InnoCare Optoelectronics Corporation

Procedures for Engaging in Derivatives Trading

Article 1 Purpose

The procedures are enacted for the purpose of protecting the investments of the Company, fulfilling the proper information disclosure, enhancing the Company to establish the reasons and purpose of engaging in derivatives trading, and formulating a series of systems to achieve the purpose. To provide the operational basis for the internal personnel in each departments and to ensure that the external creditors, shareholders, and investors are able to communicate, understand and entrust with when reading the information from the Company.

Article 2 Statutory Basis

It is based on the content of Article 36-1 of the Securities and Exchange Act and Financial Supervisory Commission Document Standards for "Regulations Governing the Acquisition and Disposal of Assets by Public Companies."

Article 3 Scope of application

"Derivatives," as mentioned in these procedures, refers to trade contracts whose value and price are derived from the spot price of targets.

1. "Targets" include:
   - A. Bulk materials, such as precious metals (gold, silver) or base metals (copper, lead).
   - B. Financial assets, such as exchange rates, interest rates, stock price, indexes, etc.
   - C. Other assets, interests and other commodities. The type and scope are decided by the Board of Directors depending on the Company's business needs.
2. The term "derivéd from the spot price."

   This means that although these types of commodities all take the spot price as the basic standards, there will be different trade contracts derived with different prices and different contents as result of different due dates, or the asymmetrical right and duty, or the different degrees that it bears the disadvantageous changes in market price.
3. Form of the commodities (also referred to as "instruments" or "trade contracts"):
   - A. Fundamental forms: Forward contracts, options, exchange, and futures.
   - B. Compound forms: Interactive combinations and transformations of the above fundamental forms.
   - C. Junction forms: The form in which the price change of a certain target commodity is affected by the price change of another target commodity.
4. The margin trade of bonds is conducted based on the provisions of these procedures.

Article 4 Principles and Guidelines

1. Category of trade: categories of the derivatives transactions the Company can engage in can be divided as follows:
   - A. Distinguished by Purpose:
     - (1) Hedging transactions (or referred to as "the transactions that do not take trading as the purpose"): The inevitable financial activities produced during the Company carting out normal business activities or operations, which will unavoidably produce risks on positions such as exchange rates, interest rates, or the changes in purchase costs. These risks may cause inestimable fluctuations and uncertainty of profits and losses to the Company. In order to make the Company exclude this kind of risks from the operating risks and concentrate on production and marketing activities, it is necessary to avoid this type of risk.
     - (2) Non-hedging transactions (or referred to as "the transactions with trading as the purpose"): The purpose of such transactions is to earn through price differences of a commodity, including the current profit and loss recognized through self-support and measurement at fair value.
     - (3) The purpose of the Company engaging in derivatives transactions is mainly to hedge.
   - B. Distinguished by Target: Such as exchange rates, interest rates, share price, index as well as

materials such as gold and copper, related to the production activities of the Company.

C. Distinguished by Instrument: All forms mentioned in Article 3 Paragraph 3 can all be engaged in, but they must be in accordance with following principles:

(1) The transaction price is clear and the information is open and easy to obtain, enabling the Company to grasp the precise buying price and selling price in real time and self-measure the trade at any time after entering the market to assess its profit and loss based on market price.

(2) There are many participants and quotes, as well as high liquidity in the market, which enables the Company to close out at any time and exit from the market immediately.

D. Distinguished by Market:

(1) Markets of derivatives trading can be divided into:

(a) Primary (issue) market

(b) Secondary market-exchange market, OTC market

(2) In principle, there is no limit on trading market in these procedures, provided that the various conditions of Paragraph 1 Sub-paragraph C of this Article shall be conformed with.

2. Hedging and Operational Strategies:

A. Hedging targets: The targets are similar to those mentioned in Article 3 Paragraph 1, which include:

(1) Assets and liabilities possessed.

(2) Assets and liabilities that will be possessed (anticipated transaction). These can be divided into ones with firm commitment and ones without firm commitment (but can be anticipated).

B. Hedging subjects: Includes the Company and its domestic and foreign subsidiaries.

C. Delivery Method:

(1) Full-cash Delivery: Entering the derivative market as a seller (or a buyer) to make full-cash actual delivery in the expiration of contracts to meet the needs of the hedging position.

