



## (English Translation)

# Procedures for Engaging in Financial Derivatives Transactions <sup>1</sup>

## I. PURPOSES

In accordance with Article 21 of "Procedures for Handling Acquisition or Disposal of Properties" of the Company, the Company enacts the Procedures in order to execute derivatives transactions.

## II. OBJECTIVE

To efficiently manage the income and expenses, assets and liabilities of the Company and to reduce the financial risks resulting from the volatility of the price of financial products (i.e. exchange rate and interest rate) and to enhance the competitiveness of the Company and to manage each derivatives transaction, the Company enacts the Procedures.

## III. CONTENTS

### Chapter I Principles and Directions of Transaction

#### Article 1: Scope of Transactions

The term "derivatives" herein is defined as forward contracts, options contracts, futures contracts, leverage contracts, or swaps contracts, whose value is derived from a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable; or hybrid contracts combining the above contracts; or hybrid contracts or structured products containing embedded derivatives. The term "forward contracts" does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) contracts.

#### Article 2: Strategy of Operation or Hedge

In principle, to engage in financial derivatives transactions should be for hedging the risk resulting from the operation of the Company.

#### Article 3: Separation of Powers and Obligations

1. The Finance Division shall have trading, telephone confirmation and settlement officers for financial derivatives. The trading officer should be responsible for trading financial derivatives; the telephone confirmation officer should be responsible for transaction confirmation with banks by telephone; and the settlement officer are responsible for arranging the settlement matters pursuant to the transaction agreement.
2. Accounting Division: This division should be responsible for derivatives confirmation.
3. The respective functions of trading, confirmation and settlement shall be performed by different officers.

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<sup>1</sup> This translation is for reference only. In the event of any discrepancy between the Chinese version and this translation, the Chinese version shall prevail.

4. Setting up risk-assessment, risk-supervision, and risk-control personnel who should belong to a different department from the above personnel, and report to the higher level chiefs who are not involved in trading or its relevant position policy implementation.

**Article 4:**

The total amount of contracts for derivative transactions engaged by the Company which are not offset should not exceed 30% of the net value of the Company.

**Article 5: Set Stop Loss Limit**

1. The maximum amount of unrealized loss for all contracts of derivatives transaction in which the Company engages in should be the lesser of the amount of 20% of the total amount of contracts or 3% of the shareholders' equity.
2. The maximum amount of the unrealized losses in one single contract of financial derivatives transactions which the Company engages in shall be 20% of the transaction amount.
3. If unrealized losses on all contracts or one single contract in the financial derivatives transactions engaged by the Company reach the foregoing ceiling, the Company should announce the material information in accordance with the relevant regulations and report to the board of directors after the announcement

**Article 6:**

The essentials of performance evaluation shall be based on the evaluation of hedging effect on the financial derivatives transactions engaged by the Company.

**Chapter II Operation Procedures**

**Article 7: Authorized Amount**

1. The authorized amount and level of transactions are as follows. The authorized level applicable to the total amount per day and the aggregate net position shall be the higher level of the responsible chief for the above two items.

Authorized Level	Total Amount Per Day	Aggregate Net Position
Center Chief	Above USD 20,000,000	Above USD 120,000,000
Division Chief	USD 20,000,000 (inclusive)	USD 120,000,000 (inclusive)
Department Chief	USD 10,000,000 (inclusive)	USD 60,000,000 (inclusive)

2. If the total amount of aggregated net position reaches the quarterly revenue, such transaction should be reported to the Chairman after its completion.
3. Any major derivatives transactions to be engaged by the Company shall be approved by

one-half or more of the total members of the audit committee and be submitted to the board of directors meeting for resolution. Such transactions, without being approved by one-half or more of the total members of the audit committee, may be conducted with the consent of two-thirds of the total directors, and the resolution of the audit committee shall be recorded in the board meeting minutes. The total members of the audit committee and total directors as referred to in this paragraph shall be the actual incumbent members or directors.

### **Chapter III Procedures of Public Announcement and Report**

#### **Article 8:**

The Company should make announcements and reports in accordance with "Procedures for Handling Acquisition or Disposal of Properties" of the Company.

### **Chapter IV Accounting Method**

#### **Article 9:**

The accounting of derivatives transactions entered into by the Company shall be processed pursuant to the international accounting standards and the relevant laws and regulations.

