

# Chung Hwa Pulp Corporation

## Operational Procedures for Loaning Funds to Others

Article 1: To ensure that loans are collected safely, the Company establishes the Procedures in accordance with Article 15 of the Company Act and the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies.

Article 2: The Company may lend funds to the following companies:

- (I) A company or firm with which the Company does business.
- (II) A company or firm, where short-term financing facility is necessary. The term "short-term" used herein refers to one year or one operating cycle, whichever is longer.

Article 3: When engaging in the loan of funds to companies or businesses with business transactions with the Company, the total loan amount is limited to 40% of the Company's net worth on the latest financial statements. The amount that can be loaned to each individual party is limited to the purchase and sales amount between the two parties in the previous year.

Article 4: Loans due to the need of short-term financing are limited to the following circumstances:

- (I) Companies requiring short-term financing due to business needs where the Company and its subsidiaries hold shares individually or hold a combined share of 20% or more.
- (II) Other companies and businesses requiring short-term financing due to the purchase of materials or operating needs.
- (III) Other parties approved by the Company's Board of Directors.

Should the funds be loaned by the Company to third parties due to their requirement for short-term financing, the total loan amount is limited to 40% of the Company's net worth on the latest financial statements. The amount that can be loaned to each individual party is limited to 40% of the Company's net worth.

Article 5: The total loan amount is limited to 80% of the Company's net worth on the latest financial statements; loan amounts to each individual party is limited to 80%.

When engaging in loans to foreign companies where the Company, directly or indirectly, holds 100% shares with voting rights, or from foreign companies in which the Company directly or indirectly holds 100% of the voting rights, the loans are not subject to the limitations of Articles 2, 3, 4, and the preceding paragraph. Should the engagement in loans result from the nature of the relation of business transactions with the Company and the need for short-term financing, the loan amount is limited to twice the company's net worth on the latest financial statements. Individual parties are limited to twice the company's net worth, and each loan term must not exceed 3 years.

When responsible person of the Company violates Article 3 and Article 4 of these Procedures, the responsible person shall be liable and jointly with the borrower, for the repayment of the loan and for the damages, if any, to the Company resulted therefrom.

Article 6: Before lending funds to others, the Company shall review the borrowers and amounts in detail in accordance with the following procedures:

- (I) Credit investigation  
As to the loan, borrower shall apply to the Company for the financing amount in writing by providing required company and financial information.

After the Company accepts the application, related business departments of the Company shall investigate and evaluate the borrower's business, finance, solvency, credit, and profitability as well as the purpose of the loan, and make an investigation report to be submitted to the legal and financial unit.

(II) Risk management

The financial related departments of the Company shall review the impact of the loan on the Company's business operations, financial condition and shareholders' equity.

(III) Security

When reviewing an application for a loan, the Company may request the borrower to provide a collateral recognized by the Company and to set the pledge on its chattel or real property whenever necessary, so as to ensure its claim. If a borrower provides an individual or company with considerable financial resources and credit as a replacement for a collateral, the board of directors may resolve in consideration of the credit investigation report. If a company is provided as a collateral, the company shall have a guarantee clause prescribed in its articles of incorporation

(IV) Ratification

After the Company conducts the credit investigation on the application for a loan, the application shall be submitted to the Chairman for approval and to the board of directors for resolution.

Loans of funds between the Company and its subsidiaries, or between subsidiaries, shall be submitted for a resolution to the Board of Directors pursuant to Subparagraph 4 in the preceding paragraph, and the Chairman may be authorized, for a specific borrowing counterparty, within a certain monetary limit resolved by the Board of Directors, and within a period not to exceed one year, to give loans in installments or to make a revolving credit line available for the counterparty to draw down.

The "certain monetary limit" mentioned in the preceding paragraph shall be in compliance with paragraph 2, Article 5. In addition, the authorized limit on loans extended by the Company or any of its subsidiaries to any single entity shall not exceed 10 percent of the net worth on the most current financial statements of the lending company.

Article 7: The interest rate of each fund lent by the Company shall be calculated based on the market rate or cost of the fund.

