

Apex International Company Limited

Procedures for the Handling of Derivatives Trading

Article 1 Purpose

To manage the Corporation's earnings volatility and to limit asset and liability exposure resulting from fluctuations in the financial markets such as movements in interest rates and foreign exchange rates, and control the risk arising from derivatives trading by the Corporation, the Procedures for the Handling of Derivatives Trading are set up. Any other matters not set forth in the Procedures shall be dealt with in accordance with the applicable laws, rules, and regulations.

Article 2 Transaction principles and policy

1. Transaction types

The term "derivatives" in these Procedures means products such as forward contracts, options contracts, futures contracts, leverage contracts, or swap contracts, whose value is derived from a specified interest rates, financial instrument price, commodity price, foreign exchange rates, indices 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, and long-term purchase (sales) agreements.

Matters relating to bond margin transactions shall be conducted in accordance with the relevant provisions of these Procedures.

2. Operational or hedging strategy: The purpose of derivatives transactions shall be to ensure the operating profits of the Corporation's business and avert risks caused by fluctuations in exchange rates, interest rates, or asset prices, and not to profit from speculation. If other transactions are required, the approval of the chairman of the board shall be obtained.

3. Division of authority and duties:

(1) Financial unit: obtain market information, determine trends and risks, be familiar with financial products and the relevant laws and operational skills, and handle transactions according to the instructions of the authorized executive and to position authorizations, to avert risk from market price volatility. At regular intervals, also evaluate position risks and make public announcements and file reports in accordance with regulations.

(2) Accounting unit: provide information regarding risk exposure positions at regular intervals, keep accounts according to generally accepted accounting principles, and prepare financial statements.

(3) Audit unit: assess at regular intervals whether derivatives transactions conform with regulations regarding transaction procedures and whether risks are within the Corporation's tolerable range.

4. Performance assessments: hedging transactions shall be assessed on a regularly scheduled basis once every two weeks; financial transactions shall be assessed on a regularly scheduled basis once per week. Performance assessments shall make a comparison on the assessment date with a predetermined assessment basis, as a reference for future decision-making.

5. Total contract amount: The Corporation engages in derivatives transactions based on the principle of risk hedging, and not for the purpose of generating profit. Derivatives trading must therefore be based on substantive transactions, and the total balance of all hedging contracts at any time may not exceed the hedging needs resulting from identifiable foreign currency commitments or derived from substantive transactions.
6. Ceiling amount for losses on all contracts and on individual contracts: for derivatives transactions in which the Corporation engages, the ceiling amount for losses on all contracts and on individual contracts is set at 15 percent of the principal amount of all contracts. When losses on all contracts or any contract reach the aforesaid ceiling, the Corporation shall immediately notify the directors and convene the relevant personnel to respond.

Article 3 Procedures

1. Authorized amounts: The authorized amount and hierarchical delegation of authority for derivatives transactions in which the Corporation engages shall be deliberated by audit committee and then submitted to the board of directors for resolution. Transactions shall be executed by the authorized personnel within the credit limit stipulated and signed with a designated financial institution.
2. Executing units: derivatives transactions shall be executed by dedicated staff of authorized financial units.
3. Description of operations:
 - (1) Confirm trading position.
 - (2) Analyze and evaluate relevant trends.
 - (3) Decide on a specific hedging method.
 - (i) Subject of the trade.
 - (ii) Trading position.
 - (iii) Target price level and price interval.
 - (iv) Trade strategy and type.
 - (4) Obtain approval for the transaction
 - (5) Transaction execution
 - (i) Transaction counterparty: limited to foreign and domestic financial institutions.
 - (ii) Trading personnel: Corporation personnel that may execute derivatives transactions shall first be approved by the chairman of the board, and notice of them shall be given to a Corporation-designated financial institution. Persons other than the aforesaid personnel may not engage in transactions.
 - (6) Transaction verification: The trading personnel, after making a transaction, shall fill out a transaction voucher, and after verification personnel have verified whether the terms and conditions of the trade match those of the transaction voucher, submit the transaction voucher to the executive in charge for final approval.
 - (7) Settlement: After a transaction has been verified to be without error, the finance unit shall have designated settlement personnel prepare the price funds and relevant vouchers and conduct settlement on the settlement date at the agreed-upon price.
 - (8) Details regarding derivatives transactions engaged in by the Corporation shall be summarized on a quarterly basis and submitted to the audit committee and the board of directors for

subsequent acknowledgment and approval.

Article 4 Public announcement and reporting procedure

When the loss from engaging in derivatives transactions reaches a ceiling set under these Procedures for all contracts or for individual contracts, within two days from the actual date of such occurrence, the relevant data shall be publicly announced and reported on the web site designated by the Securities and Futures Commission.

By the 10th of each month, the Corporation shall input the status of its derivatives transactions up until the end of the preceding month, as well as that of any Corporation subsidiary that is not a domestic public company, into the information reporting website specified by the Securities and Futures Commission using the prescribed format.