(2) Cash Settlement: Entering the derivative market as a buyer (or a seller), and making the offsetting transactions as a seller (or a buyer) to exit the market before the expiration of contracts or on the appointed date. Delivery is made on the difference between entry price and exit price. The spot transaction will be carried out if the hedging target has the demand on trading. Both delivery methods can produce offsetting profits and losses, so they not only have hedging effects but also have the flexibility of operation and internal control and management. They can diminish the delivery risks and credit risks as well.

D. Transaction counterpart: screening principles:

(1) Credit risk－risk that the opposite side will break the contract.

(2) Professional competence－

(a) Understanding and design of commodities, and ability to perceive risk.

(b) Abilities of market research, analysis, and prediction.

(c) Ability to collect real-time market information and the ability to make immediate responses.

(3) Operation quality－whether the follow-up work after trading such as confirmation, check, control, delivery, audit, certificate of confirmation from accounting firm is complete, rigorous and cooperative.

(4) Quote level－whether the transaction price of the commodity has market competitiveness.

(5) Transaction costs－whether the commission charge is high or low.

(6) Ability to execute－the efficiency of quotation and concluded transaction (especially during the drastic fluctuations of market).

(7) Contract conditions－rationality and equality of the terms of the contract signed before transactions.

(8) Amount of limit－limit if the total amount provided for the Company to engage in the transactional contract.

(9) Relationship — whether it has the investment and financing service relationship with the Company.

(10) Responsibilities and obligations —

(a) Whether there is any exact advance notification of key risks and the losses that may occur.

(b) Whether it fulfills its obligation to inform when the risk of trading loss of the Company increases and no stop-loss point is set.

(c) Whether it fulfills its duty of confidentiality in transactions with the Company.

E. Transaction parties: All derivative transactions that the Company carries out shall be conducted by the Financial Department of the head office. If national conditions or regulations of foreign countries in which subsidiaries are located are different, the subsidiary shall act as the transaction party. However, the signature of contract, actual trading and post-event controls shall be executed by the head office.

F. Transaction direction: opposite direction of hedging position of targets.

G. Transaction period:

(1) If the duration of existence of the hedging target is more than one year(including current and expected assets and liabilities), or if it can exist separately and is easily identified(for example, project financing) due to its clear generating or extinguishing factor, the duration of the target as the upper limit. If it is possible but uncertain that such due date may advance, (for example, convertible bond) the due date shall still be taken as the upper limit.

(2) If the duration of existence of the hedging target is within one year (including current and expected assets and liabilities), or if it belongs to regular operation and its time-point of occurrence or extinguishment, price and amount are trivial, fragmentary or cannot be confirmed individually (for example, bank deposit), then the duration of the hedging transaction shall take one year as the upper limit, and need not correspond to the hedging individually.

H. Transaction amount:

(1) The total amount of the contract in hedging transactions shall take the net position of the current and expected assets and liabilities of the hedging targets at that time as the upper limit.

(2) At any point in time, the accumulative unsettled transaction amount with maximum tenor of one year shall not surpass 80% of net exposure for the next 12 months. The transaction with tenor more than one year shall not exceed the net exposure of the hedging targets.

I. Operating strategy of non-hedging transaction: Paragraph 2 Sub-paragraphs C, D, and E of this Article apply mutatis mutandis.

3. Division of Responsibilities:

A. Board of Directors:

(1) Make decisions concerning formulation and amendment of these procedures.

(2) Designate senior management personnel to pay continuous attention to monitoring and controlling derivatives trading risk

(3) Periodically evaluate whether derivatives trading performance is consistent with established operational strategy and whether the risk undertaken is within the Company's permitted scope of tolerance.

(4) The Company authorizes the relevant personnel to handle derivatives trading in accordance with these procedures for engaging in derivatives trading shall report to the soonest meeting of the Board of Directors afterwards.

B. Above-mentioned senior management personnel designated by the Board of Directors:

(1) Periodically evaluate the risk management measures currently employed are appropriate, and that the organization structure is reasonable, that internal communication and coordination are smooth, and that the external information contact is appropriate.

