

# Chung Hwa Pulp Corporation

## Operational Procedures for Making of Endorsement/ Guarantees

Article 1: According to the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies”, the Company’s endorsements or guarantees for others shall be processed in accordance with these Procedures.

Article 2: The Company shall provide endorsements/guarantees to the following companies:

- I. A company which has a business relationship with the Company.
- II. A company in which the Company directly and indirectly holds more than 50 percent of the voting shares.
- III. A company that directly and indirectly holds more than 50 percent of the voting shares in the Company. Companies in which the Company holds, directly or indirectly, 90 percent or more of the voting shares may make endorsements/guarantees for each other. The amount in endorsements/guarantees may not exceed 10 percent of the net worth of the Company,

Companies in which the Company holds, directly or indirectly, 90 percent or more of the voting shares may make endorsements/guarantees for each other. The amount in endorsements/guarantees may not exceed 10 percent of the net worth of the Company, provided that this restriction shall not apply to endorsements/guarantees made between companies in which the Company holds, directly or indirectly, 100 percent of the voting shares.

Where the Company fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for the purposes of undertaking a construction project or where all capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages, such endorsements/guarantees may be made free of the restriction of the preceding two paragraphs.

Capital contribution referred to in the preceding paragraph shall mean capital contribution directly by the Company, or through a company in which the Company holds 100 percent of the voting shares.

Article 3: Endorsements/guarantees used in these Procedures refer to the following:

- I. Endorsements/guarantees for financing, including:
  - (I) Bill discount financing.
  - (II) Endorsement or guarantee made to meet the financing needs of another company.
  - (III) Issuance of a separate negotiable instrument to a non-financial enterprise as security to meet the financing needs of the Company itself.
- II. Customs duty endorsement/guarantee, meaning an endorsement or guarantee for the Company itself or another company with respect to customs duty matters.
- III. Other endorsements/guarantees, meaning endorsements or guarantees beyond the scope of the preceding two subparagraphs.

Any creation by the Company of a pledge or mortgage on its chattel or real property as security for the loans of another company shall also comply with these Procedures.

Article 4: "Subsidiary" and "parent company" as used in these Procedures shall be as determined under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Article 5: The Company shall use its corporate chop registered with the Ministry of Economic Affairs as the dedicated chop for endorsements/guarantees. The chop shall be kept in the custody of a designated person approved by the board of directors and the black bill shall be kept in the custody of the cashier. All endorsements/guarantees by the Company shall require application and approval in accordance with specified procedures before the application of seals or issuance of negotiable instruments.

Article 6: When making an external guarantee, the Company shall have the guarantee agreement signed by a person authorized by the board of directors.

Article 7: When the Company or subsidiary companies carry out endorsements/guarantees, it shall prepare a memorandum book and record in detail the recipient(s) of its endorsements/guarantees, amount, date of approval by the board of directors or decision by the Chairman, and matters to be carefully evaluated. The Company shall also evaluate or recognize losses (if any) from the endorsements/guarantees and appropriately disclose information on endorsements/guarantees in the financial reports. The Company shall provide certified public accountants with relevant information for implementation of necessary auditing procedures.

If the recipient of the endorsement/guarantee is a subsidiary whose net worth is lower than half of its paid-in capital, the Company shall require the recipient to submit monthly financial statements and conduct financial analyses carefully to implement related management and control measures. In the case of a subsidiary with shares having no par value or a par value other than NT\$10, the paid-in capital shall be calculated as the sum of the share capital plus stock issuance premiums from the paid-in capital.

The Company's internal auditors shall audit the Procedures and its implementation at least once every quarter and prepare written records accordingly. They shall promptly notify the audit committee in writing of any material violation found.

Article 8: The Company's endorsements/guarantees shall be processed through the head office and they shall not be implemented by the branch institutions.

All endorsements and guarantees of subsidiary companies with the exception of bill discount financing shall require the person in charge of the subsidiary company assigned by the Company to file an application to the Company's financial and accounting unit and obtain approval from the Company's board of directors.

Where necessary, the Company's board of directors may delegate the Chairman to decide such matters when the amount is within 50 percent of the amount limit of endorsement and guarantee of the subsidiaries and within NT\$500 million and have the decisions subsequently submitted to and ratified by the next board of directors meeting. Subsidiaries shall inform the Company's financial and accounting unit immediately upon the endorsement and guarantee is made.

Article 9: Units shall fill out the "Promissory Note Application Form" when a promissory note is required for external guarantees. The application form shall be submitted to the accounting unit to produce accounting documents before transferring them to the cashier for issuance. When the promissory note is voided or canceled, the original promissory note shall be recovered, canceled, and used to cancel the case on the accounts.

