

# Kwong Fong Industries Corporation

## Rules Governing Financial and Business Matters between 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 business transactions and the acquisition or disposal of assets between the Company and its related parties, these Rules are adopted pursuant to Article 17 of the Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies.
- Article 2 Except as otherwise provided by laws and regulations, the Articles of Incorporation, Transaction Rules between the Company and Stakeholders, 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 related parties referred to in these Rules shall be identified in accordance with the Regulations Governing the Preparation of Financial Reports.
- For the purposes of this Code, the term "affiliated enterprise" refers to an enterprise that exists independently and has the relationship listed on the left in each other in accordance with the provisions of Article 369-1 of the Company Law:
1. A relationship of control or subordination.
  2. Companies that invest in each other. In determining whether a relationship of control or subordination under the preceding paragraphs exists, the substance of the relationship shall be considered in addition to the legal form.
- Article 4 The Company shall establish an effective internal control system for transactions with related parties (including affiliated enterprises), taking into account the Company's overall operating activities, and shall review the system from time to time in response to changes in the Company's internal and external environment to ensure that the system is designed and implemented in an effective manner.
- The Company shall ensure that any subsidiary develops an effective internal control system, taking into account the industry type of the subsidiary and the laws and regulations of the jurisdiction in which the subsidiary is located and the nature of its operations. For any related party 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 appropriate number of the seats of director of the board and supervisor in the affiliated enterprise in accordance with the

percentage of the shares it holds.

2. A director of the board 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 president of the Company.
3. A supervisor or independent director assigned to an affiliated enterprise by the Company shall supervise the affiliate's business operations, investigate its financial and business conditions, and review its books, records and audit reports, and may also request reports from the affiliate's board of directors or managerial officers. For any irregularity that may be found, the supervisor or independent director assigned to the affiliate shall ascertain the cause, compile a record, and report to the chairperson or president of the Company.
4. The Company shall assign competent personnel to assume important positions at its affiliated enterprise, such as president, financial officer, accounting officer, or internal audit officer, 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 the audit plan and the significant deficiencies and improvements mentioned in the internal audit report of the subsidiaries that have set up internal audit unit, the internal audit unit 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 any necessary corrections, and shall prepare 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 monthly financial statements for the preceding month (ex. before the 15th day of each month), including balance sheets, income statements, statements of expenses, and other relevant statements. In the event of irregularities, analysis reports shall also be submitted to allow management and control by the Company. Other affiliated enterprises shall also regularly submit financial statements for the preceding quarter (ex. before the 15th day of each quarter), including balance sheets and income statements, for analysis and review by the Company.

Article 6     The number of positions that a managerial officer of the Company may

concurrently hold in a reinvestment business and subsidiary company is limited to one, and a managerial officer shall not operate the same type of business as the Company, either on the officer's own behalf or with another party, unless the competition otherwise complies with the laws and regulations and is approved by the competent authority. 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 various risks, shall regularly conduct comprehensive risk assessments of their banks and principal clients. 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 The fund loan or endorsement guarantee between the Company and related parties shall be carefully evaluated and in accordance with the " Regulations Governing Lending of Funds and Making of Endorsements/Guarantees by Public Companies " and the operating Procedure for Lending Funds to Other Parties and or Guarantee procedures set by the Company, and shall be submitted to the Board of Directors in accordance with relevant regulations.
- Article 9 By the end of each month, the accounting personnel of both the Company and its related parties shall perform cross checks of the balances of accounts payable and receivable resulting from the transactions between each other for the preceding month. If any discrepancies are found, accounting personnel shall identify the cause and prepare a reconciliation statement.
- If the Company enters into a professional or technical service transaction with a related party and the transaction amount is expected to reach five percent (5%) of the Company's most recent consolidated total assets or most recent consolidated net operating revenues for the entire year, unless the Company's Procedures for the Acquisition or Disposal of Assets are applicable or the transaction is between the Company and its subsidiaries or between subsidiaries, the following information shall be submitted to the board of directors for approval before the transaction can take place:
1. Item, purpose, necessity, and expected benefits of the transaction.
  2. The reasons for selecting the related party as the trading counterparty.
  3. Principles for calculating the transaction price and the estimated maximum annual transaction amount.
  4. A description of whether the terms of the transaction are on normal commercial terms and not detrimental to the Company's interests and shareholders' rights.

5. Restrictions and other important provisions of the transaction.

For transactions with related parties referred to in the preceding paragraph, the following items shall be reported to the most recent shareholders meeting after the end of the year:

1. Actual transaction amount and terms.
2. Whether the transaction price is calculated in accordance with the principles approved by the board of directors.
3. Whether the annual transaction limit approved by the board of directors is not exceeded. If the maximum transaction amount has been exceeded, the reason, necessity, and reasonableness shall be stated.

Article 10 Any asset transaction, derivative trading, merger, demerger, acquisition, or share transfer between the Company and a related party shall be conducted in accordance with relevant laws and regulations, the provisions of the Company's Procedures for the Acquisition or Disposal of Assets.

Article 11 When the Company intends to conduct any acquisition or disposal of real property or its right-to-use assets from or to any of its related parties, or to conduct an acquisition or disposal of assets other than real property or its right-to-use assets from or to any of its related parties in which the transaction amount is twenty percent (20%) or more of the Company's paid-in capital, ten percent (10%) or more of its total assets, or NT\$300 million or more, with the exception of the purchase or sale of domestic government bonds, repo or reverse repo bond transactions, or subscription to or redemption of domestic money market funds, in accordance with the Company's Procedures for the Acquisition or Disposal of Assets, the information shall be submitted to the board of directors for approval before the transaction can take place.

Article 12 With respect to any financial or business interaction between the Company and any related party 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 assent or dissent, and the reasons for dissent, shall be included in the minutes of board meetings.

When a director or an institutional investor he or she represents is a stakeholder with respect to a particular agenda item of the board meeting, which may be detrimental to the interests of the Company, that director shall enter into recusal, shall not participate in the discussion and vote on that item, and shall not 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, family members and relatives within the second degree of kinship, or a company with which the director has a controlling relationship is interested in the particular agenda item of the board meeting referred to in the preceding paragraph, the director shall be deemed to have an interest in such matter.

- Article 13 The Company, in compliance with the requirements of laws and regulations regarding matters that must be publicly 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.
- Article 14 In the event that an affiliate of the Company has any of the following circumstances, the Company shall announce and report the relevant information on behalf of the Company:
1. If the amount of assets acquired or disposed of, endorsement guarantee and capital lending to others of a subsidiary whose shares are not publicly issued in Taiwan shall meets the standard declared in the announcement.
  2. Matters related to bankruptcy or reorganization proceedings carried out by the parent company or subsidiary in accordance with relevant laws and regulations.
  3. The major decisions made by the board of directors of the affiliated enterprise have a significant impact on the shareholders' equity or securities price of the company.
- Article 14 If the subsidiaries of the Company and the parent company of the unlisted OTC are in accordance with the requirements of the "Procedures for Verification and Public Handling of Material Information of Listed Companies on the Taiwan Stock Exchange" or the "Procedures for Verification and Public Handling of Material Information of OTC Companies on the OTC of the Republic of China Securities Trading Center".
- Article 15 These Rules, and any amendments hereto, shall be implemented after adoption by the board of directors.

Approved on November 10, 2023