

Chung Hwa Pulp Corporation

Procedures for Transactions with Related Parties

(Ground)

Article 1: The Procedures are established pursuant to the provisions of Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

(Scope)

Article 2: The acquiring or disposing of assets with a related person shall follow the handling procedure, apart from in compliance to the procedure for acquisition and disposal of assets.

The term "related person(s)" as used herein shall be defined pursuant to the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(Investment Limits)

Article 3: Total amounts of real property acquired from of disposed of by the company with a related person for non-business use shall not exceed 10 percent of the paid-in capital.

The same limits applies to subsidiaries of the Company regarding acquisition of above assets.

(Non-New Taiwan Dollars Transactions)

Article 4: Where a transaction is denominated in a currency other than New Taiwan Dollars, calculation of amount shall be based on U.S. Dollars equivalents or other foreign currencies.

(Calculation of Transaction Amounts)

Article 5: The transaction amount refers to the agreed price of acquisition. All the necessary expenses paid for prior to the status of use are not included in the calculation basis notwithstanding the accounting requirement of asset cost recording and shall be calculated as follows:

- I. The amount of any individual transaction.
- II. The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year.
- III. The cumulative transaction amount of real property or right-of-use assets acquisitions and disposals (cumulative acquisitions and disposals, respectively) within the same development project within the preceding year.
- IV. The cumulative transaction amount of acquisitions and disposal (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.

"Within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction.

(Handling Procedures)

Article 6: Procedure for transaction with a related person includes the following:

I. Application:

In acquiring or disposing of assets with related persons, the handling divisions shall evaluate the gain and losses based on methods sufficient to assure the Company's interest of the investment, meeting with relevant divisions where necessary and follow the corporate authorization for approval.

II. Value appraisal:

In acquiring or disposing of asset with a related person where the transaction amount reaches twenty percent of the Company's paid-in capital, or 10 percent of its total asset or NT\$300 million or more, the Company shall obtain an appraisal report from a professional appraiser or CPA opinion prior to the date of occurrence of the event and shall further comply with the following provisions:

- (I) Where the discrepancy between the appraisal result and the transaction amount is 20 percent or more of the transaction amount, a CPA shall be engaged to render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price. The discrepancy between the appraisal results referred to shall be based on transaction amount. Provided, this shall not apply to circumstance where all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be disposed of are lower than the transaction amount.
- (II) Where the transaction amount is NT\$1 billion or more, appraisals from two or more professional appraisers shall be obtained; in case the discrepancy between the appraisal results of two or more professional appraisers is 10 percent or more of the transaction amount, a CPA shall be engaged to-render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price. Provided, this shall not apply to circumstance where all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be disposed of are lower than the transaction amount.
- (III) No more than three months may elapse between the date of the appraisal report issued by a professional appraiser and the contract execution date; provided, where the publicly announced current value for the same period is used and not more than six months have elapsed, an opinion may still be issued by the original professional appraiser.
- (IV) In acquiring real property for construction use from a related person, except where a limited price or specified price is employed as the reference basis for the transaction price, if an appraisal report cannot be obtained in time and there is a legitimate reason for the delay, the report, and the CPA's opinion under paragraph a and b, shall be obtained within two weeks commencing immediately from the date of occurrence.
- (V) Professional appraisers and their officers, certified public accounts, attorneys, and securities underwriters that provide the Company with appraisal reports, certified public accountant's opinions, attorney's opinions, or underwriter's opinions shall not be a related party to any party of the transaction.
- (VI) In acquiring real property from a related party the Company shall appraise the cost of the real property or right-of-use assets according to the following means and shall also engage a CPA to check the appraisal and render a specific opinion.
 1. Based upon the related party's transaction price plus necessary interest on funding and the costs to be duly borne by the buyer. "Necessary interest on funding" is imputed as the weighted average interest rate on borrowing in the year the Company purchases the property; provided, it may not be higher than the maximum non-financial industry lending rate announced by the Ministry of Finance.
 2. Total loan value appraisal from a financial institution where the related party has previously created a mortgage on the property as security for a loan; provided, the actual cumulative amount loaned by the financial institution shall have been 70 percent or more of the financial institution's appraised loan value of the property and

the period of the loan shall have been one year or more. However, this shall not apply where the financial institution is a related party of one of the trading counterparties.

Where land and structures thereupon are combined as a single property purchased or leased in one transaction, the transaction costs for the land and the structures may be separately appraised in accordance with either of the means listed under the subparagraph.

