

Hotai Finance Co., Ltd.
Handling Procedure for the Transaction of Derivatives

2023.05.31

Article 1

These Regulations are adopted in accordance with the provisions of Article 36-1 of the Securities and Exchange Act ("the Act").

Article 2 Principles and Guidelines

1. Types of Transaction

(1) The financial derivatives, which the Company engages in, means Forward contracts, options contracts, futures contracts, leverage contracts, and swap contracts. Whose value is derived from a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable; or hybrid contracts combining the above contracts; or hybrid contracts or structured products containing embedded derivatives. The term "forward contracts" does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) contracts.

(2) This Handling Procedure shall also apply to bond margin transaction; provided that it may not apply to callable bond transaction.

2. Management (Hedge) Strategy

(1) The Company shall conduct the financial derivatives transaction based on the hedging purpose. The Company shall mainly choose commodities that could enable the Company to avoid the risk arising out of or from the operation of the Company, and to obtain the currencies which could meet the requirement of the Company's import and export transactions.

(2) The Company shall conduct foreign exchange hedging operation in order to handle overseas subsidiary's needs for financing in foreign currency.

(3) The Company shall not engage in transaction of other specific purposes.

3. Authorization and Delegation

(1) Financial & Accounting Division

A. Transaction Staffs

- a. The transaction staffs shall be in charge of the draw up of the strategy regarding the overall financial commodity transactions of the Company.
- b. The transaction staffs shall, depending on the actual requirement, collect market information, conduct trend tracking and risk evaluation, and draw up the operation strategy. Upon approval by the responsible person, said strategy shall become the principle for conduct of the transaction.
- c. The transaction staff shall execute the transaction pursuant to the authorized discretion (as further prescribed in Article 4 below) and the current strategy.
- d. Where the transaction staffs consider that the current strategy cannot apply due to the material change of the financial market, they shall immediately provide evaluation report and re-draw up strategy, and propose them to the General Manager. Upon approval by the General Manager, said strategy shall become the principle for conduct of the transaction.

B. Confirmer

The confirmer shall

- a. execute confirmation of transactions.
- b. review and check whether the transactions are conducted pursuant to the authorized discretion (as further prescribed in Article 4 below) and the current strategy.
- c. conduct quarterly evaluations and submit said evaluations to General Manager.
- d. handle accounting issues.
- e. conduct the report and disclosure procedure in accordance with the regulations promulgated by SEC.

C. Delivery Staffs

Execution of the delivery matters.

D. Approval authority of financial derivatives

- a. Authorization Quantum for the Forward Foreign Exchange hedging, Interest Rate

Swap (IRS) and Cross Currency Swap (CCS) Transactions of Hedging Nature.

Authorized Person	Authorized Quantum Per Order	Authorized Quantum for Net Accumulated Position
Chief of the Financial Department	Not more than US\$ 10,000,000	Not more than US\$ 240,000,000
General Manager	Not more than US\$ 20,000,000	Not more than US\$ 500,000,000
Chairman	More than US\$ 20,000,000	More than US\$ 500,000,000

b. Authorization Quantum for the Transaction of Other Hedging Commodities

Authorized Person	Authorized Quantum Per Order	Authorized Quantum for Net Accumulated Position
Chief of the Financial Department	Not more than US\$ 3,000,000	Not more than US\$ 5,000,000
General Manager	Not more than US\$ 10,000,000	Not more than US\$ 20,000,000
Chairman	More than US\$ 10,000,000	More than US\$ 20,000,000

- c. Financial derivatives transactions of the Company which require the approval of the Board of Directors pursuant to the Procedures or other applicable laws or regulations are considered material financial derivatives transactions.
- d. If any of the directors express dissent from the decision or issue a statement in writing when a transaction involving financial derivatives is submitted to the Company's Board of Directors for discussion, their opinions shall be recorded in the meeting minutes of the Board. The opinions of independent directors shall also be fully considered. If any of the independent directors express dissent or reservation from the decision, their opinions shall also be recorded in the meeting minutes of the Board.
- e. Material financial derivatives transactions shall be approved by a majority of all members of the audit committee and submitted to the Board of Directors for resolution. Paragraphs 3 and 4 of Article 8 of the Procedures shall apply.