Article 5 Accounting treatment

The accounting unit of the Corporation shall perform accounting in accordance with the Business Accounting Act, Statements of Financial Accounting Standards (SFAS), and the relevant directives of the competent authority; items for which there is no relevant provision shall be recorded in a subsidiary ledger, and treated in a monthly statement of realized and unrealized gains and losses.

Article 6 Internal control system

1. Risk management measures

- (1) Credit risk considerations: Transaction counterparties shall be confined to Corporation-designated banks. After the transaction, bookkeeping personnel shall promptly make an entry in the credit limit control table and reconcile accounts with the Corporation-designated bank at regular intervals.
- (2) Market price risk considerations: bookkeeping personnel shall check total transaction amounts on an ongoing basis to see whether they conform to the ceilings set under these Procedures. The accounting department shall assess market prices on an ongoing basis, and note the possible impact of future market price volatility on profits and losses from all holdings.
- (3) Liquidity considerations: to ensure liquidity, before conducting a transaction, it shall be confirmed with financing personnel that the transaction amount will not cause insufficient liquidity.
- (4) Operational considerations: transactions must be in full compliance with the authorized ceiling amount and operational procedures.
- (5) Legal considerations: documents to be signed with a bank must be reviewed by legal affairs personnel before they can be formally signed.
- (6) Cash flow considerations: a prerequisite for a transaction is that it must not cause future cash flow concerns.

2. Internal controls

- (1) The Financial unit's transaction personnel and confirmation and settlement operations personnel may not concurrently serve in more than one of those positions.
- (2) Transaction personnel shall hand over transaction vouchers or contracts to bookkeeping personnel for account keeping.

- (3) Bookkeeping personnel shall at regular intervals reconcile accounts or records with the trading counterparty.
- (4) Personnel for measurement, monitoring, and control of transaction risk shall be members of a different department from the personnel specified in the previous subparagraph, and shall report to the audit committee and board of directors or a senior executive not responsible for decision making regarding transactions or positions.

3. Periodic evaluation methods

- (1) The designated personnel appointed by the board of directors to monitor and control derivatives trading risks on an ongoing basis shall also at regular intervals evaluate whether trading performance accords with established operational strategies, and whether risks assumed are within a tolerable range.
- (2) They shall at regular intervals evaluate whether the risk management procedures currently in use are appropriate and scrupulously conducted in accordance with these Procedures.
- (3) Derivatives transaction positions shall be evaluated at least once a week. However, hedging transactions for business needs shall be evaluated at least twice a month. The evaluation reports shall be submitted to the senior executive authorized by the board of directors to review and sign.
- (4) When the market price evaluation report shows any irregularity, it shall immediately be reported to the audit committee and the board of directors and the necessary response measures shall be adopted.
- (5) The chief financial officer shall monitor the trading and profit and loss situation. When any irregularity is discovered, necessary measures shall be taken while the chief financial officer shall report to the audit committee and the board of directors. If independent director(s) have been appointed, the board of directors shall have the independent director(s) attend and express an opinion.

4. Handling of irregularities

Trading or internal audit personnel who discover any irregularity shall immediately notify the chief financial officer to take appropriate action.

Article 7 Log book

The Corporation shall enter detailed information into a log book regarding the types of derivatives transaction in which it engages, dollar amount thereof, the date on which approval was granted by the board of directors, and matters deserving attention in periodic evaluations.

Article 8 Internal audit system

An internal auditor shall regularly review the appropriateness of the internal control system for derivatives transaction, conduct monthly checks on how well the trading unit is complying with these Procedures, analyze transaction cycles, and include their findings in an audit report. Where a material violation is discovered, they shall notify the audit committee and the board of directors in writing.

Article 9 Control of subsidiaries

- 1. The Corporation shall ensure that its subsidiaries adopt handling procedures for the conduct of

financial derivatives transactions in accordance with the Regulations Governing the Acquisition and Disposal of Assets by Public Companies issued by the Securities and Futures Commission of the Ministry of Finance.

2. A subsidiary shall carry out self-inspections to determine whether its adopted procedures are in compliance with the provisions of the applicable regulations, and whether asset acquisition and disposal transactions are carried out in accordance with its adopted handling procedures.
3. An internal auditor of the Corporation shall review the self-inspection reports of subsidiaries, and if a material violation is found, shall inform the audit committee and board of directors in writing.
4. If any circumstance contemplated under these Procedures occurs at a subsidiary of the Corporation, the subsidiary shall first notify the Corporation, and subsequently take action to handle the circumstance. In addition, a subsidiary is required each month to furnish the Corporation with relevant detailed statements for the previous month to facilitate corporate oversight.

Article 10 Penal provisions

If relevant personnel violate these Procedures or any provision herein, measures shall be taken under the applicable rules of the Corporation.

Article 11 Amendment

After these Procedures have been deliberated by the audit committee and approved by the board of directors, they shall be submitted to a shareholders meeting for approval; the same applies when the Procedures are amended. That has not been approved by more than half of all audit committee members may be adopted by more than two-thirds of the board of directors, and the resolution of the audit committee shall be recorded in the board of directors meeting minutes.