

# **TTY BIOPHARM COMPANY LIMITED**

## **Procedures for Financial Derivative Transactions**

### Article 1 Purpose:

Establishment of a risk management and internal control system for derivative transactions to implement information transparency and safeguard investments.

### Article 2 Legal basis:

These procedures have been amended pursuant to the regulations set forth in Article 36.1 of the Securities Exchange Act and “Regulations Governing the Acquisition and Disposal of Assets by Public Companies”.

### Article 3 Transaction Principles and Guidelines:

#### 1. Transaction types:

- (1) The term financial derivatives shall refer to forward contracts, options contracts, futures contracts, leverage contracts, and swap contracts, and compound contracts combining the above products, whose value is derived from assets, interest rates, foreign exchange rates, indexes or other interests. The term "forward contracts" as used in these procedures shall not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) agreements.
- (2) Matters pertaining to bond margin transactions shall be handled in accordance with relevant regulations set forth in these procedures.

#### 2. Business and hedging strategies:

Company profits shall be derived from regular operations. Transactions of financial derivatives engaged in by the company shall be based on the principle of reduction of interest and exchange rate risks faced by the company with the goal of decreasing financial costs. The Company shall generally only engage in transactions for hedging purposes. Transactions for other specific purposes shall be carefully assessed and shall be subject to approval by the board of directors prior to execution.

#### 3. Division of Authority and Responsibility:

##### (1) Financial unit:

This unit shall only be authorized to conduct transactions to hedge against interest or exchange rate risks associated with deposits, accounts receivable, loans, or accounts payable generated by business or investment activities. In addition, it shall also be in charge of

transaction settlement and regular assessment of outstanding gains and losses based on the balance of held financial derivative positions.

- (2) Accounting unit: This unit shall be in charge of confirmation and calculation of realized or unrealized gain and loss and handling of accounting matters based on delivery evidence and other related transaction documents
- (3) Audit unit: This unit shall schedule audit cycles to determine compliance with these procedures in the execution of transactions.

#### 4. Performance assessment:

##### (1) Hedging transactions:

- (i) Gains and losses generated by transactions of financial derivatives engaged in due to exchange and interest rate costs associated with accounts shall constitute the basis of performance assessments.
- (ii) Every transaction shall be recorded in detail on relevant lists for future reference and gains and losses shall be assessed on a monthly basis.
- (iii) The financial unit shall provide foreign exchange position evaluations, foreign exchange market trends, and market analysis for top executives which authorized by board of directors, general manager and the president as references and indicators for management.

##### (2) Non-hedging transactions:

Actual gains and losses shall constitute the basis for performance assessment. Financial personnel shall compile regular reports on positions as a reference for the top executives which authorized by board of directors, general manager and the president as references and indicators for management.

#### 5. Limits on transaction contract values and loss ceilings:

##### (1) Limits on transaction contract values:

###### (i) Hedging transaction volume:

The total amount shall not exceed the accounts receivables/payables or the net asset/liabilities balance which is higher in the next 6 months. For individual contract, the ceiling is two hundred US dollars or other foreign currency of equal value.

###### (ii) Non-hedging transaction volume:

The financial unit shall conduct transactions upon submission of reports, based on future demands for foreign exchange, effective

by approval of the Audit Committee and further submitted to the board of directors for resolution.

(2) Loss ceiling:

(i) Hedging transactions: 5% of the total transaction contract value.

For individual hedging transaction: 5% of the transaction contract value or one hundred thousand US dollars (or other foreign currency of equal value) which is lower.

(ii) Non-hedging transactions: 5% of the total transaction contract value

For individual hedging transaction: 5% of the transaction contract value or one hundred thousand US dollars (or other foreign currency of equal value) which is lower.

If losses exceed the aforementioned ceilings, an appropriate response measures shall be determined upon deliberation and report to the top executives which authorized by board of directors, general manager, chairman and board of directors. If independent directors have been appointed, these directors shall attend related board meetings and express their opinions.

Article 4 Operating procedures:

1. Authorized amount and management level:

Level	Hedging transactions	Non-hedging transactions
	Net cumulative position transaction amount	Net cumulative position transaction amount
Chairman	USD 6 million	USD 3 million
President	USD 4 million	USD 1 million
The head of finance department	USD 2 million	—
Authorized traders of finance department	USD 1 million	—

2. Implementing unit:

Derivative transactions shall be carried out by the financial unit in accordance with the aforementioned regulations on authorized amounts.

3. Description of relevant procedures:

Description	Responsible department
(1) Prior to Order placement with financial institutions, company shall	Financial unit

Description	Responsible department
make confirmation of trading position and concrete measures, fill in Forex evaluation form for get approval	
(2) After transaction completion, submission to personnel in charge of settlement and banks; notification of accounting unit upon verification of foreign exchange forward contracts	Accounting unit
(3) Confirmation of review of aforementioned transaction documents by relevant personnel; checking of accounts on a monthly basis according to lists of unsettled forward exchange transactions provided by the financial unit	Accounting unit
(4) Responsible personnel shall carry out settlement upon document which is confirmed by relevant personnel when contract expires and submit an Assessment Form on Unrealized Gains or Losses to the accounting unit at the end of every month for acknowledge.	Financial unit
(5) Account entry in accordance with relevant accounting procedures and public announcement	Accounting unit
(6) Monthly compilation of a Memorandum Book on Financial Derivative Transactions to be forwarded to the accounting unit for scrutiny	Financial unit
(7) Declaration in accordance with the provisions of Finance Supervisory Commission R.O.C.	Accounting Unit

Article 5 Public announcement and declaration procedures:

1. The accounting unit shall enter relevant data pertaining to derivative transactions engaged in by this company and subsidiaries that are not public companies of the Republic of China until the end of the previous month together with monthly business conditions on the information reporting website designated by FSC in the prescribed format by the 10th of every month.
2. Once upon the loss of derivative transactions reach to the ceiling in accordance with 3rd article 5th clause, company shall upload information to website designated by FSC in the prescribed format within two days from the date of occurrence of the event.

