

Powertech Technology Inc.

Procedures for Financial Derivatives Transactions

Article 1. Purposes

1. These Procedures are adopted to establish a risk management system, effectively controlling the risks arising from derivative transactions, protecting the investment, and implementing the information disclosure requirements.
2. These Procedures are established and modified based on “Regulations Governing the Acquisition and Disposal of Assets by Public Companies” promulgated by the Financial Supervisory Commission.

Article 2. Principles and Guidelines

1. Product Types
Derivatives referred to herein are broadly defined as instruments that derive their value from the performance of underlying assets, interest or currency exchange rates, indexes or other. Such instruments include swaps, options, futures contracts, leverage contracts, forwards, and various combinations thereof. Forwards referred to herein exclude insurance, performance, post-sale service, long-term lease and long-term sales/procurement contracts.
2. Strategies
As the Company’s profits should be derived from ordinary business operation, the transaction of derivatives should be mainly for hedging purposes and should balance the Company’s integral internal position (including net position and hedge position) to maintain the ordinary business profitability and reduce investment expenditure. The Company shall not engage in any transaction for trading purposes.
3. Authorization and Delegation
 - (1) Finance Personnel: responsible for conducting derivatives transactions, collecting market information, evaluating trends and risks, familiarizing with financial products and the relevant laws and regulations and the relevant knowledge, and processing derivatives transactions according to the instruction and authorization given by the manager-in-charge to avoid the risk of fluctuant market prices.
 - (2) Accounting Personnel: responsible for confirming the derivative transactions,

reviewing the relevant vouchers, making regular assessments, public disclosures and filings, and making journal entries and prepare draft financial statements in accordance with the generally accepted accounting principles.

- (3) Audit Personnel: responsible for measuring the transaction risks and supervising and controlling the transaction processes.

4. Gist of Performance Evaluation

With respect to transactions entered into for hedging purpose -

- (1) The performance evaluation shall be based on the Company's book exchange rates, interest rate costs and the profits and losses incurred by engaging in derivatives transactions.
- (2) To sufficiently understand and evaluate the transaction risks, the Company shall evaluate the profits and losses on a monthly basis.

5. Limit of Aggregate Contract Amount and Maximum of Losses

- (1) Aggregate Contract Amount

With respect to transactions entered into for hedging purpose -

The aggregate amount of all hedge contracts shall not exceed the net position, that is, the difference between the Company's account receivables and account payables, over the next three months.

- (2) Maximum of Losses

The maximum losses on total derivatives transactions or under each derivatives contract shall not exceed twenty percent (20%) of the aggregate amount of total transactions or the amount of each contract respectively.

Article 3. Operating Procedures

1. Level of Delegation and Authorization

Derivatives transactions entered into for hedging purpose shall be prior approved with the amount in writing by the following managers-in-charge:

<u>Managers-in-Charge</u>	<u>Delegated Amount</u>
Board of Directors	More than US\$50 million
Chairman	More than US\$30 million and up to US\$50 million
General Manager	More than US\$20 million and up to US\$30 million
Finance & Accounting Chief	Up to US\$20 million

2. Execution Personnel
 - (1) Derivatives shall be executed by the finance personnel.
 - (2) The head of the finance department and the specialist(s) designated by him/her are authorized to conduct derivatives transactions.
3. Execution Process
 - (1) Select a trade position;
 - (2) Analyze and predict the trend of prices;
 - (3) Determine the transaction;
 - a. target
 - b. trade position
 - c. target price zone
 - d. strategy and type
 - (4) Obtain approval of the transaction;
 - (5) Process the transaction: the counterparty shall be limited to domestic or overseas financial institutions or any other institutions with excellent credibility.
 - (6) Confirmation of the transaction: the dealer shall, after completion of the transaction, prepare the transaction statement to be verified by the personnel in charge for verification and then submit the verified transaction statement to the manager-in-charge for his/her approval.
 - (7) Settlement: The finance personnel shall, after the confirmation of the transaction, assign a person in charge for settlement to prepare the payment and the relevant documents to process the settlement with the negotiated price at the date of settlement.

Article 4. Filing and Disclosure

1. The Company shall each month file the information of derivatives transactions engaged by it and any of its subsidiaries which is not a Taiwan public company up to the end of the previous month with the securities authorities and publicly disclose the same in accordance with the relevant regulations.
2. In addition to the foregoing, all other matters required to be filed with the securities authorities and/or publicly disclosed shall be subject to the relevant regulations.
3. Should there be any error or omission in the required public disclosures, the

Company shall publicly disclose the entirety again.

