

VSO ELECTRONICS CO., LTD.

Regulations Governing Financial and Business Transactions Between Related Parties

(This English translation is prepared in accordance with the Chinese version and is for reference purposes only. If there are any inconsistencies between the Chinese version and this translation, the Chinese version shall prevail.)

1. Purpose

- 1.1. In order to ensure sound financial and business interactions between the Company and its related parties, and to prevent irregular transactions or improper benefit transfers involving purchases and sales of goods, acquisitions or disposals of assets, endorsements and guarantees, and lending of funds between related parties, these Regulations are established in accordance with Article 17 of the “Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” for compliance purposes.

2. Scope

- 2.1. Unless otherwise stipulated by laws, regulations, or the Articles of Incorporation, financial and business transactions between the Company and its related parties shall be conducted in accordance with these Regulations.

3. Reference Documents

- 3.1. Article 17 of the “Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies.”

4. Definitions

- 4.1. The term “related party” as used in these Regulations shall be determined in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers.”
- 4.2. The term “affiliated enterprise” as used in these Regulations refers to enterprises that are legally independent from each other but have any of the following relationships as defined in Article 369-1 of the Company Act:
 - 4.2.1. Companies having a controlling and subordinate relationship.
 - 4.2.2. Companies with mutual investments.

In determining the controlling and subordinate relationships mentioned above, the substance of the relationship shall be considered in addition to the legal form.

5. Responsibilities

6. Operating Procedures

6.1. General Provisions

- 6.1.1. The Company shall, taking into consideration its overall business operations, establish an effective internal control system governing transactions with related parties (including affiliated enterprises), and conduct ongoing reviews in response to internal and external environmental changes to ensure the continuous effectiveness of such system's design and implementation.
- 6.1.2. Taking into account the legal requirements and operational characteristics in the jurisdictions where subsidiaries are located, the Company shall supervise subsidiaries in establishing effective internal control systems. If the related party is a non-public company, the Company shall still, based on the degree of its financial and business impact on the Company, require such party to establish effective internal control systems and sound financial, business, and accounting management mechanisms.

6.2. Management and Supervision

- 6.2.1. In addition to the execution of internal control systems established by the Company, the Company's supervision of its affiliated enterprises shall also observe the following:
 - A. The Company shall, in proportion to its shareholding, secure an appropriate number of seats on the board of directors and supervisors of its affiliated enterprises.
 - B. Directors appointed by the Company to affiliated enterprises shall regularly attend board meetings, during which the management shall report on corporate objectives and strategies, financial conditions, business performance, cash flows, and major contracts, so as to oversee their operations. Any irregularities shall be investigated, documented, and reported to the Chairman or the President of the Company.
 - C. Supervisors appointed by the Company to affiliated enterprises shall oversee the execution of business operations, examine their financial and operational conditions, review account books, records, and audit reports, and may request the board of directors or managers of such enterprises to provide reports. Any irregularities shall be investigated, documented, and reported to the Chairman or the President of the Company.
 - D. The Company shall appoint suitable personnel to serve in key management positions in affiliated enterprises, such as General Manager, Chief Financial Officer, or Chief Internal Auditor, to ensure the fulfillment of management, decision-making, and supervisory responsibilities.
 - E. Considering each subsidiary's business nature, operational scale, and employee count, the Company shall guide subsidiaries to establish internal audit departments and procedures for self-assessment of internal control systems.
 - F. In addition to reviewing audit reports or self-assessment reports submitted by subsidiaries, the Company's internal auditors shall also conduct regular or ad hoc audits of subsidiaries. Findings and recommendations from such audits shall, after review, be communicated to the audited subsidiaries for improvement, and follow-up reports shall be periodically prepared to confirm timely implementation of corrective actions.
 - G. Subsidiaries shall, in accordance with the "Regulations for the Supervision and Management of Subsidiaries," submit their monthly financial information to the Company for analysis and review.

