

InnoCare Optoelectronics Corporation

Procedures for Governing Loaning of Funds

Article 1 Purpose

The Procedures for Governing Loaning of Funds (hereinafter "the Procedures") are adopted in accordance with relevant laws and provide a guideline for the Company when extending loans to others.

Article 2 Statutory Basis

The Procedures are enacted pursuant to Article 36-1 of the Securities and Exchange Act and the provisions of "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" regulated by the Financial Supervisory Commission.

Article 3 Borrower

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

1. Where a company or firm business transaction calls for a loan arrangement; or
2. Where a company or firm short-term financing facility is necessary, provided that such financing needs are limited to the following circumstances.
 - A. A company in which the Company directly or indirectly holds more than 50 percent of the voting shares has necessary need for short-term financing facility due to business purpose.
 - B. Other company or firm has necessary need for short-term financing facility in purchasing materials or operating turnover.
 - C. Other loaning of funds approved by the Board of Directors of the Company.

The above short-term financing shall not exceed 40 percent of the lender's net worth.

The term "short-term" as used in the preceding paragraph means one year, or where the Company's operating cycle exceeds one year, one operating cycle (the longer one shall prevail).

The restriction of 40 percent of net worth shall not apply to inter-company loans of funds between overseas companies in which the Company holds, directly or indirectly, 100 percent of the voting shares, nor to loans of fund to the Company by any overseas company in which the Company holds, directly or indirectly, 100 percent of the voting shares. However, the limits on the aggregate amount of such loans and on the amount of such loans permitted to a single borrower shall not exceed 100 percent of the Company's net worth and the financing duration shall not apply to one year or one operating cycle. However, it shall be limited in 5 years.

Article 4 The aggregate amount of loans and the maximum amount of loans permitted to a single borrower

1. The aggregate amount of loans:

The aggregate amount of loans to others by the Company shall not exceed 40 percent of the Company's net worth; however, where an inter-company or inter-firm short-term financing facility is necessary, the aggregated balance of short term financing funds shall not exceed 30 percent of the Company's net worth.

2. The maximum amount of loans permitted to a single borrower:

- A. The maximum amount of loans permitted to a single company or firm with business transaction with the Company shall not exceed the purchases or sales amount within twelve months.
- B. Where short-term financing facility to a company or business is necessary, provided that such individual financing amount shall not exceed 10 percent of the Company's net worth.
- C. The term "net worth" shall mean the equity attributable to the owners of the parent company based on the latest balance sheet audited or reviewed by a certified public accountant.

Article 5 Department in charge

Unless provided otherwise, the procedures for governing loaning of funds shall be in charged by financial department.

Article 6 Decision and authorization level

1. Before making a loan of funds to others, the Company shall carefully evaluate whether the loan is in compliance with these Procedure. The Company may loan funds to others only after the evaluation

results under this paragraph and Article 9 have been submitted to and resolved upon by one-half or more of all Audit Committee members, and furthermore shall be submitted for a resolution by the Board of Directors. The Company shall not empower any other person to make such decision. If the approval of one-half or more of all Audit Committee members as required in the preceding paragraph is not obtained, the Procedures may be implemented if approved by two-thirds or more of all Directors, and the resolution of the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.

2. The Board of Directors shall take into full consideration each Independent Director's opinion. If an Independent Director expresses any dissent or reservation, it shall be noted in the minutes of the Board of Directors meeting.
3. Loaning of funds made by the subsidiaries of the Company shall be submitted for a resolution by the subsidiaries' Board of Directors.
4. Loans of funds between the Company and its subsidiaries, or between its subsidiaries, shall be submitted for a resolution by the Board of Directors pursuant to the preceding paragraph, and the chairperson may be authorized, for a specific borrowing counterparty, within a certain monetary limit 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 counterparty to draw down. However, the financing duration of loans which is subject to the provisions of paragraph 4, Article 3 of the Procedures shall be limited within 5 years.

Article 7

Duration of loans

The duration of each loan shall be within one year or one operating cycle (the longer one shall prevail). However, the financing duration of loans which is subject to the provisions of paragraph 4, Article 3 of the Procedures shall be limited within 5 years.

Article 8

Calculation of interest

The lending interest rate shall not be lower than the Company's highest interest rate of short-term bank loan. The collection of loan interest is on monthly basis. The borrower shall pay interests within one week upon receiving the payment notification, unless otherwise approved by the Board of Directors for exceptional situation.

Article 9

The contents of review and evaluation procedures of fund lending including:

1. The necessity and rationality of extending loans to others.
2. Credit Investigation and risk assessment of borrower
3. Impact on the Company's business operation, financial condition and shareholders' equity.
4. Whether obtaining collateral and appraisal its value.

Article 10

Procedures for handling loans of funds

1. Application: When applying for loan, borrower shall provide company's finance department an application form which states the amount of loan, period and usage.
2. Credit investigation:
 - A. For the first time loan, the borrower shall provide basic and financial information to the financial department of the Company for the purpose of credit investigation.
 - B. For the continuing loan, the credit investigation shall be conducted once a year. In the situation of major cases, the credit investigation shall be conduct once in a half year according to the actual needs.
 - C. Where the borrower provides with guarantor, the financial department of the Company shall take the credit information of the guarantor's credit information into consideration when conducting credit investigation.
3. Authorization of loan:
 - A. After credit checking and finding that the borrower's creditability is good and the usage of loan is proper, personnel in charge shall prepare and submit credit check report, comments, and conditions for loaning to the president and Board of Directors.
 - B. After credit checking and the Company disapproving the loans for the reason of the borrower's poor creditability or the improper usage, personnel in charge shall reply the borrower such reasons for

disapproval immediately.