(2) Assess the processes of transactions are faithfully conducted in accordance with these Regulations and the procedures for engaging in derivatives trading.

(3) When irregular circumstances are found in the market price evaluation reports (such as the held position has exceeded the loss limit), appropriate measures shall be adopted and a report immediately made to the Board of Directors. An Independent Director shall be present at the meeting and express an opinion.

(4) Carefully evaluate reasonableness and equality of the relevant contracts as well as the potential risks to the Company.

(5) If, due to the real-time response to special events or the market's significant and rapid reversal, they must temporarily authorize the trading unit to engage in trading, this must be reported to the Board of Directors immediately.

C. Relevant transaction contracts shall be examined and signed by the Legal Department of the Company before any actual transactions are made.

D. Trading Unit of the Financial Department:

(1) Internal: Collection and summarization of information regarding risk content (the hedged subjects all underlying hedging targets) of the Company.

(2) External: Collection and analysis of market situations.

(3) Recommendations: Advice or application for proposed transactions.

(4) Implementation: Execution of the transaction after approval.

(5) Monitoring: Daily assessments based on market price.

(6) Payment: Full-cash delivery or balance delivery on the due date.

E. Confirm Unit of the Financial Department:

(1) For each transaction of the trading unit, verbal confirmation (oral confirm) shall be made with the counterpart of the trading object immediately. Any doubts shall be immediately clarified, then, the counterpart shall be asked for written confirmation (written confirm) for the above transaction by email or fax. Written confirmation shall be completed before the end of next business day.

(2) Upon receipt of the formal confirmation, confirm the detail same as preliminary written, then apply for Company stamp.

F. Delivery Unit of the Financial Department:

(1) Responsible for opening the account before the transaction.

(2) Check the payment voucher of trading unit with the delivery personnel of trading object, arrange the procurement fund of funds, and make payment (collection) on the delivery date.

(3) After payment (collection), contact the delivery personnel of trading object to confirm method of remittance, channel, time, amount, account beneficiary and so on to avoid delay.

G. Accounting Department:

(1) Make accounting voucher and keep accounts according to the dealing slips of the trading unit, generally accepted accounting principles, (in the case of special products, it shall consult with the CPA).

(2) The profit and loss of same account (such as profit and loss on exchange) shall be divided into respective profit and loss and total net profit and loss according to the hedged items and hedging trades when settling profit and loss at the end of term (monthly, quarterly, and annually). The profit and loss of Non-hedging transactions shall be listed separately.

(3) The disclosure of derivative products transactions in financial reports (quarterly, annually) shall be in accordance with Article 2 hereof.

H. Internal Auditor Office:

(1) On a monthly basis, check the compliance of all related units and personnel with these procedures and analyze the trading cycle for each trading unit to prepare audit reports.

(2) Be regularly informed as to the fairness of the internal controls, and make recommendation reports on a monthly basis. Audit Committee shall be notified in writing of any serious violations.

(3) Random checks.

(4) Review of abnormal fluctuations and special status.

(5) Incorporate the trading risk management system and accounting treatment of transactions included in the internal control system into detailed rules of implementation for internal audit.

4. Performance Appraisal:

A. Hedging transactions: The sum of the following two items shall be the total hedging performance.

(1) All the hedging positions of the hedging subjects which can be treated as hedging targets.

(2) The derivatives positions of hedging transactions.

B. Non- hedging transactions:

(1) The accounting treatment ids the same as market practice (the only differences are delivery and accounting currency).

(2) The risk of unrealized profit and loss shall also be appraised based on market price.

C. Cycle frequency of performance appraisal:

(1) The evaluation on hedging transaction for non-derivatives and derivatives shall be at least twice per month.

(2) The evaluation on non-hedging transaction for derivatives shall be at least once per week.

All evaluation reports shall be submitted to the senior management personnel authorized by the Board of Directors.

5. Contract amount: The total contract amount of derivatives transactions the Company can be engaged in.

A. Interest:

The total remaining amount of overall contract at any time shall be limited within and shall not exceed the hedging requirement derived from identifiable mid-term and long-term loans (including loan agreements which the Company has borrowed funds and agreements has been signed but not yet borrow funds), and the loss ceiling of all part and individual contract shall be 20% of transaction principal of all of the contracts and individual contract.

