

VSO ELECTRONICS CO., LTD.

Procedures for Loaning Funds to Others

(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.)

Article 1: Purpose

To establish guidelines and manage risks associated with loaning funds to others by the company and its subsidiaries, this procedure is formulated.

Article 2: Legal Basis

This procedure is established based on the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies.”

Article 3: Definitions

The terms used in this procedure are defined as follows:

1. **Short-term:** Refers to a period of one year. For companies with an operating cycle longer than one year, the operating cycle will apply.
2. **Subsidiary and Parent Company:** Shall be determined in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.
3. **Net Worth:** Refers to the equity attributable to owners of the parent company as specified in the balance sheet under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.
4. **Public Announcement and Reporting:** Refers to entering information on the reporting website designated by the Financial Supervisory Commission (FSC).
5. **Date of Occurrence:** Refers to the earliest of the contract signing date, payment date, board resolution date, or any other date that confirms the counterparty and amount of the endorsement/guarantee.

Article 4: Loan Recipients

In accordance with Article 15 of the Company Act, the company’s funds shall not be loaned to shareholders or any other individuals except under the following conditions:

1. Where there is a business relationship between the company and the recipient.
2. Where there is a need for short-term financing between the company and another company or firm, and the financing amount does not exceed 40% of the net worth of the lending enterprise.

3. The aforementioned "need" is limited to the following situations:
 - (1) Where the borrowing entity is a company in which the company directly or indirectly holds more than 50% of the voting shares or has substantial control, and there is a business need for short-term financing.
 - (2) Where another company or firm requires short-term financing for purchasing materials or operational turnover.

The cumulative balance of short-term financing mentioned in Subparagraph 2 above refers to the total outstanding short-term loans by the company.

Where the company directly or indirectly holds 100% of the voting shares of foreign companies engaged in intercompany lending, or where such wholly-owned foreign subsidiaries lend funds to the company, these activities are not subject to the restrictions outlined in Paragraph 1, Subparagraph 2. The total amount of funds loaned under such arrangements shall not exceed 100% of the company's net worth, and the limit for loans to any single entity shall not exceed 50% of the company's net worth. The maximum loan period is three years, after which a new application must be submitted, and such loans are not subject to the restrictions in Articles 5 and 6.

If the company's responsible persons violate the provisions of Paragraph 1, they shall bear joint and several liability with the borrower for repayment. If the company incurs damages as a result, the responsible persons shall also be liable for compensation.

Article 5: Total Loan Amount and Individual Limits

1. The total amount of loans extended by the company shall not exceed 40% of the company's net worth.
2. For companies or firms with a business relationship with the company, the amount loaned to an individual entity shall not exceed 50% of the highest purchase or sales amount between the two parties in the most recent fiscal year. The term "business relationship" refers to the higher amount between the two parties' purchase or sales transactions.
3. For companies or firms requiring short-term financing, the amount loaned to an individual entity shall not exceed 40% of the company's net worth, based on the most recent financial statements audited or reviewed by a CPA.

Article 6: Loan Period, Interest Calculation, and Payment

1. The loan period for each loan shall not exceed one year or one operating cycle, whichever is longer, from the date the funds are loaned.

2. The loan interest rate shall be calculated annually and shall not be lower than the basic interest rate for short-term loans at the Bank of Taiwan on the date of loan issuance, plus 1%, or the company's current cost of funds, whichever is higher.
3. Interest is calculated daily. The daily loan balance is multiplied by the annual interest rate and then divided by 365 days to determine the daily interest amount.
4. Unless otherwise specified, loan interest shall, in principle, be paid monthly. Borrowers shall remit payments within one week from the agreed-upon interest payment date upon receiving a notification.
5. For loans made under Paragraphs 1 and 3 of Article 4, interest shall be paid annually, in principle, but must not exceed the short-term financing period.

Article 7: Application and Review Process for Loans

The application and review procedures for loaning funds are as follows:

1. Application Submission:

Borrowers must submit the required company and financial documents, along with a completed **Loan Application Form** that specifies the purpose of the funds, loan period, and amount. The form shall be submitted to the company's finance and accounting department to apply for a financing quota.

2. Evaluation by Finance and Accounting Department:

Upon receiving the application, the finance and accounting department shall evaluate the following aspects to confirm the necessity of the loan and the borrower's repayment capacity. If lending is deemed appropriate, the department shall draft a loan proposal, specifying lending conditions, and submit it for approval in accordance with Article 8. The evaluation shall include:

- (1) The necessity and reasonableness of loaning funds.
- (2) Credit evaluation and risk assessment of the borrower.
- (3) The impact on the company's operational risk, financial condition, and shareholder equity.
- (4) Whether collateral is required and the assessed value of such collateral.