- 6.3. The Company's managerial officers shall not concurrently hold managerial positions in affiliated enterprises, nor engage in or operate, whether individually or jointly with others, any business of the same nature as that of the Company, except as otherwise resolved by the Board of Directors. The division of authority and responsibility in personnel management between the Company and its affiliated enterprises shall be clearly defined. Personnel exchanges shall be avoided; however, if support or transfer is deemed necessary, the scope of work, responsibilities, and cost allocation methods shall be clearly defined in advance.
- 6.4. The Company shall establish effective financial and business communication systems with all affiliated enterprises and conduct regular comprehensive risk assessments of counterparties such as banks, major customers, and suppliers to minimize credit risk. For affiliated enterprises with ongoing financial or business transactions, the Company shall closely monitor their significant financial and business activities to implement effective risk control.
- 6.5. Loans to Others and Endorsements/Guarantees
- 6.5.1. Loans to or endorsements/guarantees made between the Company and its affiliated enterprises shall be prudently evaluated and shall comply with the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies as well as the Company's own Procedures for Loaning of Funds to Others and Procedures for Endorsements and Guarantees.
- 6.5.2. Loans to or endorsements/guarantees for related parties shall be carefully reviewed in respect of the following matters, and the evaluation results shall be submitted to the Board of Directors. Loans shall be approved by the Board of Directors and may not be delegated to others. Endorsements or guarantees, however, may be authorized by the Board of Directors to the Chairperson within a specified limit, provided such actions are subsequently ratified by the next Board meeting.
- A. The necessity and reasonableness of the loan or endorsement/guarantee. For loans or guarantees arising from business transactions, the amount of the loan or guarantee shall be assessed for appropriateness relative to the business volume. If short-term financing is required, the reasons and specific circumstances shall be listed.
 - B. Credit investigation and risk assessment of the counterparty.
 - C. Impact on the Company's operational risks, financial condition, and shareholders' equity.
 - D. Whether collateral should be obtained, and the appraised value of such collateral.
- 6.5.3. For a subsidiary in which the Company directly or indirectly holds 90% or more of the voting shares, prior to providing an endorsement or guarantee pursuant to Article 5, Paragraph 2 of the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies, the case shall be submitted to the Company's Board of Directors for approval. However, this requirement does not apply to endorsements or guarantees between companies in which the Company directly or indirectly holds 100% of the voting shares.
- 6.5.4. Loans between the Company and its parent company or subsidiaries, or among its subsidiaries, shall be approved by the Board of Directors. The Board may authorize the Chairperson to lend to the same borrower within a specific amount and within a period not exceeding one year, to be disbursed or utilized on a revolving basis.

- 6.5.5. When making loans to or providing endorsements/guarantees for related parties, the opinions of independent directors shall be duly considered, and their explicit approvals, objections, and reasons for dissent shall be recorded in the minutes of the Board meeting.
- 6.5.6. Loans made among foreign companies in which the Company directly or indirectly holds 100% of the voting shares, for the purpose of short-term financing, shall not be subject to the limit of 40% of the lender's net worth. For endorsements/guarantees made between companies in which the Company holds more than 90% of the voting shares, the total amount shall not exceed 10% of the Company's net worth. However, this restriction shall not apply to endorsements or guarantees between companies wholly owned (100%) by the Company.
- 6.5.7. Follow-up control measures shall be implemented for loans or guarantees. In the event of overdue claims or potential losses, appropriate protective measures shall be adopted to safeguard the Company's rights and interests.

6.6. Transactions Involving Purchases, Sales, and Services

- 6.6.1. In business dealings between the Company and related parties, pricing terms and payment conditions shall be clearly defined. The purpose, price, terms, substance, and form of the transaction, as well as related handling procedures, shall not significantly deviate from or be less reasonable than normal transactions with non-related parties.
- 6.6.2. When purchasing finished goods, semi-finished goods, or raw materials from related parties, procurement personnel shall evaluate the reasonableness of the quoted prices based on market prices and other trading terms. Except under special circumstances or when preferential terms are justifiably agreed upon, prices and payment terms shall be consistent with those applied to general suppliers.
- 6.6.3. When selling finished goods, semi-finished goods, or raw materials to related parties, pricing shall reference prevailing market prices. Except for long-term cooperation or other justified circumstances where preferential terms may be reasonably agreed upon, other prices and collection terms shall be comparable to those offered to general customers.
- 6.6.4. For transactions involving services or technical assistance between the Company and related parties, a written agreement shall be executed specifying service content, service fees, duration, payment terms, and after-sales services. The contract shall be approved by the President or Chairperson, and all provisions shall comply with normal commercial practices.
- 6.6.5. The accounting departments of the Company and its related parties shall, before the end of each month, reconcile the previous month's purchases, sales, receivables, and payables. Any discrepancies shall be investigated, and reconciliation statements shall be prepared.
- 6.6.6. If the annual transaction amount for purchases, sales, or service/technical transactions with related parties is expected to reach 5% or more of the Company's most recent consolidated total assets or consolidated net operating revenue, the following information shall be submitted to the Board of Directors for approval prior to the transaction, except for cases governed by the Regulations Governing the Acquisition or Disposal of Assets by Public Companies, or transactions between the Company and its parent or subsidiaries, or among subsidiaries:
 - A. Items, purpose, necessity, and expected benefits of the transaction.
 - B. Reasons for selecting the related party as the counterparty.