Article 6 Accounting procedures:

Accounting procedures for financial derivative transactions shall be handled pursuant to relevant regulations pertaining to accounting systems prescribed in Statement 14, 34, and 36 of the financial accounting standards as well as relevant regulations of FSC.

Article 7 Internal control system:

1. Internal control of operating procedures:

- (1) Derivative transactions, confirmation, and settlement shall not be handled concurrently by the same personnel
- (2) Financial institutions shall submit foreign exchange forward contracts to the financial unit for verification and the accounting unit for confirmation
- (3) The accounting unit shall upload lists of unsettled foreign exchange forward transactions provided by the financial unit on a monthly basis to the Market Post Observation System by the tenth of the following month, once upon the ceiling loss refer to in the 3rd article 5th clause of this article ,company shall declare within two days.
- (4) Personnel in charge of transactions shall closely monitor whether or not transaction amounts exceed the contract value ceilings prescribed in these procedures
- (5) The financial unit shall conduct evaluations of unsettled foreign exchange balances by category conformity with the cycle regulated in the law, and the report shall be submitted to the top management authorized by board of directors.
- (6) When the financial unit engages in derivative transactions, it shall create a detailed record of the transaction type, amount, date of board

approval, items, etc. careful assessment in a memorandum book.

2. Risk management measures:

(1) Credit risk management:

Market fluctuations tend to cause operational risks for financial derivatives. Market risk management shall therefore be based on the following principles:

- (i) The Company shall place orders with renowned domestic and international financial institutions.
- (ii) Traded products shall be confined to those provided by renowned domestic and international financial institutions.

(2) Market risk management:

When the company engages in derivative transactions, financial risks caused by unfavorable market price levels or price fluctuations shall be closely monitored.

(3) Liquidity risk management:

Preference shall be given to highly liquid products which can be squared up on the market at any time to ensure market liquidity. Entrusted financial institutions shall have sufficient resources and the capability to conduct transactions on any market at any time.

(4) Operational risk management:

Relevant units shall strictly comply with authorized levels and ceilings and operating procedures prescribed by the company to avoid the generation of risks due to human error, inadequate procedures, or insufficient control.

(5) Legal risk management:

All contracts and documents pertaining to transaction counterparties shall only be officially signed upon confirmation that company rights and interests are not harmed in order to prevent legal risks.

(6) Cash flow risk management

Capital used for derivative transactions by the Company shall be confined to self-owned funds and capital demands within the next three months shall be taken into consideration to ensure stable working capital turnover.

(7) Product risk management

Internal personnel in charge of transactions shall have comprehensive and accurate knowledge of financial products and banks shall be required to fully disclose risks to prevent risks associated with financial products.

3. Regular assessment and handling of irregularities:

- (1) The board of directors shall carry out supervision and management in accordance with the following principles:
  - (i) Designate top executives shall constantly monitor and control derivative transaction risks
  - (ii) The top management authorized by board of directors shall manage derivative transactions based on below principle
- (2) Top executives authorized by the board of directors shall manage derivative transactions in accordance with the following principles:
  - (i) It shall be regularly assessed whether currently adopted risk management measures are appropriate and conform to these handling procedures.
  - (ii) Gains and losses incurred by transactions shall be constantly monitored. If irregularities are detected, appropriate response measures shall be adopted and reports shall be submitted to the board of directors in a prompt manner. These directors shall attend related board meetings and express their opinions.
- (3) Personnel in charge of risk measurement, monitoring, and control and the personnel referred to in Paragraph 1, Clause 1 of this article shall belong to different departments.

Article 8 Internal audit:

Internal auditors shall conduct regular reviews of the suitability of internal controls of derivative transactions and inspect monthly the compliance of the trading departments with the "Procedures Governing the Handling of Derivative Transactions" and compile their findings into an auditing report. Serious violations shall be reported to Audit Committee in writing.

Article 9 Other matters:

These handling procedures and all amendments thereof shall be effective by a majority of all members of the Audit Committee, further submitted to the board of directors for resolution and further submitted to the shareholders meeting for approval.

If Procedures and any revision is not approved by a majority of all members of the Audit Committee, alternatively, such may be approved by two-thirds of all directors, provided that in such case, the resolutions adopted by the Audit Committee shall be recorded in the minutes of the meeting of the board of directors. When submit to the board of directors for deliberation, company

shall fully put all independent directors' opinions into consideration, if any opposition or qualified opinion occurs, which shall be recorded in the meeting minutes.

The term "entire membership of Audit Committee and Directors" as used in the Procedure shall be calculated as the number of members actually in office.

These handling procedures were formulated on May 22, 1998.

They were amended for the first time on March 24, 2000.

They were amended for the second time on May 13, 2002.

They were amended for the third time on May 19, 2003.

They were amended for the fourth time on June 21, 2007.

They were amended for the fifth time on June 22, 2012.

They were amended for the sixth time on June 24, 2016.