B. Exchange:

The total amount of agreements of the Company at any time shall not exceed 80% of actual risk part of the future 12 months, and loss ceiling of single transaction and contract total amount shall be 20% of the transaction principle.

C. Cross Currency Swap:

In order to avoid exchange rate risk arising from foreign currency borrowings, the specification of Cross Currency Swap shall be conducted in accordance with these rules.

D. Others:

Other types of products, such as stock and index, the total amount of contract shall not exceed the net exposure for the next 12 months, and lost-limit shall not surpass 20% of principal.

E. When losses from derivative trading reaching the limits on aggregate losses or loss on individual contracts, trader shall take necessary measures to deal with and report to CFO and the senior management personnel authorized by Board of Directors, or to the Board of Directors if necessary.

Article 5 Operational Procedures

1. Authorized Amount, Authorization Level and Execution Unit:

A. Chairman of the Board: the authorized amount is the equivalent of US$5 million or more.

B. General Manager: the authorized amount is US$3 million to US$5 million (included).

C. Senior management personnel designated by the Board of Directors: the authorized amount is US$1 million to US$3 million (included).

D. Financial Executive: the authorized limit is below US$1 million (included).

E. Execution Unit: Finance & Accounting & Human Resources Management Division Group.

The above authorization limits refer to the total value of each contract in derivative trading. The Chairman is authorized to adjust the authorized amount in response to changing circumstances.

2. Procedures:

   A. Resolution:

      (1) Bottom-up: The business unit involved in the transaction can initiate a business procedure based on observation of external and internal situations. The person handling the transaction shall fill in the application form for the derivative transaction, stating the purpose, type, value, time, price, cost and counterpart of the transaction. The trade can only proceed after approval is received from the authorized manager.

      (2) Top-down: Under special circumstances or when a major incident happens, a transaction can be handled from the top down.

   B. For activities such as contract signing, implementation, supervision, confirmation, delivery, accounting, audit, performance evaluation, the responsible business units and their responsibilities are detailed in Article 4 Paragraph 3 of in "Division of Responsibilities."

3. For future reference, establish a registration book to record the type and value of each derivative transaction, the date the Board of Directors granted approval, and the items to be carefully assessed under Paragraph 3 Sub-paragraphs A, B, and Paragraph 4 Sub-paragraph C of Article 4.

Article 6 Public Announcement

1. Losses from derivatives trading (including both non-hedging and hedging transactions) reaching the limits on aggregate losses or losses on individual contracts set out in the procedures adopted by the Company, the Company shall publicly announce and report the relevant information on the Financial Supervisory Commission's designated website in the appropriate format as prescribed by regulations within 2 days counting inclusively from the date of occurrence of the event.
2. The Company shall compile monthly reports on the status of derivatives trading engaged in up to the end of the preceding month by the Company and any subsidiaries that are not domestic public companies and enter the information in the prescribed format into the information reporting website designated by the Financial Supervisory Commission by the 10th day of each month.
3. When the Company at the time of public announcement makes an error or omission in an item required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety within 2 days counting inclusively from the date of knowing of such error or omission.

Article 7 Accounting

1. Standards adopted: Recognition and measurement in accounting shall be performed according to generally accepted accounting practices issued by the Financial Accounting Standards Board of the Accounting Research and Development Foundation of Republic of China.
2. Items to be disclosed: The relevant regulations and above-mentioned generally accepted accounting practices shall be followed in deciding which items (such as the items listed in Article 2) shall be disclosed.

Article 8 Internal Control

1. Risk management: Relevant personnel in the Company must studiously prevent and control the following six categories of risk:

   A. Credit risk: Also known as "default risk", credit risk refers to the risk that the other contracting party may fail to carry out the contract. To prevent credit risk, it is advised to do business with financially independent companies whose investment worthiness is confirmed by independent rating agencies.

   B. Market risk: Also known as "price risk," market risk refers to the risk that a transaction may result in a loss due to changes in price. The prevention measures are provided in Paragraph 5 of Article 4, such as risk control through limiting the total contract value and upper limit of loss. In addition, a stop-loss point shall be set for every transaction in order to prevent large losses due to sudden and dramatic changes in the market, regardless of whether the derivative in question is a hedged or a non-hedged one.