- C. Pricing principles and the upper limit of the estimated annual transaction amount.
 - D. Explanation of whether the transaction terms conform to normal commercial practices and do not impair the interests of the Company or its shareholders.
 - E. Restrictions and other material terms of the transaction.
- 6.6.7. For the aforementioned transactions, the following information shall be reported to the next shareholders' meeting after the end of the fiscal year:
- A. Actual transaction amounts and terms.
 - B. Whether the transaction was conducted in accordance with the pricing principles approved by the Board.
 - C. Whether the actual transaction amount exceeded the annual cap approved by the Board. If exceeded, reasons, necessity, and reasonableness shall be explained.

6.7. Acquisition or Disposal of Assets

- 6.7.1. Transactions between the Company and related parties involving asset transfers, derivative instruments, mergers, demergers, acquisitions, or share transfers shall comply with the Regulations Governing the Acquisition or Disposal of Assets by Public Companies and the Company's Procedures for the Acquisition or Disposal of Assets.
- 6.7.2. When acquiring or disposing of securities from or to related parties, or acquiring securities of related enterprises, the Company shall obtain the most recent audited or reviewed financial statements of the target company prior to the transaction as a reference for evaluating the transaction price. If the transaction amount equals or exceeds 20% of the Company's paid-in capital, 10% of total assets, or NT\$300 million, a CPA shall be engaged to provide an opinion on the reasonableness of the transaction price before the transaction date. However, this requirement does not apply if the securities have an active market quotation or if otherwise stipulated by the Financial Supervisory Commission (FSC).
- 6.7.3. When acquiring or disposing of intangible assets, right-of-use assets, or membership rights from or to related parties, and the transaction amount equals or exceeds 20% of the Company's paid-in capital, 10% of total assets, or NT\$300 million, a CPA shall be engaged to issue an opinion on the reasonableness of the transaction price before the transaction date.

6.8. Acquisition or Disposal of Real Estate or Right-of-Use Assets

- 6.8.1. When the Company acquires or disposes of real estate or right-of-use assets from or to related parties, or acquires/disposes of other assets from or to related enterprises where the transaction amount equals or exceeds 20% of the Company's paid-in capital, 10% of total assets, or NT\$300 million, except for purchases or sales of government bonds, repurchase/reverse repurchase bonds, or subscriptions/redemptions of money market funds issued by domestic securities investment trust enterprises, the following documents shall be submitted to the Board of Directors for approval and to the Audit Committee for acknowledgment prior to signing the transaction contract and making any payment:
 - A. Appraisal report issued by a qualified professional appraiser, or an accountant's opinion.
 - B. Purpose, necessity, and expected benefits of the acquisition or disposal.
 - C. Reasons for selecting the related enterprise as the counterparty.

- D. Evaluation materials assessing the reasonableness of the proposed transaction terms pursuant to Articles 16 and 17 of the Regulations Governing the Acquisition or Disposal of Assets by Public Companies.
 - E. The date and price at which the related party originally acquired the asset, the counterparty in that transaction, and the relationship among the parties involved.
 - F. Cash flow forecasts for each month within one year from the anticipated contract month, assessing the necessity of the transaction and the reasonableness of the fund utilization.
 - G. Restrictions and other material terms of the transaction.
 - H. An accountant's opinion on whether the related-party transaction conforms to general commercial practices and does not impair the interests of the Company or its minority shareholders.
- 6.8.2. For transactions mentioned in the preceding paragraph involving real estate, equipment, or right-of-use assets with a transaction amount equal to or exceeding 20% of paid-in capital, 10% of total assets, or NT\$300 million, an appraisal report shall be obtained. If the appraisal result differs from the transaction amount by 20% or more, a CPA shall be engaged to provide a specific opinion on the reasons for the discrepancy and the appropriateness of the transaction price. Such transactions must be approved by the Board with attendance of at least two-thirds of directors and consent by a majority of those present.
- 6.8.3. If the actual transaction price for acquiring real estate or right-of-use assets from related parties is higher than the evaluated transaction cost, and no objective evidence or reasonable CPA/appraiser opinions can justify the difference, the Board shall fully assess whether the transaction harms the Company or shareholders' rights. When necessary, the transaction shall be rejected, and the Audit Committee shall exercise its authority to request the Board to cease the transaction.
- 6.8.4. If the Board and Audit Committee approve the transaction as stated above, the difference between the transaction price and the evaluated cost shall be appropriated as a special reserve that may not be distributed or converted into capital stock. The handling of the transaction shall be reported to the shareholders' meeting and fully disclosed in the annual report and prospectus.
- 6.8.5. For related-party transactions under the preceding paragraph, even after Board approval, the items listed in Paragraph 1 shall still be submitted to the shareholders' meeting for approval, and shareholders with personal interests in the transaction shall abstain from voting, in the following cases:
- A. When the Company or its non-public subsidiary engages in a transaction under Paragraph 1, and the transaction amount equals or exceeds 10% of the Company's total assets.
 - B. When, pursuant to the Company Act, the Articles of Incorporation, or internal procedures, the transaction amount or conditions have a material impact on the Company's operations or shareholders' equity.
- 6.8.6. For transactions mentioned in Paragraph 1, the actual transaction status (including amount, terms, and items listed therein) shall be reported to the next shareholders' meeting after the end of the fiscal year.
- 6.8.7. For companies that have established an Audit Committee, any matters requiring the Audit Committee's acknowledgment under this Article shall be approved by at least one-half of all members of the Audit Committee before being submitted to the Board of Directors for