C. After the Company approving the conditions for loaning, personnel in charge shall immediately reply the borrower these conditions, including the amount of loan, period, interests, collateral, and guarantors.

4. Execution of contract and guarantee:

Other than granting loans to the subsidiaries which 100 percent of the voting shares are directly or indirectly held by the Company, the Company shall acquire promissory note at the same amount with the loans and when necessary shall secure the loan with the mortgage or pledge on real estate, personal property, or right when granting loans to others. If the borrower provides individual or company with the sufficient assets and credit as guarantor for the loan in substitute for the security, the Board of Director of the Company may grant the loan after consulting the credit investigation report of the financial department; where a company provide itself as guarantor, the Company shall pay attention to whether such company is permitted to guarantee for others under its bylaw.

5. Collateral setting:

If the conditions for loaning funds include providing collateral, the borrower shall provide collateral and its appraisal value report and implement related procedures to create pledge/mortgage to the Company.

6. Insurance:

Other than land and negotiable securities, all of the securities shall be insured with fire insurance. (Security of boats or vehicles shall be secured with full insurance.) The insurance amount shall not be lower than the mortgage amount guaranteed by the security. The insurance policy shall list the Company as beneficiary. The subject matter insured, the quantity, the insurance terms, the insurance endorsement shall be identical to the Company's conditions for granting the loans. Should the building does not have building number when setting for mortgage; the address of such building shall be marked by the section and number of the land where the building located. The undertaker shall notify the borrower to renew the insurance before the end of the duration of the insurance.

7. Appropriation of funds:

Allotting funds shall be after the loaning agreement has been signed, the promissory note(s) have been provided, the pledges/mortgages have been created and the insurance have been provided.

8. To enter in the accounts:

A. When the Company completes procedures of each financing facility, the financial department shall compile and obtain journal voucher of collateral and credit guaranty which shall be forwarded to the accounting department for registration on the necessary account books.

B. The financial department of the Company shall evaluate the status of loans and make adequate provision of bad debts, as well as make appropriate disclosures of relevant information in the financial reports and provide the certifying accountants with relevant information for conducting the necessary audits, so that appropriate audited reports may be issued.

Article 11 Paying off

When the borrower pays off the debt at or before the due day, the promissory note(s) shall be nullified and returned to the borrower after the borrower pays off interest payable and principal.

Article 12 Nullifying pledges/mortgages

When the borrower applies to nullify the pledges/mortgages, the Company shall first check whether the loan has been all paid off. The Company shall agree to nullify the pledges/mortgages only when the loan has been all paid off.

Article 13 Subsequent measures for control and management of loans, and procedures for handling delinquent creditor's rights

1. To continue investigate on credit

After the allotment of funds, the financial department shall constantly pay attention to the financial, business, and credit status of the borrower and guarantor. If the borrower provides collateral for debt, the financial department shall pay attention to whether there is any change of value to the collateral. Should there is any material change to the collateral, the financial department shall immediately report

to the chairperson and shall properly handle according to the instructions.

2. The Company shall prepare a memorandum 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 under the Procedures.
3. If, as a result of a change in circumstances, an entity for which an endorsement/guarantee is made does not meet the requirements of the Procedures or the loan balance exceeds the limit, the Company shall adopt rectification plans and submit the rectification plans to all the Audit Committee, and shall complete the rectification according to the timeframe set out in the plan.

Article 14 Internal Auditing

The Company's internal auditors shall audit the Procedures for Governing Loaning of Funds and the implementation thereof no less frequently than quarterly and prepare written records accordingly. They shall promptly notify all the Audit Committee in writing of any material violation found.

Article 15 Information Disclosure

1. The Company shall announce and report the previous month's loan balances of the Company and its subsidiaries by the 10th day of each month.
2. The Company whose loans of funds reach one of the following levels shall announce and report such event within two days commencing immediately from the date of occurrence:
 - A. 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 statement.
 - B. The balance of loans by the Company and its subsidiaries to a single enterprise reaches 10 percent or more of the Company's net worth as stated in its latest financial statement.
 - C. The amount of new loans of funds by the Company or its subsidiaries reaches NT\$10 million or more, and reaches 2 percent or more of the Company's net worth as stated in its latest financial statement.
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 subparagraph 3 of the preceding paragraph.
4. "Date of occurrence" in the Procedures means the date of contract signing, date of payment, dates of Boards of Directors resolutions, or other date that can confirm the counterparty and monetary amount of the loan of funds or endorsement/guarantee, whichever date is earlier.

Article 16 Where a subsidiary of the Company intends to make loans to others, the Company shall instruct it to formulate its own Procedures for Governing Loaning of Funds in compliance with these Regulations, and it shall comply with "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" when loaning funds.

Article 17 Any managerial officer or personnel in charge in violation of the Procedures will be reported for assessment according to the Company's personnel management and employee handbook, and he/she will be subject to penalty accordingly.

Article 18 Any matters that are not contained in the Procedures shall be handled according to related regulations and laws, as well as regulations of the Company.

Article 19 The Procedures for Governing Loaning of Funds shall be approved by at least one-half or more of all members of the Audit Committee and to be approved by the Board of Directors, and then shall be submitted to a shareholders' meeting for approval; the same applies upon revision.

If approval of one-half or more of all Audit Committee members as required in the Paragraph 1 herein is not obtained, the Procedures may be implemented if approved by two-thirds or more 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" in the Procedures and "all Directors" in the preceding Paragraph shall be counted as the actual number of persons currently holding those positions.

When a matter is submitted for discussion by the Board of Directors, the Board of Directors shall take into full consideration 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.