and reporting procedures:

5.9.1 The finance unit shall submit the previous month's loan balances of the Company and subsidiaries to the accounting unit by the 10th day of each month. The finance unit shall also announce and report the turnover each month within the prescribed period.

5.9.2 In addition to announcing and reporting the loan balances, the Company and subsidiaries whose loans of funds reach one of the following levels shall announce and report such event within two days commencing immediately from the date of occurrence:

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

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 subparagraph 3 of the preceding paragraph.

“Date of occurrence” in the preceding paragraph means the date of contract signing, date of payment, dates of Board of Directors resolutions, or other date that can confirm the counterparty and monetary amount of the loan of funds, whichever date is earlier.

5.10 Procedures for controlling and managing loans by subsidiaries:

5.10.1 Where a subsidiary of the Company intends to make loans to others, the Company shall instruct it to formulate its own Operating Procedures for Loaning Funds to Others in compliance with these Regulations, and it shall comply with the Procedures when loaning funds.

5.10.2 When subsidiaries of the Company make loans to others, they shall establish their respective “internal control system” and “Operating Procedures for Loaning Funds to Others”. The previous month's loan balances of the subsidiaries, the counterparty and the duration of the loan must be reported by the 5th day of each month to the Company in writing.

5.10.3 If the subsidiaries of the Company are not public companies, and loan balances of these subsidiaries meet the standard required for public announcement and reporting as stated in Article 5.9.2, they shall notify the Company on the day of occurrence and the Company shall make public announcement and reporting on the designated website.

5.11 Where the relevant case officer making the Company's loaning of funds violates the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” promulgated by the SFI or these Procedures, it shall be handled according to the following

depending on the seriousness of the violation. A record of violations will serve as a reference for annual performance appraisal.

- 5.11.1 Violation of approval authority: First-time offenders will be given a verbal warning; repeat offenders shall be given a written warning and be forced to attend the Company's internal control training courses. Offenders with multiple violations or with serious cases shall be transferred.
- 5.11.2 Violation of audit procedures: First-time offenders will be given a verbal warning; repeat offenders shall be given a written warning and be forced to attend the Company's internal control training courses. Offenders with multiple violations or with serious cases shall be transferred.
- 5.11.3 Violation of public announcement and reporting: First-time offenders will be given a verbal warning; repeat offenders shall be given a written warning. Offenders with multiple violations or with serious cases shall be transferred.
- 5.11.4 Supervisors of the offender must also be punished, except for those with reasonable explanation as to why they did not take precautions beforehand.
- 5.11.5 Where the Board of Directors or directors violate relevant regulations or resolutions of the shareholders' meeting during performing duties, their behavior must be stopped by the Audit Committee pursuant to Article 218-2 of the Company Act.
- 5.12 The formulation or amendment of these Operating Procedures shall be approved by at least one-half or more of all Audit Committee members, followed by resolution at the Board of Directors, then submitted to the shareholders' meeting for approval. If approval of one-half or more of all Audit Committee members as required in the preceding paragraph is not obtained, the procedures may be implemented if approved by two-thirds or more of all directors, and the resolution of the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.

The terms "all Audit Committee members" and "all directors" in these Procedures shall be counted as the actual number of persons currently holding those positions.