resolution, in accordance with Paragraphs 4 and 5 of Article 6 of the Regulations Governing the Acquisition or Disposal of Assets by Public Companies.

6.9. Notes on Financial and Business Transactions

- 6.9.1. Financial and business transactions between the Company and related parties that require a resolution of the Board of Directors shall take into full consideration the opinions of independent directors. The specific opinions of consent or objection by independent directors, along with the reasons for objection, shall be clearly recorded in the meeting minutes.
- 6.9.2. Any director who has a personal interest or represents a legal person having an interest in a matter under discussion that may be detrimental to the Company's interests shall voluntarily abstain from participating in the discussion and voting on such matter, and shall not act as a proxy for other directors in exercising their voting rights. Directors shall exercise self-discipline and shall not inappropriately support one another.
- 6.9.3. Where a director's spouse, a relative within the second degree of kinship, or any company having a controlling or subordinate relationship with the director has an interest in the matter referred to in the preceding paragraph, the director shall be deemed to have a personal interest in that matter.
- 6.9.4. If the Audit Committee discovers that the Board of Directors or any director has acted in violation of laws, the Articles of Incorporation, or resolutions of the shareholders' meeting, it shall immediately notify the Board or the director to cease such conduct, and shall take appropriate measures to prevent further wrongdoing. When necessary, the Audit Committee shall report the matter to the competent authorities or relevant agencies.

6.10. Public Disclosure and Reporting

- 6.10.1. The Company shall comply with statutory requirements regarding public announcements or reporting matters and their respective deadlines, and shall ensure that subsidiaries provide the necessary financial and business information in a timely manner, or engage certified public accountants to audit or review the financial reports of subsidiaries.
- 6.10.2. In accordance with the statutory deadline for the Company's annual financial report filing, the Company shall disclose the consolidated balance sheet and consolidated statement of comprehensive income of related enterprises, together with the CPA's review report. In the event of any changes in related enterprises, the Company shall report such changes to the Taiwan Stock Exchange or the Taipei Exchange within two (2) days of the change.
- 6.10.3. Significant transactions between the Company and related parties shall be fully disclosed in the annual report, financial statements, "Three Statements" of related enterprises, and the prospectus.
- 6.10.4. In the event that a related party experiences financial difficulties or liquidity problems, the Company shall obtain the related party's financial statements and relevant information to assess the potential impact on the Company's financial position, business operations, or performance. When necessary, the Company shall take appropriate measures to safeguard its claims. Such circumstances and their impact on the Company's financial condition shall be disclosed in the annual report and prospectus, and material information shall be promptly announced on the Market Observation Post System (MOPS).

6.11. Public Disclosure and Reporting on Behalf of Related Enterprises

6.11.1. The Company shall make public announcements and filings on behalf of its related enterprises under any of the following circumstances:

- A. When a subsidiary whose shares are not publicly issued in Taiwan acquires or disposes of assets, provides endorsements or guarantees, or extends loans to others in amounts reaching the disclosure thresholds.
- B. When the parent company or any subsidiary initiates bankruptcy or reorganization proceedings in accordance with applicable laws.
- C. When a related enterprise adopts, by resolution of its board of directors, a material decision that may significantly affect the rights and interests of the Company's shareholders or the price of its securities.
- D. When a subsidiary of the Company is subject to material information disclosure requirements pursuant to the "Procedures for Verification and Public Disclosure of Material Information of Listed Companies" issued by the Taiwan Stock Exchange Corporation, or the corresponding "Procedures for Verification and Public Disclosure of Material Information of TPEx-listed Companies" promulgated by the Taipei Exchange.

7. Attachments (Forms / Flowcharts / Others)

None.

8. Implementation and Amendment

This Operational Procedure shall take effect upon approval by the Board of Directors. Amendments shall follow the same procedure.