

# Procedures For Endorsements and Guarantees of Far Eastern Department Stores Ltd (the Company)

Article 1 All endorsements and guarantees of the Company shall be in compliance with these "Procedures for Endorsements and Guarantees" ("Procedures"). Endorsements and guarantees referred to herein shall have the meaning set forth below:

- 1) Financing endorsements and guarantees, including:
  - (i) bills discounting financing;
  - (ii) endorsements or guarantees made to meet the financing needs of another companies;
  - (iii) issuance of separate bills to a non-financial enterprise as security to meet the financing needs of the Company.
- 2) Customs duty endorsements and guarantees refer to an endorsement or guarantee for the Company itself or another company with respect to customs duty matters.
- 3) Other endorsements and guarantees refer to those beyond the scope of the above sub-paragraphs. 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 be governed by these Procedures.

Article 2 The Company may make endorsements/guarantees for the following companies:

- 1) companies with whom the Company has business relationships;
- 2) a company in which the Company directly and indirectly holds more than 50 percent of the voting shares ; and
- 3) a company that directly and indirectly holds more than 50 percent of the voting shares in the Company.

Companies in which the public company holds, directly or indirectly, 90% of the voting shares may make endorsements/guarantees for each other and the amount of an endorsement/guarantee shall not exceed 10% of the Company's net worth as stated in its latest financial statement reviewed or audited by a CPA (the Company's latest net worth). However, Subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company shall not apply to the circumstances.

The above restrictions in the preceding two paragraphs shall not apply to the circumstances where the Company fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry, or for the co-producers of the same project, for the purpose of construction project, or where all shareholders make endorsements/guarantees for their jointly invested companies in proportion to their shareholding percentages.

Invested companies said in the preceding paragraph are those invested directly by the Company, or by the subsidiaries of which the Company owns 100% voting shares.

Subsidiaries and holding company as referred to in these Procedures shall be those as determined under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Article 3 The aggregate amount of endorsements and guarantees issued by the Company shall be no more than the Company's latest net worth. The total amount of the Company's endorsements and guarantees provided for any individual company shall be limited to 60% of the Company's latest net worth.

The aggregate amount of endorsements and guarantees issued by the Company and its subsidiaries shall not exceed 150% of the Company's latest net worth. The balance of endorsements/guarantees provided by the Company for an individual company shall not exceed 60% of the Company's latest net worth. As the aggregate amount of endorsements and guarantees to others provided by the Company and its subsidiaries exceed more than 50% of the Company's latest net worth, the Company should state its necessity and reasonableness in the shareholder's meeting.

Where 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.

Article 4 Prior to the provision of endorsements or guarantees, the Company's finance department shall carefully evaluate its compliance with the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies ("Regulations"), these Procedures, including the following items and prepare and submit to the Audit Committee the evaluation report for approval, and the board of directors for approval; provided that, due to the time-constraints, the board of directors may authorize the Chairman to approve such provision subject to ratification by the board of directors in the upcoming meeting:

- 1) necessity and rationale of the endorsements/guarantees;
- 2) credit standing and risk evaluation of the party to be secured under such endorsements/guarantees;
- 3) impact on the Company's operation, financial condition and shareholders' interests;  
and
- 4) whether collaterals are required and appraised values of such collaterals.

A company that directly and/or indirectly holds more than 90 % of the voting shares in the Company shall follow accordingly to Article 2, paragraph 2 to allow the Audit Committee and allow the board of directors to make any endorsements/guarantees to other parties. This, however, does not apply to any company that directly and/or indirectly holds 100% of the voting shares in this company.

Where the Company provides endorsement and guarantees as a result of business transactions, it should separately assess whether the amount of endorsement and guarantee is comparable to the value involved in such business transactions. The value involved in the business transactions refers to the value represented by orders placed, sales or transactions contemplated by the parties during the year immediately prior to

such provision of endorsements/guarantees.

Where the Company proposes to provide an endorsement and/or guarantees as a result of business transactions which is in conformity with the conditions set out herein but exceed the limit as stipulated above as a result of business needs, it shall require the approval of the Audit Committee and the board of directors and the joint guarantee by more than half of the Directors in respect of the possible loss incurred by the excessive guarantee, as well as amendment to these Procedures subject to ratification by the Shareholders' Meeting. In the event that the Shareholders' Meeting raises objection, the Company shall formulate a proposal to cancel the excess within stipulated time limit.

The board of directors shall take into account the opinions of the independent directors and furthermore record in the minutes of such meetings the independent directors' consenting or dissenting opinions and the reasons in holding a meeting discussing the conditions above-mentioned, this Procedures or providing endorsements and/or guarantees.

Where the parties secured by such endorsements/guarantees fail to comply with these Procedures or the amounts have exceeded the limits as a result of changes in the circumstances, the Company shall prepare improvement plans and forward the same to the Audit Committee. Improvement shall be completed within the time limit stipulated in improvement plans.

