

KMC (Kuei Meng) International Inc. ("the Company")

Operational Procedures for Making Endorsement and Guarantee

Chapter 1 General Principles

Article 1

The Operational Procedures are promulgated pursuant to Article 36-1 of the Securities and Exchange Act ("the Act").

Article 2

The Company shall comply with these Operational Procedures when endorsements /guarantees for others, provided that where another act or regulation provides otherwise, the provisions of such act shall prevail.

Article 3

The term "endorsements/guarantees" as used in the Operational Procedures refers to the following:

1. Financing endorsements/guarantees:
 - (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.

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 the Operational Procedures.

Article 4

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 or indirectly holds more than 50 % of the voting shares.
3. A company that directly or indirectly holds more than 50 % of the voting shares in the Company.

A company in which the Company holds, directly and 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 and indirectly, 100% of the voting shares.

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 transaction, whichever date is earlier.

Chapter 2 Formulation of Operation Procedures

Article 7

The Operational Procedures, after approval by the board of directors, will be submitted to each supervisor and for approval by the shareholders' meeting. 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 each supervisor 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; the independent directors' opinions specifically expressing assent or dissent and the reasons for dissent shall be included in the minutes of the board of directors' meeting.

Chapter 3 Case Evaluation

Article 8

The ceilings on the amounts of endorsements/guarantees

1. Aggregate endorsement/guarantee amount: The aggregate amount of endorsements/guarantees of the Company and its subsidiaries shall not exceed 200% of the net worth as stated in its latest consolidated financial statement.
2. The amount of endorsements/guarantees for any single entity:

- (1) The amount of endorsements/guarantees of the Company and its subsidiaries 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 making the endorsement/guarantee.
- (2) The amount of endorsements/guarantees of the Company and its subsidiaries to an individual entity in which the Company directly or indirectly holds more than 50% but less than 100% of the voting shares or an individual entity that directly or indirectly holds more than 50% but less than 100% of the voting shares to the Company shall not exceed 50% of the net worth as stated in its latest consolidated financial statement.
- (3) The amount of endorsements/guarantees of the Company to an individual entity in which the Company directly or indirectly holds 100% of the voting shares shall not exceed 200% of the net worth as stated in its latest consolidated financial statement.
- (4) The amount of endorsements/guarantees of the Company that an individual entity directly or indirectly holds 100% of the voting shares to the Company shall not exceed 200% of the net worth as stated in its latest consolidated financial statement.

Article 9 Procedures for making endorsements/guarantees

1. When the Company makes the endorsements/guarantees, the entity for which is endorsed/guaranteed shall provide an application form of endorsement/guarantee to the Finance Department, and the Finance Department shall detailed review and assess the risk and get the assessment record prepared. Approval by the chairman shall be required after permitting its review, and then take into effect after the approval in board of directors. In the special case, the chairman is authorized to approve the amount less than NT\$50 million, and the approval by the board of directors shall be confirmed afterwards.
2. For circumstances in which an entity for which the Company and its subsidiaries make any endorsement/guarantee is a subsidiary whose net worth is lower than half of its paid-in capital, the finance department and related department shall evaluate relevant risks ,exercise implementation review, and report to the board of directors periodically.
3. When the endorsed/guaranteed company repays the loan, information of the repayment shall be informed to the Company so that the Company may release its guarantee liability.
4. The Company shall prepare a memorandum book to record its

endorsement/guarantee activities in detail.

5. If the endorsed/guaranteed company previously meets the qualifications under Article 3, but violates subsequently, or if the amount of endorsement/guarantee exceeds the amount limit due to the basis of calculation change, the liability shall be eliminated in accordance with the expiry of the contract or adopt a plan to discharge the liability and then report the board of directors.
6. The Company's internal auditors shall audit the procedures for endorsements/guarantees and the implementation thereof quarterly and prepare written records accordingly. They shall promptly notify all the supervisors in writing of any material violation found.
7. The Company shall evaluate or recognize the loss contingency for endorsements/guarantees and disclose relevant the information in financial reports and provide certified public accountants with relevant information for implementation of necessary auditing procedures.

Article 10

Where the Company needs to exceed the limits set out in the Operational Procedures for Endorsements/Guarantees to satisfy its business requirements, and where the conditions set out in the Operational Procedures for Endorsements/Guarantees 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 Company by the excess endorsement/guarantee. It shall also amend the Operational Procedures for Endorsements/Guarantees accordingly and submit the same to the shareholders' meeting for ratification after the fact. If the shareholders' meeting does not give consent, the Company shall adopt a plan to discharge the amount in excess within a given time limit.

When it makes endorsements/guarantees for others, it shall take into full consideration the opinions of each independent director; independent directors' opinions specifically expressing assent or dissent and the reasons for dissent shall be included in the minutes of the board of directors' meeting.

Article 11 Detailed review procedures

1. The necessity of and rationality of endorsements/guarantees.
2. Credit status and risk assessment of the entity for which the endorsement/guarantee is made.
3. The impact on the Company's business operations, financial condition, and shareholders' equity.
4. Whether security/collateral must be obtained and appraisal of the value thereof.

Article 12 Procedures for controlling and managing endorsements/guarantees by

subsidiaries

1. When the subsidiaries of the Company make the endorsements/guarantees, the Company shall ask the subsidiaries for adopting the Operational Procedures for Endorsement and Guarantee in accordance with the relevant laws and regulations and it shall be consented by the board of directors or shareholders meeting. The same procedure shall be followed when the principles have been amended.
2. The subsidiaries of the Company shall provide the balance and object and other information of the endorsements/guarantees for last month to the Company by the 10th day of each month.

Article 13 Procedures for use and custody of corporate chops

1. Notes and corporate chops shall be kept in the custody by a specific personnel and every sealing or usage of the chop shall comply with the procedures indicated by the Company. The specific personnel shall be delegated by the chairman. The same procedure shall be followed when altering.
2. The Company shall use the corporate chop which is registered with the Ministry of Economic Affairs as the exclusive chop of endorsements/guarantees.

Article 14 Announcing and reporting procedures

The relevant public announcements regarding the matters of endorsements/guarantees 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 15 Penalty

The manager and person in charge of the Company shall comply with the Operational Procedures when make endorsements/guarantees 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 16

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.