

ITEQ CORPORATION

Procedures for Endorsement & Guarantee

I. Purpose

In order to strengthen the financial management of endorsement/guarantees and reduce operating risks, the Procedures are promulgated pursuant to Article 36-1 of the “Securities and Exchange Act” and the “Regulations Governing Lending of Funds and Making of Endorsements/Guarantees by Public Companies”. Where other regulations provide otherwise, such provisions shall govern.

II. Scope

The term “endorsements/guarantees” as used in the Procedures refers to the following:

1. Financing endorsements/guarantees, including:
 - (1) Bill discount financing.
 - (2) Endorsement or guarantee made to meet the financing needs of another company.
 - (3) 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.
4. Any creation by the Corporation of a pledge or mortgage on its chattel or real property as security for the loans of another company shall also comply with the Procedures.

III. Applicability

The Corporation may make endorsements/guarantees for the following companies:

1. A company with which it does business.
2. A company in which the Corporation directly and indirectly holds more than 50% of the voting shares.
3. A company that directly and indirectly holds more than 50% of the voting shares in the Corporation.

Companies in which the Corporation 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 Corporation, provided that this restriction shall not apply to endorsements/guarantees made between companies in which the Corporation holds, directly or indirectly, 100% of the voting shares.

Where the Corporation fulfills that 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 Corporation, or through a company in which the Corporation holds 100% of the voting shares.

“Related party”, “subsidiary” and “parent company” as referred to in the Procedures shall be as determined under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

The Corporation’s financial reports are prepared according to the International Financial Reporting Standards, therefore, “net worth” in the 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.

IV. Limits of endorsements/guarantees

The aggregate amount of endorsements/guarantees of the Corporation shall not exceed the 50% of net worth of the Corporation. Also, the limits to any single enterprise shall not exceed the 100% of the net worth of the Corporation.

The aggregate amount of the Corporation and its subsidiaries’ endorsements/guarantees and the limits of the Corporation and its subsidiaries’ endorsements/guarantees to any single enterprise both shall not exceed 100% of the Corporation’s net worth.

V. Endorsement/guarantee procedures

1. In effecting the endorsement/guarantee, the Finance Department shall review the qualification item by item of the company to be endorsed/guaranteed, whether the amount is in conformity with the Procedure, and if it has satisfied the criteria for disclosure and report, and shall be reported to the Chairman of the Board of Directors for its approval according to Article VI of the Procedure, and then presented to the Board of Directors to be discussed and consented to. If it is within the authorized amount, the Chairman of Board of Directors, according to the credit and financial status of the company to be endorsed/guaranteed, may approve first and then reported to the Board of Directors for approval.
Before making any endorsement/guarantee pursuant to Article III, paragraph 2 of the Procedure, a subsidiary in which the Corporation holds, directly or indirectly, 90% or more of the voting shares shall submit the proposed endorsement/guarantee to the Corporation’s Board of Directors for a resolution.
2. The Finance Department shall prepare a memorandum book for its endorsement/guarantee activities. After the endorsement and/or guarantee have been approved by the Board of Directors or the Chairman of Board of Directors, in addition to the application for the chop, the party endorsed/guaranteed, amount of endorsement, the date of approval of the Board of Directors or the Chairman of Board of Directors, the date of the endorsement and/or guarantee and all the evaluation issues according to Article VI of the Procedure shall be recorded in detail for reference. All relevant documents such as notes and contracts should be copied and kept.
3. The Corporation’s internal auditors shall audit the Procedures for Endorsement & Guarantee 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.
4. The Finance Department shall, on a monthly basis, make a detailed list of the guarantee provided and cancelled in the previous month in order to control and track the endorsement/guarantee activities of the Corporation and conduct disclosure and report. The Corporation shall also evaluate or record the contingent loss of the endorsement/guarantee on a quarterly basis, disclose on endorsement/guarantee information in the financial reports, and provide related data to certified public accountants.
5. If the party to whom the Corporation provided endorsement/guarantee no longer satisfies the

criteria, or the amount of endorsement/guarantee exceeded the limits due to changes of basis on which the amounts of limits are calculated, the Finance Department shall adopt rectification plans and to eliminate such exceeding amount within certain period of time after the approval of the Chairman of the Board of Directors, and submit the rectification plans to the audit committee, and shall complete the rectification according to the timeframe set out in the plan.

6. Where the Corporation needs to exceed the limits set out in the Procedures for Endorsements & Guarantees to satisfy its business requirements, and where the conditions set out in the Procedures are complied with, it shall obtain approval from the Board of Directors and half or more of the Directors shall act as joint guarantors for any loss that may be caused to the Corporation by the excess endorsement/guarantee. It shall also amend the Procedures accordingly and submit the same to the shareholders' meeting for ratification after the fact. If the shareholders' meeting does not give consent, the Corporation shall adopt a plan to discharge the amount in excess within a given time limit.