Where the Company acquires real property or right-of-use assets from a related party and one of the following circumstances exists, the provisions for appraisal under the subparagraph do not apply:

1. The related party acquired the real property or right-of-use assets thereof through inheritance or as a gift.
2. More than five years will have elapsed from the time the related party signed the contract to obtain the real property or right-of-use assets thereof to the signing date for the current transaction.
3. The real property is acquired through signing of a joint development contract with the related party, or through engaging a related party to build real property, either on the Company's own land or on rented land,.
4. The real property right-of-use assets for business use are acquired between the Company and its parent company, subsidiaries or subsidiaries of which the Company directly or indirectly hold 100 percent of total outstanding share or capitals.

(VII) Where the Company acquires or disposes of assets from a related person through court auction procedures, the evidentiary documentation issued by the court may be substituted for the appraisal report or CPA opinion.

III. Submission to the Board of Directors:

When the Company intends to acquire or dispose of real property or its right-of-use assets from or to a related party, or when it intends to acquire or dispose of assets other than real property or its right-of-use assets from or to a related party and the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the company's total assets, or NT\$300 million or more, except in trading of domestic government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds, the Company may not enter into a transaction contract or make a payment until the following matters have been approved by the board of directors:

1. The purpose, necessity and anticipated benefit of the acquisition or disposal of assets.
2. The reason for choosing the related party as a trading counterparty.
3. With respect to the acquisition of real property or its right-of-use assets from a related party, information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with paragraph 2, subparagraph 6, of Article 6 and Article 7.
4. The date and price at which the related party originally acquired the real property, the trading counter-party, and that trading counter-party's relationship to the Company and the related party.
5. Monthly cash flow forecasts for the year commencing from the anticipated month of signing of the contract, and evaluation of the necessity of the transaction, and reasonableness of the funds utilization.
6. An appraisal report from a professional appraiser or a CPA's opinion pursuant to paragraph 2, Article 6.

7. Restrictive covenants and other important stipulations associated with the transaction.

With respect to the types of transactions listed below, when to be conducted between a public company and its parent or subsidiaries, or between its subsidiaries in which it directly or indirectly holds 100 percent of the issued shares or authorized capital, the Company's board of directors may delegate the board chairman to decide such matters when the transaction is within NT\$500 million and have the decisions subsequently submitted to and ratified by the next board of directors meeting:

1. Acquisition or disposal of equipment or right-of-use assets thereof held for business use.
2. Acquisition or disposal of real property right-of-use assets held for business use.

For matters required to be approved by the board of directors as set forth herein shall first be approved by half or more of all audit committee members and then be approved by the board of directors resolution. If the matter is not approved by half or more of all audit committee members then approval from over two-thirds of the board members shall be obtained before implementation while the resolution the audit committee shall be recorded in the board of directors meeting minutes. When a director expresses dissenting opinion which is recorded or shown in written statements, the record shall be sent to the audit committee; the same procedure applies to changes in transaction terms in the future. When the procedures are submitted for discussion by the board of directors, each independent director's opinions shall be fully considered; if an independent director expresses dissenting or qualified opinion about any matter, it shall be recorded in the minutes of the board of directors meeting.

Where the Company or any subsidiaries that are not domestic public companies conduct a transaction of Paragraph 1, where the transaction amount is 10 percent or more of the Company's total assets, the Company shall submit the materials listed in Paragraph 1 to the Shareholders' Meeting for approval and only enter into a transaction contract or make a payment after obtaining approval. However, this shall not apply to transactions between the Company and its parent or subsidiaries, or between its subsidiaries.

The calculation of the transaction amounts of Paragraph 1 and the preceding paragraph shall be done in accordance with Article 5, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been submitted to and approved by the Shareholders' Meeting and Board of Directors in accordance with these provisions need not be counted toward the transaction amount.

IV. (Entering into a Contract)

In entering into a contract with counterparty, the result of price comparison or negotiation shall be adopted and effort shall be made to assure the Company's rights and interests.

V. Public Announcement and Filing:

Where acquiring or disposing of real property or its right-of-use assets from or to a related party, or acquiring or disposing of assets other than real property or its right-of-use assets from or to a related party and the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the Company's total assets, or NT\$300 million or more, the administrating dept. shall notify financial and accounting dept. of such matters in prescribed format; the latter shall publicly announce and report the relevant information on the securities competent authority's designated website within two days commencing immediately from the date of occurrence of the event. Provided, this shall not apply to trading of domestic government bonds or bonds under

repurchase and resale agreements or subscription or redemption of money market funds issued by domestic securities investment trust enterprise.

When at the time of public announcement an error or omission in an item required by regulations is publicly announced and so is required to be corrected, all the items shall be again publicly announced and reported in their entirety within two days commencing immediately from the day of knowledge.

Where change, termination, or rescission of a contract signed in regard to the original transaction, a public report of relevant information shall be made on the information reporting website designated by the competent authority within two days commencing immediately from the date of occurrence of the event.

VI. Acceptance or Checking:

Acquisition and disposal of assets with a related person shall be accepted or checked term by term, according to schedule, pursuant to details or conditions of respective contracts; if nonconformities are found, they shall be submitted for processing.

