

# Guidelines for Operation of the Industrial Innovation and Transformation Fund of the National Development Fund, Executive Yuan

Adopted at the 51st Management Committee on July 26, 2016  
Amended by the 69th Management Committee on September 27, 2018

## **1. Purpose**

The Executive Yuan National Development Fund (hereinafter referred as the “NDF”) has established the Industrial Innovation and Transformation Fund and formulated these Guidelines to assist existing domestic enterprises in innovation and transformation, promote the upgrading of domestic industry, and create jobs with the joint investment of private funds.

## **2. Allocated Amount**

These Guidelines allocate NT\$100 billion, and will accept applications from the date when these Guidelines are implemented.

## **3. Investment Scope**

The NDF and private investors jointly invest in the following matters to assist domestic enterprises in achieving innovation and transformation:

- (1) Merger plan.
- (2) Acquisition plan.
- (3) Division plan.
- (4) Other investment plans that are conducive to the innovation and transformation of enterprises

## **4. Application Eligibility**

- (1) Domestic enterprises requiring innovation and transformation
- (2) Institutional or private investors assisting domestic enterprises in innovation and transformation

## **5. Application Documents**

The applicant shall submit an application letter and a business plan to the NDF. The business plan shall include information about the merger, acquisition, division or other investment plans that are conducive to the innovation and transformation of the enterprise, operation structure, investor exit mechanism, etc.

## **6. Investment Target**

- (1) Domestic enterprises in need of transformation
- (2) Special Purpose Vehicles (SPVs) established by domestic enterprises in need of transformation
- (3) Special Purpose Vehicles (SPVs) established by private investment funds to assist in the transformation of domestic enterprises.

## **7. Investment Principles**

- (1) The NDF shall not be the leading investor and the single highest cash contributor of the current offering.

- (2) The amount of individual investment of the NDF shall not exceed 20% of the paid in capital or the actual amount of capital raised by the invested enterprise.
- (3) The aggregate investment amount of the NDF in a single case or group shall not, in principle, exceed 10% of the amount set out in these Guidelines. The “group” shall be calculated in accordance with the identification of related parties and enterprises in the Company Act or relevant securities acts and regulations.

## **8. Investment Management Partners**

If a private investor that co-invests with the NDF is an investment fund, its consulting company or management team with the following conditions may be listed as an investment management partner of the NDF (hereinafter referred as the “investment partner”):

- (1) The total size of the equity investment funds (enterprises) that have been managed amounted to NT\$1.5 billion or US\$50 million or more.
- (2) There have been more than three cases of investment in business merger, acquisition, division or other innovation and transformation in the past three years.
- (3) Other requirements specified by the NDF.

## **9. Investment Assessment and Review**

If an investment application is assessed to be in line with the policy direction of the NDF, it shall be submitted to the NDF Investment Review Committee for consideration. The NDF shall participate in the investment only after approval by the NDF Management Committee. The relevant assessment and review procedures shall be conducted in accordance with the NDF’s Investment Operation Specification and Guidelines for the Establishment of the Investment Review Committee.

## **10. Entrusted Investment Evaluation**

The NDF shall entrust professional institutions with the following matters to evaluate the investment plan:

- (1) Financial and tax assessment

It shall at least include but not limited to the following:

- Quality of net assets
- Capital expenditure
- Contingent liabilities
- Related party transactions
- Earnings quality
- Quality of financial information
- Tax risk assessment

- (2) Legal assessment

It shall at least include but not limited to the following:

- Major contracts
- Regulatory compliance and potential legal risks
- Matters related to employees’ rights and interests

- (3) Enterprise value evaluation

## **11. Investment Management**

- (1) The NDF shall entrust investment partners to carry out the investment management of the invested enterprise.
- (2) If the invested enterprise is a stock limited company, the NDF shall obtain the positions of directors or supervisors in accordance with the equity ratio.
- (3) The invested enterprise shall provide financial and operational information, and the NDF shall visit the invested enterprise on the spot.
- (4) The NDF needs to disclose investment information in its annual accounts and annual reports.

## **12. Exit and Incentive Mechanism**

- (1) The NDF investment holding period shall be five years, while the exit mechanism shall be agreed with other investors or the invested enterprise at the time of investment. If the NDF fails to exit within the agreed period, it shall be extended upon approval of the convener.
- (2) The NDF may exit through the public listing (OTC) of the invested enterprise's shares, sell-back to private investors, other investors or business teams within the agreed period, or enterprise liquidation.
- (3) In order to encourage investment partner to assist the invested enterprises, the NDF and the investment partners may make an agreement that the investment partners have the priority to buy the shares that the NDF holds or receive the NDF's contribution to the invested enterprise at the price of a certain multiples of the cost of the NDF during the period of investment and before the investment enterprise going public (or OTC).

## **13. Confidentiality**

All institutions and personnel involved in the merger, acquisition, division or other investment projects that are conducive to the innovation and transformation of enterprises shall not disclose any information or information about the merger, acquisition, division or other investment plan that is conducive to the innovation and transformation of the enterprise before the information of the plan is made public, except as required by laws and regulations. If the investment application involves a listed (or OTC) company, it shall be handled in accordance with relevant laws and regulations.

## **14. Others**

The matters not covered by these Guidelines shall be handled in accordance with the NDF's Investment Operation Specification and Guidelines for the Establishment of the Investment Review Committee.

## **15. Implementation and Amendment**

These Guidelines shall be submitted to the NDF Management Committee for approval before implementation. The same applies to amendment.