Article 10: To make bill discount for financing (with specified amount) of the Company, notice of bill discount for financing shall be filled, approved and sent to financial and accounting unit to produce relevant voucher to be forwarded to and handled by cashier unit.

Article 11: Units shall fill out the "Endorsement/Guarantee Application Form" when the endorsement/guarantee does not require a promissory note. The application form shall be submitted to the accounting unit to produce accounting

documents and listing in official accounts before being transferred to the Company's seal custodian to apply the seal and provide the guarantee.

Article 12: For external endorsements/guarantees provided by the Company, accounting unit shall enter such matters and preserve complete data of the original application form for future audit and evaluation.

Article 13: When the endorsement/guarantee is canceled, the original applicant unit shall fill out the "Endorsement/Guarantee Cancellation Notification Form" and apply for the removal of liabilities along with related documents to officially close the case in the accounts.

Article 14: Prior to making endorsements/guarantees, the Company shall comply with the following procedures to perform a detailed review and prepare evaluation record:

- I. The necessity of and reasonableness of endorsements/guarantees
- II. The recipient's credit status and risk assessment.
- III. Impact on the company's business operations, financial condition, and shareholders' equity.
- IV. Whether collateral must be obtained and appraisal of the value thereof.

Article 15: For endorsements or guarantees as part of a business relationship, the endorsement or guarantee amount is limited to the purchase and sales amount between the two parties in the previous year.

The total amount of the Company's overall external endorsements and guarantees is twice the Company's net worth on the latest financial statements.

An endorsement or guarantee by the Company to a single enterprise is limited to 1.5 times the Company's net worth on the latest financial statements.

The total amount of external endorsements and guarantees for the Company and its subsidiaries is twice the Company's net worth on the latest financial statements.

An endorsement or guarantee by the Company and its subsidiaries to a single enterprise is limited to 1.5 times the Company's net worth on the latest financial statements.

When the Company handles endorsements and guarantees, it shall obtain approval from the Board of Directors in advance. If necessary, the chairman of the Board may be authorized to approve the provision of endorsement/guarantees provided that the amount of such endorsement/guarantees provided by the Company does not exceed 10% of the Company's net worth on the latest financial statements. Subsequently, endorsements/guarantees shall be submitted to be approved and ratified by the Board.

Article 16: Where the Company's endorsements/guarantees require amounts over the limits specified in the preceding article due to business requirements and the endorsements/guarantees meet the conditions specified in the Procedures, the approval of the board of directors and a joint guarantee from more than half of the directors shall be required to amend the Procedures and submit the amended Procedures to the shareholders' meeting for ratification. If the shareholders' meeting does not approve the amendment, a plan shall be formulated to cancel the excess parts within a specific period.

Article 17: 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 18: The Company shall publicly disclose and report the previous month's balance of its endorsements/guarantees and its subsidiaries before the 10th day of each month.

Where the balance of Company's endorsements/guarantees reaches one of the following thresholds, it shall publicly disclose and report such events within two days of the occurrence:

- I. The balance of the Company and its subsidiaries' endorsements/guarantees reaches 50 percent or more of the Company's net worth as stated in its latest financial statements.
- II. The balance of the Company and its subsidiaries' endorsements/guarantees to a single company reaches 20 percent or more of the Company's net worth as stated in its latest financial statements.
- III. The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches NT\$10 millions or more and the aggregate amount in equity method of all endorsements and guarantees for, and balance of loans to, such enterprise reaches 30 percent or more of the Company's net worth as stated in its latest financial statement.
- IV. The balance of the Company and its subsidiaries' new endorsements/guarantees reaches NT\$30 million or more and 5 percent or more of the Company's net worth as stated in its latest financial statements.

The net value specified 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, dates of board of directors' resolutions, or other dates that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier.

If a subsidiary company is not a publicly listed company, the Company shall carry out relevant information announcement and reporting on behalf of the subsidiary for announcements and reports specified in subparagraph 4 of the preceding paragraph.

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

Article 19: Where a subsidiary of the Company intends to make endorsements/guarantees for others, the Company shall instruct it to formulate its own Procedures for Endorsements/Guarantees and comply with these Procedures when making endorsements/guarantees.

Article 20: Violation of the Procedures by managerial officers and personnel in charge shall be punished.

Article 21: Matters not prescribed herein shall be processed in accordance with the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies".

Article 22: These 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, 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.