

InnoCare Optoelectronics Corporation

Procedures for Endorsements and Guarantees

- Article 1 Purpose
The purpose of these Procedures is to reinforce the management and reduce the risk of finance, and provide a guideline for the Company to comply with related laws when it makes loaning to others.
- Article 2 Statutory basis
These Procedures are promulgated pursuant to Article 36-1 of the Securities and Exchange Act and Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies.
- Article 3 Scope of application
The term "endorsements/guarantees" as used in these Procedures refers to the following:
1. Financing endorsements/guarantees:
 - A. Bill discount financing.
 - B. Endorsement or guarantee made to meet the financing needs of another company.
 - C. Issuance of a separate negotiable instrument to a non-financial enterprise as security to meet the financing needs of the Company itself.
 2. Customs duty endorsement/guarantee, meaning an endorsement or guarantee for the Company itself or another company with respect to customs duty matters.
 3. Other endorsements/guarantees, meaning endorsements or guarantees beyond the scope of the above two subparagraphs.
- 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 also comply with these Procedures.
- Article 4 Object of the Endorsement and/or Guarantee
The Company may make endorsements/guarantees for the following companies:
1. A company with which it does business.
 2. A company in which the Company directly and indirectly holds more than 50 percent of the voting shares.
 3. A company that directly and indirectly holds more than 50 percent of the voting shares in the Company. Companies in which the Company holds, directly or indirectly, 90% or more of the voting shares may make endorsements/guarantees for each other, and the amount of endorsements/guarantees may not exceed 10% of the net worth of the Company, provided that this restriction shall not apply to endorsements/guarantees made between companies in which the company holds, directly or indirectly, 100% of the voting shares. Where all capital contributing shareholders make endorsements/guarantees for their jointly invested company in proportion to their shareholding percentages, such endorsements/guarantees may be made free of the restriction of the preceding two paragraphs.
- Capital contribution referred to in the preceding paragraph shall mean capital contribution directly by the Company, or through a company in which the Company holds 100% of the voting shares.
- Article 5 Ceilings on the amounts
Except as otherwise provided in Article 6, Paragraph 2 of these Procedures, the limited amount of endorsements/guarantees of the Company and its subsidiaries set forth as below:
1. The accumulated total amount of external endorsements/guarantees of the Company and its subsidiaries shall not exceed 50% of the Company's net worth.
 2. The total amount of endorsements/guarantees for companies in which the Company holds, directly or indirectly, 50% of the voting shares shall not exceed the 100% of the Company's net worth.
 3. The total amount of endorsements/guarantees for a single enterprise rather than enterprises provided in the preceding two Paragraphs shall not exceed 10% of the Company's net worth, and shall be limited by the net worth of the company to which being guaranteed. The total sum shall not reach or exceed the purchase or sale amount, whichever is higher, of the past 12 months calculated from the event of the endorsements/guarantees.
- The preceding net worth shall be decided based on the latest balance sheet belongs to the shareholders' equity certified or reviewed by CPA.

Article 6 Levels for decision making and authorizing

1. Before making an endorsement/guarantee to others, the Company shall carefully evaluate whether the endorsement/guarantee is in compliance with these Procedures. The Company may make an endorsement/guarantee only after the evaluation results under this paragraph and Article 7, Paragraph 2 have been submitted to and resolved upon by the board of directors. But for the efficiency requirement, within the limited amount of 10% of the Company's net worth less than ten millions New Taiwan Dollars for any single enterprise, the Chairperson is authorized to proceed in advance, and to report to the latest board of directors for approval afterward.
2. If the Company needs to make endorsements or guarantees over the amount prescribed under Article 5 for the business requirements, such endorsements or guarantees shall abide by the terms and conditions set forth in these Procedures, shall be made under the consent by a resolution of the board of directors and jointly guaranty for the possible loss caused by exceeding the limits by a majority of directors have been obtained, and it is required to amend these Procedures by submitting to shareholders' meeting for approval. In case of overruling by shareholders' meeting, the Company requires to make a plan within time-limit to eliminate the exceeding amount.
3. Where the Company has established the position of independent director, the board of directors shall take into full consideration each independent director's opinion when discussing according to Paragraph 1 and Paragraph 2; independent directors' opinions specifically expressing assent or dissent and their reasons for dissent shall be included in the minutes of the board of directors' meeting.
4. Endorsements/guarantees according to Article 4, Paragraph 2 shall not be made by a subsidiary in which the Company holds, directly or indirectly, 90% of the voting shares until such endorsements/guarantees have been adopted by the board of directors. But companies in which the Company holds, directly or indirectly, 100% of the voting shares may make endorsements/guarantees for each other without the limitation above.

