

Directions on the Business Angel Investment Program, National Development Fund, Executive Yuan

Passed on May 9, 2018
Amended on September 5, 2018
Amended on September 27, 2018
Amended on January 28, 2019
Amended on April 30, 2019
Amended on July 15, 2019

1. Basis

These Directions are set in accordance with the *National Development Fund, Executive Yuan Business Angel Investment Program* (this Program hereafter).

2. Objective

Through this Program, the aim is to establish a sound startup investment mechanism to improve the angel investment environment in Taiwan; the National Development Fund (hereafter referred to as “**the NDF**”), angel investors, domestic and foreign investment institutions will co-invest in startups and provide startups with initial and subsequent operating capital; the investment experience of angel investors and investment institutions will also be used to provide the invested businesses with follow-up guidance and advice and network linkages.

3. Handling method

This Program will be executed for five years, with the NDF allocating NT\$1 billion. The NDF will entrust the Taiwan Venture Capital Association (the executing agency hereafter) to handle receipt of applications, review, disbursement, post-investment management and other matters for this Program.

4. Definition of terms

- (1) Angel investors referred to in this Program must be able to provide at least one mentor to guide the invested business, such as the following institutions, organizations or their members:

i. Angel investment fund

Fund management companies focused on investment in startups or professional management institutions entrusted by such companies.

ii. Venture capital enterprise

Venture capital enterprises or venture capital consulting enterprises legally established and registered according to the Company Act or Limited Partnership Act.

iii. Angel investment organization

Organizations focused on investment in startups, the main members of which have participated in one or more startup investment case in the previous two years.

iv. Angel investment club

Investment clubs which have established an angel investment fund including but not limited to investment clubs set up by universities.

v. Accelerator or incubator

Domestic or overseas startup accelerators or incubators that can linkup with angel investment funds.

(2) Current employees or former members of the aforementioned financial institutions and organizations or representatives of angel investors or enterprise that have a track record of investing in startups should submit the following documents for checking when making an application.

i. Proof of participation in one or more startup investment case, for example, the list of shareholders that have previously invested in startups.

ii. Copies of previous investment remittance slip or bank transfer record.

iii. Provide a Financial Statement proving the provision of a monthly salary of NT\$200,000 or more or net assets of NT\$15 million or more.

(3) The startups referred to in this Program are enterprises that have been established for less than three years and have paid-in-capital or actual amount of fundraising of no more than NT\$80 million. However, this restriction can be removed upon agreement

of investment review committee.

5. Investment subjects

Startups registered in Taiwan or overseas startups with their main business operations in Taiwan, limited to newly established startups or startups that are carrying out capital increase (in cash) for expansion and have not been publicly offered or have not entered the capital market (including TWSE-listed, TPEX-listed, or emerging-stock company). However, the fact that the main business activities are in Taiwan shall be clearly stated when the application is filed by a foreign venture in Taiwan.

6. Application eligibility

Under this Program, angel investors or startups will submit an application; startups that receive angel investor investment will be considered for investment under this Program on a priority basis.

7. Investment principles

- (1) Startups registered in Taiwan or overseas startups with their main business operations in Taiwan, limited to newly established startups or startups that are carrying out capital increase (in cash) for expansion and have not been publicly offered or have not entered the capital market (including TWSE-listed, TPEX-listed, or emerging-stock company).
- (2) Under this Program, angel investors should provide guidance and assistance to the invested business, while also co-investing with the NDF, other than where the investment review committee agrees otherwise.
- (3) In principle, the maximum amount that can be invest in a single business under this Program cannot exceed NT\$20 million.
- (4) If a startup has obtained the investment commitment from domestic and foreign investment institutions with accumulated funds raised or assets under management of more than US\$1 billion when applying for this investment Program, the initial investment amount of this Program may be

increased to NT\$30 million, as long as it does not exceed the investment amount of the investment institution.

- (5) When an enterprise that the NDF invested in conducts a capital increase, the amount of subsequent cash capital increase and the amount of investment by the NDF may be up to NT\$100 million.
- (6) The co-investment ratio will be raised under this Program in accordance with area, industry and composition of management team
- (7) Funding from government agencies, including the NDF, should be less than 50% percent of the invested business capital.
- (8) An angel investor should fully disclose its stakeholder relationship with the business it applies to co-invest in under this Program.

