

KMC (Kuei Meng) International Inc.

Operational Procedures for Lending Funds to Other Parties

Chapter 1 General Principles

Article 1

The Operational Procedures are promulgated pursuant to Article 36-1 of the Securities and Exchange Act ("the Act"). The Company shall comply with these Operational Procedures when lending funds to other parties.

Article 2

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

1. Where a company or a business entity having a business relationship with the Company requests a loan arrangement.
2. Where a company or a business entity having a necessary and short-term financing facility with the Company. 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 restriction in paragraph 1, subparagraph 2 shall not apply to inter-company loans of funds between overseas companies in which The Company holds, directly or indirectly, 100% 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% of the voting shares. However, The Company shall still prescribe limits on the aggregate amount of such loans and on the amount of such loans permitted to a single borrower, and shall comply with the provisions of Article 8.

When a responsible person of a company violates paragraph 1 or the provisions of the preceding paragraph, the responsible person shall bear joint and several liability with the borrower for repayment; if the company suffers damage, the responsible person also shall be liable for damages.

Article 3

A company or a business entity having a business relationship with the Company requests a loan arrangement shall be caused by the business or need working capital.

A company or a business entity having a necessary and short-term financing facility with the Company shall be caused by the business or need working capital and shall be limited to subsidiaries in which the Company recognizes by equity method.

Article 4 Duration of loans and calculation of interest

1. Duration of loans: The duration of each loan shall not exceed the maximum of one year.
2. The calculation of interest refers to the short-term interest rate between the Company and the financial institutions. The interest shall be agreed by both parties and calculated monthly.

The interest shall be charged by the principles below:

1. The interest from lending funds to subsidiaries in which the Company recognizes by equity method shall be charged by monthly or at maturity or according to the condition agreed by both parties.
2. Not belong to lending funds to subsidiaries in which the Company recognizes by equity method, the interest shall be charged by monthly.
3. Under special circumstances, the adjustment consented by the board of directors is accepted.

Article 5

"Subsidiary" and "parent company" as referred to in the Operational Procedures shall be as determined under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Where the Company's financial reports are prepared according to the International Financial Reporting Standards, "net worth" in the Operational 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 6

The term "announce and report" as used in the Operational Procedures means the process of entering data to the information reporting website designated by the Financial Supervisory Commission (FSC).

"Date of occurrence" in the Operational 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.

Chapter 2 Formulation of Operation Procedures

Article 7

The Operational Procedures, after approval by the audit committee and the board of directors, they shall be submitted to a shareholders' meeting for approval. Where there any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinions to the audit committee and for discussion by the shareholders' meeting. The same shall apply to any amendments to the Operational Procedures.

When submitting the Operational Procedures for discussion by the board of directors pursuant to the preceding paragraph, the board of directors shall take into full consideration each independent director's opinions. If an independent director expresses any dissent or reservation, it shall be noted in the minutes of the board of directors meeting.

If the approval of one-half or more of all audit committee members is not obtained, the Operational 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 paragraph 3 and "all directors" in the preceding paragraph shall be counted as the actual number of persons currently holding those positions.

Chapter 3 Case Evaluation

Article 8 Aggregate Amount of Loans and the Maximum Amount Permitted to a Single Borrower

1. Aggregate amount of lending funds:

- (1) The aggregate amount of loans shall not exceed 40% of the Company's net worth.
- (2) Lending funds to offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company, the total amount for such lending shall not exceed 200% of the net worth as stated in its latest consolidated financial statement.