Except as stipulated in paragraph 2, Article 5, the duration of each loan shall be within one year (inclusive) or one operating cycle (whichever is longer).

Article 8: After appropriating a loan, the responsible employee shall always pay attention to the financial condition, business, and credit of the borrower and the guarantor. If a collateral is provided, the responsible employee shall be aware of any changes in the value of the collateral. In case of significant changes, the responsible employee shall report to the Chairman immediately and act according to the Chairman's instructions.

When a borrower repays loans upon maturity, interests accrued shall be computed first. After the interests and principal are paid off altogether, the Company may return collateral to the borrower or cancel the mortgage.

The borrower shall pay off the principal and interest of the loan immediately at maturity. If the borrower fails to do so, the Company may dispose of or recover the loss from the collateral provided or the guarantee.

Article 9: The Company shall prepare a memorandum book for its fund-lending activities and truthfully record the following information: borrower, amount, date of approval by the board of directors, lending/borrowing date, and matters to be carefully evaluated according to the regulations. The Company shall also reserve sufficient allowance for bad debts, and shall adequately disclose relevant information in its financial reports and provide certified public accountants with relevant information for implementation of necessary auditing procedures.

The Company's internal auditors shall audit the Procedures and the implementation thereof no less frequently than quarterly and prepare written records accordingly. They shall promptly notify the members of the audit committee

in writing of any material violation found, if any.

Article 10: If, as a result of a change in circumstances, an entity to which a fund is lent does not meet the requirements of the Procedures or the loan balance exceeds the limit, the Company shall adopt rectification plans and submit the rectification plans to the audit committee, and shall complete the rectification according to the schedule set out in the plan.

Article 11: The Company shall announce and report the previous month's loan balances of itself and its subsidiaries by the 10th day of each month.

The Company whose lending of funds reaches one of the following levels shall announce and report such an event within two days commencing immediately from the date of occurrence:

- (I) The aggregate balance of loans to others by the Company and its subsidiaries reaches 20 percent or more of the Company's net worth as stated in its latest financial statements.
- (II) The balance of loans by the Company and its subsidiaries to a single enterprise reaches 10 percent or more of the Company's net worth as stated in its latest financial statements.
- (III) The amount of new lending of funds by the Company or its subsidiaries reaches NT\$10 million or more, and reaches 2 percent or more of the Company's net worth as stated in its latest financial statements.

The Company shall announce and report on behalf of any subsidiary thereof that is not a public company of the Republic of China any matters that such a subsidiary is required to announce and report pursuant to Subparagraph 3 in the preceding paragraph.

"Subsidiary" and "parent company" as used in the Procedures shall be as determined under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

The net value as used in the Procedures refer to equities attributable to the owners of the parent company in the balance sheet in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

"Date of occurrence" as used in these Procedures refer to the date of contract signing, date of payment, date of board of directors' resolutions or other dates that can confirm the counterpart and monetary amount of the financial loan, whichever date is earlier.

The announcements and reports in the Procedures refer to information entered on the information reporting website designated by the Financial Supervisory Commission.

Article 12: Where a subsidiary of the Company intends to lend funds to others, it shall comply with its own procedures for lending funds to other parties and the Procedures.

Article 13: When managerial persons and persons in charge of lending of funds to others violate the Procedures, punishment shall be imposed.

Article 14: Matters not prescribed in the Procedures shall be governed by the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies.

Article 15: The Procedures shall require approval by more than half of the audit committee, resolved by the board of directors and ratified in the shareholders' meeting. If any director expresses objection and it is recorded or presented in a written statement, the Company shall submit the dissenting opinions to the audit committee and also present it for discussion in a shareholder meeting. The same procedure shall apply to any amendments to the Procedures. 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 members of the audit committee” and "all members of the board of directors" referred to in the Procedures shall include only the persons who are currently holding such offices.

When the board of directors discuss pursuant to the preceding subparagraph 1, the opinion of each independent director shall be fully taken into consideration. If any director expresses dissenting or qualified opinion, it shall be indicated in the board of directors meeting minutes.