

Chung Hwa Pulp Corporation

Procedures for Engaging in Derivatives Trading

Chapter I Purpose

For establishment of risk management system regarding derivatives trading of the Company, the procedures herein are adopted pursuant to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

Chapter II Trading Principles and Strategies

I.Types of Derivatives that may be Traded

- 1.The term "derivative(s)" as used herein includes forward contracts, options contracts, futures contracts, leverage contracts, and swap contracts, and compound contracts combining the above products, or hybrid contracts or structured products containing embedded derivatives, whose value is derived from specific interest rates, financial tool prices, commodity prices, foreign exchange rates, prices, rate indexes, credit ratings or credit indexes, or other variables.
- 2.The term "forward contracts" as used herein does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) contracts.

II. Operating or Hedging Strategies

Trading or non-trading purpose shall be clearly defined, primarily to avert risk, and to establish a sound internal control system; selection of counterparties shall be amid the financial institutions that are well established or have business relationship with the Company.

III.Segregation of Duties

1. Financial Unit

- 1) Collection of market data, conversance with derivatives, laws and regulations, and evaluation of risks.
- 2) Undertaking of transaction and risk management within degree of authority delegated.
- 3) Provision of adequate and timely information for head of financial and accounting division, and regular review of profit-loss circumstances.
- 4) Preparation of log books in which details of the types and amounts of derivatives trading engaged in, Board approval dates, and the matters required to be carefully evaluated by the board of directors or head of financial and accounting division.

2. Accounting unit

- 1) Confirmation of transaction.
- 2) Understanding of product attributes, contractual and transactional types, and recording properly.
- 3) Evaluation of loss and profit of trading position at the end of per month.
- 4) Regular financial reports shall be prepared and fully disclosed.
- 5) Check with the financial unit for settlement
- 6) Measurement, supervision and control of risks, and reports to the Board or management not responsible for decision-making on trading or trading position.

IV. Essence of performance evaluation

Regular review is performed based on reliable valuation model and principles of robustness and consistency, and reports are prepared for head of financial and accounting division for his or her reference and administration.

V. Total amount of derivatives contracts that may be traded

1. For non-trading purpose: hedging is undertaken based on risks the Company is associated with (e.g. the risks attributable to exchange rate, interest rate or project), where total amount of hedging contracts shall not exceed total amount of hedged contracts.
2. For trading purpose: the financial unit engages in trading within the amount limit permitted through projects..

VI. Maximum loss limit

1. Losses on individual contracts are limited to 20 percent of individual contractual amount; net losses on total contracts are limited to 10 percent of aggregate contractual amounts. In breach of loss limits, public announcement and filing shall be made in accordance with the procedures herein.
2. For purpose of trading, in cases where losses on contracts reach the loss limit, head of financial and accounting unit shall evaluate the market risk and propose responses. For purpose other than trading, when the consolidated losses of losses on contracts with losses/profits of the hedged position reach the loss limit, head of financial and accounting unit shall then evaluate market risk and propose responses.

Chapter III Operating procedures

I. Authorized limits

1. Below are the authorized limits to derivatives trading for non-trading purpose. For the purpose of business development, or in response to change and extraordinary situation in the market, with approval by the board of directors, the authorized limits may not apply.

Unit: US\$

Authorization Holder	Amount of Single Trade	Daily Trading Volume
Chairman	Over 5 million	Over 10 million
Chief Financial Officer	5 million or less	10 million or less

2. The Company shall report to the next board of directors meeting after it authorizes relevant personnel to handle derivatives trading for non-trading purpose in accordance with the Procedures.
3. Prior to making transactions, the derivatives for trading purpose shall be proposed as a project to the board of directors for approval.

II. Execution unit

The financial unit carries out a trade within the above authorization or on an ad hoc approval basis.

Chapter IV Procedure for public announcement and filing

- I. The Company shall compile monthly reports on the status of derivatives trading engaged in (for trading and non-trading purpose) up to the end of the preceding month by itself and any subsidiaries that are not domestic public companies and enter the information in the prescribed format into the information reporting website designated by the FSC by the 10th day of each month; when at the time of public announcement an error or omission in an required item is publicly announced and so is required to be corrected, all the items shall be again publicly announced and reported in their entirety.
- II. Where the Company's losses from derivatives trading reach the limits on aggregate losses or losses on individual contracts set out in the procedures, a public report of relevant information shall be made on the information reporting website designated by the FSC within two days commencing immediately from the date of occurrence of the event.

