

Phison Electronics Corporation

Procedures for Lending Funds to Other Parties

Article 1 Purpose

To be the basis for procedures for lending funds to other parties of the Company, the Procedures are formulated specially according to Paragraph 1, Article 36 of Securities Exchange Act (hereinafter referred to as “SEA”) and the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” (hereafter referred to as the “Regulations”) of Financial Supervisory Commission (hereafter referred to as the “FSC”), and shall comply with these Procedures.

Article 2 Entities to which the Company may loan funds

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

1. Where an inter-company or inter-firm business transaction calls for a loan arrangement.
2. Where an inter-company or inter-firm short-term financing facility is necessary, provided that such financing amount shall not exceed 20% of the lender's net worth.

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, which one is longer.

The term "financing amount" as used in Sub-paragraph 2, Paragraph 1 of this Article means the cumulative balance of the Company's short-term financing.

The inter-company funding loans between the foreign companies in which the Company holds, directly or indirectly, 100% of the voting shares, for business needs, the accumulated total of loans granted shall not exceed 20% of the lending-company's net worth, between overseas companies in which the company holds, directly or indirectly, 100% of the voting shares. Each individual loan shall not exceed 10% of the lending-company's net worth, and the term of each loan extended shall not exceed one year; for, the needs of short-term financing, the accumulated total of loans granted shall not exceed 20% of the lending-company's net worth, each individual loan shall not exceed 10% of the lending-company's net worth, and the term of each loan extended shall not exceed one year. The interest rate shall not be lower than the maximum interest rate of the lending-company's short-term loan from financial institutions. The interest on loans can due bill once a month or once a settlement at maturity.

The responsible person of the company who has violated the provisions of the preceding 1 Paragraph shall be liable, jointly and severally with the borrower, for the repayment of the loan at issue and for the damages, if any, to company resulted there-from.

Article 3 Evaluation standards for loaning funds to others

Where funds are lent to others, in addition to paragraph 2 of Article 4 that should be followed, it shall be evaluated in accordance with the following standards:

1. Lending funds to a company or business due to its business relationship with the Company, the evaluation is that whether the lending amount is equivalent to the business amount between them.
2. Loan may be granted due to short-term financing shall be only for procurement of materials or turnover of operations.

Article 4 Accumulated total of loans granted and amount of an individual loan granted by the Company

1. The accumulated total of loans granted shall not exceed 40% of the net worth of the Company; provided, however where funds are lent to a company or business with short-term financing need, the accumulated total of such loans shall not exceed 20% of the net worth of the Company. The companies (or sole proprietorship or partnership) that dealing business with the Company be approved borrowing, the accumulated total of the loans granted shall not exceed 20% of the Company's net worth.
2. The amount of an individual loan granted by the Company to a company or business with business relationship with the Company shall not exceed the business transaction amount in past 12 months between the parties. "Business transaction amount" refers to the amount of purchase or sale between the parties, whichever is higher. Each individual loan shall not exceed 10% of the net worth of the Company.
3. Where funds are lent to a company or business with short-term financial need, each individual loan shall not exceed 10% of the net worth of the Company.

Article 5 Duration of loans and calculation of interest

1. The term of each loan extended by the Company and its Subsidiaries shall not exceed one year.
2. The interest rate shall be not less than the Company's highest funding costs. The interest shall be settled monthly or settled in a lump sum upon the due date.

Article 6 Procedures for handling loans of funds

1. Application procedures
 - (1) Before the borrower applies for borrowing funds from the Company, it shall submit an application form specifying the amount, period, purpose of the borrowing, and the assurance provided, and attach necessary documents of the company information and financial information. The Financial Department shall be evaluated with and subject to the Regulations announced by FSC and the Procedures, and then submitted, together with the result of the evaluation made as described in the Article 7, as well as the review report prepared, according to the approval authority shall be review by responsible officer and chairman and submitted it to the Audit Committee and the Board of

Directors for approval and no delegation shall be made to any person in this regard. The procedures shall comply with Paragraph 4 and 5, Article 14.

