

Directions on the Review and Management of Biotech Venture Capital for Investment by the Executive Yuan National Development Fund under the Diamond Action Plan for Biotech Takeoff

Promulgated at the 18th meeting of the Management Committee of the Executive Yuan National Development Fund on September 8, 2009.

Amended at the 20th meeting of the Management Committee of the Executive Yuan National Development Fund on May 17, 2010.

1. Basis:

These Directions are made pursuant to the provisions of Article 5 Paragraph 2 of the Regulations for the Management and Utilization of the Executive Yuan National Development Fund (hereafter referred to as “the Fund”) and the conclusions in respect of the Diamond Action Plan for Biotechnology Takeoff reached at the 3,137th meeting of the Executive Yuan on March 26, 2009.

2. Purpose:

The Fund has allocated NT\$24 billion as a biotech venture capital fund, for investment in a stage-by-stage, risk-dispersing manner in support of the Diamond Action Plan for Biotech Takeoff. In addition to utilizing this fund for direct or indirect investment in accordance with existing review procedures, the Fund may also use it to make investments in venture capital investment enterprises in accordance with these Directions, with the aim of raising the gross output of, and speeding up the development of, the biotech industry in Taiwan.

3. Mode of Implementation:

- (1) The Fund may invest in a Diamond Action Plan for Biotech Takeoff Venture Capital (hereafter referred to as a “BVC”) formed by a private professional venture capital management team for investment in pharmaceutical development, medical devices, or other biotech related enterprises, provided that the management team has first set up a management consulting company in Taiwan,

and the BVC has accumulated paid-in capital amounting to at least NT\$5 billion.

- (2) The amount of the Fund's investment in a BVC shall not exceed 40 percent of the BVC's paid-in capital.
- (3) A BVC shall have at least 50 percent of its paid-in capital invested in enterprises that are connected with assisting the development of Taiwan's biotech industry.
- (4) A private professional venture capital management team must obtain approval from the Executive Yuan before it may operate a BVC.
- (5) The Fund shall not invest in any management consulting company as referred to above, but the board of directors of such management consulting company shall establish one position of independent director to be filled by someone designated by the Fund to act as its representative on the board.

4. Eligibility for Serving in the Management Team of a Management Consulting Company:

- (1) In these Directions, the term "management team" refers to the chairman of the board, general manager, deputy general manager, and top-level executives of a management consulting company.
- (2) A management team shall be composed of persons with backgrounds in science and engineering, biomedicine, finance and investment, or law, with at least 60 years of combined cumulative experience in venture investment, technology development, company operation, or new company setup, or in professional medical practice. The team leader (as specified in the business plan) shall have experience of running an international biotech venture capital with capital of at least US\$150 million and relevant concrete operating achievement.
- (3) The management team shall be employed exclusively in running the management consulting company and the BVC under its management, and may not take up any other position as a chairman, general manager, deputy general manager, or top-level executive of a for-profit enterprise, except when designated by the management team to act as manager of an invested enterprise.
- (4) A person who is a defendant in a lawsuit arising from the management of a biotech venture capital investment enterprise, or who has a bad bank credit record, shall not be eligible to serve in a

management team.

5. Principles of Conduct:

- (1) The management team must within one year of receiving approval from the Executive Yuan obtain commitment from investors to invest in its planned BVC. If the management team chooses to raise the capital in tranches, it may do so in a maximum of three tranches, and must do so within three years; and the management team must clearly stipulate in the investment agreement how it will protect the Fund's investment interests if a tranche of fund-raising does not meet the planned target. After the payment of capital stock for each tranche of fund-raising has been completed, the Fund shall allocate funds pro rata.
- (2) BVCs may not invest in other BVCs
- (3) If a management consulting company commits a breach of the law or changes the leader of the management team, the BVC may, with the approval of its board of directors, effect the early termination of the relationship of appointment between the two parties. If a change in another member of the management team results in the members' collective experience in the biotech industry being lower than 60 years as stipulated in Article 4 of these Directions, this deficiency must be remedied within 6 months, otherwise the BVC also may effect the early termination of the relationship of appointment between the two parties.
- (4) The members of the management team shall participate in investment in the BVC. The amount of their investment shall be decided by the management team and the BVC, but shall not be less than NT\$10 million.
- (5) When the cumulative investment by a BVC reaches half or more of the scale of the original application, the management team may set up another BVC and apply to the Fund for investment therein. Investment by the Fund shall still be limited to no more than 40 percent of the new BVC's capital.

6. Review Procedure:

- (1) Submission of documents: The applicant must conform with the qualifying requirements stipulated in Article 4 of these Directions, and after the trustee appointed by the Fund to manage the entrusted funds has submitted a feasibility analysis report (including a venture

capital evaluation scoresheet, and a checklist for compliance with these Directions), the application will be submitted to the review committee for review.

- (2) Formation of review committee: The committee shall have between five and seven members, who shall be appointed by the Convener of the Fund according to the actual needs of the review, and one of whom shall be designated to serve as the chairman of the committee.
- (3) Applications approved by the review committee shall be referred by the Fund to the Executive Yuan for approval, and the Fund shall make its investment only after such approval has been given.
- (4) When reviewing investment applications, the review committee shall give overall consideration to the requirements concerning the qualification of the management team as stipulated in Article 4 of these Directions, the business plan, and the amount of investment by the management team, before reaching its decision. Where the management team does not meet the qualification requirements, the applicant may submit documentation showing the rectification of this deficiency within two months of the review committee's approval of the application; failure to do so within the two-month time limit shall result in the deemed rejection of the application.

In respect of the supplementation referred to in the previous paragraph, the review committee may, according to need, convene another meeting or designate a committee member to review the submitted material. Where the supplementary material shows that the management team meets the qualification requirements in Article 4 of these Directions, the review procedure shall be completed as prescribed and the decision referred to the Executive Yuan for approval.

When the cumulative investment of a BVC reaches the scale stipulated in Article 5 of these Directions, the same management team may submit a further application in accordance with these Directions, and its review shall be conducted in accordance with the principles set out above.

7. The Fund will not accept further investment applications after the amount of its investment commitment reaches the amount of the allocation stipulated in Article 2 of these Directions.

8. Matters not provided for in these Directions shall be governed by the Fund's Directions for the Review and Management of Investment in Venture Capital Investment Enterprises, except for the provisions of Articles 2, 3, 5, 11, 13, and 26 thereof.