

ITEQ CORPORATION

Procedures of Lending Funds to Others

Article 1 These Procedures of Lending Funds to Others are formulated according to Article 36-1 of the Securities and Exchange Act and Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies and shall be carried out in accordance with the provisions of these Procedures. Where other laws and regulations provide otherwise, such provisions shall govern.

Article 1-1 “Subsidiary” and “parent company” as referred to in these Procedures shall be as determined under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Where a public company’s financial reports are prepared according to the International Financial Reporting Standards, “net worth” in these Procedures means the balance sheet equity attributable to the owners of the parent company under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Article 2 The loans of funds by the Corporation to others must meet one of the following conditions. However, this does not apply to those with lend funds for outward investment purposes and needs, according to paragraph 2, Article 3 of the “Regulations Governing the Review and Approval of Outward Investments and Technical Cooperation by the Ministry of Economic Affairs.”

- (I) Where an inter-company or inter-firm business transaction calls for a loan arrangement with the Corporation.
- (II) Where an inter-company or inter-firm short-term financing facility is necessary, provided that such financing amount shall not exceed 40% of the lender’s net worth.

The term “short-term” means one year, or one operating cycle (whichever is longer).

The term “financing amount” as used in paragraph 1, subparagraph 2 of this Article means the cumulative balance of the Corporation’s short-term financing.

Article 3 The restriction in paragraph 1, subparagraph 2 shall not apply to inter-company loans of funds between overseas companies in which the Corporation holds, directly or indirectly, 100% of the voting shares, nor to loans of fund to the Corporation by any overseas company in which the Corporation holds, directly or indirectly, 100% of the voting shares. However, the prescribed limits on the aggregate amount of such loans and the amount of such loans permitted to a single borrower shall not exceed 100% of the net worth of the latest audited or reviewed financial statements by the Corporation’s certified public accountants (CPAs).

Duration of loans and calculation of interest of the inter-company loans of funds between overseas companies in which the Corporation holds, directly or indirectly, 100% of the voting shares, nor to loans of fund to the Corporation by any overseas company in which the Corporation holds, directly or indirectly, 100% of the voting shares shall be handled according to Article 6 of these Procedures.

When the responsible person of the Corporation violates the proviso of the preceding paragraph, the responsible person shall bear joint and several liability with the borrower for repayment; if the Corporation suffers damage, the responsible person also shall be liable for damages.

Article 4 Aggregate amount of loans and maximum amount permitted to a single borrower

The aggregate amount of loans granted by the Corporation shall not exceed 40% of the net worth of the Corporation's latest financial statement that has been audited or reviewed by CPAs. The maximum amount permitted to a single borrower is specified below based on the reasons for the loan:

1. For entities with which the Corporation has a business relationship, the maximum amount permitted to a single borrower shall not exceed the business transaction amount between the Corporation and the borrower as indicated in the last fiscal year or the current fiscal year up to the time of the loan. The business transaction amount herein refers to the amount of purchases or sales between the Corporation and the borrower whichever is higher.
2. For entities to which short-term financing is deemed necessary, the maximum amount permitted to a single borrower shall not exceed 20% of the net worth of the Corporation as indicated in its latest financial statement that has been audited or reviewed by CPAs.

Article 5 Procedures for handling of loans

(I) Handling procedures

1. Matters concerning granting of loans or short-term financing by the Corporation shall be conducted with the review of the responsible unit, approval of the Chairman of the Board, and resolution of the Board of Directors beforehand.
2. Loans of funds between the Corporation and its subsidiaries, who directly or indirectly hold 100% of the voting shares, shall be submitted for a resolution by the Board of Directors pursuant to the preceding paragraph. The Chairman of the Board may be authorized, for a specific borrowing counterparty, within 10% of the Corporation's net worth as stated in its latest financial statement 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.
3. The Finance Department shall prepare a memorandum book for its fund-loaning activities. After the approval of the Board of Directors regarding the loan of funds, the Finance Department shall truthfully record the following information: borrower, amount, date of approval by the Board of Directors, lending/borrowing date, and matters to be carefully evaluated according to the review processes.
4. The Corporation's internal auditors shall audit the Operational Procedures for Loaning Funds to Others and the implementation thereof no less frequently than quarterly and prepare written records accordingly. They shall promptly notify the Audit Committee in writing of any material violation found.
5. The Finance Department shall, on a monthly basis, make a detailed list of the newly granted and written off loans in the previous month in order to control and track the fund-loaning activities of the Corporation and conduct disclosure and report. The Corporation shall also estimate and set aside sufficient allowance for bad debts on a quarterly basis, disclose information on loans in the financial report, and provide related data to CPAs.
6. If, as a result of a change in circumstances, the loan balance exceeds the limit