8. Investment review mechanism

- (1) Applications, review or other entrusted matters for this Program will be handled by the investment review committee.
- (2) Apart from the chairperson (every review meeting should have five committee members in attendance), the other four committee members are chosen by drawing lots from members of the Program's review committee and a list of the NDF investment review committee technical review personnel, with two invited to attend in order from each list.
- (3) An investment case must receive approval from more than half of attending members for this Fund to take part in investment.
- (4) If the invested enterprise has subsequently applied for capital increase and the subscription of the fund exceeds the subscribed shares calculated according to the NDF's original shareholding ratio, the number of present members of the investment review committee shall be increased to seven.

9. Application and review process

- (1) When the applicant makes an application for investment, the following documents should be submitted:

- i. Investment case application form.
- ii. When the applicant is an angel investor, an angel investor investment assessment plan, suggested content including startup (invested) business introduction, startup (invested) business fundraising planning and angel investor summary (suggested contents including but not limited to existing capital scale, past investment performance, main areas of investment of existing investment portfolio and investment situation) etc. should be attached.
- iii. When the applicant is a startup, a startup operating plan should be attached; suggested contents include company introduction, explanation of company operating situation (including company core value, technology and markets etc.) introduction of management team, revenue and financial planning, fundraising planning etc. In addition, a CPA-certified or self-audited financial statements for the past three years should be provided (not required for a newly established company).
- iv. When the applicant is a domestic startup, copies of tax registration, commercial registration or documents approving incorporation registration issued by the competent authority should be attached, together with credit certificates (Joint Credit Information Center credit inquiry record, personal credit report etc.) for the person in charge or top management (including but not limited to chairman, general manager etc).
- v. If the applicant is a foreign startup that does its main business activities in Taiwan, the applicant shall state clearly in the operating plan the fact that its main business activities are in Taiwan and provide supporting documents.
- vi. If the applicant is a foreign startup that does its main business activities in Taiwan, the applicant shall submit a copy of the Certificate of Incorporation (CI), the Certificate of Incumbency (COI), the Certificate of Good Standing and other company incorporation documents issued within the previous six months, as well as the credit certificate of the principal or main operator of the enterprise (including but not limited to chairman and general manager)

such as Debtors/Creditors Listing Report and Credit Report provided by the Joint Credit Information Center. Please provide official documents in Mandarin Chinese or English and indicate that the documents are in conformity with the original.

- vii. If an angel investment organization is an overseas enterprise, the organization shall submit a copy of the Certificate of Incorporation (CI), the Certificate of Incumbency (COI), the Certificate of Good Standing and other incorporation documents issued within the previous six months. If there are no documents listed above in the place where the angel investment organization is established, please attach the official documents with the validity and content consistent with the afore-mentioned documents issued by the local government where the company is established for inspection. Please provide official documents in Mandarin Chinese or English and indicate that the documents are in conformity with the original.
- viii. If a single domestic or foreign investment institution has raised funds or managed assets of more than US\$1 billion, it shall provide official documents of fundraising or assets management of a total amount of US\$1 billion or more.
- ix. Other declaration or supporting documents as required in the notes to application.

If the applicant refuses to provide the aforementioned application materials, declaration or supporting documents, the executing agency may refuse to accept the application.

Prior to the approval of the investment application, if there is any change in the facts stated by the applicant, the applicant shall immediately notify the executing agency in writing and correct the relevant documents.

If the applicant makes false statements or fails to disclose the matters that should be notified, the executing agency may decline the application or rescind the investment contract with the consent of the NDF, and the applicant shall bear the related legal liabilities arising from the application without objection.

(2) Investment review process

- i. The applicant should submit an investment case application form to this Program's executing agency together with all required documentation, which in accordance with the status of the applicant, should include an angel investor investment assessment report and startup (invested) business operating plan.
- ii. After the applicant makes an investment application, the executing agency will check the contents of the application and the related documents to ensure the investment case meets this Program's investment requirements and will then, in accordance with the application documents, fill-out an investment case checklist and report the case to the investment review committee for review.
- iii. When reporting to the investment review committee for review, the investment case applicant will report the contents of the investment case to the committee; if the applicant is a startup and has been recommended by an angel investor, the angel investor should also attend the meeting.
- iv. Investment cases approved by the investment review committee will only be participated in after it is deemed that the decisions of the review committee have been accorded with.
- v. In cases when an angel investor approved by the NDF applies for investment from the Fund of less than NT\$3 million and said investment is not less than that of this Program, the NDF will participate in the investment and report details of the case to the investment review committee.