Article 5. Accounting

The accounting treatment on derivatives shall be subject to the International Accounting Standard 39 - Financial Instruments: Recognition and Measurement and the relevant regulations promulgated by the relevant authorities. If there are no such regulations, derivatives transactions shall be recorded with details and a realized/unrealized profit and loss statement shall be prepared on a monthly basis.

Article 6. Measures of Risk Management

When engaging in derivatives transactions, the Company shall adopt the following risk management measures:

1. Categories

- (1) Credit Risk Management: Counterparties shall be limited to domestic or overseas financial institutions or any other institutions with excellent credibility. The personnel in charge for recording shall immediately record each transaction in detail upon the completion thereof and verify the accounts regularly.
- (2) Market Price Risk Management: Market price risk arising from the fluctuations of interest rates and foreign exchange rates or from other factors shall be closely monitored and controlled.
- (3) Liquidity Risk Management: To assure market liquidity, financial products with a higher liquidity, namely that it can always be offset in the market, shall be the main trading targets, and counterparties shall be restricted to those who have sufficient information, and sizable trading capacity and capability to enter into transactions in any markets around the world.
- (4) Cash Flow Risk Management: To ensure the stability of working capital, the Company shall use its own capital to fund derivatives transactions, and the trading amount shall be determined taking into account the capital need for the next three (3) months based on the projected cash flows.
- (5) Operating Risk Management: The delegation and authorization, operating procedures and internal audit system provisions set forth herein shall be strictly observed to control operating risk.
- (6) Legal Risk Management: Each transaction shall be reviewed by the relevant

personnel in accordance with the Company's contract management policies and outside legal counsels, if necessary, and then submitted to the manager-in-charge for his/her approval.

2. The respective functions of trading, confirmation and settlement shall be performed by different personnel belonging to one or more departments.
3. Risk evaluation, monitoring and control functions shall be assigned to personnel belonging to one or more departments different from those in the preceding paragraph, and such personnel shall report to the Board of Directors or any other officers who are not responsible for making decisions on transactions or trade positions.
4. Others: Dealers in the Company shall have complete and correct professional knowledge as to financial products, and the Company shall request banks to sufficiently disclose the associated risks to avoid misuse of financial products.

Article 7. Regular Evaluation and Correction of Abnormal Situation

1. Bi-weekly reports in connection with the derivatives transactions entered into for hedging purpose shall be prepared and submitted to the General Manager for his/her review.
2. The Board of Directors shall supervise derivatives transactions in accordance with the following principles:
 - (1) holding the General Manager accountable for the monitoring and control of risks arising from derivatives transactions from time to time; and
 - (2) evaluating the hedging performance and result on a regular basis to oversee how well they 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.
3. Designated by the Board of Directors, the General Manager shall monitor and control derivatives transactions in accordance with the following principles:
 - (1) regularly reviewing the level of adequacy of the current risk control process and its degree of consistency with the principles and procedures set forth herein; and
 - (2) monitoring trading and profit-loss circumstances, and upon having identified unusual performances and results, undertaking any actions deemed necessary

to correct the situation and reporting to the Board of Directors at a meeting where any independent director shall be present and express opinions.

Article 8. Memorandum Book

A memorandum book shall be established and maintained to record the derivative transactions in which the types and amounts of derivatives trading, dates of the Board of Directors' approvals, and the matters required to be carefully evaluated under Paragraph 1 and Sub-paragraph 2, Paragraph 2 and Sub-paragraph 1, Paragraph 3 of Article 7 shall be stated in detail.

Article 9. Internal Audit System

The Company's internal auditors shall evaluate the suitability of the internal control system in connection with derivative transactions on a regular basis, to conduct auditing on how well the related departments follow these Procedures, and to produce reports with trading cycle analysis on a monthly basis. Any material violation shall be reported in writing to the Audit Committee.

Article 10. Miscellaneous

The adoption of these Procedures and any amendment hereto shall be approved by a majority of members of the Audit Committee and then submitted to the Board of Directors for its approval. Without the approval of the Audit Committee, these Procedures and any amendment hereto may also be approved and adopted by two third (2/3) of members of the Board of Directors with the detail of the Audit Committee's decision being recorded in the Board meeting minutes. In determining whether to approve and adopt these Procedures and any amendment hereto, 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 meeting of the Board of Directors. "Members" of the Board of Directors or of the Audit Committee referred to herein shall mean the existing members.

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