2. Limited amount permitted to a single borrower:

- (1) A company having a business relationship with: The amount of loans of the Company to any individual entity which it does business shall not exceed the total business amount between such party. The total business amount refers to purchase amount or sales amount of the goods between the parties, whichever is higher, for the last 12 months or the current year before the time of lending funds.
- (2) A company having a necessary and short-term financing facility:
 1. The amount of loans of the Company to a subsidiary in which the Company not directly or indirectly holds 100% voting shares shall not exceed 10% of the net worth.
 2. The amount of loans of the Company to a subsidiary in which the Company directly or indirectly holds 100% voting shares shall not exceed 40% of the net worth.
 3. Lending funds to offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company, the limited amount permitted to a single borrower shall not exceed 200% of the net worth as stated in its latest consolidated financial statement. The term of loan by the Company shall not exceed 10 years

Article 9 Procedures for lending funds and evaluation standards

Any borrower apply for a loan from the Company shall submit an application or a letter describing the loan amount requested, term, purpose and collateral in detail, together with certain basic information and financial data, to the Company to facilitate the evaluation and credit checking by the Company.

Based on the aforesaid information, finance department shall evaluate the necessity and rationality of the loan application, the credibility and risk of the borrower, the impact towards the Company's operating risk, financial position and shareholders' equity, and the necessity to acquire collateral and appraisal of collateral.

Evaluation standards for loaning funds to others:

1. Where funds are loaned for reasons of business dealings, evaluation standards shall be specified for determining whether the amount of a loan is commensurate to the total amount of trading between the two companies.
2. Where short-term financing is needed, the reasons for and conditions of extending loans shall be evaluated.

Article 10

Except for subsidiaries in which the Company recognized by equity method, any other borrower shall provide a promissory note, collateral and/or other guarantee as requested by the Company in an amount equivalent to that of the loan when making an application in accordance with Article 9 if any collateral is provided, legal procedures for mortgage and/or lien must be fulfilled to protect the Company's interest.

Article 11

Any lending of the Company's funds shall be evaluated with and subject to the " Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" announced by the securities regulatory authority and this Operational Procedures, and then submitted, together with the result of the evaluation made as described in Article 8, to the audit committee and the board of directors for its approval and no delegation shall be made to any person in this regard.

Lending funds between the Company and its subsidiaries, or among the subsidiaries, shall be approved by the board of directors of the lending company, and authorize its chairman to lend funds to a specific borrowing counterparty, within a certain pre-approved monetary amount and within a period not exceeding one year, in one or several drawdowns or via a revolving credit line. However, except for a subsidiary in which the Company directly or indirectly holds 100% voting shares, the above authorized lending amount to be approved by the board of directors shall not exceed 10% of the net worth as stated in its latest consolidated financial statement.

Article 12

Finance department should evaluate the finance and credit status of the borrower and guarantor (if any) periodically after drawdown. If there is a loan overdue and which is not repaid even after dunning by the Company, the finance department shall immediately notify the legal department for further legal actions to protect the Company's interest.

Article 13

The Company shall follow the "Generally Accepted Accounting Principles" to make sufficient provision based on the condition of its lending profile, adequately disclose information in the financial statements, and provide external auditors with necessary information for conducting due auditing. The Company shall establish and maintain a memorandum book to record all its fund-lending and related information in accordance with the relevant regulations.

Article 14

The Company's internal auditors shall audit the procedures for lending funds and the implementation thereof quarterly and prepare written records accordingly. They shall promptly notify the audit committee in writing of any material violation found.

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 Operational Procedures or the loan balance exceeds the limit, the Company 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.

Article 15 Procedures for controlling and managing loans by subsidiaries

1. When the subsidiaries of the Company lend funds to other parties, the Company shall ask the subsidiaries for adopting the Operational Procedures for Lending Funds to Other Parties in accordance with the relevant laws and regulations.
2. The subsidiaries of the Company shall provide the balance and object and other information of the loans for last month to the Company by the 10th day of each month.

Article 16

The relevant public announcements regarding the matters of lending funds to other parties shall follow the standards for public announcements under the “Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies” promulgated by the Financial Supervisory Commission.

Article 17

The manager and person in charge of the Company shall comply with this Operational Procedures when lending funds to other parties for preventing losses by the inappropriate operations. If there is any violation of related regulations and the Operational Procedures, the penalty is in accordance with related Personnel Articles of the Company.

Article 17-1

(Delete)

Article 18

The Operational Procedures shall be enforced after approved by the board of directors and consented by the shareholders’ meeting; the same procedure shall be followed when amended.