(2) Audit Department

The audit department shall be responsible for understanding the feasibility of internal control for the transaction of derivatives and inspecting whether the transaction department complies with the operating procedure. In addition, it shall also analyze the transaction circulation and draw up an audit report, and report to the Board when material fault is found.

(3) Performance Evaluation

- A. The performance evaluation shall be made based on the profit or loss between the exchange cost on the book and the transaction of financial derivatives.
- B. In order to fully control and express the exact risk of the transactions, the Company adopts quarterly evaluation method to conduct the profit-and-loss evaluation.
- C. Financial Department shall provide General Manager with foreign exchange position evaluation, foreign exchange market trend and market analysis for his/her reference.

(4) The stipulation for the maximum monetary amount of contract and maximum monetary amount of loss

A. Maximum monetary amount of contract

Financial Department shall control the overall position of the Company in order to hedge the transaction risk. The monetary amount of hedging transaction shall not exceed the total monetary amount required by the Company for actual import and export.

B. Maximum monetary amount of loss

For respective contracts of the hedging transaction, the maximum monetary amount of loss

shall be 20% of the contracted amount; for all contracts of the hedging transaction, the maximum monetary amount of loss shall be 5% of the corporation's net worth.

Article 3 Risk Management Measure

1. **Credit Risk Management**
Trading counter party: Mainly to the renowned domestic or international financial institutions and could provide professional information to the Company.
2. **Market Risk Management**
The market risk management shall be conducted based on the foreign exchange market provided by banks; futures market is excluded.
3. **Circulation Risk Management**
In order to secure the market circulation, the Company shall mainly choose those financial derivatives with higher circulation (i.e. it may be disposed at all times). The trading financial institution shall have sufficient information and the ability to conduct the transaction in any market at all times.
4. **Cash Flow Risk Management**
In order to secure the stability of the revolving of operating fund, the Company shall conduct the financial derivatives transaction solely by using self-owned fund. In addition, the determination of the operating monetary amount shall consider the Company's fund requirement for the forthcoming three months, which is based on the cash flow forecast.
5. **Operation Risk Management**
 - (1) In order to avoid operation risk, the conduct of financial derivative transactions shall comply with the authorization quantum and operation procedure and be subject to internal audit.
 - (2) No plurality of positions among transaction staff, confirmation staff and the delivery staff is permitted.
 - (3) The risk evaluation staff, risk supervision staff and risk control staff shall belong to different units from those of the staffs mentioned in Article 3-5-(2), and shall report to the Board or the high level officers who are not responsible for the transaction or position determination.
 - (4) Derivatives trading positions held shall be evaluated at least once per week; however, positions for hedge trades required by business shall be evaluated at least twice per month. Evaluation reports shall be submitted to senior management personnel authorized by the board of directors.
6. **Commodity Risk Management**
The transaction staffs shall have comprehensive and correct professional knowledge on financial commodities. In order to avoid any risk arising from financial commodities, they shall require the banks to fully disclose the risk.
7. **Legal Risk Management**
In order to avoid legal risk, any document to be executed between the Company and any financial institution shall not be signed until it has been reviewed by the Foreign Exchange Department and Legal Department or the Company's legal counsel.

