

DERIVATIVES

A) Purpose:

It is to reduce the financial risk associated with the fluctuation of exchange rate and interest rate, so as to effectively control the future cash flow.

This Procedure is made pursuant to the Article 36-1 of Securities Exchange Act and "Criteria for Derivative Trading by Public Companies" ("Regulation").

B) Definition:

"Derivative products" refers to option contracts, future contracts, margin contracts, exchange contracts, etc. the values of which are derived from assets, interest rate, exchange rate, index, or other financial products.

C) Scope :

The Derivative product that can be used is the buy or sell of foreign exchange currency, for hedging purpose, so as to minimize any future financial losses.

D) Responsibilities

The Head of FAD is authorized by the CFO, as the trader to execute the foreign currencies positions, as per the signed letter of authorization given to the financial institutions.

Accounting Department will be in charge of bookkeeping the related transactions.

E) Transaction amount and its restriction:

Based on the requirements of each net currency position and the forecasted cash flows, the policy is to set for a natural hedge.

The authorization for each transaction is as follows:

(1) Forward transaction:

The authorized trader will begin the transaction after a discussion with CFO on the Company's daily position.

The transaction pricing range will be determined on both the Company's assets & liabilities' book-in cost and the forecasted cash flows. The settlement of such transaction should be in accordance with the Company's operational needs. Except for the extension of forward contract, which is required for the controlling of monthly cash flow of foreign currency, that is not affecting the company's risk.

F) Authorized Limit and Tenure are as follows:-

核決權人 Authority	單 筆 交 易 權 限 Authorization Limit of Each Transaction
B.O.D	MR 26,000,000 (不含)以上 Above MR 26,000,000(not inclusive)
Chairman	MR 26,000,000(含)以下 Up to MR 26,000,000 (inclusive)
CFO	MR 10,000,000(含)以下 Up to MR 10,000,000 (inclusive)
Senior Manager	MR 5,000,000(含)以下 Up to MR 5,000,000 (inclusive)
Assistant Manager	MR 2,500,000(含)以下 Up to MR 2,500,000 (inclusive)

Tenure: Not more than six (6) months.

G) Other derivatives product:

The authorized trader will need to submit evaluation report which clearly states the type of transaction, its amount, interest rate, tenure, purpose, details expenses and trading party.

The transaction can be executed only after obtaining the CFO's approval.

The maximum contract amount is limited to the outstanding amount of the Company's paid-up capital.

The transaction will be used to hedge the exchange rate risk or interest rate risk associated with issuing equities such as ADR or GDR, or domestic or foreign bonds such as ECB, EB or domestic corporate bond, or long-term bank loan.

The authorized trader will submit the evaluation report and approved by CFO and Senior Vice President. If necessary, the approval from the Chairman and Board Meeting is needed before executing such transaction.

H) Maximum Contract Size & Loss Limit

The total amount of derivatives which the Company is capable to take is based on one third of the shareholders fund as per the latest audited account. The upper limit of total losses from derivative contracts is US\$ 7 million. The upper limit of losses for single derivative contract is 5% of such contract amount.

Whenever losses exceed the upper limits, the authorized trader shall provide documentation, stating the impacts to the Company and its solutions to reduce such losses, after a discussion with the CFO.

Upon the approval from the CFO and Chairman, the authorized trader shall take such solutions and report it to the Board.

Forward transaction is not subjected to the above loss limit restriction, if such amount of foreign currency is less than the assets/liabilities and the forecasted cash flows is under hedging purpose in our books.

If the transaction is used to hedge the exchange rate risk or interest rate risk associated with issuing equities such as ADR or GDR, or domestic or foreign bonds such as ECB, EB or domestic corporate bond, or long-term bank loan, the transaction amount is limited to the outstanding amount of such issuance. The loss is excluding to the above loss limit due to the equivalent amount of assets or liabilities.

I) Performance evaluation:

The performance shall be reviewed twice monthly.

Trader shall provide foreign currency positions to the CFO and the Board for reference.

Other special purpose:

Position shall be evaluated weekly for gain or loss, and reported to the CFO and the Board for reference.

J) Operation Procedure:

- 1) The trader should follow the guidelines in accordance with the above Procedure.
- 2) After receiving the trading slip, the verifying person shall confirm the content, if found any error, he or she shall check with the trader promptly, who will seek clarification from the banks.
- 3) After the confirmation, the trader shall process the transaction.
- 4) The Accounting Department shall record the transaction and its related account entries.
- 5) The derivative transactions shall be reported to the Board Meeting.

- 6) A public company engaging in derivatives trading shall establish a log book in which details of the types and amounts of derivatives trading engaged in, board of directors approval dates, and the matters required to be carefully evaluated under subparagraph 4 of Article 19 and subparagraph 2 of paragraph 1, and subparagraph 1 of paragraph 2, of Article 20 shall be recorded in detail in the log book.

K) Disclosure and Report Procedure:

The Company shall disclose all its Group derivative transactions before the 10th day of each month to Securities and Futures Bureau' Market Observation Post System website.

L) Accounting Procedure:

The derivative transactions shall be recorded in accordance with Accounting Regulation and related Accounting principles.

M) Risk management procedure:

- 1) Credit risk: dealing with international known banks.
- 2) Market risk: targeting common and global financial products.
- 3) Liquidity risk: choosing banks that have large volume, time-to-market quotation.
- 4) Operation risk: strictly complying with the Procedure to reduce operation risk.
- 5) Legal risk: using standard contracts instead of designated contracts.
- 6) Cash flow risk: always considering the Company's cash flow.

N) Internal control:

- 1) The Trader, verifying clerk, and processing clerk shall not be the same person.
- 2) The Supervising and processing personnel shall belong to different department and report to the Board.
- 3) Accounting Department shall record transactions after checking its related certifications.
- 4) Verifying clerk shall be responsible for auditing the trading slips with banks periodically.
- 5) Transaction related vouchers shall be approved by the authorized manager.
- 6) Management who is authorized by the Board shall monitor the derivative transactions periodically. If any misdeed is found, report shall be made to the Board promptly.

O) Periodic evaluation:

The position of derivative instruments shall be weekly evaluated;

Transactions for hedging purposes shall be biweekly evaluated.

The evaluation report shall be approved by the manager, as authorized by the Board.

Any derivative transactions shall be recorded in detail.

P) Internal Audit System:

The internal audit personnel shall understand the internal control procedures for derivative transactions procedure and to conduct monthly audits. If any misdeed is found, the finding report shall be made to the board of director promptly.

This procedure shall become effective upon the approval by the board of director and be reported to the shareholders meeting.

Any amendment is subject to the same procedure.

Opinions from the independent directors shall be thoroughly considered during discussion and their concurring or opposing opinions and the reasons for objection shall be recorded in meeting minutes.

If any member of board of directors objects to it with a record or written declaration, the Company shall present it to the meeting of shareholders for discussion.