

# Phihong Technology Co., Ltd.

## Guidelines for Financial and Business Operations between Related Parties

### Purpose

To ensure proper financial and business interactions between our company, including its subsidiaries, and related parties, and to prevent irregular transactions or improper benefits in transactions such as purchasing and selling, acquiring and disposing of assets, endorsements and guarantees, and lending of funds, this operation guideline is established in accordance with Article 17 of the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

### Scope

Transactions with related parties or affiliated enterprises refer to the transfer of resources, services, or obligations between related parties or affiliated enterprises.

### Procedures for Transactions with Related Parties or Affiliated Enterprises

#### 1. Definition of Related Parties and Affiliated Enterprises:

##### - Related Parties:

The identification of related parties is based on IAS 24, the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," and the "Regulations Governing the Assessment of Non-Arm's Length Transfer Pricing."

- Any entity (including institutions and individuals) that has control over or significant influence on our company in terms of operational or financial policies is considered a related party. Entities controlled by the same person or company are also considered related parties. Common scenarios include but are not limited to:

1. Companies evaluated under the equity method.
2. Investors who evaluate our company under the equity method.
3. Companies where our chairman or general manager and another company's chairman or general manager are the same person or have a marital or second-degree kinship.
4. Foundations that receive donations exceeding one-third of their total funds from our company.
5. Directors, supervisors, general managers, deputy general managers, and direct subordinates to the general manager of our company.
6. Spouses of our company's directors, supervisors, and general managers.
7. Second-degree relatives of our chairman and general manager.
8. Related enterprises and their directors, supervisors, and managers as defined in Chapter 6-1 of the Company Act.
9. Companies or institutions listed as related enterprises in our public or printed information.
10. Other parties with substantial relationships.

##### - Affiliated Enterprises:

As defined in Chapter 6-1 of the Company Act, they include:

1. Companies with a controlling and subordinate relationship:
  - Companies with more than half of the same executive shareholders or directors.
  - Companies with more than half of the total issued voting shares or capital held by the same shareholders.

2. Companies with mutual investments where each party holds at least one-third of the voting shares or capital of the other.

When determining control and subordinate relationships, consider both legal form and substantial relationships, such as direct or indirect control over personnel, finance, or business operations.

## **2. Types of Transactions:**

- Purchase and sale of goods.
- Property transactions and investment transactions.
- Leasing and subleasing of real estate.
- Consignment and commission sales.
- Commissioned processing and payment of processing fees.
- Financial loans and interest payments.
- Endorsements and guarantees.
- Technical cooperation and transfer.
- Other transactions.

## **3. Transaction Terms:**

- Orders for sale and purchase with related parties should follow the relevant internal control procedures.
- Property disposal or long-term equity investment transactions must comply with the "Procedures for the Acquisition or Disposal of Assets."
- Leasing and subleasing real estate require reasonable lease contracts.
- Consignment and commission sales should be based on general commission calculations.
- Commissioned processing should be based on general processing plant calculations.
- Financial loans and interest payments should follow the "Procedures for Lending Funds to Others."
- Endorsements and guarantees should follow the "Procedures for Endorsements and Guarantees."
- Technical cooperation and transfer should be agreed upon by both parties.
- Other cases are handled individually.
- Major non-operational transactions with related parties, including directors, supervisors, major shareholders holding more than 10% shares, and their relatives up to the third degree of kinship, must be approved by the board of directors.

## **4. Management Unit:**

- Establish and periodically evaluate the list of related parties for disclosure in financial statements.

## **5. Management of Related Party Transactions:**

- Related party transactions involve the transfer of resources or obligations between the company and related parties, including purchase and sale of goods, asset transactions, equity investments, financial loans, endorsements and guarantees, and other transactions, regardless of whether there is consideration.
- The purpose, price, conditions, substance, and procedure of related party transactions should not differ significantly or unreasonably from those with non-related parties.
- For business dealings with affiliated enterprises, written norms should be established

following fair and reasonable principles. The contractual terms and payment methods should be clearly defined to avoid irregular transactions.

- Transactions or contracts with related parties and their shareholders should adhere to the same principles, prohibiting improper benefit transfers.
- If there are special factors or superior conditions compared to general suppliers, preferential prices or payment terms may be given. Otherwise, the prices and payment terms should be consistent with those for general suppliers.
- Related party transactions should follow the company's relevant procedures and regulations, with complete transaction records kept for reference.

#### **6. Reconciliation, Adjustment, and Settlement of Related Party Transactions:**

- The finance and accounting department should perform monthly reconciliations of related party transactions for the previous month, understand the reasons for any differences, and prepare adjustment statements.

#### **7. Management of Related Party Transaction Contracts:**

- Transactions with related parties should be documented in contracts approved by the responsible authorities. These contracts should adhere to general commercial norms and internal control procedures.
- Related party transaction contracts should be kept by the transaction authority.

#### **8. Disclosure and Reporting of Related Party Transactions:**

- Major transactions with related parties should be disclosed in the financial report notes according to IAS 24.

### **Guidelines for Financial and Business Operations between the Company and Affiliated Enterprises**

1. Transactions should adhere to these guidelines unless otherwise stipulated by laws or the company's articles of association.
2. The company should establish effective internal control systems and conduct regular reviews to ensure continuous effectiveness.
3. The company should obtain appropriate board seats in affiliated enterprises according to shareholding ratios.
4. Managers of the company should not concurrently serve as managers of related parties, nor engage in the same business as the company without board approval.
5. The company should establish an effective financial and business communication system with affiliated enterprises and conduct regular risk assessments.

#### **Addendum**

These guidelines are effective upon approval by the board of directors, and any amendments should follow the same procedure.

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