### **Chapter V Internal Control System**

#### **Article 10: Risk Management**

1. Credit risk: When the Company chooses the counterparty of the transaction, the counterparty chosen shall be limited to financial institutions with lower credit risks in order to avoid the risk of breach of contract by the counterparty.
2. Market price risk: In relation to derivative products, the risks of changes in market prices arising from changes in interest rates and foreign exchange rates or other factors.
3. Liquidity risk: To ensure the market liquidity, the trading counterparty shall be equipped with adequate facilities, information, capital and the ability to trade in any major international market.
4. Operating risk: The Company shall ensure the full compliance the authorized trading amount and the rules of operating process in order to avoid the operating risk.
5. Legal risk: The documents that the Company executes with the counterparties shall be reviewed by internal legal personnel or professional lawyers before the formal execution in order to avoid the legal risk.
6. Cash flow risk: The authorized transaction officer should monitor the cash flow of the Company, in order to make sure that there is sufficient cash.
7. Other important risk management measures.

#### **Article 11: Internal Control**



1. The trading officer should obtain oral or written (by e-mail) authorization from the authorized chief before engaging in a transaction. If there is only the oral consent from the authorized chief, he/she should obtain written or e-mail authorization not later than the next business day.
2. When completing each transaction, the trading officer should make transaction records together with the authorized confirmation in writing or by e-mail not later than the next business day. After the transaction records are approved, the trading officer should deliver them to the confirmation officer. The confirmation officer shall review and make the chop on the transaction records after checking the transaction records with the confirmation sent by the bank and shall send back one copy thereof to the bank and another copy thereof for the Accounting Division for record.
3. The contents of transaction records should specifically state, including but not limited to, the transaction date, counterparty, number, currency, amount, price, mature date, settlement date, approved authorization, the spot of loss limit, the limitation of the total transaction amount, the conditions of the current position and other items meeting the characteristic of each product.
4. The written confirmation officer shall maintain the account book and issue written verification regularly with the corresponding bank.

#### **Article 12: Periodical Evaluation**

The center chief should supervise the financial department to mark derivatives to market on weekly basis. However, evaluation on the hedging transactions for hedging risks arising from business operation shall be made at least twice a month and spreadsheet of such evaluation is required and submitted to the chief of the Finance Center and high-level managers authorized by the board of directors.

#### **Article 13:**

The Company should prepare a transaction record book when engaging in derivatives transactions. The types, amount and the date approved by the board of the directors, periodical evaluations and other matters in connection with derivatives transactions should be carried in the transaction record book for review.

### **Chapter VI Supervisory and Management of the Board of the Directors**

#### **Article 14:**

The board of the directors should supervise and manage based on the following principles the derivatives transactions engaged in by the Company:

1. To appoint a higher chief officer to take notice at all times to the supervision and control of the risks of derivatives transactions.
2. To periodically evaluate whether the performance of derivatives transactions meets the operating strategy and the risk to be undertaken is within the admitted undertaking ranges of the Company.

#### **Article 15:**



The higher level of chief officers authorized by the board of the directors should manage derivatives transactions based on the following principles:

1. He/she should periodically evaluate the current measures of risk management to see whether they are proper or not and should handle them in accordance with the relevant laws and regulations and the Procedures.
2. He/she should supervise transactions and profit and loss. If there is an unusual matter, he/she should take the necessary measures and should report it to the board of the directors immediately. If there are any independent directors, the independent directors should attend the board of the directors and express their opinion.

**Article 16:**

When any authorized officer handles any derivatives transaction in accordance with the Procedures, he/she should report to the most recent meeting of the board of directors after completion of the transaction.

**Chapter VII Internal Audit**

**Article 17:**

The internal auditor should periodically check whether the internal control is proper or not. In addition, the internal auditor shall examine each month whether the trading department complies with the Procedures or not and make an audit report. Upon finding any material violation, the internal auditor shall give written notice to the independent directors and the audit committee.

**Chapter VIII Penalty**

**Article 18:**

It is handled in accordance with the "Procedures of for Handling Acquisition or Disposal of Properties" of the Company.

**IV. PROMULGATION AND AMENDMENT**

The Procedures shall be approved by one-half or more of all members of the audit committee and submitted to the board of directors for resolution. And the Procedures take effect after being approved by the shareholders' meeting. Any amendments thereto shall follow the above procedures. If any director has objections to the Procedures and the objection is recorded or made in the form of the written claim, the information about the objections shall be sent to the audit committee. The board of the directors shall fully take account of the opinion of each independent director when the board of the directors discusses the Procedures in accordance with the preceding paragraph, and the consent of, or the opinion and reason of objections raised by independent directors shall be recorded in the minutes.

If the aforesaid matter as provided in the preceding paragraph was not approved by one-half or more of the full audit committee members, it may be approved by two-thirds or more of the members of the full board of directors, and the audit committee's resolution shall be recorded in the minutes. Full audit committee members, as mentioned in this paragraph, and the members of a full board of directors, as mentioned in the preceding paragraph, shall be calculated on the basis of actual incumbency.



## **V. REFERENCE DOCUMENTS**

The Company's "Procedures for Acquisition or Disposal of Assets"