

Phison Electronics Corporation

Procedures for Engaging in Derivatives Trading

Article 1 Purpose

To protect the investment, implement the information disclosure, and strengthen the risk management system for derivatives trading established by the Company, the Procedures (hereinafter referred to as the "Procedures") are formulated according to the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" (hereinafter referred to as the "Regulations") issued by the Financial Supervisory Commission R.O.C. (Taiwan) (hereinafter referred to as the "FSC").

Article 2 Trading principles and strategies:

1. Transaction Type:

- (1) Derivative products referred in the Procedures refers to forward contracts, options contracts, futures contracts, leverage contracts, or swap contracts, whose value is derived from a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable; or hybrid contracts combining the above contracts; or hybrid contracts or structured products containing embedded derivatives.
- (2) The term "forward contracts" does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) contracts.
- (3) The matters related to the bond margin transaction shall be handled in accordance with the relevant provisions of the Procedures.

2. Operation & Hedging Strategy:

The main strategy of the Company is to select derivatives trading that could avoid operation risk to the maximum as to minimize losses. The Company should only select banks which have business relation to avoid credit risk.

3. Authorization / Delegation:

Financial Department: is responsible for the foreign exchange management system, such as collecting foreign exchange market information, judging trends and risks, be familiar with financial products and operating skills. The financial department shall accept the instructions by the Financial Officer, take the license to manage the foreign exchange parts, and avoid risks according to the company policy.

Accounting Department: is responsible for confirmation of the transaction, settlement and registration details.

4. Performance Evaluation:

When engaging in derivative products trading, the operation details shall be recorded on the transaction schedule per day to grasp the profit and loss situation; the exchange gains and losses shall be settled per month, quarter and year.

5. Transaction Contract Dollar Amount And Loss Control

- (1) The financial department should grasp the overall position of the Company in order to avoid the risk of transactions; the total amount of long-term foreign exchange operation of the contract shall not exceed the actual demand for foreign currency.
- (2) The contractual loss of derivative products shall not exceed the limit of 15% of the amount of the transaction contract, and the total contract loss shall not exceed 10% of the contract value. If there is a significant adverse effect on the exchange rate, the Company should convene relevant personnel at any time to discuss it at the meeting.

Article 3 Operating Procedures

1. Authorization Amount:

When engaging in derivative commodity transactions by the Company, the authorized amounts shall be set as follows:

(1) Forward Foreign-exchange Trading:

Transaction Authorization Amount (Monthly Accumulated Amount)

| <u>Contract Amount</u> | <u>Delegation of Authorization</u> |
|--------------------------------------|------------------------------------|
| 0-30 million (including) dollars | Chairman |
| Above 30 million (excluding) dollars | Board of Directors |

(2) Contract of foreign currency options:

The Chairman of the Board of Directors is solely responsible for the amount of the contract signed by the Company with the Bank, which shall not exceed the estimated net demand of foreign current or net expenses of the Company for the next six months and the accumulated effective contract amount shall not exceed US\$ 20 million limit to avoid exchange rate fluctuations.

- (3) Exceed the above amount authorized to the Chairman and other related derivative products transaction: they shall be subject to the resolution of the Audit Committee and the Board of directors, as well as comply with Paragraph 4 and 5, Article 10 of these Procedures before transaction.

- (4) For the procedures are adopted by the resolutions at the meetings of directors, the meeting shall be presented with two-thirds of all directors, and be approved by more than half of the presented director.

2. Execution unit and transaction process:

- (1) Execution of the transaction: Execution of the transaction: the trader of the financial department shall trade with the financial institutions within the authorized amount. After the completion of each transaction, the trader shall immediately fill the transaction note according to the return of financial institutions, specify the content, and then be submitted to the competent authority for approval, and make statistical and submit the copy of the transaction to the accounting department.
- (2) Transaction confirmation: Transaction confirmation: the accounting department of the settlement and registration should confirm the transaction based on the copy of the transaction produced by the transaction unit, and then shall make settlement and register details according to the transaction confirmed number. The financial department shall prepare the statements monthly, and then collect them and submit them to the accounting department as an accounting evaluation basis.

Article 4 Risk Management

1. Scope of risk management:

- (1) Credit Risk Control: Credit risk is controlled by restricting the counterparties that the Company deals with to those who either have banking relationship with the Company. After the transaction, the person for registering should register the Credit Control Table and check the balance of accounts with the bank on a regular basis.
- (2) Market Price Risk Control: the person for registering shall check whether the total amount of the transaction is in compliance with the prescribed limits. The accounting department should conduct a market price evaluation at any time and pay attention to the possible impact on the profit and loss

by the future market price fluctuations on the holdings.