Chapter V Accounting processing method

I.Set-up of memorandum entries to log relevant information on derivatives trading.

II.Set-up of separate account to clearly record loss and profit profile.

Chapter VI Internal Control System

I.Risk management measurement

1. Credit risk management

Selection of counterparties shall be well-established financial institutions; avoidance of over-concentration on single counterparty.

2. Market risk management

i. Authorization holder at all levels shall strictly obey the provisions of authorized limit and maximum loss.

ii. Timely evaluation of potential loss amount and probability of loss event due to movements of interest rate and exchange rate to take measures properly.

3. Liquidity risk management

Attention is put in the size, depth, mobility of product market and trading capacity of financial institutions in order to keep liquid.

4. Cash flow risk management

Whether the Company's operating cash flow is sufficient support settlement of derivatives shall be under strict control.

5. Operational risk management

The functions of dealing, confirmation and settlement of derivatives trading shall be performed by different personnel.

6. Legal risk management

i. Department of legal affairs shall first be informed on the contract contents.

ii. Confirmation of counterparties' validity and authorization to derivatives trading shall be obtained.

II. Regular evaluation methods

Positions held in derivatives trading shall be assessed at least once weekly. For hedging trades held for business needs, assessment shall be undertaken at least twice monthly. The evaluation report shall be remitted to head of financial and accounting division.

Chapter VII Supervision and Management Principles of Board of Directors

I.Supervision Principles of Board of Directors

1. Head of financial and accounting shall at all times monitor and control risks of derivatives trading.

2. Periodic evaluations over whether the parent company and subsidiaries in the consolidated financial statements perform derivative trading in compliance with established operational strategies and whether risk-taking are within a permitted scope shall be conducted at each routine Board meeting.

II. Management Principles of Board of Directors

1. Head of financial and accounting division shall regularly evaluate its current risk management measures to identify whether provisions of Regulations Governing the Acquisition and Disposal of Assets by Public Companies and procedure for derivatives trading of the Company are followed.

2. Head of financial and accounting division shall supervise trading and loss-profit status; when irregular circumstances are found, appropriate measures shall be adopted and a report immediately made to the board of directors. An independent director shall be present at the board of directors

meeting and express an opinion.

Chapter VIII Internal audit system

The Company's internal audit personnel shall periodically make a determination of the suitability of internal controls on derivatives and conduct a monthly audit of how derivatives trading by the trading division adheres to the procedures for engaging in derivatives trading, analyzing the trading cycle, and prepare an audit report. In the event of material violations, the audit committee shall be notified in writing.

Chapter IX Definition of Date of Occurrence

Date of occurrence in these Procedures refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, dates of board of directors resolutions, or other date that can confirm the counterpart and monetary amount of the derivatives trade, whichever date is earlier; provided, for investment for which approval of the competent authority is required, the earlier of the above date or the date of receipt of approval by the competent authority shall apply.

Chapter X Controls and information disclosure on subsidiaries

The Company's subsidiary that intends to engage in derivatives trading shall not only follow its own requirements for derivatives trading but also pursuant to the procedure herein. Where the subsidiary that is not itself a public company in Taiwan, items on derivatives trading required to be publicly announced and reported shall be performed by the Company. The term "subsidiary" as used herein shall be defined pursuant to the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Chapter XI Penalties against negligent employees

When engaging in derivatives trading, personnel violating the Procedures herein shall face penalties.

Chapter XII Data retention

When engaging in derivatives trading, the Company shall keep all relevant contracts, meeting minutes, log books, appraisal reports and certified public accountant, attorney, and securities underwriter opinions at the Company, where they shall be retained for at least five years except where another act provides otherwise.

Chapter XIII Other matters

When the procedures herein are adopted or amended they shall be approved by more than half of all audit committee members and submitted to the board of directors for a resolution and shareholders' meeting for approval. If any director expresses dissenting opinion and it is contained in the minutes or a written statement, the Company shall submit the director's dissenting opinion to the audit committee. If the approval of a majority of all members of the audit committee is not obtained, the Procedures may be implemented if approved by more than two-thirds of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.

All audit committee members and all directors as used herein shall be counted as the actual number of persons currently holding those positions.