

## Derivatives Trading Procedures Walsin Lihwa Corporation

Amended and passed by regular shareholders' meeting on May 19, 2023

### Chapter I General Principles

#### Article 1 Objective

The Derivatives Trading Procedures (the Procedures) set forth herein serve as the guidelines for Walsin Lihwa (the Company) to strengthen internal control and risk management when engaging in derivatives trading.

#### Article 2 Applicability

The Procedures shall be applicable to the Company and its subsidiaries, except the subsidiaries that have their own derivative trading procedures that have been approved by the Company.

#### Article 3 Definition

3.1 The derivative products referred to herein are defined by the Company's Asset Acquisition and Disposal Procedures regarding such products.

3.2 Hedge :

3.2.1 Foreign exchange trading: Open interest value  $\leq$  Foreign currency assets or liability positions at the beginning of an accounting period + the projected amount for the next three months

3.2.2 Interest rate trading: Open interest value  $\leq$  Exposure value of the hedged

3.2.3 Raw materials: Open interest position  $\leq$  Inventories at the beginning of an accounting period + the projected amount for the next three months

### Chapter II Contents

#### Article 1 Responsible departments

1.1 Finance Division: Management on a regular basis of Taiwan Dollar and foreign currency deposits, relevant currency operations, short term investments, receivables and advances, foreign currency based fixed assets, long term investments, as well as Taiwan Dollar and foreign currency borrowings resulting from operating or investment activities.

1.1.1 Fund Management Unit: Responsible for hedge transactions such as currency or interest rate trading.

1.1.2 Exchange/Interest Rate Risk Management Unit: Planning and execution of foreign exchange and interest rate hedge trading against exchange rate change risks to net domestic and overseas investment.

1.2 Key Resources Management Division: Hedge and nonhedged trading conducted by the Materials Risk Management Unit against raw material price risks associated with the Company's operations.

1.3 Accounting Division: Responsible for transaction confirmation, accounting adjustment, bookkeeping, and evaluation of unrealized gains or losses based on the positions of derivatives held by the Company on a regular basis.

1.4 Auditing Office: Responsible for audit of transactions and outstanding positions based

on the reports prepared by the Accounting Division and evaluation of compliance with the Procedures on a regular basis.

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<b>Article 2</b>	<b>Functions and management principles</b>
2.1	Strategy
2.1.1	The Company shall primarily select the derivatives are able to hedge against its operating risks.
2.1.2	Derivatives trading shall be divided into hedge trading (for non-trading purposes) and non-hedge trading. Hedge trading: Trading against price risks to current or future positions by utilizing relevant hedge instruments Non-hedge trading: Trading for non-hedge purposes
2.2	Performance evaluation
2.2.1	Non-hedge trading shall be reviewed on a regular basis based on profit- taking goals or stop-loss limits that are predetermined in accordance with the value of positions held.
2.2.2	The accounting division shall prepare reports on a regular basis to inform the senior management of the net gain or loss in the current accounting period.
2.3	Limits on trading
2.3.1	Hedge positions: (1) Foreign exchange and interest rate trading: By the Exchange/Interest Risk Management Unit based on its authorization. (2) Raw materials: By the Material Risk Management Unit based on its authorization.
2.3.2	Non-hedge positions: (1) Foreign exchange and interest rate trading: Prohibited (2) Raw materials: Copper: No more than 40,000 tons Nickel: No more than 20,000 tons Other Raw materials: Subject to written approval by the chairman of the board with trading amount limits to be established
2.4	Stop-loss limits
2.4.1	Stop-loss limits for hedge trading may not be required if such trading is made for business purposes of the Company, but the management shall be kept updated on any loss on a regular basis. When the loss of a contract amounts to 60% of the contract value or the total loss of all contracts reaches 30%, the chairman of the board shall be informed in order to decide whether liquidation is required.
2.4.2	Stop-loss limits for non-hedge trading shall be set and the limit for raw materials trading shall be 10% per contract.

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<b>Article 3</b>	<b>Implementation</b>
3.1	Prior to trading of any derivatives, risks shall be evaluated and trading shall be approved by authorized hierarchies of the Company. After trading of any derivatives, the board of directors shall be informed.
3.2	The authorized limits as provided in 3.3 shall be complied with when engaging in derivative trading, and written approval by the chairman of board shall be required

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for other categories of hedge trading.