3. Loan Recordkeeping:

The company shall maintain a **Loan Register** to document the following details:

- Borrower identity
- Loan amount
- Date of board approval
- Loan issuance date
- Repayment date
- Repayment plan

- Evaluation details as outlined in Item 2 above

4. Collateral Management:

If the borrower provides collateral, the company must establish a pledge or mortgage and secure insurance for the collateral.

- (1) For loans to entities other than subsidiaries where the company directly or indirectly holds more than 50% of the voting shares, borrowers shall provide equivalent collateral such as promissory notes, guarantees, or tangible/intangible assets (including real estate, movable property, or intellectual property). Alternatively, a guarantor with sufficient financial strength and credit may be provided.
- (2) Collateral must be properly pledged or mortgaged. Except for land and securities, all collateral must be insured, with the company named as the beneficiary. The insurance coverage period must include the entire loan duration.
- (3) If a company is the guarantor, its articles of incorporation must explicitly allow for guarantees.

5. Execution of Loan Agreements:

After loan approval, the borrower must sign a loan agreement or promissory note within the specified timeframe. The agreement or note shall include:

- Loan amount
- Loan period
- Interest rate
- Collateral and guarantor details

6. Disbursement of Funds:

After completing the formalities in Items 4 and 5 above, and ensuring the accuracy of all related procedures, the borrower may apply to the company's finance and accounting department for disbursement of the approved funds.

Article 8: Decision-Making and Authorization Levels

1. Approval Process:

The company shall prudently evaluate whether the proposed loan complies with the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" and this procedure. Along with the review findings outlined in Article 7, Paragraph 2, the loan shall be submitted for approval by the chairperson and for resolution by the board of directors. No other individual may be authorized to make such decisions.

2. Loans Between the Company and Subsidiaries, or Between Subsidiaries:

For intercompany loans, the above approval process shall apply. The board of directors may authorize the chairperson to disburse or revolve the loan within a specified amount and time limit (not exceeding one year) for a single borrower.

3. Authorized Loan Limits:

Unless the loan complies with Paragraph 3 of Article 4, the authorized loan limit for a single entity shall not exceed 10% of the net worth of the lending company, based on the most recent financial statements audited or reviewed by a CPA.

4. Consideration of Independent Directors' Opinions:

During board discussions of loans to others, the company shall give full consideration to the opinions of independent directors. The board meeting minutes shall clearly record any dissenting or supporting opinions of independent directors, along with their reasons for dissent, if applicable.

Article 9: Post-loan Monitoring and Overdue Debt Handling

1. Monitoring Loan Performance:

After disbursing the loan, the company shall periodically obtain the financial reports or financial status of the borrower and guarantor to understand their operational and credit conditions. If collateral is provided, its value shall be monitored for any significant changes. In the event of major changes, the general manager and chairperson shall be immediately informed, and appropriate measures shall be taken as directed.

2. Repayment Upon Maturity or Early Settlement:

When the borrower repays the loan at maturity or settles it early, the amount due (including principal and interest) must be fully cleared before promissory notes, collateral, or other loan-related instruments can be returned or the mortgage rights canceled.

3. Non-compliance with Regulations:

If changes in circumstances render the loan recipient non-compliant with this procedure, or if the total loan amount exceeds the prescribed limit due to changes in the basis for calculating the limit, the company shall formulate a rectification plan. The excess amount or non-compliant loan must be rectified by the end of the contract term or within a specified period. The rectification plan shall be reported to the supervisors and implemented according to the planned timeline.

4. Handling Overdue Loans:

If the borrower fails to repay the loan upon maturity, they must request an extension in advance, subject to board approval. Each extension shall not exceed three months and is limited to one extension per loan. If the borrower violates these terms, the company shall immediately proceed to liquidate the collateral, promissory notes, guarantees, or guarantors through legal means for recovery.

Article 10: Control Procedures for Subsidiaries Loaning Funds to Others

1. Establishing Procedures:

If a subsidiary needs to loan funds to others due to operational requirements, the subsidiary shall formulate its own "Procedures for Loaning Funds to Others" in accordance with relevant laws and regulations. These procedures must be approved by the subsidiary's board of directors and shareholders' meeting, submitted to the company for record-keeping, and implemented accordingly.