(2) When fund lending to Subsidiaries is contemplated by the Company or its Subsidiary, an approval from the Audit Committee and the Board shall be obtained according to the preceding subparagraph, and the Chairman shall be authorized to handle the matter within the Board's approved amount of fund lending to the same party and the lending is authorized in installment or revolver within one year.

(3) For the amount as mentioned in the preceding subparagraph, in addition to the provisions of Paragraph 4 of Article 2, the amount of the credit granted by the Company to a single enterprise shall not exceed 10% of the net value of the Company's most recent financial statements.

(4) When fund-lending to other parties, the board of directors shall take into full consideration each independent director's opinion; 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. Lending Notice

After the approval of the loan case, the financial department shall promptly inform the borrower by letter or by telephone of the loan conditions of the Company, including the amount, term, interest rate, collateral and guarantor, etc.

3. Sign Confirmation

For fund loan cases, the financial and legal department shall draw up the contract terms according to approved terms, which shall then be audited by the competent department, and then apply for necessary processes such as the signing and cross collateral.

4. Acquisition of collateral and security

(1) Where any collateral is needed in the fund loan conditions, the borrower shall provide the collateral and the legal procedures for mortgage and/or lien must be fulfilled to protect the Company's interest.

(2) All collateral, except land and securities, shall be covered by property damage insurance. For vehicles, comprehensive insurance shall be procured. The insured amount shall, in principle, be not less than the replacement cost of the collateral. The borrower shall provide and maintain an updated and valid insurance.

5. Grant

After the fund loan case is approved and the contract is signed by the borrower and the promissory note is sent for deposit (or installment repayment), and after the collateral (pledge) charge set registration is completed, and all the procedures are checked without errors, the funds can be released.

6. Documentation and custody

The Company shall set up a memorandum book for reviewing for the loan procedures.

The object and amount concerned with the funds lending, the approval date by the board of directors, the release date of funds, as well as the matters that should be carefully evaluated according to the provisions of the paragraph 1 of Article 1 shall be recorded in detail for review.

Article 7 Detailed review procedures

When the Company lends the funds, the following review procedures shall be carried out:

1. Evaluation of the necessity and rationality of funds lending to other parties

After accepting the application, the Company shall assess the necessity and rationality of conducting funds lending to other parties.

2. Credit and risk assessment of the lending parties

After accepting the application, the Company shall investigate and evaluate the business, financial status, solvency and credit, profitability and borrowing purposes of the loan

3. Acquisition of collateral and the appraisal value of collateral

The Company shall require the borrower to provide collateral depending on the actual needs and shall, in advance, carry out the assessment of the personal property or real estate property value of the proposed mortgage.

4. Assessment on the impact towards the Company's operating risk, financial position and shareholders' equity

Before lending funds, the Company shall assess the impact on its operating risk, financial position and shareholders' equity. For cases that obtain good results after investigation and assessment, the Company shall formulate loaning conditions, including the interest rate calculation method, interest rate and the deadline, which shall be submitted to the responsible officer and the chairman for approval, and then submitted to the Audit Committee and the board of directors for handling by resolutions.

In principle, the Company is still required to conduct assessments and prepare review reports for those who continue to borrow funds

Article 8 Subsequent measures for control and management of loans, Procedures for handling delinquent creditor's rights

1. Once drawdown on a loan has been made, the financial and business conditions of the borrower and the guarantor shall be monitored. Where collateral is provided, changes in its values shall be noted, and any material change thereto shall be immediately reported to the general manager and be dealt with according to the relevant instruction. At two months before the expiry of the loan allocated, the borrower should be notified to pay off the principal and interest or carry out the extension procedures.

2. When the borrower is making a repayment upon or prior to maturity, the interest shall first be calculated and repaid together with the principal, before the cancellation and return of the relevant evidence of claim to the borrow or the cancellation of the

mortgage registration.

3. The borrower shall pay the principal and interest when the loan is due. If the borrower is failure to pay the loan in due and needs to postpone the payment, it is necessary to make a request in advance and report to the Audit Committee and the board of directors for approval. The extension of each loan shall not be more than three months and shall only be subject to an extension and the period for the total amount of the loan (including the extension period) shall not exceed one year. The Company shall report the offender to the legal department at once, and make punishment and recourse as to the collateral or guarantor according to the law.

