

# Topoint Technology Co., Ltd

## Procedure of Derivatives Transaction

### I. Purpose

These *Procedures* are formulated to enable the Company to become a global company and to plug into the tides of liberalisation, and to assume flexibility with established strategies, avert risks, derive appropriate returns and prevent major losses due to derivatives transaction.

### II. Basis

To safeguard investments, ensure transparent information and set up a risk management system for derivatives transaction, the Company has established these *Procedures* in accordance with the provisions under the *Guidelines for Derivatives Transaction* stipulated in the *Regulations Governing Acquisition or Disposal of Assets by Public Companies* promulgated by the Securities and Futures Commission, Ministry of Finance in its document (91) Tai Cai Zheng (I) No. 009100610 on 2002.12.10

### III. Scope of Applicability

“Derivatives” herein refer to transaction agreements (such as forward contracts, options, futures, interest rates or exchange rate, swaps and composite contracts formed of the aforesaid product portfolios derived from products) such as assets, interest rate, exchange rates, index or other benefits as well as bond margin transaction.

### IV. Transaction Principles and Plans

The Company may trade in the following derivatives: Forward foreign exchange contracts, leveraged contract, swap contracts, interest rate

swaps, options, margin, futures, other forward contracts and composite contracts etc. (forward contracts herein mentioned exclude insurance contracts, performance contracts, after-sales contracts, long-term lease contracts and long-term purchase and sales agreements).

#### V. Operational Risk Aversion Strategy and Division of Powers of Office

Division of powers of office for company staff carrying out derivatives operations shall be as follows. A single person may not hold more than one position:

1. Supervisors: Formulation of operational strategies, operational guidelines, risk management, training plan, and operate within their scope of authority (filling up of operation sheet, details transaction terms and reasons for operations, to be handed to the dealers).
2. Analysts: Research market information, prepare research report, projection presentation for unit personnel, improve professional knowledge and discuss operations proposals with supervisors authorised to execute operations.
3. Dealers: Verify authorisation and limit, and execute transaction, carry out transactions with banks (legitimate brokers) according to the transaction terms set forth on the transaction forms by the supervisors.
4. Verifiers: Verify transaction, complete transaction record, confirmation of balance position and computation and evaluation of position profit/loss, submission to general manager authorised by the board of directors.

#### VI. Transaction Authorisation and Limit

1. Forward foreign exchange transaction authorisation and limit: authorised operational personnel shall be given a limit of United States Dollars one million, the limit on position being United States Dollars eight million.
2. Other derivative products (swaps, interest rate swaps, options

transactions leveraged transactions, futures transactions, other forward contracts and composite contracts). Highest limit per transaction is United States Dollars one million, the limit on position being United States Dollars three million. Every transaction shall be authorised by the general manager with the highest risk management authority.

VII. Loss Limit of Derivative Transaction is as follows:

1. Loss limit per transaction is five percent of the contract value.
2. Cumulative net loss on annual derivative transaction is New Taiwan Dollars five million (including evaluation of loss from balance undue based on fair market value)
3. When the loss is close to the limit stated under the first paragraph, the supervisors shall take appropriate stop loss measures and report to the risk managers.
4. When the loss is close to the limit stated under the second paragraph, the supervisor shall immediately terminate all derivatives transaction, report to the highest risk supervisor and the board of directors.

VIII. Procedures (including authorised limit, level and execution unit)

1. Company procedures in derivatives transaction:
    - 1.1 Obtain appropriate authorisation and approval
    - 1.2 Transaction
    - 1.3 Clearing and Settlement
    - 1.4 Accounting
    - 1.5 Risk Management
    - 1.6 Verification.
- Items 1.1 to 1.3 shall be undertaken by the finance department, items 1.4 to 1.5 shall be undertaken by the accounts department and risk managers, and item 1.6 shall be undertaken by the audit

department.

2. The supervisors for operating these Procedures are managerial and section supervisors in the finance department, risk managers are managers in the general manager's office, and the highest authority in risk supervision is the general manager.