- 3.3 Total value of accumulated open interests to be approved by the highest authorized levels of the Company:

Foreign exchange and interest rate trading		(in million USD)
Level	Hedging Contracts	Non-Hedging Contracts
Head of Each Level under Exchange/ Interest Rate Risk Management Unit	Authorized by the Chairman based on actual needs	0
General Manager	Authorized by the Chairman based on actual needs	0
Chairman	Conducted according to actual needs	0

Materials		Unit: Metric Ton
Item	Hedge Contracts	Non-Hedging Contracts
Total value of accumulated open interests	Conducted according to actual needs	Copper: 40,000 Nickel: 20,000
Highest authorized level	Head of Center of Materials Risk Management Unit	Chairman

- 3.4 Disclosure: The company shall announce and report to relevant authorities the total value of contracts not offset, net gains or losses based on market value, value of margins paid, and total value of contracts offset or transacted resulting from derivatives trading as of the end of the previous month along with monthly business results at the Company and its subsidiaries.

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**Article 4 Requirements**

4.1 Accounting and disclosure

4.1.1 Accounting for derivatives trading shall abide by relevant financial accounting standards.

4.1.2 The balance sheet or its appendices shall disclose the following in accordance with types of derivatives of which the Company engages in trading and the objectives of the Company to hold and/or issue derivatives:

- (1) Par value or contract value
  - (2) Characteristics of derivatives as well as their terms and conditions
  - (3) Non-derivatives shall be separately disclosed in accordance with the
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Financial Accounting Standards.

4.1.3 The gain, loss, or fee income from derivatives trading or related expenses shall be respectively recognized. Hedge trading shall first be entered into the deferred account and then amortized over the duration of the hedge assets or liabilities hedged. Non-hedge trading shall be recognized in the current accounting period. To hedge foreign exchange risks associated with net investment in the Company's foreign operations, exchange rate differences shall be included in the translation adjustment account as an adjustment to shareholders' equity.

4.2 Risk Management and Internal Control

4.2.1 Credit risk management: The Company shall only trade with the banks and professional brokers that it usually deals with in order to prevent default risks.

4.2.2 Market risk management: The Company shall pay close attention to the market price fluctuations that may incur financial risks at the Company.

4.2.3 Liquidity risk management: The Company shall

(1) select the products that can be easily liquidated based on their past values while the risks associated with the positions held shall be easily offset, and

(2) factor in the default risks on settlement days and/or related to margin calls.

4.2.4 Operational risk management: Trading shall strictly abide by the limits of authorization and relevant procedures in order to avoid the risks incurred by human errors, procedural inadequacy, and insufficient control.

4.2.5 Legal risk management: All the contracts and documents related to derivatives trading shall be reviewed by Legal Office prior to signing in order to ensure the interests of the Company will not be compromised and avoid legal risks.

4.2.6 Internal control

(1) Those who responsible for derivatives trading, confirmation of derivatives transactions, and settlements of such transactions shall not be the same persons.

(2) Review, accounting adjustment, and valuation of derivatives trading shall be conducted by the Accounting Division.

(3) Accounting Division shall establish a log book on the derivatives trading in which the Company engages and consequently submit the log book to the board of directors. The log book shall be established in accordance with the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

4.2.7 Regular evaluation

(1) Accounting Division shall appraise outstanding positions of derivatives based on market values or fair values and prepare appraisal reports. Hedge positions shall be appraised at least twice monthly, while non-hedge positions shall be appraised once weekly. Appraisal reports shall be submitted to the executive designated by the board of directors.

- (2) The aforementioned executive designated by the board of directors shall immediately address any irregularities shown in appraisal reports and report such irregularities to the board of directors.
- (3) The executive designated by the board of directors shall be the President of the Company.

#### 4.2.8 Internal audit

- (1) Internal auditors of the Company shall evaluate the adequacy of internal control of derivative trading on a regular basis, monthly inspect the compliance with the Procedures, and analyze the trading cycle for audit report development.
- (2) Internal auditors of the Company shall submit the aforementioned audit report and the status of annual audit implementation to the Securities and Futures Commission (SFC) by the end of February of next year, and shall also report if irregularities have been addressed to the SFC no later than the end of May of next year.
- (3) Internal auditors of the Company shall report in writing the material violations identified to the Audit Committee.

#### 4.2.9 Others

- (1) Authorized personnel of different levels responsible for derivatives trading shall strictly abide by the Procedures as well as other relevant rules and regulations.
  - (2) The Procedures are established jointly by Exchange/Interest Rate Risk and Material Risk Management Units and shall be passed by an audit committee as well as the board of directors and submitted to the shareholders' meeting for approval. Any amendment to the Procedures shall also follow the aforementioned process.
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