VII. Property Registration:

The acquisition of real estate from a related person shall be reported to the competent authority within statutory period for registration; the same applies in the event of any changes.

VIII. Relevant divisions shall transact insurance according to nature of assets and actual situation.

For calculation of the 10 percent of total assets under the handling procedure, the total assets stated in the most recent entity only financial report or individual financial report prepared under the Regulations Governing the Preparation of Financial Reports by Securities Issuers shall apply.

(Handling of Irregular Price)

Article 7: Where the Company acquires real property or its right-of-use assets from a related party and the results of appraisals conducted in accordance with paragraph 2, subparagraph 6 of Article 6 are uniformly lower than the transaction price, the following shall be taken:

- I. A special reserve shall be set aside against the difference between the real property or its right-of-use assets transaction price and the appraised cost and may not be distributed or used for capital increase or issuance of bonus shares. Where the Company uses the equity method to account for its investment in another public company, then a special reserve shall be set aside pro rata in a proportion consistent with the share of the Company's equity stake in the other company.
- II. The independent directorship of the audit committee shall be allowed to comply with Article 218 of the Company Act.
- III. Handling pursuant to the preceding two subparagraphs shall be reported to a shareholders' meeting, and the details of the transaction shall be disclosed in the annual report and any investment prospectus.

The Company that has set aside a special reserve under the preceding provisions may not utilize the special reserve until it has recognized a loss on decline in market value of the assets it purchased at a premium, or leased, or they have been disposed of, or the lease contract has been terminated, or adequate compensation has been made, or the status quo ante has been restored, or there is other evidence confirming that there was nothing

unreasonable about the transaction, and the securities competent authority has given its consent.

When the Company acquires real estate or its right-of-use assets from a related party, it shall also follow the preceding 2 paragraphs if there is other evidence indicating that the transaction is an irregular transaction.

Provided, where objective evidence has been submitted and specific opinions on reasonableness have been obtained from a professional real property appraiser and a CPA have been obtained, paragraph 1 may not apply.

- I. Where the related party acquired undeveloped land or leased land for development, it may submit proof of compliance with one of the following conditions:
 - (I) Where undeveloped land is appraised in accordance with the means under paragraph 2, subparagraph 6 of Article 6, and structures according to the related party's construction cost plus reasonable construction profit are valued in excess of the actual transaction price. The "reasonable construction profit" as used herein shall be deemed the average gross operating profit margin of the related party's construction division over the most recent three years or the gross profit margin for the construction industry for the most recent period as announced by the Ministry of Finance, whichever is lower.
 - (II) Completed transaction cases by unrelated parties within the preceding year involving other floors of the same property or neighboring parcels of land, where the land area and transaction terms are similar after calculation of reasonable price discrepancies in floor or area land prices in accordance with standard property market or lease practices.
- II. Where the Company acquiring or leasing real property right-of-use assets from a related party provides evidence that the terms of the transaction are similar to the terms of transaction cases completed for the acquisition of neighboring parcels of land of a similar size by unrelated parties within the preceding year.

Completed transaction cases involving neighboring or closely valued parcels of land in the preceding paragraph in principle refers to parcels on the same or an adjacent block and within a distance of no more than 500 meters or parcels close in publicly announced current value; transaction cases involving similarly sized parcels in principle refers to transactions completed by unrelated parties for parcels with a land area of no less than 50 percent of the property in the planned transaction; within the preceding year refers to the year preceding the date of occurrence of the acquisition of the real property or obtainment of the right-of-use assets thereof.

(Definition of Date of Occurrence)

Article 8: Date of occurrence in principle 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 transaction, 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.

(Public Announcement of Subsidiaries)

Article 9: Information required to be publicly announced and reported in accordance with the provisions of

acquisitions and disposals of assets with a related person by a subsidiary (pursuant to definition in Regulations Governing the Preparation of Financial Reports by Securities Issuers) of the Company that is not itself a public company in Taiwan, the subsidiary shall notify the Company immediately in writing at the date of occurrence of the event; the Company shall publicly announce and report the relevant information on the securities competent authority's designated website within two days commencing immediately from the date of occurrence of the event.

The paid-in capital or total assets of the Company shall be the standard for determining whether or not a subsidiary referred to in the preceding paragraph is subject to Article 6 requiring a public announcement and filing in the event a transaction reaches 20 percent of paid-in capital or 10 percent of the total assets.

(Penalties against Negligent Employees)

Article 10: Personnel violating these Procedures when transacting with a related person are subject to penalties.

(Data Retention)

Article 11: When transacting with a related person, 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.

(Unspecified Matters)

Article 12: Matters that are not specified herein shall proceed in compliance with the provisions of Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

(Supplementary Provisions)

Article 13: 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 dissent 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.