



# **Sino-American Silicon Products Inc.**

## **Risk Management Best-Practice Principles**

### **Chapter I Purpose of the Risk Management**

#### **Article 1**

The Company shall positively engage in a variety of business under acceptable risk level so as to raise the quality and quantity of incomes.

#### **Article 2**

To enhance the width and depth of risk management, negative listing on routines and major principles shall be made if necessary.

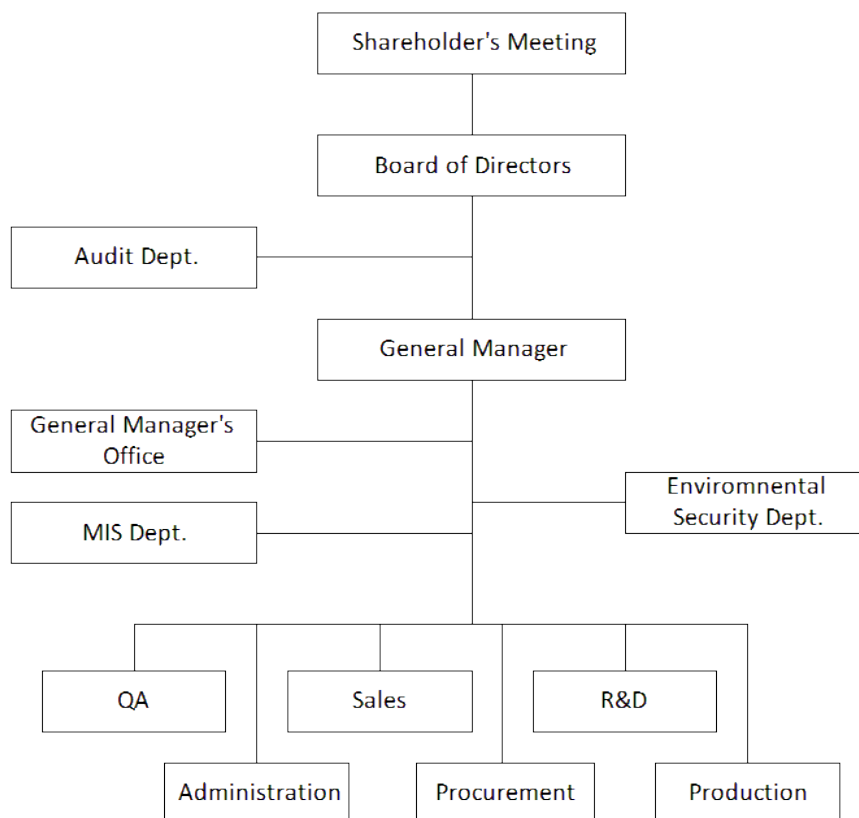
#### **Article 3 Procedures**

To ensure the risk management control, systemization, computerization and good discipline are to be put into action.

### **Chapter II Risk Management Structure**

#### **Article 4**

The risk management structure of the Company shall be convened by the general manager of the company to conduct an overall promotion and execution of the risk management plan, under which different functional units shall be established to be responsible for each business risks.



## Article 5

The risk management division of each regulatory section of the Company

Section	Risk Management Division
Board of Directors	The board of directors is the company's highest unit of risk management. With a target to abide by the laws and carry out the risk management, the Company shall have a clear picture of all the risk that the company operation is confronted so as to ensure the effectiveness of the risk management and be fully responsible.
Audit Dept.	The audit dept. of the Company is an independent department subordinate to the board of directors and mainly responsible for internal audit to help the board of directors and managers check and review the deficiency in the internal control system and evaluate the efficiency of the operation so as to provide timely improvement suggestions as a foundation of continuous execution and reviews of the internal control system. To evaluate the actual execution status of each related unit
General Manager's Office	1. Evaluate operational risks and related execution strategy 2. Evaluate legal risks of the company and related execution strategy 3. Mass-media and external contact
MIS Dept.	Evaluate internet information security and operational risks and related execution strategy



Environmental Security Dept.	<ol style="list-style-type: none"> <li>1. Production security management and supervision</li> <li>2. Prevention of occupational disasters</li> <li>3. Occupational security management education and plan execution</li> </ol>
QA	Conduct product quality examinations, shipment quality examination and QA system management for the company to meet customers' need and effective maintenance. Plus provide replies to QA system investigation from customers and follow-ups as well as tabulation of exceptional reaction from customers.
Administration	<ol style="list-style-type: none"> <li>1. Financial risk evaluation</li> <li>2. Human resource configuration and management</li> </ol>
Sales	<ol style="list-style-type: none"> <li>1. Future business volume control of the company</li> <li>2. Accounts receivable management to reduce risks occurred from order flow</li> </ol>
Procurement	<ol style="list-style-type: none"> <li>1. Contingency plan of suppliers and material purchase</li> <li>2. Avoidance of risks from centralized suppliers</li> <li>3. Substitution plan for equipment purchase</li> </ol>
R&D	<ol style="list-style-type: none"> <li>1. Research progress control</li> <li>2. Emergency measure of R&amp;D environment</li> <li>3. Production risk evaluation of new product and process</li> </ol>
Production	<ol style="list-style-type: none"> <li>1. Emergency measure of production environment</li> <li>2. Rules for production emergency plan</li> <li>3. Human resource configuration plan</li> <li>4. Environmental security emergency plan</li> <li>5. Stock and shipment related management</li> </ol>