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

1. Where a Subsidiary of the Company proposes to grant a loan to a third party, the Company shall require the Subsidiary to establish procedures for granting of loans in accordance with the Regulations formulated by FSC and shall conform to such procedures.
2. When fund-lending to other parties is contemplated by the Subsidiary of the Company, the Subsidiary shall provide related information to the Company and take into account of the relevant personnel opinion before carrying out the fund-lending procedures.
3. After the loan is granted by the subsidiary, the subsidiary shall regularly report the follow-up situation of the loan amount to the Company.

Section 10 Information Disclosure

1. The company shall announce and report the previous month's loan balances of the Company and its subsidiaries by the 10th day of each month.
2. The company whose loans of funds reach one of the following levels shall announce and report such event within two days from its occurrence:
 - (1) The aggregate balance of loans to others by the company and its subsidiaries reaches 20 percent or more of the company's net worth as stated in its latest financial statement.
 - (2) The balance of loans by the company and its subsidiaries to a single enterprise reaches 10 percent or more of the company's net worth as stated in its latest financial statement.
 - (3) The amount of new loans of funds by the company or its subsidiaries reaches NT\$10 million or more, and reaches 2 percent or more of the company's net worth as stated in its latest financial statement.
3. If there is any reporting and announcement described in Subparagraph 3 of the preceding paragraph required for the Company's subsidiary, which is not a Taiwan public company, the Company will follow the requirement on behalf of its subsidiary.

4. The Company shall 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.

Article 11 Penalties

If the Company managers and persons-in-charge violate the Regulations formulated by FSC or the Procedures, the responsible officer or audit personnel shall promptly report the violation to the chairman or the board of directors, who shall, as the case may be, give appropriate punishment to the person concerned.

Article 12 Audit

Internal auditors shall perform auditing on the Procedures and the implementation of the Procedures every quarter and produce written auditing reports. Should there be any violation found, a written report is needed to notify the Audit Committee, as well as each independent director in writing.

Article 13 Miscellaneous

1. The subsidiaries and parent companies referred in the procedures, shall be defined in accordance with the guidelines for the preparation of financial statements by the issuer of securities.
2. The net value referred in the procedures, shall refer to the equity in the balance sheet attributable to the owners of the parent company as stipulated in the guidelines for Regulations Governing the Preparation of Financial Reports by Securities Issuers.
3. The announcement referred in the procedures, refers to the announcement reported to the website of the information designated by the FSC.
4. “Date of occurrence” in these Procedures means the date of signing, date of payment, dates of boards of directors resolutions, or other date that can confirm the counterparty of making loans and monetary amount, whichever date is earlier.
5. Should a borrower no longer satisfy the criteria set forth in the Regulations formulated by FSC or the Procedures or there be any excess over the lending limit due to unexpected changes of the Company, a corrective plan has to be provided to the Audit Committee, as well as the independent directors in writing, and the proposed correction actions should be implemented within the period specified in such plan.

Article 14 Implementation and Amendment

The Procedures shall be implemented after it is resolved by the Audit Committee and the Board of Directors, and approved at the shareholders meeting. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall report the dissenting opinion to the shareholders meeting for discussion, and the same to amendment.

When the procedures are submitted to the Board of Directors, the opinion of each independent director shall be considered fully, and the independent director had objects

shall be included in the minutes of the Board Meeting.

When the procedures are adopted or amended, they shall be subject to the consent of one-half or more of all audit committee members and be submitted to the board of directors for a resolution. In the preceding paragraph shall not apply.

Any matter under the preceding paragraph that has not been approved by one-half or more of all audit committee members may be undertaken upon the consent of two-thirds or more of all directors, and the resolution of the audit committee shall be recorded in the minutes of the directors meeting.

"All audit committee members" as used in Paragraph 3 and "all directors" as used in the preceding paragraph shall mean the actual number of persons currently holding those positions.

Article 15 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.