If the subsidiary which the Company and its subsidiaries make endorsements and guarantees to, and whose net worth is lower than half of its paid-up capital, the Company should pay attention to its financial, operational and other related credit conditions. If there are collaterals provided, attention should be paid to the collateral's value change. Endorsements/Guarantees should be ended when major, unfavorable condition occurs. In the case of a subsidiary with shares having no par value or a par value other than NT\$10, for the paid-in capital in the calculation under the preceding paragraph, the sum of the share capital plus paid-in capital in excess of par shall be substituted.

If approval of more than half of all Audit Committee members as required is not obtained, the procedures may be implemented if approved by more than two-thirds 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" shall be counted as the actual number of persons currently holding those positions.

Article 5 The Company shall use its seal registered with the Ministry of Economic Affairs as the designated seal for the provision of endorsements and guarantees.

Article 6 The designated seal for the provision of endorsements and guarantees of the Company shall be handed to appointed persons for safekeeping; use of the said seals shall be in conformity with the Company's regulations.

The board of directors shall give its approval for the appointment of or changes to the person tasked with the safekeeping of seals.

Where the Company provides guarantees for foreign companies, its letter of guarantee shall be signed by a person authorized by the board of directors.

Article 7 The Company's endorsements and guarantees shall be made based on the "Application for

Endorsements and/or Guarantees" duly filled by the company requiring the same. The Company shall set up specific files and record detailing the name of the company secured by endorsements/guarantees provided, the relevant amount, the date of approval by the Audit Committee, the date of resolved by the Board or that on which the Chairman had approved, the date of endorsement and guarantee, and matters of due diligence as required under Article 4 (1) herein.

The Company's internal audit department shall conduct at least a quarterly audit of these Procedures and status of implementation and make written records in details. In the event of major irregularities, the internal audit department shall inform the Audit Committee of the same in writing.

Article 8 The Company shall before the 10th day of each month publish and report the endorsements/guarantees it and its subsidiaries provided and their balance amounts as of the end of last month.

Where limits of the Company's endorsements/guarantees set below have occurred, the Company shall publish and report within two days commencing immediately from the date of occurrence:

- 1) The aggregate balance of endorsements/guarantees provided by the Company and its subsidiaries has reached 50% or more of the Company's latest net worth; or
- 2) The balance of endorsements/guarantees provided by the Company and its subsidiaries for an individual company has reached 20% or more of the Company's latest net worth; or
- 3) The balance of endorsements/guarantees provided by the Company and its subsidiaries for an individual company has reached Ten Million New Taiwan Dollars (NT\$10,000,000) or more and the aggregate amount of all endorsements/guarantees, the booking value of any investment accounted for using equity method, and balance of loans to, such company has reached 30% of the Company's latest net worth; or
- 4) The additional endorsement/guarantee provided by the Company or its subsidiary has reached Thirty Million New Taiwan Dollars (NT\$30,000,000) or more and has reached 5% or more of the Company's latest net worth.

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 any subparagraph of the preceding paragraph.

The "public announcement and report" referred to herein shall be those entered into the web-site designated by the Financial Supervisory Commission for reporting information. Date of occurrence in the Procedures refers to the date of contract signing, date of payment, dates of boards of directors' resolutions, or other date that can confirm the counterpart and monetary amount of the endorsements/guarantees, whichever date is earlier. The Company shall assess the status of endorsements/guarantees provided and reserve an appropriate amount to offset against contingent loss. The Company shall furthermore disclose the relevant information in its financial statements and provide the certified accountants with relevant materials for them to carry out the necessary audit processes.

Article 9 Subsidiaries of the Company proposing to provide endorsements/ guarantees for others shall prepare their respective procedures in compliance with the Regulations, and shall implement such procedures accordingly. Subsidiaries of the Company shall report the same to the Finance department of the Company and the Finance department of the Company will compile all procedures from subsidiaries to report to the board of directors for approval.

Subsidiaries of the Company shall on their own evaluate whether their procedures in relation to endorsements/guarantees are in compliance with the Regulations and whether endorsements/guarantees provided are in compliance with their procedures. The Company's internal audit department shall review the self-evaluation reports of the said subsidiaries.

Subsidiaries of the Company which are also domestic public companies shall on their own undertake the public announcement and report in compliance with regulations.

Subsidiaries of the Company shall submit, before the 5th day of each month, detailed statements of the endorsements/guarantees provided as of the end of last month to the Company for consolidation.

Article 10 Endorsements/guarantees provided by the Company shall be in compliance with the Regulations and these Procedures. In the event that any managers or person undertaking the matters with respect herewith are found to be in breach of provisions herein in material aspect or causing damage to the Company, the Company shall discipline the said persons in accordance with the internal rules on employee reward and punishments and the relevant personnel regulations.

Article 11 These amended Procedures shall be forwarded to Shareholders' Meeting for approval upon approved by the Audit Committee and resolved by the board of directors. Directors' dissents recorded in the meeting minutes or written statements shall also be forwarded by the Company to the Audit Committee and Shareholders' Meeting for discussion.

\*In case of any discrepancy between this English translation and the Chinese text of this document, the Chinese text shall prevail.