(3) Contract signing and disbursement process

- i. After an application is reviewed by the investment review committee applicants

will be notified of the outcome by the Program's executing agency as will the NDF.

- ii. After an approved angel investor makes a small scale investment application and the NDF investment is approved the applicant will be notified by the Program's executing agency as will the NDF.
- iii. If on receiving the review outcome the applicant agrees to accept the investment review committee's report and the conditions of approved the NDF investment, said applicant should send an official letter to that effect to the Program's executing agency.
- iv. Once the Program's executing agency receives said letter from the applicant, it will make arrangements with the trust fund account, business startup and angel investor to sign an investment agreement.
- v. After the Program's executing agency confirms all copies of the investment agreement are signed it will instruct the trust fund account to disburse the funds and the Program will officially begin its investment in the startup.

10. Investment management

(1) Matters to be handed by the executing agency:

- i. To ensure that this Program's principle of use of specific funds for a specific purpose is adhered to with regard investment funds, the executing agency should enlist a financial institution to serve as this Program's trust management institution, open a trust capital special account and handle this Program's investment disbursement and other matters.
- ii. Under this Program, the executing agency will sign an investment agreement with the angel investor and invested business and notify the trust management institution to handle trust capital special account investment disbursement matters.
- iii. After the NDF participates in investment, the executing agency should obtain the invested business's stock or rights certificates and place them in the custody of the Program's trust management institution.

- iv. The executing agency should, in accordance with related regulation, handle post-investment management and corporate governance affairs with regard the invested businesses and report this Program's handling situation to the NDF annually.
- v. The executing agency should provide financial information and operation situation data for this Program's invested businesses to the NDF on a quarterly basis; the NDF representatives can accompany the executing agency's personnel to invested businesses to understand their operating situation.

(2) Matters to be handled by the invested business

- i. Provision of financial information and a review of the company's operations to the executing agency on a quarterly basis. If the invested business is a startup that mainly operates overseas, the financial information provided must be approved by the board of directors.
- ii. Arrange on-site visits in cooperation with the executing agency's nonscheduled inspection requests.
- iii. Provide notification of important meetings such as board meetings or shareholders' meetings.
- iv. Transaction behavior between the invested business and interested parties should follow the following regulations: :
 - (i) A stakeholder relationship refers to a relationship between trader and invested business that matches related party or affiliated company as described in Article 369-1 to 369-12 of the Company Act.
 - (ii) When an investment review decision regarding the invested business is made under this Program, interested parties should adhere to the principle of avoidance of conflict of interest and should not take part in the vote.
 - (iii) Transactions with related parties must be reported in advance to the board of directors case by case and the executing agency informed in writing.

(3) Matters to be handled by the angel investor

- i. Provide at least one mentor to guide the invested company's operational growth.
 - ii. Regularly obtain financial information and explanation of operating situation of the invested business, keep abreast and understand its financial and operating situation and pass such information to the executing agency for collection and organization.
 - iii. Take part in the important meetings of the invested business such as board meetings, operational or business meeting and shareholders' meeting.
- (4) The NDF will disclose investment information relating to this Program in its annual report.

11. Capital control

In accordance with the estimated progress of investment, the executing agency can, on a quarterly basis, apply to the NDF for the estimated share payment required for investment cases to be disbursed to the trust capital special account.

12. Incentive

To encourage angel investors to assist the invested business by giving follow up guidance and advice and network linkages, the NDF can agree with an angel investor and the startup management team that, within seven years of co-investment and before the invested business's shares are listed, the angel investor and the management team can buy the NDF's shares in the invested startup on a priority basis at 1.5 times the recognized investment balance of the NDF or be assigned half the NDF's contribution in the invested business.

13. Exit

When the invested business carries out the first capital increase within seven years after the NDF's investment, the NDF can sell all its shares to the business's management team at 90% of share price or net asset value of each share this time, whichever is the highest; if the invested business does not carry out capital increase within seven years, the invested

business should buy back all the shares held by the NDF at the net asset value of each share or liquidate and dissolve the business.

When the investment review committee agrees to extend the timeframe of the aforementioned buy back, said extension will be proved by a resolution of the committee.

14. Execution and Amendment

These key points will be implemented from the day of announcement and can be revised if and when necessary.