

Desiccant Technology Co., Ltd.

Regulations on Financial and Business Operations Related to Affiliated Enterprises, Related Parties, Specific Companies, and Corporate Groups

1. Purpose

To ensure the independent financial and business operations of the company in relation to affiliated enterprises, related parties, specific companies, and companies within the same corporate group, this regulation is established in accordance with Article 8 of the Internal Control Processing Guidelines, Article 2 of the Supplemental Provisions for Corporate Groups Applying for OTC Listing at the Over-the-Counter Securities Exchange, and other relevant laws and regulations.

2. Definitions of Related Parties, Specific Companies, and Corporate Groups

The definitions of parent-subsidary companies, affiliated enterprises, related parties, specific companies, corporate groups, and associated enterprises in this regulation are based on:

- 2.1 Parent-Subsidiary Companies: Defined by International Financial Reporting Standard (IFRS) No. 10 "Consolidated Financial Statements."
- 2.2 Affiliated Enterprises: Defined by Article 369-1 of the Company Act and the "Regulations for the Preparation of Consolidated Business Reports, Consolidated Financial Statements, and Relationship Reports for Affiliated Enterprises."
- 2.3 Related Parties: Defined by Article 18 of the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and International Accounting Standard (IAS) No. 24 "Related Party Disclosures."
- 2.4 Specific Companies: Defined by Article 3 of the "Regulations Governing the Establishment of Independent Directors and Compliance Matters for Public Companies."
- 2.5 Corporate Groups: Defined by the "Supplemental Provisions for Corporate Groups Applying for OTC Listing" issued by the Taipei Exchange (TPEX).
- 2.6 Associated Enterprises: Defined by International Accounting Standard (IAS) No. 28 "Investments in Associates and Joint Ventures."

3. Definition of Affiliated Enterprises

Enterprises that exist independently but have any of the following relationships with the company shall be considered affiliated enterprises:

- 3.1 Companies that have a control-subordinate relationship.
- 3.2 Companies that have mutual investments.

4. Definition of Specific Companies

A company shall be considered a specific company of the company if it meets any of the following conditions:

- 4.1 Holds 20% or more (but less than 50%) of the company's issued shares.
- 4.2 The company, along with its directors, supervisors, and shareholders holding more than 10% of shares, collectively holds 30% or more of the company's issued shares, and there have been financial or business transactions between them. The shares held by these individuals include those held by their spouses, minor children, and those held under another person's name.
- 4.3 The company's operating revenue from this company and its corporate group accounts for 30% or more of its total revenue.
- 4.4 The company sources 50% or more of its key raw materials (constituting at least 30% of the total procurement amount and being essential for product manufacturing) or key products (accounting for at least 30% of total operating revenue) from this company and its corporate group.

5. Definition of Group Enterprises

Entities that meet any of the following criteria are considered group enterprises of the Company:

- 5.1 Parent and subsidiary companies, including their respective subsidiaries.
- 5.2 Companies where the Company directly or indirectly controls their personnel, financial, or business operations, or vice versa. "Direct or indirect control" includes:
 - 5.2.1 Holding more than half of the board seats of the other company.
 - 5.2.2 Appointing personnel as the general manager of the other company.
 - 5.2.3 Holding management rights through a joint venture agreement.
 - 5.2.4 Providing financing amounting to one-third or more of the other company's total assets.
 - 5.2.5 Providing guarantees amounting to one-third or more of the other company's total assets.
- 5.3 If the Company and another company each invest in each other and hold at least one-third or more of each other's voting shares or capital and mutually

control personnel, financial, or business operations.

- 5.4 If more than half of the Company's and another company's board members, supervisors, and general managers are the same individuals, including their spouses, children, or relatives within the second degree of kinship.
- 5.5 If more than half of the total voting shares or capital of the Company and another company are held by the same shareholders or investors.
- 5.6 If an investment company that adopts the equity method to evaluate its investment in the Company, together with its related parties, holds more than half of the Company's total voting shares, or if the Company and its related parties hold more than half of the total voting shares of an investment company that is evaluated using the equity method.
- 5.7 If any of the conditions in 5.2 to 5.6 exist but there is evidence proving that no control or subordinate relationship exists, this does not apply.