- (3) Liquidity Risk Control: Liquidity risk should be controlled by restricting counterparties to those who have adequate facility, sufficient information, and sizable trading capacity and capability to enter into transactions in any markets around the world.
 - (4) Cash Flow Risk Control: The derivative product transaction is based on physical transactions to ensure settlement obligations. The traders should also pay attention to the company's cash flow at all times to ensure that there is sufficient cash to be paid at the time of settlement.
 - (5) Operating Risk Control: Delegation systems and operating procedures set forth herein are employed to control operating risk.
 - (6) Legal Risk Control: Any legal documents in respect of financial derivative transactions shall be in general contract of the market, and any special contract shall be reviewed by the legal counsel.
- 2. The respective functions of trading, confirmation and settlement should be performed by different personnel.
 - 3. Risk measurement, monitoring and control personnel shall be assigned to a different department than the personnel in the preceding subparagraph and shall report to the Board of Directors or an executive manager or supervisor who is not responsible for trading or position policy-making.
 - 4. Derivatives trading positions held shall be evaluated at least once per week. Finance Department should prepare a bi-weekly report in connection with the transactions entered into for hedging purpose for the review of the Board of Directors authorized senior manager.
 - 5. Other important risk management measures.

The authorized traders shall have relevant expertise and full knowledge of the content goods in connection with the transaction, so as to reduce the risk of engaging in derivative commodity transactions.

Article 5 Internal Audit

Internal audit personnel is required to evaluate the suitability of the internal control system in connection with financial derivative transactions on a regular basis, to conduct auditing on how well the related departments follow the Procedures, and to produce report with

trading cycle analysis on a monthly basis. Should there be any violation found, a written report is needed to notify the Audit Committee, as well as the independent directors in writing.

Article 6 Regular Evaluation Methods and Correction of Abnormal Situation

When engaging in derivative product transactions by the Company, and the board of directors shall implement the supervision and control in accordance with the following principles:

1. The designated Chairman shall always pay attention to the supervision and control of risk of derivative product transaction.
2. The Board of Directors is itself responsible for evaluating the performance of derivative product transaction on a regular basis to oversee how well it fit in the Company's overall business and operating strategies and to review if the associated risks thereof have exceeded the Company's risk tolerance.

The Chairman authorized by the Board of Directors shall manage the transactions of derivative products in accordance with the following principles:

1. The Chairman should also be responsible for regularly reviewing the level of adequacy of the current risk control process and its degree of consistency with the regulations and procedures set forth herein.
2. The Chairman should also be in the course of supervising trading and profit-loss circumstances. Once having identified unusual performances and results, the Chairman needs to report to the Board of Directors immediately and undertakes any actions deemed necessary to correct the situation. An independent director shall be present during the discussion and resolution at the board meeting and express an opinion.

When engaging in derivative product transactions by authorized person by the Company according to the provisions of the Procedures, shall report at the most recent meeting of the Board of Directors for ratification.

article 7 Information Disclosure

1. When losses from derivatives trading reaches the limits on aggregate losses or losses on individual contracts set out in the Procedures adopted by the company, the Company shall within two days from the date of the occurrence of the transaction, declare the relevant information on the designated website of the FSC.
2. The Company should, on a monthly basis, report and make a public announcement of the financial derivative transactions engaged by it and its subsidiary which is not a Taiwan public company on the designated website of the FSC up to the end of the previous month in accordance with relevant regulations by the tenth day of each month.

Article 8 Establishment of a Reference Book

In accordance with the relevant regulations, a reference book shall be established and maintained to record the financial derivative transactions in which details of the types and amounts of derivatives trading engaged in, board of directors approval dates, and the matters required to be carefully evaluated under paragraph 4 of Article 4, subparagraph 2 of paragraph 1 and subparagraph 1 of paragraph 2 of Article 6, shall be recorded in detail in the reference book.

Article 9 Penalties

Any director and manager of the Company who violates the regulations promulgated by the FSC or the provisions of the Procedures and causes the Company to be subject to significant damage, shall be dismissed.

The company's persons-in-charge breach of these operating procedures, shall be handled in accordance with Procedures for Management on Employee of the Company.

Article 10 Assessment Procedures

The Company shall establish the Procedures according to the Regulations, which shall be implemented after it is resolved by the Audit Committee and the Board of Directors, and approved at the shareholders meeting, and the same to amendment.

When the Procedures are submitted for discussion by the Board of Directors according to the preceding paragraphs, 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 Meeting.

When the procedures are adopted or amended, they shall be approved by more than half of all Audit Committee members and submitted to the board of directors for a resolution.

If approval of more than half of all audit committee members as required in the preceding paragraph is not obtained, the procedures may be implemented if approved by more than two-thirds 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 position.

Article 11 Other Important Matters

In case of matters that are not specified in the procedures or the suitability is in doubt, they shall be handled in accordance with the relevant laws and regulations, for things that are not stipulated in the laws and regulations, they should be carried out according to the relevant provisions of the Company or decided by the board of directors by resolutions.