VI. Detailed review procedures

In effecting the endorsement/guarantee, the Finance Department shall detail review and evaluation the following items and keep record:

1. Understand the relationship between the endorsement/guarantee party and the Corporation, the purpose and use of the loan, the relevance to the Corporation's business or the importance of its operations to the Corporation, and the Corporation's limit amount and current balance of endorsements/guarantees to evaluate the necessity and rationality.
2. Obtain the annual report, financial report and other relevant information of the endorsement/guarantee party, and analyze its operation, financial and credit status and repayment sources of the endorsement/guarantee party to measure the possible risks.
3. Analyze the Corporation's current balance of endorsement/guarantee to its net worth, liquidity and cash flow status, as well as the review results of subparagraphs 1 and 2, to evaluate the impact on the Corporation's operational risks, financial status and shareholders' equity.
4. Depending on the nature of the guarantee, the credit status of the insured and the evaluation results of subparagraphs 1 to 3, the Corporation shall determine whether to require appropriate collateral, and evaluate on a quarterly basis whether the value of the collateral is equivalent to the current balance of the endorsement/guarantee. If necessary, the insured may be required to provide additional collateral, but this does not apply to companies where the Corporation directly or indirectly holds more than 50% of the shares with voting rights.
5. In case the Corporation desires to provide endorsement/guarantee for the benefit of a subsidiary whose net worth is lower than half of its paid-in capital, the Finance Department shall review the quarterly financial report of the subsidiary and request it to make a correction plan.
6. 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 under subparagraph 5, the sum of the share capital plus paid-in capital in excess of par shall be substituted.

VII. Internal control procedures of the Corporation's subsidiaries

1. The Corporation's subsidiaries shall also formulate its "Procedures for Endorsement & Guarantee" in accordance with the relevant provisions of the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies."

2. They shall also submit a written report to the Corporation before the 5th day of each month summarizing the balance, counter-party, and period of endorsements/guarantees provided in the previous month. The Corporation's audit unit should include the subsidiary's Procedures for Endorsement & Guarantee 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. They shall promptly notify the Audit Committee in writing of any material violation found.
3. If a subsidiary of the Corporation is not a public company and the current balance of endorsements/guarantees meets the criteria for disclosure and report pursuant to Article X, paragraph 2 of the 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.

VIII. Decision of endorsements/guarantees and level of authorization

1. Any endorsement/guarantee shall be processed and approved in accordance of Article V of the Procedure and the Board of Directors of the Corporation shall approve the making of endorsements/guarantees, however, the Board of Directors may authorize the Chairman of the Board of Directors to decide such matters when the transaction is within 100% of the net worth of the latest financial statements and then submit such matter to the next Board of Directors for ratification. When discussion on the Board of Directors, it shall take into full consideration each Independent Director's opinions; 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.
2. Any endorsement/guarantee credit, these procedures, the Finance Department shall apply for sealing and note issuance, transfer all the relevant records to the accounting department and report to the shareholders' meeting. After the endorsement/guarantee is approved by the authorized person, within the authorized limit, a seal will be used for each endorsement/guarantee.

IX. The using and keeping procedure for the Corporation's chop

1. The Corporation's chop for the registration to the Ministry of Economic Affairs shall be used as the special chop for endorsement/guarantee. The chop and relative notes are kept by persons appointed and authorized by the Board of Directors. The sealing and note issuance must follow the process of the Procedures of Keeping (Using) of Seals of the Corporation.
2. When making a guarantee for an overseas company, the Corporation shall have the Guarantee Agreement signed by the Chairman or CEO authorized by the Board of Directors.

X. Disclosure and report

1. 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).
2. "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 endorsement/guarantee, whichever date is earlier.
3. Before the 10th day of each month, the Finance Department shall submit the Corporation and its subsidiaries' balance of endorsements/guarantees for the previous month to the Accounting Department and shall disclose them publicly within the prescribed period every month.

4. In addition to disclosing the balance of the endorsement/guarantee every month, when those balances of the Corporation and its subsidiaries reach one of the following levels, the Finance Department shall immediately notify Accounting Department, providing relevant information, to make disclosure within two days commencing immediately from the date of occurrence:
 - (1) The aggregate balance of endorsements/guarantees by the Corporation and its subsidiaries reaches 50% or more of the Corporation's net worth as stated in its latest financial statement.
 - (2) The balance of endorsements/guarantees by the Corporation and its subsidiaries for a single enterprise reaches 20% or more of the Corporation's net worth as stated in its latest financial statement.
 - (3) The balance of endorsements/guarantees by the Corporation and its subsidiaries for a single enterprise reaches NT\$10 million or more and the aggregate amount of all endorsements/guarantees for, carrying value of equity method investment in, and balance of loans to, such enterprise reaches 30% or more of the Corporation's net worth as stated in its latest financial statement.
 - (4) The amount of new endorsements/guarantees made by the Corporation or its subsidiaries reaches NT\$30 million or more, and reaches 5% or more of the Corporation's net worth as stated in its latest financial statement.

XI. 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 Securities and Futures Bureau 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.

1. 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.
2. Violation of review procedures: 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.
3. 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.
4. The superior supervisor of a person who violates rules should also receive penalties. However, if it can be reasonably explained that all precautions have not been taken, the rule does not apply.
5. If the Board of Directors or a Director violates the relevant regulations and 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.

XII. Other matters

The Procedures, and any amendments hereto, shall come into in force after requiring the

approval of one-half or more of all Audit Committee members, and shall be submitted to the Board of Directors, and furthermore shall be approved by the shareholders' meeting.

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.

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