or an entity does not meet the requirements of these Procedures, the Finance Department shall adopt rectification plans and submit the rectification plans to the Audit Committee, and shall complete the rectification according to the timeframe set out in the plan.

(II) Reviewing procedures

1. When the Corporation handles loans of funds, the company or business entity applying for loans should attach relevant financial information and state the purpose of the loan in writing.
2. After the Corporation accepts the applications, the responsible unit should investigate and evaluate the necessity and reasonableness of lending funds to others, whether there is a direct or indirect business relationship between the borrower and the Corporation, the business financial status, solvency, credit, profitability, and purpose of the loan. After considering the impact of the total amount of funds lent on the Corporation's business operations, financial condition, and shareholders' equity, the responsible unit should prepare relevant written reports to be submitted to the Board of Directors for review.
3. When the Corporation grants loans or short-term financing, it shall obtain sufficient secured promissory notes. When necessary, it shall establish a mortgage over movable or immovable and evaluate the value of the collaterals on a quarterly basis to ensure that it is equivalent to the balance of the loan. Additional collaterals should be provided when necessary. If the debtor provides personal or corporate guarantees of equivalent financial strength and creditworthiness instead of providing collaterals for the aforementioned collateral for debts, the Board of Directors may refer to the review report of the responsible unit to handle the matter. If the Corporation itself is the guarantor, attention should be paid to whether the Articles of Incorporation have stipulated the provisions for guarantees.

Article 6 Duration of loans and calculation of interest

Whenever a borrower obtains loans from the Corporation, the loan term is limited to one year or one operating cycle (whichever is longer). The restriction of limits on the durations of loans as described in the preceding paragraph shall not apply to inter-company loans of funds, between overseas companies in which the Corporation holds, directly or indirectly, 100% of the voting shares, nor to loans of fund to the Corporation by any overseas company in which the Corporation holds, directly or indirectly, 100% of the voting shares. However, the number of times the loan may be extended is limited to two and the total loan term for a single loan amount, which includes the extension period plus the original loan term shall not exceed five years.

Regarding the interest calculation for funds loaned by the Corporation, interest shall accrue on monthly basis at a rate not lower than the average interest rate for the Corporation's borrowings from financial institutions. Under special circumstances, an adjustment may be made based on actual situation following consent by the Board of Directors. In addition, this shall not apply to inter-company loans of funds between companies in which the Corporation holds, directly or indirectly, 100% of the voting shares, nor to loans of funds to the Corporation by any overseas company in which the Corporation holds, directly or indirectly, 100% of the voting shares.

Article 7 Follow-up control measures for granted loans and procedures for handling overdue loans

After a loan is granted, the Finance Department shall pay attention to any changes in the financial status, business conditions, and relevant credit situations of the borrower and its guarantor, as well as changes in the value of collaterals, and keep written records. If significant changes occur, they should be reported to the CEO and relevant responsible units to handle immediately.

When the borrower repays the loan on the maturity date or in advance, they must repay the principal and the accrued interest payable. Only then can the loan note guarantee be returned to the borrower or the mortgage be canceled.

If the borrower fails to repay the loan at maturity, the Corporation may, according to law, take direct actions against the borrower or its guarantor and claim for reimbursement on any collaterals provided by the borrower.

