

## **Chicony Power Technology Co., Ltd.**

### **Procedures for Engaging in Derivatives Transactions**

**Article 1. Objectives:**

The Procedures are duly enacted in accordance with Article 36-1 of the Securities and Exchange Act and the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies” promulgated by the Financial Supervisory Commission in an attempt to effectively manage the Company and the subsidiaries recognized under the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Subsidiaries) on the revenues and expenditures, assets and liabilities to, in turn, minimize the potential risks to be incurred by fluctuation in foreign exchange, interest rates.

**Article 2. Scope of application:**

(I) The categories of the derivative financial instruments the Company and the Subsidiaries may engage in shall be the transaction agreements/contracts deriving from assets, interest rates, exchange rates, indices, other interests and such commodities, including forward, option, futures, interest swaps, currency swaps, trading in bond guarantee bonds and the compound agreements/contracts composed with the aforementioned commodities.

(II) Attributes of trading: Hedging trading - for the purposes of hedging the potential operating risks.

**Article 3. Principles and policies of transaction:**

(I) Categories of transaction

The scope of derivative financial instruments currently operated is confined to the forwards, options and currency swaps. Transaction in other derivative financial instruments shall be subject to approval by the Company's chairman beforehand.

(II) Operating and hedging strategies

The derivative financial instrument trading was conducted in the principle hedging trading in the same currencies. In the event where a currency that shows apparently too high hedging costs, with consideration of both risks and hedging costs, the Company could engage in currency basket hedge.

(III) Classification of mandate and responsibilities

Department of Finance

1. Collect updates in the market, judge the currencies and risks, familiarize financial products, laws and ordinances concerned, operating skills, assemble the net foreign exchange positions of the entire Company, provide adequate information to the management as a handy reference in policymaking process and engage in the trading pursuant to the Company's policies and instructions under the credit lines of authorization.
2. Calculate the cash flow in detail and arrange dispatch of working capital and take charge of settlement of foreign exchange trading.
3. Provide the estimate of the profit and/or loss of the foreign exchange trading positions to the Accounting Department on a regular basis.

Accounting Department

1. Keep account and work out financial statements in accordance with the generally accepted accounting principles.
2. Enter account based on the estimate of the profit and/or loss of the foreign exchange trading positions provided by the Department of Finance.

(IV) Limit of transaction and maximum limit of tolerable loss:

1. The foreign exchange hedge shall not exceed the net position of the maximum limit of the trading foreign exchange every month (including the position anticipated to come into being in the future).

2. Maximum limit of tolerable loss:

(1) The Company:

- (i) The loss in an individual contract shall be within the limit of 20% (inclusive) in excess of the contact amount.
- (ii) The loss in the overall contract shall be within the limit of 20% (inclusive) in excess of the overall contact amount.

Whenever the total of the losses is up to the specified maximum limit, the Department of Finance shall report to the general manager in writing whether the closing transaction or stop-loss should be required.

(2) A subsidiary:

- (i) The loss in an individual contract shall be within the limit of 20% (inclusive) in excess of the contact amount.
- (ii) The loss in the overall contract shall be within the limit of 20% (inclusive) in excess of the overall contact amount.

Whenever the total of the losses of a subsidiary is up to the specified maximum limit, the Department of Finance of that subsidiary shall report to its general manager in writing whether the closing transaction or stop-loss should be required.

(V) Evaluation of performance: The hedging transaction shall be evaluated twice a month. The evaluation reports shall be submitted to the top head of the Financial Center for final instructions.

**Article 4. Operating procedures:**

(I) Credit lines of authorization

1. Undertaking transactions

On the grounds of the changes in the Company's sales turnover and risk positions, it calls for approval from the top head of the Financial Center whenever the amount of a single case or in accumulation in a day is below US\$3 million (inclusive), calls for approval from the general manager in an amount between US\$3 million and US\$6 million (inclusive); calls for approval from the chairman in an amount between US\$6 million and US\$10 million (inclusive) and calls for approval from the board of directors in an amount above US\$10 million. In the event that approval could not be obtained beforehand, it shall be subject to approval by the chairman before being submitted to and acknowledged respectively by the board of directors in the closest board of director meeting.

2. Settlement

The settlement shall be subject to approval from the top head of the Financial Center. In case of settlement ahead of schedule and the loss of settlement in an individual contract exceeds 20% (inclusive), nevertheless, it calls for approval from the general manager.

(II) Implementation procedures

1. Ascertain transaction positions.

2. Analyze and judge the relevant future trends.

3. Resolve the targets, position, strategies, target prices and ranges of the transaction.

4. Obtain approval for the transaction; and then, the Department of Finance shall fill up the Treasury Transaction Form, or the application for loan in foreign currencies or application for purchase of options in foreign currencies for approval beforehand.

5. Implementation of the transaction

(a) Counterparts of transaction: Limited to financial institutions at home and abroad.

(b) Transaction personnel: The personnel approved by the chairman to conduct the transaction, who shall report to the board of directors.

6. Confirmation of transaction: After the transaction personnel conduct the transaction, check and verify whether the terms of transaction are consistent with the contents of the relevant papers before the case is to be handed over to the Accounting Department to issue vouchers and enter into account. The application form(s) mentioned in (4) shall be submitted to the highest head of the Financial Center for verification.

7. Settlement: After the transaction is checked and verified, the Department of Finance shall, on the date scheduled for settlement, get ready the payment and supporting vouchers so as to negotiate and determine the prices and, in turn, conduct settlement.

8. The personnel in charge of transaction shall report the fact of transaction implementation to the board of directors in the closest upcoming meeting. The closest upcoming meeting excludes a board of directors meeting convened at any time due to an event of emergency.

