

Phison Electronics Corporation
Procedures for Endorsement and Guarantee

Article 1 Purpose

To strengthen the financial management of endorsements and guarantees and reduce the risk of operation, the Procedures are formulated specially according to Paragraph 1, Article 36 of Securities Exchange Act (hereinafter referred to as “the Act”) 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 Scope

1. The scope of endorsements/guarantees used herein is as follow:
 - (1) Financing endorsements/guarantees, including:
 - i . Bill discount financing.
 - ii . Endorsement or guarantee made to meet the financing needs of another company.
 - iii . Issuance of a separate negotiable instrument to a non-financial enterprise as security to meet the financing needs of the company itself.
 - (2) Endorsements/guarantees of custom duties due from the Company or other companies.
 - (3) Other endorsements/guarantees that are not classified as prior two types.
2. The lien or mortgage provided by the Company against its assets and properties for guaranteeing another company’s loan, shall be carried out in accordance with the Procedures.

Article 3 Entities for which the Company may make endorsement or guarantees

1. The Company may make endorsements/guarantees for the following companies:
 - (1) A company with which the Company does business.
 - (2) A company in which the Company 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 Company.
2. Companies in which the Company holds, directly or indirectly, 90%, or more of the voting shares may make endorsements/guarantees for each other, and the

amount of endorsements or 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 or indirectly, 100% of the voting shares.

3. Where a public company fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project, or where all capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages, or where companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other, 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 public company, or through a company in which the public company holds 100% of the voting shares.
4. “Capital contribution” referred to in the paragraph sentence shall mean capital contributed directly by the Company, or through a company in which the Company holds 100% of the voting shares.

Article 4 Evaluation criteria for endorsements/guarantees

Where an endorsement/guarantee is made due to needs arising from business dealings, in addition to Article 5 that should be followed, evaluation standards shall be specified for determining whether the amount of an endorsement/guarantee is commensurate the total amount of trading between the two companies.

Article 5 The ceilings on amount of endorsement/guarantee

The amount of endorsement/guarantee provided by the Company is subject to the following limits:

1. The aggregate amount of endorsements/guarantees provided by the Company shall not exceed 40% of the net worth of the most recent financial statements certified or reviewed by the accountant certified public of the Company.
2. The amount of endorsements/guarantees provided by the Company for any single entity shall not exceed 20% of the net worth of the most recent financial statements certified or reviewed by the accountant certified public of the Company.
3. The endorsement or guarantee amount should not exceed past 12 months of total amount of transactions from the company with which the Company does

business (The amount of business transactions refers to the amount of purchase or sales between the two parties, whichever is higher) and shall not exceed 20% of the net worth of the most recent financial statements certified or reviewed by the accountant certified public of the Company.

The amount of endorsement/guarantee provided by the Company and its subsidiaries is subject to the following limits:

1. The aggregate amount of endorsements/guarantees provided by the Company shall not exceed 40% of the net worth of the most recent financial statements certified or reviewed by the accountant certified public of the Company.
2. The amount of endorsements/guarantees provided by the Company for any single entity shall not exceed 20% of the net worth of the most recent financial statements certified or reviewed by the accountant certified public of the Company.
3. The endorsement or guarantee amount should not exceed past 12 months of total amount of transactions from the company with which the Company does business (The amount of business transactions refers to the amount of purchase or sales between the two parties, whichever is higher) and shall not exceed 20% of the net worth of the most recent financial statements certified or reviewed by the accountant certified public of the Company.

Article 6 Procedures for handling endorsement/guarantee

1. Application procedures

For handling endorsement/guarantee, the Company shall submit an application form specifying the purpose, the amount of the endorsement/guarantee, and the assurance provided, and attach necessary documents of the company information and financial information. The financial department shall review whether the assessment is in compliance with handling standards prescribed by FSC and these Procedures; and shall conduct details examination in accordance with Article 7 with a review report submitted to the Chairman of the board of directors for approval and proceeding in accordance with Article 9. The approved endorsement and /or guarantee shall be reported to the most recent Audit Committee and board of directors' meeting for a complement ratification.

2. Notice of endorsement/guarantee

After approval of endorsement/guarantee, the financial department shall inform the guaranteed company by letter or by telephone, and ask the company who needs to obtain collateral by assessment to carry out the (pledge) mortgage procedures within the time limit, only after then can the relevant documents such as the endorsement/guarantee contract or the guarantee bill submit to the chop

custody person or issue notes.

3. Acquisition of collateral and security

- (1). Where any collateral is needed in handling endorsement/guarantee, the Company shall handle the pledge or mortgage to protect the rights of the Company.
- (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 endorsed and guaranteed company shall provide and maintain an updated and valid insurance.

4. Documentation and custody

The Company shall establish and maintain a memorandum book for its endorsement/guarantee activities and record in detail the following information for the record: the entity for which the endorsement/guarantee is made, the amount, the date of passage by the Board of Directors or of authorization by the Chairman of the board, the date the endorsement/guarantee is made, and the matters to be carefully evaluated under paragraph 1 of Article 9.

Article 7 Detailed review procedures

When the Company deals with endorsement/guarantee, the following review procedures shall be followed:

1. The necessity and rationality of endorsement and guarantee

After accepting the application by endorsed and guaranteed company, the Company shall assess the necessity and rationality of conducting the endorsement and guarantee.

2. Credit and risk assessment on endorsement/guarantee

After accepting the application by endorsed and guaranteed company, the Company shall investigate and evaluate as to the purpose of the business, financial status and endorsement/guarantee purpose of the guaranteed object by.