Article 7 Procedures for handling endorsements/guarantees

1. The Company to which the guarantee is made shall prepare and issue an official letter to explain the usage and the present total endorsed amount etc. And such company shall send the letter along with the promissory note to the Company requesting for endorsement.
2. The above official letter and promissory note shall be examined and approved by the financial department of the Company, the main points for examination are as follows:
 - A. The necessity of and reasonableness of endorsements/guarantees.
 - B. Credit status and risk assessment of the entity for which the endorsement/guarantee is made.
 - C. The impact on the Company's business operations, financial condition, and shareholders' equity.
 - D. Whether collateral must be obtained and appraisal of the value thereof.
3. The financial department of the Company shall submit the opinion of examination along with the official letter and the promissory note to the Chairperson. Such endorsement/guarantee shall be approved by the Chairperson and be resolved and passed by the board of directors. The promissory note approved by the board of director may be sent back to the guarantee company after the following procedures are completed.
 - A. Seal and stamp on the promissory note(s).
 - B. Photo copy both sides of such promissory note(s).
 - C. Record in "Endorsement/Guarantee List" for managing the total amount of endorsements/guarantees by the Company.
4. Should the Chairperson or the board of the directors disagree to endorse on the promissory note, the financial department of the Company will prepare the letter explaining the reason for refusal. Such letter shall be sent back to the guarantee company with the promissory note.
5. When making a guarantee for a foreign company, the Company shall have the guarantee agreement signed by the Chairperson or its authorized person.
6. The Company shall prepare a memorandum book for its endorsement/guarantee activities and record in detail the following information for the record: the entity for which the endorsement/guarantee is made, the amount, the date of passage by the board of directors or of authorization by the Chairperson of the board, the date the endorsement/guarantee is made, and the matters to be carefully evaluated under

- Paragraph 2 of Article 7.
7. For circumstances in which an entity for which the Company makes any endorsement/guarantee is a subsidiary whose net worth is lower than half of its paid-in capital, the financial department and relevant department shall together evaluate the risk control and the execution of the plan, and shall report to the Chairperson on a regular time schedule. 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 above, the sum of the share capital plus paid-in capital in excess of par shall be substituted.
 8. Where as a result of changes of condition the entity for which an endorsement/guarantee is made no longer meets the requirements, or the amount of endorsement/guarantee exceeds the limit, the financial department of 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.
 9. The financial and accounting department of the Company shall evaluate or record the contingent loss for endorsements/guarantees, and shall adequately disclose information on endorsements/guarantees in its financial reports and provide certified public accountants with relevant information for implementation of necessary audit procedures.
 10. Before the end of the date of endorsements/guarantees, the financial department shall actively notify the entity for which the endorsement/guarantee is made for returning the promissory note kept by the bank of the institution of the creditor, and to cancel and destroy the agreements in relation to such endorsement/guarantee.

Article 8 Procedures for use and custody of corporate chops

1. The Company shall use the corporate chop registered with Science Park Administration as the dedicated chop for endorsements/guarantees. The chop shall be kept in the custody of a designated person approved by the board of directors. When there is change to the chop custodian, it should be reported and approved by the board of directors, and the chop should be transfer to the next designated person.
2. After an endorsement/guarantee being passed by the board of director of the Company or approved by the Chairperson, the financial department shall fill in the "Application form for using (borrowing) the chop". The chop can only be used from the chop custodian after such application form, the approval record, the contract or agreement of the endorsement/guarantee, the negotiable instrument being approved by the director of the financial department.
3. Before using the chop, the chop custodian shall verify whether there is record of approval, whether the "Application form for using (borrowing) the chop "has being approved by the director of the financial department, whether the documents applying for using the chop is in accordance. The chop custodian shall register on the memorandum book after using the chop.
4. When making a guarantee for a foreign company, the Company shall have the guarantee agreement signed by the Chairperson or its authorized person.

Article 9 Internal audits

Internal auditors shall, at least every season, audit the procedures of making of endorsements/guarantees and record into writing. Upon finding any material violation, auditors shall notify it to the Audit Committee in writing.

Article 10 Information disclosure

1. The Company shall announce and report the previous month's balance of endorsements/guarantees of itself and its subsidiaries by the 10th day of each month.
2. The Company whose endorsements/guarantees 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 endorsements/guarantees by Company and its subsidiaries reaches 50 percent or more of the Company's net worth as stated in its latest financial statement.
 - B. The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches 20 percent or more of the Company's net worth as stated in its latest financial statement.
 - C. The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches NT\$10 million or more and the aggregate amount of all endorsements/guarantees for, investment of a long-term nature in, and balance of loans to, such enterprise reaches 30 percent or more of the Company's net worth as stated in its latest financial statement.

D. The amount of new endorsements/guarantees made by the Company or its subsidiaries reaches NT\$30 million or more, and reaches 5 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 Taiwan public company any matters that such subsidiary is required to announce and report pursuant to subparagraph 4 of the preceding paragraph.

4. "Date of occurrence" in these Procedure shall mean 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 transaction, whichever date is earlier.

Article 11 Where a subsidiary of the Company intends to make endorsements/guarantees for others, the subsidiary shall formulate its own Procedures for Endorsements/ Guarantees in compliance with "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies", and it shall comply with the Procedures when making endorsements/guarantees.

Article 12 Penalty

If managerial officers or personnel in charge violates these procedures, the Company shall, by weight of the circumstances, inflict penalties according to the Company's Personnel Management Method and employee manual.

Article 13 Any matters that are not regulated hereunder shall be governed by related laws and company's rules. Any amendment to "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" made by competent governmental authority, the Company shall comply with the related regulations.

Article 14 Enforcement and amendment

These Procedures 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, these 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.

The formulation of the Procedures for Endorsements/Guarantees of the subsidiaries of the Company shall be resolved by the Board of Director of the subsidiaries. The same shall apply to any amendments to the subsidiaries' Procedures.