

Darfon Electronics Corp.

Rules Governing Financial and Business Matters between the Company and its Related Parties

Article 1:

To ensure sound financial and business interactions between the Company and its related parties and to prevent non arm's-length transactions and improper channeling of interests with respect to the purchase and sale of goods, the acquisition and disposal of assets, the provision of endorsements and guarantees, the loans of funds between the Company and its related parties, these Rules are adopted pursuant to Article 17 of the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

Article 2:

Except as otherwise provided by law and regulation or by the Articles of Incorporation, financial and business matters between the Company and any of its related parties shall be handled in accordance with the provisions of these Rules.

Article 3:

The term "related parties" as used and herein shall be identified in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

The term "affiliated enterprise" as used herein means an enterprise that, in accordance with Article 369-1 of the Company Act, exists independently and has either of the following relationships with the Company:

1. A relationship of control or subordination.
2. A relationship of mutual investment. In determining whether a relationship of control or subordination under the preceding subparagraph exists, the substance of the relationship shall be considered in addition to the legal form.

Article 4:

The Company shall take into consideration the overall operational activities of itself and establish an effective internal control system for transactions with related parties (including affiliated enterprise) and continue to review the system in order to adapt to changes in the internal and external environment and ensure that the system's design and operation remain effective.

The Company shall ensure that any subsidiary develops an effective internal control system, taking into account the laws and regulations of the jurisdiction in which the subsidiary is located and the nature of its operations. For any affiliated enterprise that is not a public company, the Company shall still, in consideration of the degree of influence it has on the Company's business and finances, require that it develop effective systems for internal control and for managing financial, business, and accounting matters.

Article 5:

In addition to implementing the adopted internal control system, the Company shall pay close attention to the following matters when exercising supervision over the operation and management of its affiliated enterprises:

1. The Company shall obtain an appropriated number of director and supervisor seats in the affiliated enterprise in accordance with the percentage of the shares it holds.

2. A director that the Company assigns to an affiliated enterprise shall regularly attend the affiliate's board meetings, and in order to monitor its operation, shall carefully review its corporate objectives and strategy, financial position, business performance, cash flows, and important contracts, as reported by the various members of the affiliate enterprise's management. The director assigned to the affiliated enterprise shall ascertain the cause of any irregularity found, compile a record, and report the matter to the chairperson or general manager of the Company.
3. A supervisor assigned to an affiliated enterprise by the Company shall supervise the affiliate's business operations, if understand its financial and business conditions, and review its books, and may also request reports from the affiliate's Board of Directors or managerial officers. For any irregularity that may be found, the supervisor assigned to the affiliate shall ascertain the cause, compile a record, and report to the chairperson or general manager of the Company.
4. The Company shall assign competent personnel to assume important positions at its affiliated enterprise, such general manager, financial officer, or internal audit office, in order to assume the duties and responsibilities of management, decision-making, and supervision and evaluation.
5. The Company, in consideration of the type of business, scale of operations, and number of personnel of a subsidiary, shall instruct the subsidiary in the procedures and methods for establishing an internal audit unit and adopting internal control system self-inspection operations.
6. In addition to reviewing the audit reports or self-inspection reports submitted by each subsidiary, the internal audit personnel of the Company must also carry out audits of the subsidiaries on a scheduled or unscheduled basis. After audit findings and recommendations have been presented, they shall instruct the audited subsidiaries to make necessary corrections, and shall prepared follow-up reports on a regular basis to ensure that the subsidiaries have taken appropriate corrective measures in a timely manner.
7. Subsidiaries of the Company shall regularly submit financial statements, such as balance sheets, income statements, statements of expenses, statement of cash flow and cash flow forecasts, accounts receivable aging schedules and statements of delinquent accounts receivable, aging inventory analyses, and statements of loans to others endorsements/guarantees. If there is a major abnormality, the cause should be found out and reported to the chairman, manager or CFO of the Company, so that the Company can control it.