Article 4 Internal Audit System

1. Internal audit personnel shall examine the adequacy of internal controls of financial derivatives transactions periodically, conduct monthly audit on the Trading Division for compliance of the Procedures, analyze trading cycle, and prepare audit reports. In the event of a major violation, internal audit personnel shall report to the audit committee in writing.
2. The Company shall conduct the financial derivative transactions pursuant to this Handling Procedure. In the event of any material violation of this Handling Procedure, certain punishment shall be imposed on the related persons, depending on the degree of violation.
3. The internal audit staffs shall, prior to the end of February of the ensuing year, submit the "Audit Report" and "Annual Report for the Internal Audit Operation" to the SEC; prior to the end of May of the ensuing year, submit the "Progress on the Correction of Irregular Matters" to the SEC for record.

Article 5 Method of Regular Evaluation

1. The Board shall authorize high level officers to regularly conduct supervision and evaluation on whether the derivative commodity transactions have been managed pursuant to the transaction procedure provided by the Company, and whether the risk taken by the Company is within the permitted scope. In the event of any irregularity (e.g. the positions that the Company holds have exceeded the maximum monetary amount of loss) in the market price evaluation report, said high

level officers shall immediately report to the Board and take countermeasures.

2. Derivatives trading positions held shall be evaluated at least once per week; however, positions for hedge trades required by business shall be evaluated at least twice per month. Evaluation reports shall be submitted to senior management personnel authorized by the board of directors.

Article 6 The Board's Supervision and Management Principle for the Financial Derivative Transactions

1. The Board shall appoint high level officers to take charge of the supervision and control of the risk arising from the derivative commodity transactions at all times. The management principles are as follows:
 - (1) Regularly evaluate the feasibility of the currently applied risk management measures; strictly comply with the "Criteria for Handling Acquisition or Disposal of Assets" promulgated by SEC and "Handling Procedure for the Transaction of Derivatives" promulgated by the Company.
 - (2) Supervise the transactions and the profit-and-loss situation, in the event of any irregularity, they shall take necessary countermeasures and immediately report to the Board. In the case that the Company has established Independent Directors, the Independent Directors' attendance and provision of opinion are required for the Board Meeting.
2. Regularly evaluate whether the performance of the derivative commodity transactions meets the current operation strategy, and whether the risk taken by the Company is within the permitted scope.
3. A company shall report to the after meeting of the board of directors after it authorizes the relevant personnel to handle derivate trading in accordance with its Procedures for Engaging in Derivatives Trading.
4. A record book shall be established for the derivative commodity transactions, which shall specifically record the types, monetary amounts, dates of approval by the Board and evaluation items provided in Article 5-2, 6-1 and Article 6-2.

Article 7 Procedure for Disclosure and Report

1. The Company shall, prior to the 10th day of each month, input into the web site designated by the SEC the derivative commodity transaction result of previous month by the Company and its subsidiaries that are not domestic public company.
2. In the event the loss from the engagement in the derivatives transaction by the Company and its subsidiaries that are not domestic public company reaches the overall or respective contract loss maximum limits provided by this Handling Procedures, the Company shall, within two (2) days after the occurrence of said events, disclose and report the related information into the web site designated by the SEC.
3. In the event there is any error or omission in the content of the items disclosed by the Company, the Company shall re-disclose and re-report the whole content of said items.

Article 8

The Procedures have been approved by the audit committee and adopted by the Board of Directors and shareholders meeting; the same approval process shall apply to any amendments to the Procedures.

When the Procedures are submitted to the Company's Board of Directors for discussion, the opinions of independent directors shall be fully considered. If any of the independent directors express dissent or reservation from the decision, their opinions shall be recorded in the meeting minutes of the Board.

If the Company fails to obtain the approval of a majority of all members of the audit committee as provided in the first paragraph, the Procedures may be adopted by the approval of at least two-thirds of all members of the Board. The resolution of the audit committee shall be recorded in the meeting minutes of the Board. As referred to in the preceding paragraph, "all members of the audit committee" shall mean the incumbent members of the audit committee, and "all members of the Board" shall mean the incumbent members of the Board of Directors.

Article 9

The relevant laws and regulations shall govern matters not expressly stated herein.