#### IX. Internal Control

1. Limit Control: Before executing an order put through by a supervisor, dealers shall verify the limit (authorised limit or approved amount), and upon confirmation of every completed transaction, verifiers shall submit for review by the risk managers within two days.
2. The Company's derivatives transaction counterparties are limited to:
  - a. Banks
  - b. Securities Companies
  - c. Trust Investment Companies
  - d. dealers who are members of futures exchange approved for setting up by our government. Where a transaction counterparty belongs to none of the aforesaid four categories, reasons must be given and application submitted for approval by the risk supervisor of the highest authority.
3. Where derivatives transaction is a risk aversion transaction carried out as a result of business necessity, assessment should be carried out once every week. Risk assessment should assess the balance undue for derivative positions by classification. Assessment shall be based on market price, the fair value market price and accuracy of such assessment shall be reviewed by the accounts department, and reported to the relevant persons in risk management.

#### X. Accounting Treatment

Loss (profit) balance for derivatives position shall be calculated monthly, based on the relevant provisions in the accounting bulletin (or the competent authorities).

## XI. Internal Audit

1. The Company's audit department shall conduct regular checks on the appropriateness of the internal control derivatives transaction, and shall carry out monthly reviews on the level of compliance with the Procedures for Derivatives Transaction, analyse transaction cycles and prepare audit reports. Where major violation is discovered, the supervisor shall be notified in writing.
2. Internal auditors shall submit the audit report together with the annual internal audit review to the Securities and Futures Commission by February of the following year, and shall submit to the Commission progress reports on corrective actions taken for unusual matters by end May of the following year.

## XII. Supervision and Management of the Board of Directors

1. The general manager is appointed by the board of directors as the highest supervisory authority for the Company's derivative transaction activities to keep vigilant and control at all times on the risks of derivative transaction.
2. When the cumulative losses from derivative transaction amounts to five million New Taiwan Dollars, the supervisor of the highest authority appointed by the board of directors shall report the derivatives transaction results to the board, including loss evaluation on balance undue, to enable the board of directors to understand if the results from derivatives transaction is in line with the business strategy, and if the risk undertaken is within the Company's risk appetite.
3. A memorandum book shall be established for the Company's derivatives transaction activities, included in which for future

reference are derivative transaction details such as types, amount, date of approval by the board of directors and items to be subject to diligent assessment as set forth under Procedures V and VI herein.

### XIII. Public Announcement and Reporting

1. Public announcement for derivatives transaction shall be made within two days after the date of occurrence.
2. The Company shall, before the 10th day of every month and in accordance with the stipulated format, enter derivatives transaction information of itself and its subsidiary of the previous month into the Market Observation Post System.
3. Disclose relevant items concerning the Company's derivatives transaction activities in its financial statements in accordance with the Securities and Futures Commissions.
4. By end February of the following year, submit the audit report as set forth under Procedure XI, together with the progress report on its annual audit review, to the Securities and Futures Commission, and shall submit to the Commission progress reports on corrective actions taken for unusual matters by end May of the following year.

### IV. Penalty

Company managers and key personnel who violate these *Procedures* shall be reported and reviewed in accordance with the *Personnel Management Regulations* and *Staff Manual*, and a penalty imposed based on the severity of violation.

### XV. Implementation and Amendment

Upon approval of this *Procedures for Transaction in Derivatives* by

the board of directors, and after submitting to the various supervisors and the shareholders' meeting for approval; the same shall apply for amendments. Where the directors oppose and where records or written statements of such opposition are available, the Company shall forward such opposition to the various supervisors and propose for deliberation at the board of directors' meeting. Where the Company has appointed independent directors and when submitting such *Procedures for Transaction in Derivatives* for deliberation by the board of directors, full consideration must be given to the opinions of the independent directors, and the opinions and reasons for their agreement or opposition included in the minutes of meeting.

#### XVI. Supplementary Provisions

Other matters not included herein shall be governed by the relevant laws.