Article 8 Procedures for Public Disclosure

- (I) Before the 10th day of each month, the Finance Department shall submit the Corporation and its subsidiaries' balance of loans to others for the previous month to the Accounting Department and shall disclose them publicly within the prescribed period every month.
- (II) In addition to disclosing the balance of loans to others every month, when those balances of the Corporation and its subsidiaries reach one of the following levels, the Finance Department shall immediately notify the Accounting Department, providing relevant information, to make disclosure within two days commencing immediately from the date of occurrence:
 - 1 The aggregate balance of loans to others by the Corporation and its subsidiaries reaches 20% or more of the Corporation's net worth as stated in its latest financial statement.
 - 2 The balance of loans by the Corporation and its subsidiaries to a single enterprise reaches 10% or more of the Corporation's net worth as stated in its latest financial statement.
 - 3 The amount of new loans of funds by the Corporation or its subsidiaries reaches NT\$10 million or more, and reaches 2% or more of the Corporation's net worth as stated in its latest financial statement.
 - 4 When loans lend by the subsidiary is not a public company of the Republic of China reaches the aforementioned standard.
- (III) The term "disclose and report" as used in these Procedures means the process of entering data to the information reporting website designated by the Financial Supervisory Commission (FSC). "Date of occurrence" in these 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, whichever date is earlier.

Article 9 Procedures for controlling and managing loans of funds to others by subsidiaries.

- (I) The Corporation's subsidiaries shall also formulate its "Procedures of Lending Funds to Others" in accordance with the relevant provisions of the "Regulations Governing Lending of Funds and Making of Endorsements/Guarantees by Public Companies."
- (II) When the Corporation's subsidiaries provide loans to others, they shall handle it

according to the regulations of the “Internal Control System” and “Procedures of Lending Funds to Others” formulated by each subsidiary. They shall also submit a written report to the Corporation before the 5th day of each month summarizing the balance, recipients, and terms of the loans provided in the previous month. The Corporation’s audit unit should include the subsidiary’s Procedures of Lending Funds to Others as one of the quarterly audit items. The audit status reported to the Board of Directors and the Audit Committee should be included as a necessary item for auditing.

- (III) If a subsidiary of the Corporation is not a public company and the balance of funds lend to others meets the criteria for disclosure and report pursuant to Article 8 of these Procedure, it shall notify the Corporation on the date of occurrence of the event, and the Corporation shall disclose and report on the designated website in accordance with the regulations.

Article 10 Penalties

In the event that the Corporation lend funds to relevant personnel violate the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” issued by the Financial Supervisory Commission or these Procedures, the Corporation shall deal with it by the following rules depending on the circumstances of the violation. The violation will be recorded and used for annual personal performance evaluation.

- (I) Violation of the approval authorization: the first breach shall be treated with an oral warning. The re-offender shall be given a written warning and made to participate in the internal control training course within the Corporation. Those who are recidivist or made serious mistakes shall be transferred.
- (II) Violation of the review process: the first breach shall be treated with an oral warning. The re-offender shall be given a written warning and made to participate in the internal control training course within the Corporation. Those who are recidivist or made serious mistakes shall be transferred.
- (III) Non-compliance of disclosure and report: the first breach shall be treated with an oral warning. The re-offender shall be given a written warning. Those who are recidivists or made serious mistakes shall be transferred.
- (IV) The superior supervisor of a person who violates rules shall also receive penalties. However, if it can be reasonably explained that all precautions have not been taken, the rule does not apply.
- (V) If the Board of Directors or a Director violates the relevant regulations and the resolutions of the shareholders’ meeting, the Audit Committee shall notify the Board of Directors or said Director to cease its/his/her conduct in accordance with Article 218-2 of the Company Act.

Article 11 Prior to implementing these Procedures, said Procedures shall be approved by more than half of the Audit Committee members, submitted to the Board of Directors for approval, and then submitted to the shareholders’ meeting for approval; the same applies when these Procedures are amended.

If 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.

The terms “all Audit Committee members” and “all Directors” in the preceding paragraph shall be counted as the actual number of persons currently holding those positions.