3. Acquisition of collateral and the appraisal value of collateral

The Company shall request the guaranteed company to provide collaterals 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 providing endorsement/guarantee, the Company shall assess the impact on the Company's operating risk, financial position and shareholders' equity. For cases that obtain good results after investigation and assessment, the Company

shall submit them to the chairman for approval according to Article 9, and then to the Audit Committee and board of directors for confirmation.

If it is a continuing endorsement/guarantee, in principle, the review shall be done and a review report shall be prepared once a year.

Article 8 The usage and custody of a chop

The Company shall maintain a chop as the dedicated chop for endorsements /guarantees. The chop shall be kept in the custody of a designated person approved by the Board of Directors and may be used to seal or issue negotiable instruments only in prescribed procedures.

In the case of endorsement/guarantee for a foreign company, the letter of guarantee issued by the company shall be signed by the person who is authorized by the board of directors.

Article 9 Hierarchy of decision-making authority and delegation thereof

1. When the Company makes any endorsement and/or guarantee, the financial department shall carefully assess it whether be consistent with the Regulations formulated by FSC and the provisions of the Procedures. A pre-determined limit together with the assessment result of Article 7 may be delegated to the Chairman by the Board of Directors to facilitate execution according to Article 9 and such endorsement /guarantee shall be reported to the most coming Audit Committee and Board of Directors' Meeting for ratification. The limit shall not exceed the amount that set forth in Article 5 of endorsement/ guarantee provided by the Company.

Before making any endorsement/guarantee pursuant to a subsidiary in which the Company holds, directly or indirectly, 90% or more of the voting shares shall submit the proposed endorsement/guarantee to the Company's Board of Directors for a resolution according to paragraph 2 of Article 3; provided that this restriction shall not apply to endorsements/guarantees made between companies in which the Company holds, directly or indirectly, 100% of the voting shares.

When the Company makes endorsements and/or guarantees for the companies, 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 meeting.

2. In case the above limits have to be exceeded to accommodate business needs, a resolution of the Board of Directors should be obtained and over half of all the directors should jointly endorse the potential loss that may be brought about by the excess of limits. The Board of Directors should also revise the Procedures and

has it ratified at the Shareholders' Meeting. If the revised Procedures are not ratified at the Shareholders' Meeting, the Board of Directors should furnish a plan containing a timetable to withdraw the excess portion.

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 10 Procedures for managing endorsement or guarantee by subsidiaries

1. Where the Company's Subsidiary intends to make endorsements/guarantees for others, it shall formulate its own operational procedures for endorsements/guarantees in compliance with the Regulations formulated by FSC and shall comply with its procedures when making endorsements/guarantee.
2. When making endorsements/guarantees for others 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 before carrying out the endorsements/guarantees procedure.
3. After the endorsements/guarantees are made by the subsidiary, the subsidiary shall regularly report the follow-up situation of the amount of endorsements/guarantees to the Company.

Section 11 Information Disclosure

1. The company shall announce and report the previous month's balances of endorsements/guarantees of the Company and its subsidiaries by the 10th day of each month.
2. The company whose endorsements/guarantees reach one of the following levels shall announce and report such event within two days from its occurrence:
 - (1) The aggregate balance of endorsements/guarantees to others by the Company and its subsidiaries reaches 50 percent or more of the company's net worth as stated in its latest financial statement.
 - (2) The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches 20 percent or more of the Company's net worth as stated in its latest financial statement.
 - (3) The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches NT\$10 million or more and the aggregate amount of all endorsements/guarantees for, used equity method investment account amount, and balance of loans to, such enterprise reaches 30% or more of Company's net worth as stated in its latest financial statement.

(4) The amount of new endorsements or guarantees made by the Company or its subsidiaries reaches NT\$30 million or more, and reaches 5 percent or more of the Company's net worth as stated in its latest financial statement.

If there is any reporting and announcement required for the Company's subsidiary which is not a Taiwan public company, the Company will follow the requirement on behalf of its subsidiary.

3. The Accounting Unit shall assess and recognize, if any, contingent losses brought about by the endorsement/guarantee, to adequately disclose information in the financial statements, and to provide external auditors with necessary information for conducting due auditing.

Article 12 Penalties

If the Company managers and persons-in-charge violate the Regulations formulated by FSC or the Procedures, except in accordance with the regulations of the competent authority, the authority director 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 13 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 14 Miscellaneous

1. The subsidiaries and parent companies referred in the procedures, shall be defined in accordance with the guidelines for Regulations Governing the Preparation of Financial Reports by Securities Issuers.
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 preparation of the financial statements of the issuer of securities.
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 endorsements/guarantees and monetary amount, whichever date is earlier.
5. Where as a result of changes of condition the entity for which an endorsement/guarantee is made no longer meets the requirements of the

Regulations and the procedures, or the amount of endorsement/guarantee exceeds the limit, the company shall adopt rectification plans and submit the rectification plans to the Audit Committee, as well as each independent director in writing, and shall complete the rectification according to the timeframe set out in the plan.

6. The Company shall not make endorsements or guarantees to the Subsidiary's net worth below 50% of issued capital.

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 aforementioned calculation, the sum of the share capital plus paid-in capital in excess of par shall be substituted.

Article 15 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.

In the preceding paragraph, any matter under a subparagraph of the preceding paragraph that has not been approved with the consent of one-half or more of all audit committee members may be undertaken upon the consent of two-thirds or more of all directors, without regard to the restrictions of the preceding paragraph, and the resolution of the audit committee shall be recorded in the minutes of the directors meeting.

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

Article 16 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.