### Chapter III Risk Management Flow

#### Article 6

The risk management flow comprises: risk distinction, risk weight, risk monitoring, risk report and disclosure, risk response.

##### 1. Risk Distinction

Overall, there are six types of risk the company may confront:

Risk Type	Description
Hazard Risk	Safety protection and emergency measure, such as major hazard probability and loss of the risk
Operational Risk	Centralized selling, procurement, intellectual property protection, legal obligation, recruitment and retention, company image making and maintenance
Financial Risk	Marketing risk, credit risk, flowing risk, operation risk
Strategy Risk	Over-concentration risk of single area, account concentration/key account affect, agent concentration/main product affect, business concentration, and mergers
Regulation Risk / Contract Risk	Possible losses caused from failure to comply with related regulations of the authorities.



	Losses from signed contracts due to no legal effects, ultra vires act, condition omissions, and regulation incompleteness etc.
Other Risk	Other risks except for the preceding listing of which related risk control management shall be made according to its effect level, if any.

## 2. Risk Evaluation

The Company shall adopt certain evaluation methods after each apartment indentifies what risk factor it may meet as a risk management basis.

- a. Risk evaluation comprises risk analysis and estimation. The former indicates the analysis based on the possibility of its occurrence and the negative impact once a risk event occurs in order to have comprehensive understanding of the affects towards the Company. The latter refers to a contrast of this affect and the threshold standard set previously (ex. risk bearing quota and risk appetite) as a follow-up foundation of the priority for drawing up the risk control and method choices to respond.
- b. Rigorous statistics and technical analysis will be adopted in terms of risk quantification.
- c. Quantification management shall be conducted in a gradual progress, such as, credit risk quantification management in the beginning and shifting risk, and then the operation risk and the others.
- d. Those that are hard to be quantified shall be evaluated in qualitative method. Qualitative risk evaluation means the possibility and influence degree of the occurrence of risks described literally.
- e. Adequate numerical value can also be adopted to show the semi-quantification analysis with related degree or weight of risks.
- f. Requests for control procedure of every operation, right, document and voucher etc. can also be adopted to estimate if it's consistent with actual regulations.

## 3. Risk Control

Each functional department shall review its business risk. Once the risk exposure becomes higher than other risks quota, the related department shall propose corresponding policies and submit to the high management level.

## 4. Risk Report and Disclosure

To fully record the risk management procedure and execution result, the Company shall report periodically the risk situation to the board of directors for operational reference.

## 5. Risk Response

Each functional department shall provide adequate response to related measures of all confronted risks after risk evaluation and summary.

# Chapter IV Risk Management Execution

## Article 7



The risk management is executed according to the 3-level division of labor structure.

Risk Management Level	Risk Management Operation
Level 1 Responsibility	Each division or person in charge is the risk owner of its business. Operation shall be conducted according to its internal control system and internal regulations to act as the direct division to be aware of the initial risk and the following evaluation and control.
Level 2 Responsibility	Supervisors of each department or designated management staff of function/department risk shall be responsible for the risk management of relevant business, review operation details or operation booklet related to the actual operation status, and pay attention to the latest regulation amendment and letter orders from announcements of the authorities so as to make adequate amendment to the internal regulations.
Level 3 Responsibility	The general manager's office has to review the completeness of risk management mechanism about hazards, operation, finance, strategies, regulations and contracts of the company, and shall surely supervise related risks of each division in accordance with this principle and related regulations.

#### **Article 8 Execution evaluation of the risk management**

Execution evaluation of the risk management shall be conducted by internal auditors in order to ensure the system is well followed up.

### **Chapter V Disclosure of Risk Information**

#### **Article 9**

The Company shall disclose related information in accordance with the regulations of the authorities and disclose on company annual report and official website.

#### **Article 10 Amendment of Risk Management Best-Practice Principles**

The general manager's office shall review the content of the principles and pay attention to the international and domestic development of the risk management control whenever necessary so as to propose improvement and enhance the execution efficiency of the Company.

#### **Article 11**

The principles shall be implemented after the audit committee and the board of directors grant the approval. The same procedure shall be followed when the principles have been amended.



中美矽晶製品股份有限公司  
SINO-AMERICAN SILICON PRODUCTS INC.

## **Article 12**

The Principles were enacted on August 12, 2014.