6. Regulations on Transactions

When the Company engages in transactions with affiliated enterprises, related parties, group enterprises, or specific companies due to business or environmental factors, the following rules shall be followed:

6.1 Transactions with Related Parties Include:

- 6.1.1 Financing and interest payments.
- 6.1.2 Endorsements and guarantees.
- 6.1.3 Procurement, sales, and provision of services.
- 6.1.4 Property transactions and long-term equity investments.
- 6.1.5 Leasing and subleasing of real estate.
- 6.1.6 Other transactions.

6.2 Financial Transactions:

- 6.2.1 Financing: Handled in accordance with the Company's "Procedures for Loaning Funds to Others."
- 6.2.2 Endorsements and guarantees: Handled in accordance with the Company's "Procedures for Endorsements and Guarantees."

6.3 Business Transactions:

- 6.3.1 Sales: Orders and receivables for sales to related parties shall be managed according to the Company's internal control system under the "Sales and Collection Cycle." Sales prices may be determined based on market conditions or the Company's pricing, with discounts allowed as necessary. If there is no market price or Company-set price, both parties shall determine it based on the principle of good faith. Additionally, transaction terms should be referenced against those for general

customers and follow good faith principles. "General customers" refer to those not falling under the definitions in Articles 2 to 5.

6.3.2 Purchases: Orders and payables for purchases from related parties shall be managed according to the Company's internal control system under the "Procurement and Payment Cycle." Purchase prices shall be determined based on general market conditions. If no market price is available, both parties shall determine it based on the principle of good faith. Transaction terms should also be referenced against those for general suppliers and follow good faith principles. "General suppliers" refer to those not falling under the definitions in Articles 2 to 5.

6.3.3 Major Transactions with Related Parties:

In addition to routine purchase and sales transactions, major transactions must be approved by the Board of Directors and reported at the next annual shareholders' meeting. If necessary, the Chairman may approve the transaction first, followed by Board ratification. "Major transactions" refer to transactions exceeding 5% of the Company's paid-in capital.

If transactions involving sales, labor services, or technical services with related parties are expected to reach 5% of the Company's most recent consolidated total assets or consolidated net revenue for the fiscal year, the transaction must be submitted the following information to the Board of Directors for approval before execution, unless it meets one of the following exceptions:

- It falls under the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies."
- It is a transaction between the Company and its parent or subsidiary, or between subsidiaries.

The information must be submitted to the Board for approval:

- (1.) The transaction item, purpose, necessity, and expected benefits.
- (2.) The reason for selecting the related party as the transaction counterparty.
- (3.) The pricing method and estimated annual transaction amount.
- (4.) Whether the transaction terms align with normal commercial terms and do not harm the Company's or shareholders' interests.
- (5.) Transaction restrictions and other significant contractual

terms.

If necessary, the Chairman may approve the transaction first, subject to later Board ratification. After the fiscal year-end, the following transaction details must be reported at the next shareholders' meeting:

- (1.) The actual transaction amount and terms.
- (2.) Whether the transaction adhered to the pricing principles approved by the Board.
- (3.) Whether the transaction amount exceeded the Board-approved annual limit. If it did, the reasons, necessity, and rationale must be explained.

6.3.4 Transactions involving significant assets or long-term equity investments must comply with the Company's "Procedures for Acquiring or Disposing of Assets." The transaction price shall be determined based on fair market value or an appraised valuation. If the transaction falls under Article 10.1.11 of the "Procedures for Acquiring or Disposing of Assets," it must be approved at a shareholders' meeting before signing contracts or making payments.

6.3.5 Lease agreements must be reasonably drafted, and rental calculations should follow general fair market prices.

6.3.6 Other Transactions:

- If the Company and a related party incur shared management or other expenses, the responsible department shall draft a cost allocation plan or specify an amount annually. Implementation shall follow approval by the Chairman.
- All transactions shall comply with the Company's internal control system and general business practices.

7. Exceptions for Subsidiaries

For subsidiaries in their early operational stages, the chairman may approve preferential pricing based on market competition and sales volume, provided the price is not lower than cost. The chairman may also extend payment periods appropriately.

8. Compliance with Laws

All financial and business transactions between the Company and related enterprises, related parties, and specific companies must comply with relevant regulations, including: :

8.3 Regulations on internal control systems.

- 8.4 Regulations on fund lending and endorsements/guarantees.
- 8.5 Regulations on asset acquisition and disposal.
- 8.6 Corporate governance guidelines for listed and OTC companies.
- 8.7 Other relevant disclosure and public reporting requirements.

9. Implementation

This procedure is implemented upon approval by the General Manager and shall also apply to any amendments.