Article 6:

A managerial officer of the Company may not concurrently serve as a managerial officer of any affiliated enterprise of the Company, either on the officer's own behalf or with another party, unless otherwise concurrently serve as a subsidiary manager, or participate in the operation of the subsidiary business, or approved by a resolution of the Board of Directors. The division of powers and responsibilities between the Company and its affiliated enterprises with respect to personnel management shall be clearly identified, and personnel transfers between the two shall be avoided. However, where personnel support or transfer is indeed necessary, the scope of work, division of powers and responsibilities, and allocation of costs shall be specified in advance.

Article 7:

The Company shall establish an effective system of communication with each affiliated enterprise with respect to financial and business matters, and to mitigate credit risks, shall conduct comprehensive risk assessments of their principle banks, principal clients, and principal suppliers. With respect to an affiliated enterprise with which it has financial and

business interactions, the Company shall especially maintain close control over material financial and business items for the purpose of risk management.

Article 8:

Any loans or endorsements/guarantees between the Company and related parties shall be carefully assessed and carried out in compliance with the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies and with the procedures prescribed by the Company regarding loaning of funds to others and endorsements/guarantees.

With respect to the provision of loans, endorsements, or guarantees between the Company and related parties, the matters set out in the preceding paragraph, and results of the assessment submitted to the Board of Directors.

Article 9:

Price terms and payment methods shall be expressly stipulated for any business interaction between the Company and any related parties. The purpose, pricing, and terms of a transaction, and its formal and substantive nature and the related handling procedures, shall not differ markedly from those of a normal transaction with a non-related party, nor may they be obviously unreasonable.

When business needs require the purchase of finished products, semi-finished products, or materials from related parties, purchasing personnel shall thoroughly evaluate the reasonableness of the price quoted by the related parties based on market prices and other transaction terms and conditions. Except in special circumstances, or given advantageous conditions that differ from those of ordinary suppliers, under which the granting of preferential pricing or terms of payment can be reasonably stipulated, any other prices and payment terms shall be commensurate with those offered to ordinary suppliers.

Price quoted for the sale of any finished products, semi-finished products, or materials to related parties shall be made with reference to current market prices. Except in cases of long-term cooperation or other to special factors that are different from ordinary clients, under which reasonable stipulations may be made to grant preferential pricing or terms of payment, any other prices and payment terms shall be commensurate with those offered to ordinary clients.

For professional or technical services provided between the Company and related parties, both parties shall enter into a contract stipulating the scope of the services, fees charged, time period, payment terms, and after-sales service. The contract shall be implemented after approval by the manager of approval authority of the Company, and all contract terms and conditions shall comply with normal business practice.

The accounting personnel of both the Company and its related parties shall perform cross checks of the purchases and sales of goods between them regularly and the related balances of accounts payable and receivable. If any discrepancies are found, accounting personnel shall identify the cause and prepare a reconciliation statement.

Article 10:

The Company purchases and sells goods, conducts labor or technical service transactions with related parties, and the estimated annual transaction amount reaches 10% of the Company's latest consolidated total assets or the most recent year's consolidated net operating income, unless the applicable Regulations Governing the Acquisition and Disposal of Assets by Public Companies or the Company and its parent company, subsidiaries, or transactions between subsidiaries, the following materials should be submitted to the Board of Directors for approval before the transaction can be carried out:

1. Items, purpose, necessity and expected benefits of the transaction.
2. Reasons for selecting related parties as transaction counterparties.

3. The calculation principle of the transaction price and the upper limit of the expected annual transaction amount.
4. A statement on whether the transaction conditions conform to normal commercial terms and do not damage the interests of the Company and shareholders.
5. Transaction restricts and other important agreements.

For transactions with related parties referred to in the preceding paragraph, which is approved by Board of Directors, the following matters shall be submitted and report to the most recent shareholders' meeting after the end of the year:

1. The actual transaction amount and conditions.
2. Whether it is handled in accordance with the transaction price calculation principles approved by the Board of Directors.
3. Whether the annual transaction amount upper limit approved by the Board of Directors has not been exceeded. If the upper limit of the transaction amount has been exceeded, the reasons, necessity and rationality shall be explained.