2. Application of Parent Company Procedures:

If a subsidiary has not yet established its own procedures, only subsidiaries in which the company directly or indirectly holds 100% of the voting shares may loan funds to others. Such subsidiaries shall adhere to the parent company's procedures for loaning funds, with the following adjustment:

- The net worth calculation shall be based on the subsidiary's most recent financial statements audited or reviewed by a CPA or its net worth as reported in the most recent consolidated financial statements audited or reviewed by a CPA, whichever is more recent.

3. Approval by the Parent Company:

When a subsidiary plans to loan funds to others, the parent company's finance and accounting department and designated personnel appointed by the chairperson shall conduct a comprehensive evaluation of the necessity, reasonableness, risks, and impacts on the operational and financial conditions of both the parent and subsidiary companies, as well as shareholder equity. The evaluation shall be submitted to the chairperson for approval.

4. Monthly Reporting to the Parent Company:

Each subsidiary shall report the loan amounts, recipients, terms, and other relevant details for the previous month to the parent company by the 5th of each month. This ensures compliance with the public announcement and reporting requirements outlined in Article 11.

5. Evaluation of Loan Management:

The finance and accounting department shall regularly evaluate the loan performance of subsidiaries and review their measures for controlling overdue debts to ensure appropriateness.

Article 11: Information Disclosure and Public Announcement Requirements

1. Monthly Reporting:

By the 10th of each month, the company shall publicly announce and report the loan balances of the company and its subsidiaries as of the end of the previous month.

2. Trigger for Immediate Public Announcement:

A public announcement shall be made within two days from the date of occurrence if any of the following conditions are met:

- (1) The total loan balance of the company and its subsidiaries to others exceeds 20% of the company's net worth, based on the most recent financial statements audited or reviewed by a CPA.
- (2) The total loan balance of the company and its subsidiaries to a single entity exceeds 10% of the company's net worth, based on the most recent financial statements audited or reviewed by a CPA.
- (3) The newly loaned amount by the company or its subsidiaries exceeds NT\$10 million and exceeds 2% of the company's net worth, based on the most recent financial statements audited or reviewed by a CPA.

3. Non-public Subsidiaries:

For subsidiaries that are not public companies in Taiwan, the parent company shall handle the public announcements and reporting requirements for the aforementioned conditions on their behalf.

4. Accounting and Reporting Obligations:

The finance and accounting department shall evaluate the loan performance, set aside adequate allowances for bad debts, and appropriately disclose relevant information in the financial reports. All necessary information shall be provided to the auditing CPA for review.

Article 12: Internal Audit

1. Audit Procedures:

The company's internal auditors shall audit the procedures and execution of fund loans to others at least once every quarter and prepare written records. If any significant violations are discovered, the internal auditors shall immediately issue a written notice to all supervisors.

2. Subsidiary Audits:

Internal auditors of the company's subsidiaries shall also audit the execution of fund loans to others at least quarterly and prepare written records. If significant violations are found, they shall immediately notify the company's audit department in writing. The company's audit department shall forward the relevant written materials to the supervisors.

Article 13: Applicability for Companies with Audit Committees

1. If the company has replaced its supervisors with an audit committee, the provisions in Article 9, Paragraph 3, Article 12, and Article 15, Paragraph 1 concerning supervisors shall apply to the independent directors of the audit committee.
2. Loans to others by the company must be approved by at least half of the members of the audit committee and then resolved by the board of directors.

3. If the loan is not approved by at least half of the audit committee members, it may still be approved by at least two-thirds of the entire board of directors. In such cases, the resolution of the audit committee shall be recorded in the board meeting minutes.
4. The term “all members of the audit committee” and “all directors” refer to the actual number of members currently in office.

Article 14: Penalties

1. **Responsibility for Violations:**

Managers and personnel responsible for handling fund loans to others who violate this procedure and cause harm to the company’s interests shall be subject to penalties or reassignment according to the company’s personnel management regulations.

2. **Compensation for Losses:**

If the company suffers losses due to such violations, the responsible personnel shall also be held liable for compensation.

Article 15: Implementation and Amendments

1. **Approval Process:**

This procedure shall take effect after being approved by the board of directors, submitted to all supervisors, and presented to the shareholders’ meeting for ratification. If any directors express objections with recorded or written statements, the company shall forward the objections to the supervisors and present them to the shareholders’ meeting for discussion. Amendments to this procedure shall follow the same process.

2. **Consideration of Independent Directors’ Opinions:**

If the company has independent directors, their opinions shall be fully considered when submitting this procedure to the board of directors for discussion. Any objections or reservations from independent directors shall be recorded in the board meeting minutes.

3. **Applicability to Audit Committees:**

For companies with audit committees, the provisions in Article 13 shall apply to the formulation or amendment of this procedure, and the above requirements shall not apply.