

## **X-LEGEND Entertainment Corp.**

### **Operational Procedures for Loaning of Company Funds**

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#### Article 1: Purpose

In order to serve as the standard to be followed by the Company in loaning of funds, 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 benefits and rights. 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: Counterpart of loaning and evaluation standards

Under Article 15 of the Company Law, the Company shall not loan funds to any of its shareholders or any other person except the following circumstances:

1. Companies or firms having business relationship with the Company.
2. Companies or firms requiring short-term financing facility from the Company;

provided that such financing amount shall not exceed 40 percent of the lender's net worth.

3. The restriction in the subparagraph 2 shall not apply to inter-company loans of funds between foreign companies in which the Company holds, directly and indirectly, 100% of the voting shares. However, the provisions of Article 5 concerning duration of loans and calculation of interest shall still apply.

The business transaction referred to in the subparagraph 1 of the preceding paragraph means purchase from or sale to the Company.

The inter-company or inter-firm requiring short-term financing facility with the Company as referred to in the subparagraph 2 of the preceding paragraph is limited to the company or firm in which the Company holds more than 50 percent of shares and which requires the short-term financing facility to meet its business need. The term "financing amount" means the cumulative balance of the Company's short-term financing. The term "short-term" as used herein means the longer of one year or one operating cycle, according to the written interpretation given by the Ministry of Economic Affairs.

#### Article 4: Aggregate amount of loans and limit of amount permitted to a single borrower

The aggregate amount of loans granted by the Company to another party shall be no more than 40% of the net worth of the latest financial statements audited or certified by the external auditor. The limit of amount permitted to a single borrower is categorized into the following two types:

1. For loaning to the company or firm having business relationship with the Company, the aggregate amount of loan shall be no more than 20% of the Company's net worth. The limit of amount permitted to a single borrower shall be no more than the trading amount between both parties in the most recent year or until the loan is granted in the year.
2. For loaning to the company or firm requiring short-term financing facility from the Company, the aggregate amount of loan shall be no more than 20% of the Company's net worth. The limit of amount permitted to a single borrower shall be no more than 10% of the Company's net worth.

The term "having business relationship" referred to in the item 1 of the preceding paragraph shall mean the purchases or sales amount between both parties whichever is

higher.

#### Article 5: Duration of loans and calculation of interest

1. The duration of loan shall commence from the date of granting the loan, but shall be no more than one year or one business cycle (whichever is longer).

Notwithstanding, one extension (one year or one business cycle) may be permitted upon resolution of the board of directors.

One extension (one year) may be permitted without resolution of the board of directors, in the case of loaning to a company whose voting shares are 100% owned, directly or indirectly, by the Company.

2. The interest on the loan shall accrue on a daily basis, i.e. total of the balance of daily loan (namely, aggregates) multiplying by the annual interest rate and then divided by 365. The annual interest rate shall be no less than the average interest rate on the short-term loan borrowed by the Company from a bank.

3. Unless otherwise provided, the interest accruing on the loan shall be paid once per month. The Company shall notify the borrower to pay the interest as scheduled within one week prior to the agreed date of interest payment. Adjustment is permitted upon resolution of the board of directors, in the case of any special circumstances.

#### Article 6: Loaning and review procedure

##### 1. Level of authorization

(1) The Company may loan funds to others only upon resolution of the board of directors. The Company shall not empower any other person to make such decision.

(2) Loans of funds between the Company and its subsidiaries, or between the subsidiaries, shall be submitted for a resolution by the board of directors pursuant to the preceding paragraph, and the chairman may be authorized, for the same borrower, within a certain limit of credit 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 borrower to draw down.

- (3) The "certain limit of credit" mentioned in the preceding paragraph shall be in compliance with item 3 of Paragraph 1, Article 4 herein. In addition, the limit of authorization on loans extended by the Company or any of its subsidiaries to any single entity shall not exceed 10% of the net worth of the latest financial statements of the Company.
  - (4) The Company has appointed independent directors. When granting loans to others, 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.
2. The borrower shall complete the application form and attach necessary financial information, specifying the purpose of fund, duration of loan and amount, and submit the same to the Company's financial unit then may draw down the fund.
3. Upon receipt of the application form, the financial unit shall carefully review the borrower's information, including:
  - (1) The necessity and reasonableness of extending loans to others.
  - (2) Borrower credit status and risk assessment.
  - (3) Impact on the Company's business operations, financial condition, and shareholders' equity.
  - (4) Whether collateral must be obtained and appraisal of the value thereof:

When the borrower requests the financing facility in accordance with this Procedure, the financial unit may ask the borrower to provide equivalent notes or collaterals to secure the loan. Where the borrower provides an individual or company with considerable credit to replace the collaterals, the financial unit shall obtain the investigation report on the borrower's credit and submit to the board of directors for reference. If a company is provided to secure the loan, it shall be asked to present the provisions of its articles of incorporation which define that it may make guarantees, if any. In the case of the circumstances referred to in item 2 of Paragraph 1, Article 4 herein, the collaterals may be exempted.
4. Where funds are loaned for reasons of business dealings, the financial unit shall evaluate whether the amount of a loan is commensurate to the total amount of trading between the two companies. Where short-term financing is needed, the

reasons for and conditions of extending loans shall be enumerated.

5. Where the financial unit's credit investigation report shows that the borrower's credit is poor or the purpose of loan is inadequate and, therefore, the financial unit plans to refuse granting the loan, shall identify the reasons of rejection and report the same to the president for reconsideration and then respond to the borrower as soon as possible.
6. Where the financial unit's credit investigation report shows excellent credit and adequate purpose of loan, the financial unit shall report the relevant credit investigation information and loaning terms and conditions to the board of directors via the president.
7. After the board of directors resolve to grant the loan after receipt of the credit investigation and evaluation, the handler shall notify the borrower in writing promptly, specifying the terms and conditions of loan granted by the Company, including limit, duration, interest rate, collateral and guarantor, et al., and ask the borrower to conclude the contract within specific time limit.
8. The Company shall prepare a reference book for its fund-loaning activities and truthfully record the important information related to the loaning.

#### Article 7: Internal control

1. The Company shall prepare a reference 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 as required.
2. The Company's internal auditors shall audit the Operational Procedures for Loaning of Company Funds 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, if any.
3. The Company shall evaluate the status of its loans of funds and reserve sufficient allowance for bad debts, and shall adequately disclose relevant information in its financial reports and provide certified public accountants with relevant information for implementation of necessary auditing procedures.

#### Article 7-1: Subsequent measures for control and management of loans, and procedures for

handling delinquent creditor's rights

1. After granting the loan, the Company shall keep watching the financial, business and credit status of the borrower and guarantor. If any collateral is provided, the Company shall also note whether there is any fluctuation in the value of collateral. If there is material fluctuation, the same shall be reported to the president immediately, and take adequate actions per the president's instruction.
2. The borrower shall calculate the interest payable upon expiration of the loan or earlier repayment of the loan prior to expiration of the loan, and return the promissory note to the borrower after cancelation of the same or cancel the creation of mortgage after repayment of the principle plus interest in full.
3. Where it is impossible to collect the repayment upon reminder after expiration of the loan and the Company still fails to collect the same upon necessary notice, the Company will take the action to protect its creditor's right pursuant to laws to ensure the Company's benefit and right.
4. If, as a result of a change in circumstances, an entity to which the loan is granted fails to meet the procedure herein or the loan balance exceeds the limit, the financial unit shall define the correction action plan and submit the plan to all supervisors, and shall complete the correction according to the schedule set out in the plan.

#### Article 8: Control over loaning by subsidiaries to others

1. Where any of the Company's subsidiaries wishes to grant loan to others, it shall define its operational procedures for loaning of company fund 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 loan granted to others no less frequently than quarterly and prepare written records accordingly. They shall promptly notify the Company's head office in Taipei in writing of any material violation, if any.
3. The subsidiary shall summarize the information about balance of the loan granted to 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 loan granted to 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 9: Announce and report

1. The Company shall announce and report the previous month's loan balances of the Company and the subsidiary by 10th day of each month.
2. If the Company's balance of loan 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 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 statements.
  - (2) The aggregate balance of loans to a single entity by the Company and its subsidiaries reaches 10 percent or more of the Company's net worth as stated in its latest financial statements.
  - (3) The amount of new loans of funds by the Company or its subsidiary reaches NT\$10 million or more, and reaches 2 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 3 of the preceding paragraph.

#### Article 10: Penalty

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

#### Article 11: 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.

When submitting the Procedure to the board of directors for discussion pursuant to the requirement 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.