Article 11:

With respect to any financial or business interaction between the Company and any affiliated enterprise that requires a resolution of the Board of Directors, full consideration shall be given to each independent director's opinion. Specific opinions by independent directors expressing asset or dissent, and the reasons for dissent, shall be included in the minutes of board meetings.

When a director is an interested party with respect to a particular agenda item, that director shall enter into recusal and may neither vote on that item nor exercise voting rights as proxy for another director. Directors shall maintain self-discipline among themselves and may not enter into relationships of inappropriate mutual support with other directors.

If a director's spouse, second degree of blood relative, or accompany with which the director has controlling affiliation relationship has an interest in the matters of the preceding meeting, it shall be deemed that the director has his own interest in the matter.

Upon discovering that, in the course of their duties, the Board of Directors or a director has committed a violation of law or regulation, the articles of incorporation, or a shareholders meeting resolution, the Audit Committee shall immediately notify the Board of Directors or the individual director to cease the misconduct, and shall take appropriate measures to curb expansion of the misconduct. When necessary, the Audit Committee shall also file a report with the relevant regulatory authority or agency.

Article 12

Any asset transaction, derivative trading, merger, demerger, acquisition, or share transfer between the Company and a related party shall be conducted in accordance with the Handling Procedures for Acquisition or Disposal of Assets by the Company.

If transactions with related parties that have a significant impact on the Company's operations or shareholders' equity, the Board of Directors shall thoroughly review the transaction and determine whether it may prejudice the rights and interests of the Company and shareholders according to the preceding Handling Procedures, and when necessary, shall refuse to enter into the transaction. The supervisors shall also exercise their supervisory powers in respect of such a transaction, and when necessary shall notify the Board of Directors to stop the transaction.

Article 13

The Company, in compliance with the requirements of laws and regulations regarding matters that must be publicity disclosed or filed and the deadlines for so doing, shall make timely arrangements for the provision by each subsidiary of required financial and business information, or to retain CPAs to audit or review the financial reports of each subsidiary.

The Company shall publicly disclose the consolidated balance sheets, consolidated statements of comprehensive income, and CPA review reports, covering affiliated enterprises by the deadlines for the filing of the annual financial reports under applicable laws and regulations. Information on any increase, decrease, or other change in affiliated enterprises shall be filed with the TWSE or GTSM within 2 days of the change.

Information on any material transaction between the Company and related parties shall be fully disclosed in accordance with the laws and regulations.

If the related parties experience financial difficulties, the Company shall obtain their financial statements and related materials in order to assess the resulting effect on the finances, business, or operations of the Company, and when necessary, appropriate conservatory measures shall be adopted to safeguard the Company's rights as a creditor. Under the above circumstances, in addition to specifying the resulting effect on the Company's financial position in its annual report and prospectus, the Company shall also make a timely announcement of material information on the Market Observation Post System (MOPS).

Article 14

When any of the following circumstances applies to an affiliated enterprise, the Company shall make a public disclosure and regulatory filing on its behalf:

1. For a subsidiary whose shares have not been publicly issued domestically, the dollar amount of the subsidiary's acquisition or disposal of assets, endorsements or guarantees for others, and loans of funds to others meets the criteria for public disclosure and regulatory filing.
2. The parent or the subsidiary undergoes bankruptcy or reorganization proceedings pursuant to applicable laws and regulations.
3. A major policy is adopted by resolution of the related parties' Board of Directors that has a material effect on the rights and interests of the shareholders or the securities prices of the Company.
4. Any matter regarding a subsidiary or the unlisted (neither TWSE nor GTSM listed) parent of the Company constitutes material information required to be announced under the provisions of the Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities and of the GreTai Securities Market Procedures for Verification and Disclosure of Material Information of Companies with GTSM Listed Securities.

Article 15:

These Rules, and any amendments hereto, shall be implemented after adoption by the Board of Directors.

The Rules Governing Financial and Business Matters between the Company and its Related Parties were enacted on May 3, 2023.