Article 5. Process of accounting handling:

Upon success in the transaction, the Accounting Department shall duly handle the issue in accordance with "International Financial Reporting Standards (IFRS)" No. 9 "Financial Instruments," "International Accounting Standards (IAS)" No. 32 "Expression of Financial Instruments."

Article 6. Internal control system:

(I) Measures in risk control

1. Credit risk management: The trading counterparts shall be confined to financial institutions at home and abroad.

2. Market risk management: Primarily in hedging trading, not to create extra positions as far as possible.

3. Liquidity risk management: The derivative financial instruments in trading shall be in the categories in significant liquidity in the markets. The financial institutions in transaction shall be those equipped with adequate facilities, information and trading capability and shall be further capable of trading in any markets.

4. Operating risk management: The Company and subsidiaries shall faithfully comply with the credit lines of authorization, operating procedures to prevent operating risks.

5. Legal risk management: Any and all master agreements for foreign exchange trading executed with any banks shall be reviewed by the legal consultant(s) before official execution to prevent potential legal risks.

6. Cash settlement risk management: The trading personnel shall faithfully comply with the requirements for credit lines of authorization and shall, besides, be closely watch the Company's cash flow to assure adequate cash available for payment upon settlement.

(II) Internal control

1. Trading personnel and confirmation. The settlement personnel shall not serve the positions concurrently among themselves.

2. The Company shall check accounts or verification by mail with banks in transactions on a regular basis.

3. The Department of Finance shall provide the statement worked out with the exchange rates, interest rates or the profit and/or loss evaluated for the commodity prices at end of the preceding month and shall submit the statement to the general manager and the chairman no later than the 10th day of the ensuing month.

4. Measuring of the trading risks: The superintendence and control shall be handled by those other than the trading personnel who shall report to the chairman.

(III) Evaluation on a regular basis

1. The board of directors shall authorize the top head of the Financial Center to evaluate the performance of the trading to make sure whether the performance is consistent with the executed operating strategies, and whether the risks so shouldered are within the tolerance set by the Company.
2. The top head of the Financial Center shall evaluate on a regular basis whether the risk credit management procedures currently adopted is appropriate and whether or not they have been faithfully handled in accordance with the Procedures.
3. The hedging trading shall be evaluated twice per month as the minimum.
4. Whenever the market evaluation report indicates a sign of abnormality, the top head of the Financial Center shall adopt countermeasures as necessary and shall report to the board of directors. After the Company or a subsidiary sets up the independent directors, the board of director meeting shall be attended by the independent directors to voice their opinions.

Article 7. Internal Audit System:

- (I) The internal auditors shall, pursuant to the requirements for the "Internal Audit System," look into the internal control over the derivative financial instruments on a regular basis to check and verify the appropriateness and shall further, on a monthly basis, audit the trading department about the compliance with the "Procedures to Engage in Transaction and Disposal of Derivatives" and analyze the trading circulation, work out the audit report. Whenever a significant default is found, they shall inform audit committee in writing.
- (II) The internal auditors shall, pursuant to the requirements for the "Regulations Governing Establishment of Internal Control Systems by Public Companies", duly declare the audit report worked out according to the preceding paragraph and the facts of corrective action to the competent authorities of the government for information on a regular basis.

Article 8. Trading reporting books, promulgation and declaration:

The Departments of Finance of the Company or the subsidiaries enter in details the categories, amounts of trading in derivative financial instruments, dates as resolved by the board of directors, the evaluation findings as per Articles 6 and 7, into the reporting book and shall promulgate and declare the same exactly in accordance with the requirements of the competent authorities of the government.

Article 9. The control procedures over subsidiaries in derivative financial instruments:

- (I) A subsidiary shall, with reference to the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" promulgated by the Financial Supervisory Commission and the Procedures, duly enact the "Procedures to Engage in Transaction and Disposal of Derivatives." The "Procedures to Engage in Transaction and Disposal of Derivatives" so enacted shall be submitted to the supervisors and the shareholders' meeting for consent after being resolved by the board of directors. This same provision is applicable mutatis mutandis to an event of an amendment.
- (II) A subsidiary not as a listed public company in the country shall report the performance of derivative financial instruments traded as of the last day of the preceding month to the Company not later than the 10th day of every month.

Article 10. Where a manager or person-in-charge of the Company or a subsidiary is found having breached the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" promulgated by the Financial Supervisory Commission or the Procedures by engaging in speculative derivative financial instruments trading, the offense shall be reported to the board of directors for punishment. In case of a significant offense which leads to a huge impairment to the Company, the offender shall be further referred to prosecution according to law.

Article 11. In the event where the Company or a subsidiary submits the Procedures to the board of directors for discussion of the enactment or an amendment, and where a director objects and the objection is backed up with a record or in writing, the data of such objection shall be submitted to the audit committee or all supervisors.

Where the Company or a subsidiary submits the Procedures to the board of directors for discussion after the Company or subsidiary establishes independent directors, the Company shall take adequate account of the opinions offered by the independent directors and shall expressly remark such onto the minutes of the board of director meeting.

After the Company or a subsidiary hereof sets up the audit committee where the handling procedures for major procedures to engage in transaction and disposal of derivatives case or other law issues are subject to a pass through the audit committee, all such issues shall be subject to consent by one-half members of the audit committee and shall be duly resolved in the board of directors. Any matter 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, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.

Article 12. The Procedures shall be put into enforcement after being agreed upon by the audit committee, resolved in the board of directors and submitted to the shareholders' meeting for endorsement. This same provision is applicable mutatis mutandis to an event of an amendment.

Any matter under 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, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting. The number of "all audit committee and all directors" of the Procedures, shall be counted as the number of audit committee and directors then actually in office.