   C. Liquidity risk: Refers to the risk that the reasonable price cannot be realized or even the comparison of price cannot be found due to insufficient number of participants in the market. The prevention measures are provided in Paragraph 1 Sub-paragraph C of Article 4 which limits the tradable commodities to those with simple and mature structure, straightforward and clear quotation, sufficient information in the public domain, a large number of number of market participants and sufficient competition between brokers.

D. Operational risk: It refers to the risk of loss caused by misbehavior (e.g. negligence concealment of facts and sabotage) of internal handlers. Prevention measures:

(1) Administrative Measures:

(a) A person may play only one role in a transaction: execution, recognition, or delivery.

(b) Once a trader expresses his/her intention to resign, all relevant departments shall be notified of the forfeiture of his/her right to place orders, regardless of whether his/her resignation is formally approved by the Company.

(c) The roles of risk measurement, supervision and control shall be assigned to the individuals in departments other than those mentioned in (a) (for example, the role of transaction executing, transaction confirming and delivering shall be assigned to employees in the financial department while the role of risk measuring and controlling shall be assigned to Internal Auditor Office). The risk measuring and controlling personnel shall report to the Board of Directors or senior management personnel who are not responsible for trading.

(2) Auditing Measures: The Internal Auditor Office shall regularly or randomly check the operational procedures thoroughly in accordance with its authorities and responsibilities, and review the soundness of internal control procedures.

E. Legal risk: This refers to the risk that the Company cannot ask the other contracting party to make payment under special circumstances or is subject to a claim for compensation by the other contracting party due to insufficient review of the contract before signing it. The prevention measures are provided in Article 4 Paragraph 3 Sub-paragraph C which stipulates that the Legal Department is responsible for reviewing every contract and specification and providing a final recommendation to the senior management personnel who is authorized to sign the contract.

F. Cash flow risk: This refers to the risk that the delivery cannot be carried out due to errors, omissions or shortage in fund allocation caused by poor internal coordination or control after signing of contract. The prevention measures are provided in Paragraph 3 Sub-paragraph F of Article 4 which sets forth strict rules for controlling fund allocation and transaction delivery.

2. Periodic Assessments: The Company shall carry out periodic assessment for transaction to ensure that the current procedures for risk management are proper and really in accordance with the provisions of these procedures.

3. Treatment of Red Flags

A. Red flags detected by the Finance Department: These types of red flags are normally related to credit risk, market price risk, liquidity risk, cash flow risk and other technical problems. Proper treatment or remedial measure shall be carried out immediately.

B. Red flags detected by the Internal Auditor Office: These types of red flags are normally related to institutional problems, such as operation risk and flow risk. The Internal Auditor Office shall address the problem immediately or recommend improvements to the system before reporting to the senior management personnel designated by the Board of Directors.

C. Red flags detected by the Legal Department: These types of red flags are normally related to contractual problems such as legal risk. If there is a problem with a contract provision, the Legal Department shall notify the Finance Department to make necessary adjustments before reporting to the senior management personnel designated by the Board of Directors.

Article 9 Internal Audits

1. The purpose of internal audits is to confirm whether the transactions comply with relevant laws, regulations and company rules. The internal auditors shall make timely recommendations for improvements of managerial performance.

2. For more details of internal audits, please refer to Paragraph 3 Sub-paragraph H of Article 4.

Article 10 Other Matters

The procedures for Engaging in Derivatives Trading shall be approved by at least one-half or more of all members of the Audit Committee and to be approved by the Board of Directors, and then shall be submitted to a shareholders' meeting; for approval; the same applies upon revision.

If approval of one-half or more of all Audit Committee members as required in the Paragraph 1 herein is not obtained, the procedures may be implemented if approved by two-thirds or more of all Directors, and the resolution of the Audit Committee shall be recorded in the minutes of the Board of Directors meeting.

The terms "all Audit Committee members" in the procedures and "all Directors" in the preceding Paragraph shall be counted as the actual number of persons currently holding those positions.

When a matter is submitted for discussion by the Board of Directors, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board of Directors meeting.